

COVID-19: Reverse VAT charge for construction postponed to 2021

8 June: The government has announced a further five-month delay to the introduction of the domestic reverse VAT charge for construction services due to the impact of coronavirus.

The reverse charge for VAT on construction services was originally due to come into force on 1 October 2019, but its introduction was later pushed back until 1 October 2020.

[In a brief, published on 5 June, HMRC](#) confirmed that the anti-fraud measure is now being postponed until 1 March 2021 in light of the coronavirus pandemic.

A reverse-charge system requires a VAT-registered customer to account for the VAT due when buying certain services from its suppliers. The customer pays the VAT due to HMRC by making an adjustment to its VAT return rather than paying the VAT to the supplier.

The advantage of a reverse charge is that there is no risk of a fraudulent supplier invoicing for work that it has purportedly supplied together with [VAT](#), which it then fails to account for to HMRC.

The introduction of the reverse-charge system necessitates changes to agreements between customers and suppliers, updates to accounting systems (including invoicing procedures) and will impact on the business' cashflow. Given that many construction projects came to a halt as a result of the coronavirus pandemic, introducing the changes from October would have come at a difficult time.

In addition to the delay in implementation, [Revenue and Customs Brief 7](#) also announced a change to the legislation when it does come into force. For businesses to be excluded from the reverse charge, as they are end users or intermediary suppliers, they must now inform their sub-contractors in writing that they are end users or intermediary suppliers.

Reference:

Info from www.icaew