

## 8 Failure to comply with the reverse charge

### 8.1 Customers

Failure to apply the reverse charge may arise as an oversight or where the customer has been unable to provide the supplier with a VAT registration number because a number is still awaited from HMRC. Where a customer does not account for the reverse charge when they should, we will assess for the output tax due less any input tax he may be entitled to. But failure to notify a supplier that the reverse charge ought to apply may also be an indicator of fraud and is likely to result in extended verification of any input tax claimed. If a customer takes no action if they are charged VAT when the reverse charge should apply, they may put themselves in a position where they could be held to be jointly and severally liable for the VAT or unable to recover the input tax on the supply.

### 8.2 Suppliers

If the supplier applies the reverse charge and has taken sufficient steps to check the bona fides of his customer but has been deliberately misled by them, then he will not be required to account for output tax on the sale. Similarly, if the supplier has correctly applied the reverse charge to a sale, then they will not be required to account for output tax if the purchaser fails to do so.

If the supplier applies the reverse charge incorrectly or has not taken sufficient steps to check the bona fides of his customer then he will be liable to pay the output tax on the sale. If a supplier incorrectly charges VAT when the reverse charge should have been applied then the customer will be assessed for the output tax which will offset any entitlement to input tax recovery. The supplier will then have to credit his customer with the VAT, returning any money collected as VAT. The supplier will also be subject to the normal error correction procedures – see Notice 700/45.