ICAEW
REPRESENTATION 80/18

VAT REVERSE CHARGE FOR CONSTRUCTION SERVICES DRAFT LEGISLATION

Issued 12 June 2018

ICAEW welcomes the opportunity to comment on the *VAT reverse charge for construction services draft legislation* published by HM Revenue & Customs on 7 June 2018.

This response of 12 July 2018 has been prepared on behalf of ICAEW by the Tax Faculty. Internationally recognised as a source of expertise, the Faculty is a leading authority on taxation. It is responsible for making submissions to tax authorities on behalf of ICAEW and does this with support from over 130 volunteers, many of whom are well-known names in the tax world.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 150,000 chartered accountant members in over 160 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

© ICAEW 2018
All rights reserved.
This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:
• it is appropriately attributed, replicated accurately and is not used in a misleading context;
• the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.
Where third-party copyright material has been identified application for permission must be made to the copyright holder.
For more information, please contact: taxfac@icaew.com

ICAEW Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK
T +44 (0)20 7920 8100 **icaew.com**

MAJOR POINTS

1. We have no comments on the draft legislation itself, but are very concerned about the additional burden that the proposed change will impose on many small businesses.

2. We believe that the cost of additional burdens being placed on compliant businesses is likely to exceed the value of any additional revenue received from a relatively small number of non-compliant businesses.

3. HMRC states in the VAT reverse charge for construction services impact note:

   "This measure will impact on around 100,000 to 150,000 businesses in the construction and building sector. The impact on business administrative burdens is expected to be significant. One-off costs include: familiarisation with the new rules and adapting VAT accounting systems and processes to enable reverse charge supplies to be calculated and reported. On-going costs include: calculating the reverse charge, keeping records of all reverse charge supplies, checking purchases are correctly treated, and reporting reverse charge supplies on VAT returns.

   The reverse charge will impact on small and micro businesses, particularly in respect of loss of cash flow where VAT is no longer charged. Some businesses use the VAT they collect from customers as working capital before they pay it over to HMRC."

4. The gain to the exchequer is estimated to be around £100m per annum, which is less than £1,000 per honest business that will suffer from the additional burdens.

© ICAEW 2018