



VAT: Domestic reverse charge for building and construction services change from 1st March 2021

SUMMARY

From 1st March 2021, there is a change to the way VAT is charged for businesses that supply Construction and Building services.

IF YOU SUPPLY BUILDING OR CONSTRUCTION SERVICES TO A CUSTOMER WHO THEN IN TURN SUPPLIES SIMILAR SERVICES TO ANOTHER CUSTOMER – THEN YOU WON'T CHARGE VAT ON YOUR SUPPLY - THE CUSTOMER WILL ACCOUNT FOR THE VAT INSTEAD.

What this means:

- The supplier of the building/construction services won't charge VAT on their invoice
- The customer will instead account for both sides of the VAT and pay the VAT direct to HMRC (via their VAT return)

This will take place IF certain conditions are ALL met.

The conditions:

1. The supply of services falls within the scope of CIS scheme (i.e. contains labour services or labour and materials)
2. The supply is at standard rated VAT (20%) or the reduced rate of vat (5%)
3. The customer is VAT registered
4. The customer is CIS registered
5. The customer is NOT the End-user (see more details later on)

WHAT THIS MEANS FOR YOUR BUSINESS?

IF YOU SUPPLY BUILDING / CONSTRUCTION TO ANOTHER BUSINESS AND THE SUPPLY MEETS ALL THE CONDITIONS:

- You WON'T charge 20% or 5% VAT on your invoice
- You WILL need to state on your invoice that the supply has been made under the Domestic Reverse charge (so your customer knows)
- You WILL need to state on your invoice the rate of VAT applicable to the supply (20% or 5%)

IF YOU RECEIVE BUILDING / CONSTRUCTION SERVICES FROM ANOTHER BUSINESS

- You need to let your supplier know if you are an End-User or not
- You need to let your supplier know if you are VAT-registered and if you are CIS-registered (and supply them with VAT and CIS numbers)

FLOW CHART FOR SUPPLIERS TO DETERMINE WHETHER THE REVERSE CHARGE APPLIES OR NOT:

Q1. Does the supply fall within the scope of CIS (i.e. contain labour costs)?	IF NO	NORMAL VAT RULES APPLY
IF YES		
Q2. Is the supply Standard-rated (20% VAT or reduced rate 5%)?	IF NO	NORMAL VAT RULES APPLY
IF YES		
Q3. Is your Customer VAT registered?	IF NO	NORMAL VAT RULES APPLY
IF YES		
Q4. Is your customer registered for CIS?	IF NO	NORMAL VAT RULES APPLY
IF YES		
Q5. Has your customer provided confirmation that it is an End user?	IF YES	NORMAL VAT RULES APPLY
IF NO		
APPLY THE DOMESTIC REVERSE CHARGE TO YOUR INVOICE		

FLOW CHART FOR CUSTOMERS (RECEIVING BUILDING/CONSTRUCTION SERVICES) TO DETERMINE WHETHER THE REVERSE CHARGE APPLIES OR NOT:

Q1. Is the supply made by an employment business? <i>i.e</i> employment agency	IF YES	NORMAL VAT RULES APPLY
IF NO		
Q2. Is the supply received within the scope of CIS?	IF NO	NORMAL VAT RULES APPLY
IF YES		
Q3. Is the supply standard (20%) rated or reduced rated (5%)?	IF NO	NORMAL VAT RULES APPLY
IF YES		
Q4. I have confirmed with my supplier that I am an End-User?	IF YES	NORMAL VAT RULES APPLY
IF NO		
DOMESTIC REVERSE CHARGE APPLIES		

ACTIONS FOR A BUSINESS THAT *SUPPLIES* BUILDING/CONSTRUCTION SERVICES

For each supply you make:

- ✓ Determine whether the supply is under scope of CIS? I.e. does it contain Labour services or not? (supplies of materials only, do not come under the reverse-charge)
- ✓ Determine whether it standard-rated (i.e you charge 20% VAT) or reduced rated (you charge 5% VAT)
- ✓ Determine whether your customer is VAT registered
- ✓ Determine whether your customer is CIS registered
- ✓ Obtain from your customer a confirmation whether they are an End-User or not

By doing these actions, you will know in advance whether a supply you make to a customer, will come under the new Domestic reverse charge

ACTIONS FOR A BUSINESS THAT *RECEIVES* BUILDING/CONSTRUCTION SERVICES

For each supply made to you by a sub-contractor:

- ✓ Determine whether you are an End User or not (*see box below about what is an End-User*)
- ✓ Provide written confirmation to your supplier that you are an End-User or not
- ✓ EXAMPLE STATEMENT FOR END-USER TO GIVE: We are an End User for the purpose of section 55A VAT Act 1994 Reverse charge for building construction services. Please issue us with a normal VAT invoice, with VAT charged at the appropriate rate. We will not account for the reverse charge.

SUPPLY BUILDING/CONSTRUCTION SERVICES – WHAT TO DO ON YOUR INVOICES (*if the Domestic Reverse charge applies*)

- You will need to state how much VAT is due under the reverse charge, OR the rate of VAT applicable
- BUT do not charge VAT
- Invoice must include a reference to the reverse charge – e.g. *REVERSE CHARGE: Customer to pay VAT to HMRC*

SUPPLY BUILDING/CONSTRUCTION SERVICES (*if the Domestic Reverse charge applies*) – YOUR VAT RETURN

- Complete Box 6 on your VAT return (net sales value)
- Do NOT put any value in Box 1 (VAT on sales)

RECEIVE BUILDING/CONSTRUCTION SERVICES (*if the Domestic Reverse charge applies*) – YOUR VAT RETURN

- Declare VAT on supply, in Box 1 (VAT on sales)
- Do NOT put any value in Box 6 (net Sales value)
- Recover VAT as usual in Box 4 (VAT on costs) and put Net supply value in Box 7 (Net cost of supply)



What is an END-USER?

- ❖ They are a business that is VAT and CIS registered
- ❖ They do not make an onward supply of building/construction services
- ❖ A private customer is NOT an END-USER

SYSTEMS/SOFTWARE

- ❖ Need to consider your systems and software
- ❖ For example, XERO has added in Reverse charge options for both Customer invoices and Supplier invoices.
- ❖ Hence will take a lot of the pressure away from getting the requirements correct.

FAQ'S

Q. What if the work is on New-builds?

A. New builds are Zero-rated for VAT, and so DO NOT come under the reverse charge process

Q. What if we supply or a supplier supplies materials only?

A. Supplies of materials only, are not under the Domestic reverse charge

Q. Do I need to get in writing from every customer that we sub-contract from, whether they are an End-User or not?

A. YES

Q. What if my customer hasn't notified us whether they are an End-User or not?

A. You will need to ask them.

Q. What about if I am on the Flat-rate scheme or Cash accounting scheme for VAT?

A. The VAT Flat Rate Scheme or the VAT Cash Accounting Scheme Cannot be used for Reverse charge supplies. These schemes can be used for non-Reverse charge supplies.

SERVICES SUBJECT TO THE REVERSE CHARGE

HMRC give the following examples of services which are subject to the reverse charge:

1. constructing, altering, repairing, extending, demolishing or dismantling buildings or structures (whether permanent or not), including offshore installation services
2. constructing, altering, repairing, extending, demolishing of any works forming, or planned to form, part of the land, including (in particular) walls, roadworks, power

lines, electronic communications equipment, aircraft runways, railways, inland waterways, docks and harbours

3. pipelines, reservoirs, water mains, wells, sewers, industrial plant and installations for purposes of land drainage, coast protection or defence

4. installing heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection systems in any building or structure

5. internal cleaning of buildings and structures, so far as carried out in the course of their construction, alteration, repair, extension or restoration

6. painting or decorating the inside or the external surfaces of any building or structure

7. services which form an integral part of, or are part of the preparation or completion of the services described above - including site clearance, earthmoving, excavation, tunnelling and boring, laying of foundations, erection of scaffolding, site restoration, landscaping and the provision of roadways and other access works.

Services NOT included in the reverse charge

HMRC give the following examples of services which are NOT subject to the reverse charge:

1. drilling for, or extracting, oil or natural gas

2. extracting minerals (using underground or surface working) and tunnelling, boring, or construction of underground works, for this purpose

3. manufacturing building or engineering components or equipment, materials, plant or machinery, or delivering any of these to site

4. manufacturing components for heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection systems, or delivering any of these to site

5. the professional work of architects or surveyors, or of building, engineering, interior or exterior decoration and landscape consultants

6. making, installing and repairing art works such as sculptures, murals and other items that are purely artistic



- 7. signwriting and erecting, installing and repairing signboards and advertisements
- 8. installing seating, blinds and shutters
- 9. installing security systems, including burglar alarms, closed circuit television and public address systems.