

# VAT - New Accounting Procedures for Building and Construction Industry from 1 October 2019

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New procedures are being introduced on 1 October 2019, which affect any VAT-registered construction business that does the following:

- Buys in construction services from other builders and makes an onward supply of those services to another customer.
- Sells construction services to other builders where the builders make an onward supply of the services to their customer.

## Reason for change

HMRC has identified that certain supplies have been prone to VAT fraud, especially where the supplier charges VAT to his customer but does not declare it on his VAT return.

## What is changing?

Supplies between VAT registered builders will now be accounted for under a 'reverse charge' procedure. From 1 October 2019 the contractor has to invoice the intermediary builder without charging VAT. The intermediary builder will then have to account for this VAT under the new reverse charge procedure (please see example).

## Which sales are caught by the new rules?

The new reverse charge procedures will apply as follows:

- The reverse charge will affect supplies of building and construction services supplied at the standard or reduced rates that need to be reported under CIS. These are called specified supplies.
- The reverse charge will also apply to any goods supplied by the builder as part of their work;
- Employment businesses are excluded from the new rules;
- Some services are excluded – see HMRC VAT notice 735 for details

### How to apply the rules - Example

Mike is an electrician, VAT registered as a sole trader. He is doing some work on an office block, invoicing the main contractor Steve for his work.

Steve is also VAT registered and will then invoice the building owner. Steve is not an “end-user” because he is making an onward supply of construction services to his own customer. He is an “intermediary supplier”.

The invoice raised by Mike will be subject to the new procedures i.e. no VAT is charged. Let’s say the value of his work including materials will be £5,000 net:

Mike’s VAT return will only include the value of the sale in Box 6 (outputs) of his VAT return:

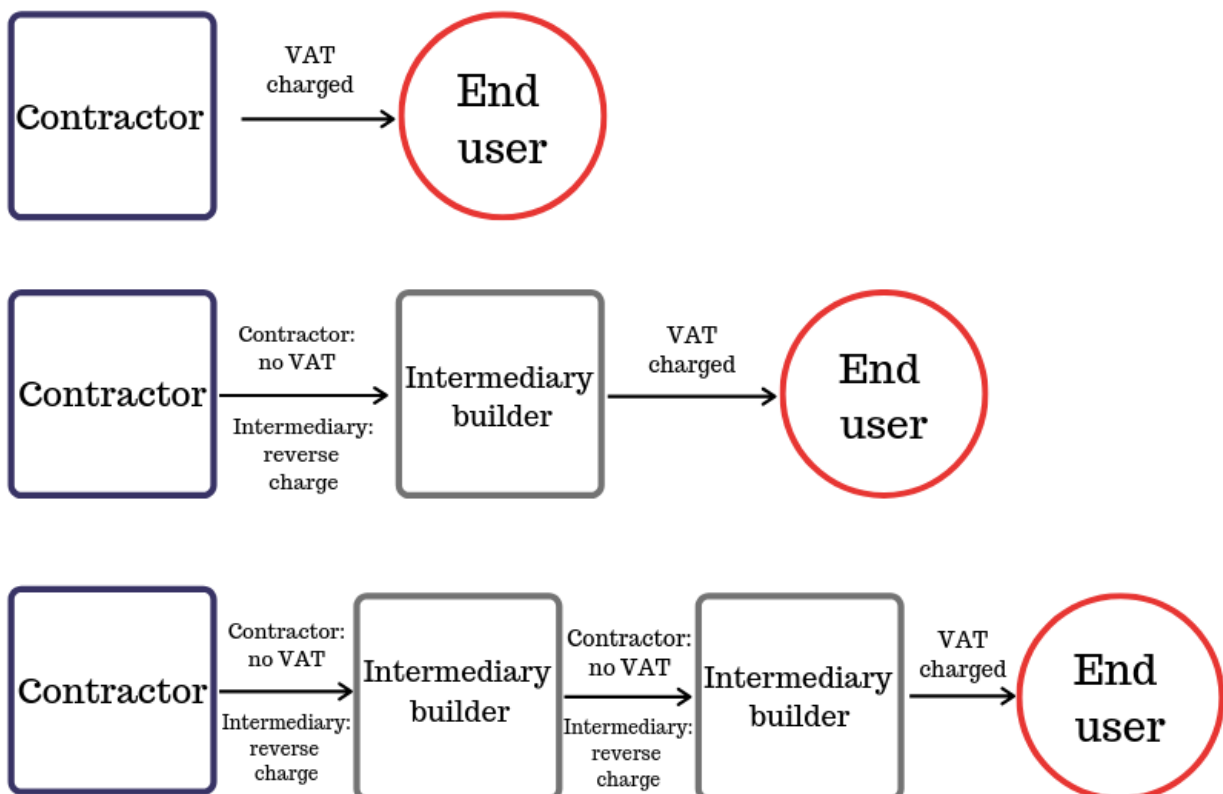
- Box 6 – outputs - £5,000

Steve will do the reverse charge calculation and make the following entries on his return:

- Box 1 – output tax £1,000 (i.e. £5,000 x 20%)
- Box 4 – input tax - £1,000 (same figure as Box 1)
- Box 7 – inputs - £5,000 (net value of payment made to Steve)

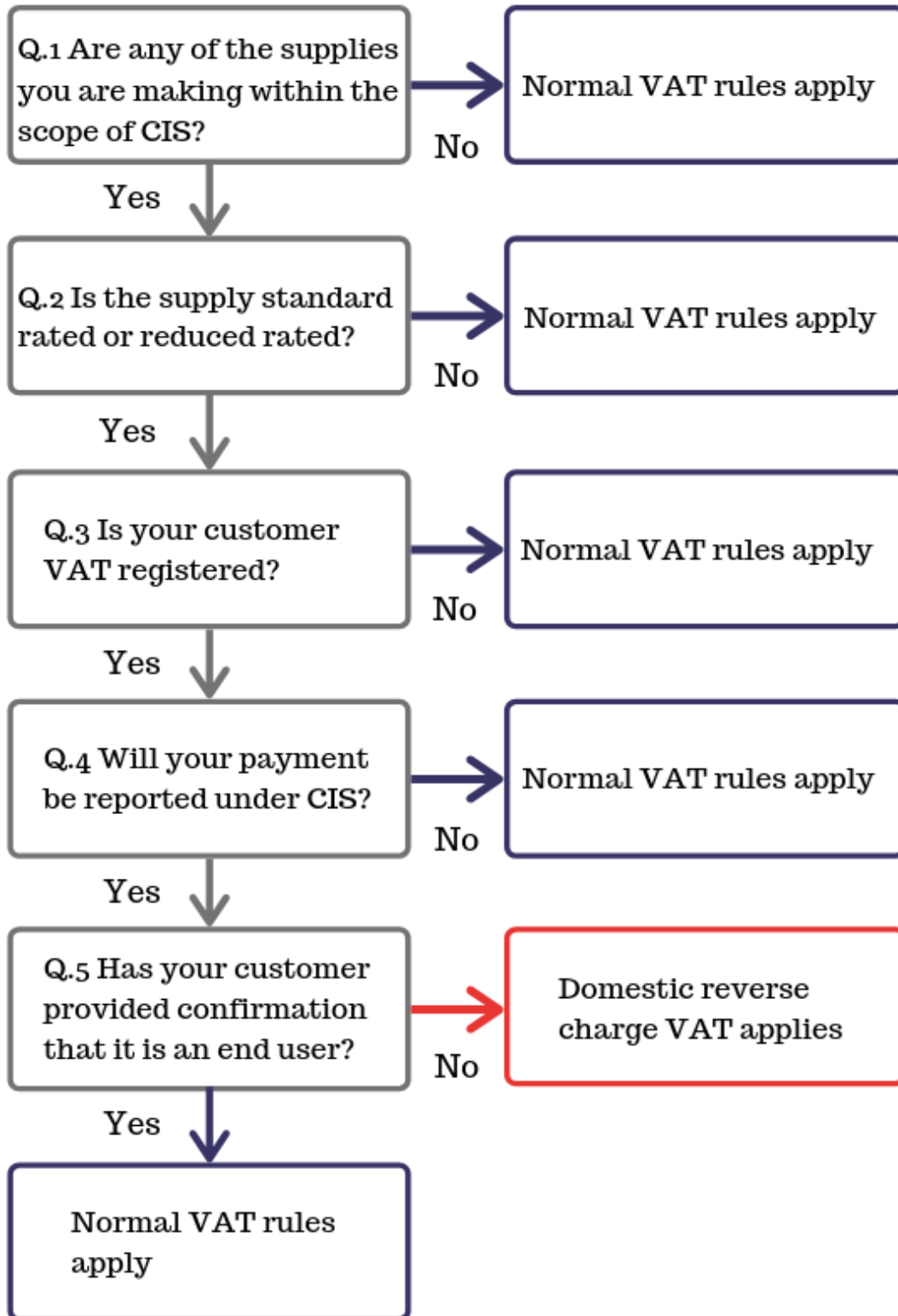
Accounting software should deal with these scenarios automatically, if you require assistance setting up the VAT codes please contact us.

The following chart shows three examples of where the new reverse charge procedure applies.



**Flow Chart**

Use the following flow chart to determine if you need to apply the reverse charge VAT rules.



## Other issues to consider

Taking the Steve and Mike example a stage further, they each have their own responsibilities with the new rules.

### Mike's Responsibilities

Mike must ensure that Steve is both registered for the CIS (Construction Industry Scheme) and has a valid VAT number. Section 9.3.1 of HMRC VAT Notice 735: Domestic reverse charge procedure gives further information.

Mike must also specify on his sales invoices the amount and rate of VAT that Steve must declare with the reverse charge i.e. 5% or 20% VAT.

Mike should include the following wording on his sales invoice: "Reverse charge: customer to pay the VAT to HMRC."

HMRC suggests that if there are any doubts about the credentials of a builder customer, then a deposit equal to the amount of VAT not being charged should be collected from the customer e.g. if they have applied for but not received a VAT number.

### Steve's Responsibilities

Steve must tell Mike if he is an "end-user" or "intermediary supplier". If he is an intermediary supplier, Mike will not charge him VAT because the reverse charge applies. If Steve is an end user, Mike will charge VAT in the normal way.

It is important that Steve does not pay VAT incorrectly to Mike as HMRC could raise an assessment for the VAT that should have been declared, i.e. as if the reverse charge had been done correctly.

## Penalties issued by HMRC for errors

HMRC has confirmed that penalties will not be charged for mistakes with the new procedures up until 31 March 2020, the exception being if "you are deliberately taking advantage of the measure by not accounting for it correctly."

## How we can help

If you would like to discuss the implications of the new Regulations for your business in more detail, please contact us.

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