



VAT 'REVERSE CHARGE' FOR BUILDING & CONSTRUCTION SERVICES

BACKGROUND

The VAT '**Domestic Reverse Charge**' for Building and Construction Service businesses is a new VAT regime that has applied specifically to the construction sector from **1st March 2021**.

The new legislation was introduced as an **anti fraud** measure due to a '**missing trader**' problem common in the sector, where some businesses receive high amounts of VAT from their suppliers - **but the sales VAT is NOT received by HMRC !**

Essentially the '**Reverse charge**' process moves the sales VAT from the VAT registered Subcontractor across to the Contractor – **who becomes responsible for making the payment of the VAT to the authorities.**

The '**Reverse charge**' regime only applies to businesses in the construction sector in the following circumstances:

1. VAT registered businesses supplying services in the construction sector
2. Where the '**services**' fall under the **Construction Industry Scheme (CIS)**
3. Where the '**services**' are **NOT** the supply of staff or workers
4. Where the '**services**' are standard or reduced rated i.e. not Exempt or zero rated services
5. Where the Customer has **NOT** given written confirmation that they are an '**End user**' or '**intermediary supplier**'
6. Where the Customer is an '**overseas**' Customer i.e. only applies to UK businesses providing service in the UK

NOTE - The new rules exclude professional services (architects, surveyors, etc.) and also work installing security systems.

Where the VAT '**Reverse Charge**'

- **DOES NOT APPLY** – there is no change i.e. the invoice for the 'services' are charged to the Customer PLUS VAT

[The Subcontractor charges, receives and 'pays over' the VAT to HMRC]

- **DOES APPLY** – there will be a change i.e. the invoice for the 'services' is charged without any VAT to the Customer

[The Customer accounts for the Sales/Output VAT and the Purchase input VAT in their VAT return, and does not pay anything to the Subcontractor]



KEY POINTS ON THE 'REVERSE CHARGE'

Customer or Contractors

1. They need to ensure that the appropriate confirmation is provided to Subcontractors i.e. that **ARE/ARE NOT** an 'End User' or 'intermediary Supplier' formally - **by email or per contract with Subcontractors.**
2. An example of the wording is as follows: '***We are an end user for the purposes of section 55A VAT Act 1994 reverse charge for building and 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.***'

Subcontractors

1. They need to check if the customer has a valid **VAT number.**
 2. They need to check if the customer is has a **CIS registration.**
 3. They need to review any existing contracts to decide if the '**reverse charge**' applies – and liaise with their customer(s).
 4. They need to obtain a confirmation from each customer, whether they are an 'End user' or 'intermediary supplier'.
 5. They need to ensure that they understand how to record the '**reverse charge**'
- Sales invoices should include a reference to '**reverse charge**', so that the customer knows he must account for output tax with the appropriate calculation. e.g. '**Reverse charge: customer to pay the VAT to HMRC.**'
 - The amount of VAT relevant to the calculation should also be shown on the - **but it must be very clear that the supplier is not charging VAT !**

OTHER CONSIDERATIONS

1. The type of '**services**' being supplied will be key and generally includes those services that the **Construction Industry Scheme (CIS)** applies to e.g. '**after build**' cleaning services
2. As a Contractor, or a buyer of services in the construction sector, be **proactive** in contacting **VAT registered** subcontractors, to ensure that they are aware of the impact of the '**Reverse charge**' regime
3. If you do **NOT** have Subcontractors carrying out work for your business, then the only impact of the new regime is being clear as to whether VAT is chargeable to **YOUR** Customer – an '**End User**' or **NOT** !
4. Use the correct VAT codes in your accountancy software (Xero and Quickbooks have these codes within their software), for your Sales invoices and on the invoices received from Subcontractors e.g. use the '**Domestic Reverse Charge**' tax rates



5. It is possible that a payment to a supplier of construction services includes a high amount for building materials and only a small payment for labour e.g. plumber charges £3,000 for a new bathroom suite but only £500 for labour. However, the **'reverse charge'** applies to the entire amount because of the labour element involved.
6. It is important that buyers of construction services do not accept an incorrect VAT charge by a supplier i.e. HMRC will have the power to assess for VAT against the buyer
7. Subcontractors should be aware that your customers will no longer be paying YOU VAT, which will reduce the total amount of payments being received. Ensure you consider and plan for the impact of this on 'day-to-day' cashflow.

If you need more information on what is involved in CIS and the 'Reverse charge', then contact us directly or at clientservices@sakurabusiness.co.uk for more information

Annex 1

Use this flowchart to see how you would decide whether to apply normal VAT rules, or apply the domestic reverse charge.

Do not use it for services supplied by employment businesses.

