

# Reverse Charge VAT

## *Frequently Asked Questions*

### **When do I account for the reverse charge?**

VAT is due when a VAT invoice is issued, or payment is received, whichever is earlier. This is known as the tax point.

For invoices issued before 1 March 2021 the normal VAT rules will apply. For invoices issued on or after 1 March 2021 the reverse charge will apply

For authenticated tax receipts or self-billed invoices the tax point is normally the date the supplier receives payment.

- before 1 March 2021 and the payment date will be on or before 31 May 2021, use the normal VAT rules
- before 1 March 2021 and the payment date will be on or after 1 June 2021, use the domestic reverse charge
- on or after 1 March 2021, you must use the domestic reverse charge

### **Does the reverse charge apply to work carried out for private customers?**

No. Reverse charge only applies to VAT and CIS registered businesses. If the services are provided to customers who are not VAT and CIS registered then the normal VAT rules apply.

### **What about supplies that are only partly of services that should be reverse charged?**

Normally if any of the services in a supply are subject to the reverse charge all the other services supplied will also be subject to it. However if the reverse charge part of the supply is 5% or less of the value of the whole supply then this can be disregarded and the normal VAT rules can be applied.

### **Is zero rated work excluded from the supply value when the 5% is calculated?**

No. We have tried to avoid making any changes to the zero-rate. The 5% value refers to a de minimis level of a supply that by itself would be subject to the reverse charge but can be ignored given the overall characteristics of the supply. Excluding the zero-rate element would mean calculating a proportion of a proportion of a supply.

### **Do I need to change what I put on my invoices?**

Yes. Your invoice should clearly indicate that the reverse charge applies. You can use any of the following wording:

- Reverse charge: VAT Act 1994 Section 55A applies
- Reverse charge: S55A VATA 94 applies
- Reverse charge: Customer to pay the VAT to HMRC

The invoice should clearly state how much VAT is due under the reverse charge but that the VAT is not being included in the amount charged to the customer.

**How does Making Tax Digital affect the reverse charge?**

It doesn't. MTD only changes the way in which businesses have to submit their VAT returns and how they account for their VAT. This must now be completed digitally. Otherwise MTD has no effect on the reverse charge.

**What about the flat rate scheme?**

Reverse charge supplies can't be accounted for under the flat rate scheme. Flat Rate Scheme users who receive reverse charge supplies will have to account for the VAT due to HMRC and recover it simultaneously on the same VAT Return. Users of the Flat Rate Scheme will have to consider if it's still beneficial to them bearing in mind that under the scheme they cannot recover VAT incurred on purchases of materials, overheads etc.

**What are end users and intermediaries?**

For reverse charge purposes end users are businesses that are VAT and CIS registered but who do not make onward supplies of the construction services supplied to them. Intermediary suppliers are VAT and CIS registered businesses that are connected or linked to end users by either being part of the same corporate group or by having a relevant interest in the same land where the construction works are taking place. The reverse charge does not apply to supplies to end users and intermediary suppliers where they tell their supplier in writing that they're end users or intermediary suppliers.

**Does the notification by an end user or intermediary have to follow a specific format?**

No. As long as it is in writing. Typically it will probably be in a contract.

**What about cash flow?**

If you are a sub-contractor you as your customers will no longer be paying you VAT this will reduce the amount of payments coming into your business. You'll need to consider and plan for the impact of this on your day-to-day cashflow. You can apply to be moved to monthly VAT returns to speed up any repayments that you are due from HMRC.

**What if my client doesn't provide me with their CIS details?**

In order to apply the reverse charge you need to be sure that CIS applies to the payments made to you, even if there are no deductions due to having gross status. Therefore if they haven't answered the CIS questions you should charge VAT in the normal way. If it turns out that CIS did apply they will be liable for accounting for the reverse charge not you.