

Untangling VAT challenges

VAT has been in the spotlight as businesses continue to struggle with the post-Brexit VAT regime. The Covid-related deferral for VAT payments is one bright spot, but there is also the delayed introduction of the new domestic reverse charge.

Brexit VAT

Importers should find VAT easier, in theory. With postponed accounting, there is generally no need to pay upfront for import VAT, although there have been teething issues. Remember that if a freight agent is being used, the agent may not necessarily apply postponed accounting unless they have been instructed to do so. Exporting is a completely different matter, especially for small businesses. Although exports are normally zero-rated for UK VAT, post-Brexit exporters are having to contend with different VAT rules across 27 separate countries. With the prospect of needing to register for VAT in multiple jurisdictions, it is no surprise that many businesses are investigating setting up an EU base to get round the worst of the problems.

VAT deferral new payment scheme

Those businesses that deferred the VAT payments due between 20 March and 30 June 2020 can now pay any amount still outstanding in equal monthly instalments by joining the scheme. Applications must be made by 21 June 2021. The maximum

number of instalments depends on the joining date: ten if you joined before 21 April, nine before 19 May or eight before 21 June.

Domestic reverse charge

The domestic reverse charge now applies to most supplies of building and construction services. In a simplified structure, the reverse charge works as follows:

- The developer, as the end user in the chain, is not affected by the new rules. As before, the developer has to pay VAT on the amounts invoiced by the main contractor.
- The main contractor retains the VAT that would previously have been paid on invoices raised by sub-contractors, and instead accounts for this as output VAT. There is usually a corresponding input VAT deduction, hence the 'reverse charge'.
- Sub-contractors no longer charge or account for output VAT. Their invoices must state that the reverse charge applies.



If you need any VAT guidance, your accountant should be able to help.

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