

VAT domestic Reverse Charge for building and construction services



The VAT domestic reverse charge for building and construction services is effective from 1 March 2021. It was originally intended to take effect from 1 October 2019; postponed to 1 October 2020 and then 1 March 2021.

Key points

- This moves responsibility to account for the output VAT on supplies from the supplier to the customer (in the case of construction this shifts the responsibility from sub-contractor to contractor).
- The charge affects only supplies at standard or reduced rates where payments are required to be reported via the Construction Industry Scheme (CIS) and both parties are VAT registered.
- Applies where the customer intends to make an ongoing supply of construction services to another party.
- The CIS status as either gross or net does not affect the VAT treatment.
- Compliance with the new rules requires changes to invoicing, to completion of VAT returns and to accounting systems and software.

- It does not:
 - affect your liability to register for VAT
 - change the liability of a supply, or when VAT is due
 - change any entitlement to recover VAT on costs
- It does not apply to:
 - supplies of VAT exempt building and construction services (or zero-rated supplies)
 - supplies that are not covered by the CIS
 - supplies of simply staff or workers
- It does not apply to supplies to:
 - A non-VAT registered customer
 - 'End Users' i.e. a VAT registered customer who is not intending to make further on-going supplies of construction
 - 'Intermediary suppliers' who are connected e.g. a landlord and his tenant or companies in the same group

Continued overleaf

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Example

Under normal VAT Accounting:

Supplier (Subcontractor)	Customer (Contractor)	Developer
Invoices £100 +VAT	Invoices £200 +VAT	
Output tax of £20	Output tax of £40 Input tax of (£20)	Input tax of (£20)
£20 paid to HMRC	£20 paid to HMRC	£40 repaid by HMRC

Under Reverse Charge VAT Accounting:

Supplier (Subcontractor)	Customer (Contractor)	Developer
Invoices £100 (note on VAT RC)	Invoices £200 +VAT	
Return: No VAT	Output tax of £40 + £20 = £60 Input tax of (£20)	Input tax of (£20)
£nil paid to HMRC	£40 paid to HMRC	£40 repaid by HMRC

Further Detail

Supplier (Subcontractor): A VAT-registered business working to a VAT and CIS registered business:

- Checks if they are supplying specified services.
- Confirms the status of the customer. Make sure to get a note or evidence from the Customer they are VAT registered, not an end user or intermediary supplier and will accounting for the VAT.
- Issues a VAT invoice indicating the supplies are subject to the reverse charge and that the customer must account for the VAT.
- On the VAT return, enter the sale in Box 6 of VAT return, no entry in Box 1.

Invoicing: When applying the VAT reverse charge:

- All of the requirements of normal VAT invoice should be met but there is no VAT collected.
- Include a note to confirm the reverse charge applies is to included.
- Include the amount of VAT is to be declared as reverse charge, or the rate of VAT that applies.
- There are similar rules for credit notes if a VAT adjustment is required.

Continued overleaf

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Customer (Contractor): The business receiving the supply of specified services subject to the reverse charge rules (this could apply to multiple businesses in a supply chain):

- Will need to provide confirmation to the Supplier that the Customer is VAT registered.
- Will need to confirm the Supplier is VAT registered.
- Make the appropriate CIS deductions as usual.
- Does not pay output VAT to its supplier on supplies received from them.
- Accounts for the output VAT on supplies received through its VAT return.
- Reclaims the VAT on supplies received as input tax, subject to normal VAT rules.
- Pays the difference to HMRC.
- On the VAT return, declare VAT in Box 1 (no entry in Box 6) recover VAT as normal in Box 4 (purchase value in Box 7).

The legislation requires end users and intermediary suppliers to notify their suppliers of their status in respect of a particular construction service contract.

If no confirmation is given, the supplier should issue a reverse charge invoice.

It is the customer who will pay the VAT to HMRC.

Specified services: Generally the services covered by the reverse charge are those covered by CIS; but note:

- The reverse charge includes goods, where supplied with services. This is different from the CIS scheme where CIS payments to sub-contractors are apportioned to exclude the materials.
- Where excluded services are supplied with services subject to the reverse charge, the whole supply is subject to the reverse charge, as is the case for the CIS scheme.

HMRC guidance provides a '5% disregard' if the reverse charge part of the supply is 5% or less of the value of the whole supply.

This is intended as a general guide. If you would like to talk to us about how the rules affect your business please call us on **0116 282 7000** to speak with your regular Rowleys contact, our VAT team or feel free to email Steve Nicholls stephen.nicholls@rowleys.biz