

## 4) What checks should I carry out?

### 4.1 General

Whether goods are eligible goods or are being sold in quantities above the £5000 threshold is something about which the supplier will have first hand knowledge. But for the reverse charge to apply, the goods must also be sold to a taxable person for a business purpose, and the supplier may not have first hand knowledge of the customer or their VAT status. This section provides guidance to suppliers about the checks they are expected to make. Paragraph 8 below outlines the consequences of getting this wrong.

### 4.2 Reasonable checks

Paragraph 8 explains that a supplier will not be held liable for incorrect application of the reverse charge where they have taken reasonable steps to establish the VAT status of their customer. What is reasonable in any case will depend on norms in the sector and the type of relationship the supplier has with the customer. The following are indicators to assist you in deciding how far you should go before accepting a customer's representations. They should not be taken as an exhaustive or definitive list:

☐☐ Do commercial checks on creditworthiness and customer status which are good commercial practice for the sector suggest any reason to doubt the customer's representations?

☐☐ Is the VAT registration number genuine and does it belong to the person who is quoting it? Suppliers may use the checking facility provided by the National Advice Service (see paragraph 15). Large businesses may contact their Client Relationship Manager for advice.

☐☐ Is this a new customer or a well-established business known to the supplier? In general, however, there is no need for the supplier to carry out special verification of VAT registration numbers of existing customers with whom they have an established trading relationship.

☐☐ Is there any indication in the pattern of orders that the customer is attempting to manipulate the £5,000 de minimis?

☐☐ Has the supplier any grounds to doubt the bona fides of the customer?

There is further advice in Notice 726 relating to the integrity of a supplier and this applies equally to that of the customer. **(DDE Note: Notice 726 contains the provisions for issuing joint and several liability assessments, which can be issued where irregularities arise in reverse charge supply chains).** The supplier should keep evidence of the checks that they have performed, so they can produce it to HMRC if subsequently required.

### 4.3 What if a seller has doubts about the customer's bona fides or their VAT status?

If the seller cannot be satisfied of the bona fides of the customer or the status of their VAT registration then they must consider whether they should proceed with the transaction. If the supplier proceeds with a reverse charge transaction where there are doubts that the reverse charge applies, they may wish to consider asking the customer for a deposit equivalent to the output tax for which they will become liable if the reverse charge is applied in error. This may be especially helpful if the customer has applied for but not yet received a VAT registration number: Any deposit taken in these circumstances can be refunded when evidence of the VAT registration is received.

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