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Partners

## VAT: New reverse charge for building and construction services

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### Important VAT accounting change for construction supplies effective 1 March 2021

A domestic VAT reverse charge has been introduced for certain building and construction related supplies, changing the way in which the VAT on supplies is accounted for.

Rather than the supplier (or sub-contractor) charging and accounting for the VAT, the customer (or building contractor) accounts for it themselves, hence the 'reverse charge.'

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### Does this affect me?

If you make and/or receive supplies of construction services, where payments are required to be reported through the Construction Industry Scheme (CIS) then this change may affect you.

The change applies to the supply of services between VAT registered building contractors and VAT registered sub-contractors, which are subject to VAT at the standard rate of 20% and the reduced rate of 5%.

Contractors and sub-contractors include anyone who is acting in that capacity by making a supply of building work, regardless of whether this is their normal activity.

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### End users

The reverse charge does not apply to supplies to end users. For the purposes of the reverse charge for construction, consumers and final customers are called end users.

Businesses or groups of businesses that are VAT and Construction Industry Scheme registered, but do not make onward supplies of the building and construction services supplied to them, are considered end users.

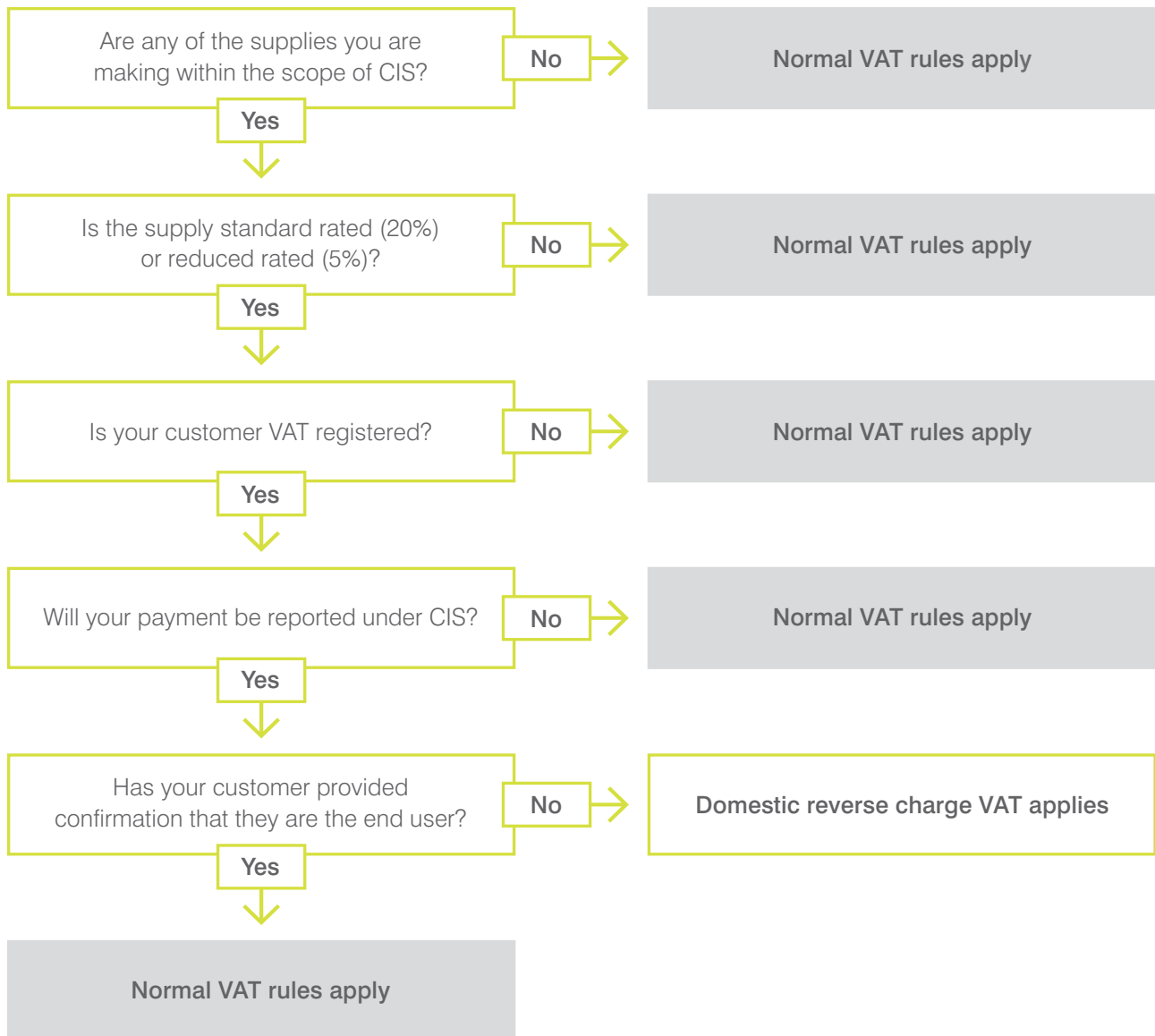
The end user must provide written confirmation to their contractor of their end user status in order for the reverse charge not to apply.

**Intermediary suppliers** can also class themselves as an end user if they buy construction services and re-supply them to a connected or linked end user, without making material alternations to the supplies. They must also provide written confirmation to their supplier or building contractor of their intermediary supplier status.

**Further details on this can be found by clicking here:** [!\[\]\(4f6bf54ae7e4144a72d78316053e412d\_img.jpg\)](#)

Notification of end user or intermediary status can be made on paper and sent by post, electronically in an email or in a contract.

## Decision chart



## What is a reverse charge?

VAT normally works whereby a supplier of goods or services charges their customer VAT and then pays the VAT on the supply to HMRC as output tax; the customer then claims the VAT back as input tax.

The reverse charge system moves both sides of this accounting to the customer. The supplier no longer charges VAT, instead, the customer charges themselves VAT and pays directly to HMRC as output tax. The customer claims the VAT back on the supply as input tax (subject to the normal rules on claiming VAT).

Partially exempt businesses receiving such supplies will have to account for the full output tax on the supply, and will only be able to claim the input tax subject to the normal partial exemption restrictions and de minimis limits.

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## When to check if your customer is an end user or intermediary supplier

An end user or intermediary supplier must provide written confirmation of their status. This notification should be kept as part of normal business records and clearly show what supplies are covered.

It is important to note that if a written notification is not made correctly, the customer will be liable for accounting for the VAT that should have been charged under the reverse charge.

If a customer has not given written confirmation of their end user or intermediary supplier status, the supplier must assume that the reverse charge applies and will not charge VAT to the customer.

## How do I invoice for supplies of construction services subject to the new reverse charge?

If you sell construction services under the reverse charge procedure you will need to obtain your customer's VAT registration number and satisfy yourself, as far as possible, that the number is genuine and the goods or services are being bought for a business purpose.

A VAT invoice will still be required for supplies of construction services subject to the new reverse charge. This invoice should show all the information normally required on a VAT invoice, except that VAT must not be included in the amount shown on the invoice as 'VAT charged'.

### The invoice must include reference to the reverse charge and be marked:

- + reverse charge: VAT Act 1994 Section 55A applies, or
- + reverse charge: S55A VATA 94 applies, or
- + reverse charge: Customer to pay the VAT to HMRC.

The invoice should also include the amount of VAT to be accounted for by the customer under the reverse charge, this is the amount of VAT that you would have charged if the supply had not been subject to the reverse charge.

If you produce VAT invoices using an IT system that cannot show the amount of VAT to be accounted for under the reverse charge, then the wording of the invoice should include a legend such as '*customer to account to HMRC for the reverse charge output tax at standard rate/reduced rate (delete as applicable) on the VAT-exclusive price of items marked reverse charge*'.

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## How do I account for construction supplies subject to the new reverse charge on my VAT return?

When you make a reverse charge supply you must include the VAT exclusive value of that supply in the total value of sales in Box 6 on your VAT return. There will be no output tax in Box 1 because that is the responsibility of your customer.

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## How do I account for construction purchases subject to the new reverse charge on my VAT return?

When you receive a reverse charge supply you must enter the output VAT payable in Box 1 of your VAT return, but do not include the value of the supply in Box 6.

You may also claim input VAT, subject to the normal rules, by including it in Box 4 of your VAT return, the VAT exclusive value should be entered in Box 7.

Major accounting software suppliers including SAGE, Xero, and Quickbooks already have default tax codes for domestic reverse charge supplies liable to VAT at 20%.

Additional factsheets are available, outlining the steps to follow to ensure the appropriate VAT rate is added to invoices in SAGE, Xero and QuickBooks.

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## Which specific construction services will this apply to?

### The supplies affected are pretty much everything:

- + Construction, alteration, repair, extension, demolition or dismantling of buildings or structures (whether permanent or not), including offshore installations.
- + Construction, alteration, repair, extension or demolition of any works forming, or to form, part of the land, including (in particular) walls, roadworks, power-lines, electronic communications apparatus, aircraft runways, docks and harbours, railways, inland waterways, pipe-lines, reservoirs, water-mains, wells, sewers, industrial plant and installations for purposes of land drainage, coast protection or defence.

- + Installation in any building or structure of systems of heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection.
- + Internal cleaning of buildings and structures, so far as carried out in the course of their construction, alteration, repair, extension or restoration.
- + Painting or decorating the internal or external surfaces of any building or structure.
- + Services that form an integral part of, or are preparatory to, or are for rendering complete, the services described in the points above, including site clearance, earth-moving excavation, tunnelling and boring, laying of foundations, erection of scaffolding, site restoration, landscaping and the provision of roadways and other access works.

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## What about mixed supplies?

If there is a reverse charge element in a supply, then the whole supply will be subject to the reverse charge.

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## What if I use the Flat Rate Scheme?

If you use the Flat Rate Scheme (FRS) you should give special consideration to whether you should still continue to use the scheme.

The issue is that reverse charge supplies are excluded from FRS. This means that if you only make reverse charge supplies your FRS VAT returns will be nil, in which case you will not receive any benefit for your input tax. Normally when using FRS, you pay HMRC less 'output tax' than that you have charged your customers, based on the difference between 20% and your FRS rate, with this difference giving you what is in effect an allowance for your input tax. If you have no FRS supplies to declare, you will lose this benefit.

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## Further guidance

To view the Government's VAT reverse charge technical guide, giving further details for those that buy or sell building and construction services, [click here](#):



### Next steps:

- + Checking to see if the reverse charge affects your sales, purchases or day-to-day cashflow.
  - + Updating accounting systems and software to handle the reverse charge.
  - + Establishing if your business will make net repayment claims to HMRC, as VAT is no longer received on sales.
  - + Training all employees that are responsible for VAT on the reverse charge and how it works.
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If you have any queries regarding reverse charge for building and construction services please do not hesitate to contact our VAT Team for advice. We offer free initial consultations.



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