One year deferral announced for the VAT domestic reverse charge for construction services

Indirect Tax

01 October 2019

The CIOT has welcomed HMRC's announcement in Revenue and Customs Brief 10/19 that there will be an extra year to prepare for the implementation of the VAT domestic reverse charge for supplies of construction and building services.

The domestic reverse charge was scheduled to be introduced from 1 October 2019; this has now been deferred to 1 October 2020. In the interim period, HMRC will focus on raising business awareness and the guidance.

Why is the domestic reverse charge on construction going to be introduced?

The aim of the domestic reverse charge is to combat missing trader fraud in the construction sector and the CIOT supports actions to tackle tax evasion. The CIOT had voiced its concerns to HMRC in July 2019, citing that the combination of a substantial lack of awareness and preparedness by affected businesses and the impact to cashflow and contractual terms had to be balanced against the fraud risks.

Next steps

Taxpayers that have changed to monthly returns in the expectation they would become repayment traders should consider whether a change back to quarterly returns is appropriate. Contractual arrangements for VAT on supplies that spanned 1 October 2019 or were due to start after this date should be revisited.

HMRC have indicated they will take into consideration that there has been a change to the implementation date if genuine errors are subsequently made.