
VAT ALERT

Domestic Reverse Charge Implementation Delayed Until October 2020

The implementation of domestic reverse charge for construction services, which has caused much consternation for the construction industry, has been delayed until 1 October 2020

Background

A domestic reverse charge means the UK customer who get supplies of construction services must account for the VAT due on these supplies on their VAT return rather than the UK supplier.

This removes the scope for fraudsters to steal the VAT due to HMRC and follows similar measures introduced in response to criminal threats for mobile telephones, computer chips, emissions allowances, gas and electricity, telecommunication services and renewable energy certificates.

There has been a long lead-in time ahead of the anti-fraud measure coming into force. The Government first confirmed it would be taking this measure forward at Autumn Budget 2017. A technical consultation on the draft legislation and its impact took place in summer 2018 and the final legislation and guidance were published in November 2018.

The long lead-in time was to allow for potential cash-flow and administrative impacts the change could have on businesses.

Businesses need to adapt their accounting systems for dealing with VAT and there will be a negative impact on the cash-flows for many affected businesses, as they will no longer get VAT payments from customers for services where the reverse charge applies.

Explanation of the change

Industry representatives have raised concerns that some businesses in the construction sector are not ready to implement the VAT domestic reverse charge for building and construction on 1 October 2019.

To help these businesses and give them more time to prepare, the introduction of the reverse charge has been delayed for a period of 12 months until 1 October 2020. This will also avoid the changes coinciding with Brexit.

The intervening year

HMRC remains committed to the introduction of the reverse charge and has already increased compliance resource. It has put in place a robust compliance strategy for tackling fraud in the construction sector using tried and tested compliance tools.

In the intervening year, HMRC will focus additional resource on identifying and tackling existing perpetrators of the fraud. It will also work closely with the sector to raise awareness and provide additional guidance and support to make sure all businesses will be ready for the new implementation date.

HMRC recognises that some businesses will have already changed their invoices to meet the needs of the reverse charge and cannot easily change them back in time. Where genuine errors have occurred, HMRC will take into account the fact that the implementation date has changed.

Some businesses may have opted for monthly VAT returns ahead of the 1 October 2019 implementation date which they can reverse by using the appropriate stagger option on the HMRC website.

Please do not hesitate to contact us should you have any queries

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