



# SCOTTISH PLANT OWNERS ASSOCIATION

MEMBERS GUIDE TO REVERSE VAT IN THE PLANT INDUSTRY

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# WHAT IS REVERSE VAT?

From 1 October 2020, HMRC is introducing the Construction Services Domestic Reverse Charge known as “Reverse VAT” or “Reverse Charge VAT”.

This is a new way of collecting VAT from businesses that provide construction services within the scope of the Construction Industry Scheme (CIS), in an attempt to ensure the Government is recovering the correct amount of VAT from the construction sector.

The word ‘domestic’ in Construction Services Domestic Reverse Charge refers to work carried out within the UK.

This means that VAT will no longer be paid to businesses in the supply chain for providing construction services unless they are providing those services directly to an End User.

Instead the responsibility for paying VAT to HMRC will sit with the business that receives the construction services.



# WILL REVERSE VAT AFFECT MY BUSINESS?

If your business is registered with the Construction Industry Scheme (CIS) Reverse VAT will affect you.

Contractors working for other contractors will no longer receive VAT on the services they supply but will be paying VAT to suppliers of self drive plant and materials.

You may move from owing VAT to HMRC each quarter to being due a VAT repayment from HMRC each quarter.

This could have a major impact on your cash flow!

- Cash that you may use to pay VAT on supplier invoices
- Cash that you may use as working capital
- Cash that will no longer be available under Reverse VAT



# WHAT IS AN END USER?

An End User is usually the client which may be:

- A developer
- The final user or occupier of a building or structure
- Deemed “contractors“ under CIS
- Domestic customers and consumers

In Management Contracting the business that is responsible for providing the building or structure to the End User is usually the main or tier 1 contractor.

In Construction Management the businesses responsible for providing the building or structure to the End User may be specialist contractors.



# COMMERCIAL END USERS

Commercial clients have the responsibility to confirm to their suppliers that they are an End User and that VAT should be charged in the normal way.

Suppliers to commercial End Users should ensure they receive, and keep a record of, written confirmation from each End User on each project.

An example of suitable wording is:

We are an End User for the purposes of section 55A VAT Act 1994 reverse charge for building and construction services. Please issue us with a normal VAT invoice, with VAT charged at the appropriate rate. We will not account for the reverse charge.



# DOMESTIC END USERS

Domestic clients or consumers are not required to confirm their status as an End User and VAT should be charged in the normal way.

Suppliers to domestic End Users are advised to include a statement in their terms & conditions and invoices.

An example of suitable wording is:

We assume that you, the customer, is an End User for the purposes of section 55A VAT Act 1994 reverse charge for building and construction services and we will charge VAT at the appropriate rate unless you inform us otherwise.



# WHEN WILL REVERSE VAT BEGIN

Reverse VAT will apply to all relevant invoices, authenticated tax receipt or self-billing invoices dated on or after 1 October 2020, regardless of when the contract for the construction services began or when the work was carried out.

Invoices dated up to 30 September 2020 should include the appropriate rate of VAT under the current system, which can be paid in full up until 31 December 2020.

Where a client or customer issues an authenticated tax receipt or self-billing invoice which is certified before 30 September 2020, it should include the appropriate rate of VAT under the current system which can be paid in full up until 31 December 2020.

If payment is made after 1 January 2021 and the work is subject to Reverse VAT under the new system, the invoice, authenticated tax receipt or self-billing invoice will need to be reissued.



# THE CURRENT VAT SYSTEM

- Businesses with a turnover of more than £85,000 are required to register for, and charge, VAT on goods and services that they provide. You can register voluntarily if your business turnover is below £85,000 and you must pay HMRC any VAT you owe from the date they register you.
- Everyone is obliged to pay the appropriate amount of VAT on the goods and services provided by any other business that is VAT registered and the company VAT number and amount of VAT charged should be clearly shown on any invoices.
- Businesses that are VAT registered and provide construction services to other contractors currently charge, and receive, VAT on all payments.
- Businesses that buy construction services from VAT registered businesses currently pay VAT on all payments.
- At the end of each quarter, a VAT registered business will submit a VAT return to HMRC which shows the amount of VAT they have charged or received and the amount they have been charged or paid out.
- The figures required to be shown depend on if a business operates cash accounting (where they only include cash actually received or paid) or standard VAT accounting (where they include VAT on invoices regardless of whether it has actually been received or paid).
- The difference between the two figures determines if the business has to pay or receive money to HMRC which is usually due 1 month and 7 days after the end of the quarter.





# THE NEW REVERSE VAT SYSTEM

From 1 October 2020, unless providing construction services to an End User, a business will no longer receive VAT on construction services within the scope of CIS. End Users only will pay out VAT on those construction services.

Businesses with a turnover of more than £85,000 will still be required to register for VAT.

VAT will still be applied at the appropriate rate, however where construction services are provided to anyone other than an End User, the supplier of those services will no longer need to account for the VAT element.

Invoices will show the value of the construction services provided and the VAT element must state that it is subject to Reverse VAT.

The customer of the construction services will then be responsible, and account for, the VAT element of these services in their VAT return.



# CONSTRUCTION SERVICES SUBJECT TO REVERSE VAT

You will have to apply the reverse charge if you supply any of these services at the standard or reduced rates that are reported under CIS:

- Constructing, altering, repairing, extending, demolishing or dismantling buildings or structures (whether permanent or not), including offshore installation services
- Constructing, altering, repairing, extending, demolishing of any works forming, or planned to form, part of the land, including (in particular) walls, roadworks, power lines, electronic communications equipment, aircraft runways, railways, inland waterways, docks and harbours
- Pipelines, reservoirs, water mains, wells, sewers, industrial plant and installations for purposes of land drainage, coast protection or defence
- Services which form an integral part of, or are part of the preparation or completion of the services described above – including site clearance, earth-moving, excavation, tunnelling and boring, laying of foundations, erection of scaffolding, site restoration, landscaping and the provision of roadways and other access works



# PLANT SUBJECT TO REVERSE VAT

In addition Reverse VAT applies to:

- Plant hire services which include an operator
- Specialist contractors providing labour to fulfil a construction service
- The supply of an operator only by a plant hire firm



# PLANT AND SERVICES NOT SUBJECT TO REVERSE VAT

- The supply of staff by an employment agency or gang leader is excluded from the Domestic Reverse Charge
- The hire of self-drive & non operated plant is not a supply of services and does not fall within the scope of CIS. It therefore does not automatically fall within the scope of the Domestic Reverse Charge.
  - However, if there has already been a reverse charge service between 2 parties on a construction site, and if both parties agree, any subsequent construction supplies on that site between the same parties can be treated as a reverse charge service. This may suit subcontractors working on a limited number of construction sites. Subcontractors working on a large number of sites may find it easier to consider each hire contract separately.
- If you are providing construction services to an End User
- If you are providing materials or goods only
- To payments by a joint venture to the construction firms providing staff to the joint venture project

If there is doubt whether a type of work falls within the definition of a specified service, as long as the customer is VAT registered and payments are subject to CIS, the reverse charge should apply.



# INVOICING FOR REVERSE VAT

Invoices for construction services which are subject to Reverse VAT must include:

- All the information that is required on a VAT Invoice – see page 14; Information that must be included on Invoices
- A note against the services provided where Reverse VAT applies and that the customer is required to account for the VAT. An example of suitable wording is: *Reverse Charge: Customer to pay the VAT to HMRC*

If a credit note is issued for construction services subject to Reverse VAT it must include a note showing the VAT element. An example of suitable wording is: *Reverse Charge: Customer to account for the VAT adjustment to HMRC*

Your accounting software may have a Reverse VAT option or you may need to upgrade to a new version that provides a Reverse VAT option.



# INFORMATION WHICH MUST BE INCLUDED ON INVOICES

- A unique identification number
- Your company name (in full and for Limited companies as it appears on the certificate of incorporation), address and contact information
- The company name and address of the customer you are invoicing
- A clear description of what you are charging for
- The date the goods or service were provided (supply date)
- The date of the invoice
- The amount(s) being charged
- VAT amount if applicable
- The total amount owed
- Clear reference that Reverse Charge is applicable, see page 13.



# VAT RETURNS UNDER REVERSE VAT

Services provided or received under the normal accounting system should be included in VAT returns as usual.

Where services provided are subject to Reverse VAT:

- Do not include the VAT element in box 1 of the VAT return
- Include the net value of invoices issued in box 6

Where services received are subject to Reverse VAT:

- Do include the VAT element in box 1 of the VAT return
- Do include the VAT element in box 4 of the VAT return
- Include the net value of invoices received in box 7

The Cash Accounting Scheme cannot be used for the supply of services that are subject to the reverse charge as no VAT is actually paid by customers to suppliers.

Businesses can use the Cash Accounting Scheme for suppliers not subject to Reverse VAT, however it may be that there is no longer any benefit to cash flow and they may wish to withdraw from the scheme.



# VAT RETURN PERIODS

- The majority of businesses submit quarterly VAT returns.
- Businesses that are regularly owed money by HMRC on their VAT return are considered 'repayment traders' and can move to monthly VAT returns which will speed up any payments due.
- Requests to move to monthly VAT returns should be made by signing into a VAT online account.
- HMRC will action requests promptly so a business should consider when would be the right time to make a request as VAT may be owed from the previous quarter's return.
- Depending when the request is made there may be a 2 monthly return period and thereafter monthly returns or if the request is made at the end of a quarter, a quarterly return as usual and thereafter monthly returns.
- A business that knows it will become a repayment trader after 1 October 2020 can apply at any time to move to monthly returns.





# ENFORCEMENT

HMRC has stated that it will apply a light touch in dealing with any errors made in the first 6 months of the new legislation, as long as a business is trying to comply with the new legislation and has acted in good faith.

Any errors need be corrected as soon as possible, as the longer under declared or overcharged sums remain outstanding, the more difficult it may be to correct or recover them.

Penalties will only be considered if a businesses is deliberately taking advantage of the changes.

HMRC has published guidance online VAT: [domestic reverse charge for building and construction services.](#)



# CHECKLIST

- ✓ Identify which of your contracts will be subject to Reverse VAT which will be:
- ✓ Where you are supplying construction services to anyone other than an End User
- ✓ Where a VAT registered business is supplying you with construction services and you are not an End User
- ✓ Identify which of your clients and customers is an End User and ask them to confirm that in writing
- ✓ Let your commercial clients and customers know you are aware of Reverse VAT and will invoice them as appropriate
- ✓ Confirm your payment terms to your clients and customers as cash flow will become increasingly important
- ✓ Update your terms and conditions for domestic clients and consumers
- ✓ Contact your sub-contractors and suppliers of construction services Are they aware of Reverse VAT and the impact it may have on their cash flow?
- ✓ Send them this guidance note!
- ✓ Check your accounting systems and software can deal with Reverse VAT
- ✓ Update your template invoices to refer to Reverse VAT where appropriate
- ✓ Consider the impact on your cash flow and if you need to take any action
- ✓ Determine if you should move to monthly VAT returns and when would suit your business
- ✓ Check you have the details to log on to your VAT online account
- ✓ Ensure all your relevant staff are familiar with Reverse VAT and how it will operate



# REFERENCES

<https://www.gov.uk/guidance/vat-domestic-reverse-charge-for-building-and-construction-services>

<https://www.gov.uk/government/publications/construction-industry-scheme-cis-340/construction-industry-scheme-a-guide-for-contractors-and-subcontractors-cis-340>

The information contained in this Note is for general guidance only and represents our understanding of relevant law and practice as at February 2020. SPOA cannot be held responsible for any action taken or not taken in reliance upon the contents. Specific advice should be taken on any individual matter. Contact office: 302 St Vincent Street, Glasgow, G2 5RZ

