
VAT Domestic Reverse Charge

New Regulations for CIS Contractors and Sub Contractors

You are no doubt already aware of the upcoming changes to the VAT scheme for construction services that HMRC is introducing with effect from 1 October 2019, known as the domestic reverse charge. The changes will affect the payments made to you from that date. It is important that you know and understand the changes and plan for them because they may have repercussions for your business cash flow.

HMRC's latest guidance can be found at [VAT: domestic reverse charge for building and construction services](#). It is also useful to look at and to understand the published guidance on the CIS scheme which can be found at [HMRC's Booklet 340](#).

When working as a subcontractor, the new reverse charge rules will apply to all the applications for payment or invoices that you issue.

This means that from 1 October 2019, by way of example, if you carry out £1,000 of standard rated work for your customer, the following will apply:

- *You will invoice for £1,000 showing your supply as standard rated but **not** adding £200 of VAT to the amount due from your customer.*
- *Your customer will pay you only £1,000 (not £1,200 as they do now).*
- *Because you have not been paid £200 VAT by your customer, you will not owe HMRC £200 of VAT.*

The change is ahead – you must prepare

You must be aware after 1 October 2019, there will be implications for the cash flow in your business.

When considering your cash flow after 1 October 2019, you will need to take into account that customers who are sub-contractors or main contractors will no longer pay you VAT for supplies within the scope of CIS.

If your services are within the scope of CIS and the reverse charge rules apply, customers will not be allowed to pay you VAT after the date of change, so you must be prepared to withstand a period when cash flow may be stretched.

You will also need to amend your accounting software. Any invoices subject to the reverse charge will need to include wording stating that the reverse charge applies. Your invoices will need to be in a new format that does not add VAT to the total due. If you invoice with VAT after that date, your customer should return the invoice which will delay payment.

Transition

The cut-off date is 1 October 2019. Invoices dated up until 30 September 2019 will request VAT and can be paid with VAT. Invoices dated on or after 1 October 2019 will not show VAT added to the amount payable. We understand that this is a major change for everyone and may cause you some concern.

We would encourage you to:

- *Read information available on the government website.*
- *Talk to us and advisors.*
- *Amend your processes and systems in accordance with the guidance and redesign your invoices and applications for payment.*
- *Consider how you will monitor whether your customers are end-users, VAT registered and CIS registered.*

This bulletin is intended only to highlight the change and allow you to make your own preparations. We hope you find it helpful.

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

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