

WEEK 11
2021

NEWSLETTER

CONSTRUCTION INDUSTRY
VAT REVERSE CHARGE



AT A GLANCE

CONSTRUCTION INDUSTRY VAT REVERSE CHARGE

The domestic **VAT Reverse Charge** was introduced throughout the UK on 1st March 2021 for the construction industry, in an effort to combat VAT fraud.

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AT A GLANCE CONSTRUCTION INDUSTRY VAT REVERSE CHARGE

This Reverse charge is likely to have a significant impact on cashflow and VAT compliance, with major system changes required for those operating in the sector. To help your business adhere to the new rules, we look at Construction industry VAT Reverse Charge at a glance.

WHAT IS THE VAT REVERSE CHARGE?

Construction industry VAT Reverse Charge was due to begin in October 2019, however, the start date was delayed twice due to Brexit and the Covid-19 pandemic. The charge is designed to be a mechanism to prevent VAT avoidance by suppliers within the construction industry, which charge and collect VAT from the recipient yet fail to account for the VAT when reporting to HMRC.

The new Reverse Charge changes the accounting responsibility so that suppliers are accountable to the recipient of their supplies rather than HMRC. This means recipients of goods are now directly responsible for paying VAT to HMRC, instead of paying the supplier VAT.

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AT A GLANCE **CONSTRUCTION INDUSTRY VAT** **REVERSE CHARGE**

WHO DOES THE VAT REVERSE CHARGE APPLY TO?

The Reverse Charge measure only applies to construction supply purchases that are made between two businesses, although certain conditions need to be met:

- 1) The VAT charge must relate to construction materials and services.**
- 2) A standard or reduced rate of VAT must apply.**
- 3) It must be between UK VAT registered customers and VAT registered suppliers.**
- 4) Both the supplier and customer must be registered for CIS.**
- 5) The supplier and customer cannot be connected.**
- 6) The customer must intend on maintaining an ongoing supply of construction services.**

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AT A GLANCE **CONSTRUCTION INDUSTRY VAT** **REVERSE CHARGE**

**THE CHARGE WILL
NOT APPLY IN THE
FOLLOWING
CIRCUMSTANCES:**



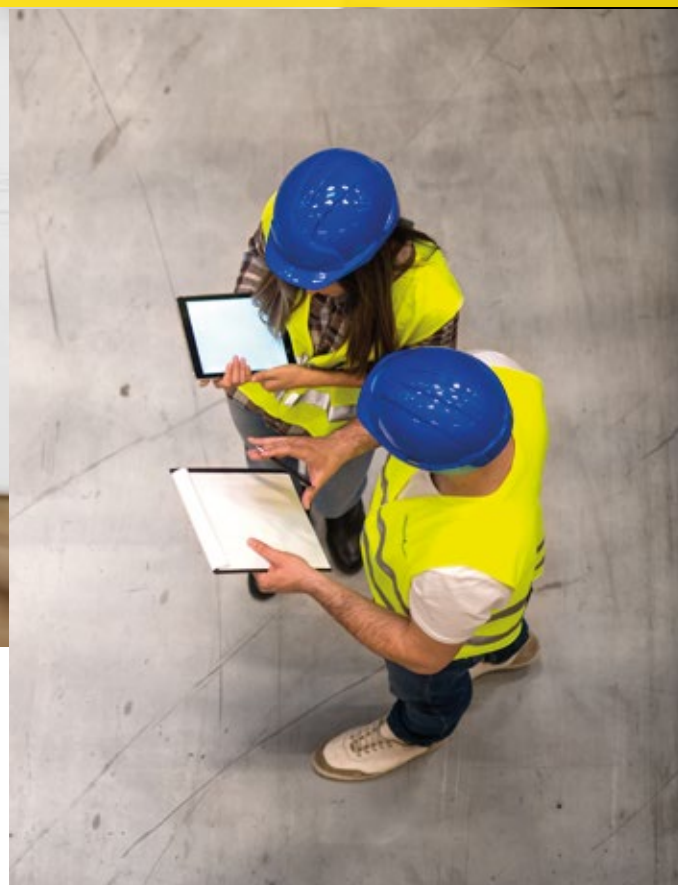
- 1) Any building services of construction services that are exempt from VAT.**
- 2) Any supplies which are not covered via CIS.**
- 3) Any supplies sold to employees.**
- 4) Supplies sold to customers which are not registered for VAT.**
- 5) If the customer is not intending on using materials to make on-going supplies to the construction industry.**
- 6) If the customer is an intermediary supplier, such as a landlord and the tenant within a property.**

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**HOW WILL THE
REVERSE CHARGE
IMPACT THE
CONSTRUCTION
SERVICES?**



The charge will significantly impact the management of cashflow for businesses operating within the construction industry. For example, the VAT Reverse Charge could mean that a business will make net repayment claims to the HMRC, as there will be no VAT received on sales. To effectively manage this, you can ask to move your reporting to monthly returns through your online VAT account.

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If you operate as a **subcontractor**, your **customers** will no longer be paying VAT directly to you. This will in turn reduce the value of gross payments made to you, so you will need to manage cash flow to reflect this.

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AT A GLANCE CONSTRUCTION INDUSTRY VAT REVERSE CHARGE

To adapt to the new Reverse Charge, your business will need to implement the required accounting systems and train staff to ensure they are familiar with the new approach to VAT accounting. If HMRC finds that a business is deliberately taking advantage of the new measure, penalties will be imposed.

GET IN TOUCH

To find out more about Construction industry VAT Reverse Charge, why not call us today on **0208 478 3383**? Our expert team can help your business get the best outcome and advise you all the way through the process.



Find contact details in the last page.



Positive, Proactive and Professional
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Tax Advice That Helps Your Business Grow

 103 Cranbrook Road, Ilford, Essex, IG1 4PU

 020 8478 3383  078 6022 4506  info@taxcareaccountancy.co.uk

