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50cloud Accounts

Reverse Charge for Building and Construction Services

The domestic reverse charge for building and construction services is now in effect - meaning that the customer (or building contractor) receiving a service will pay VAT directly to HMRC rather than paying the supplier (or sub-contractor).

The change impacts those that supply or receive specified services that are reported under the Construction Industry Scheme (CIS).

The reverse charge 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%.

For those clients using Sage 50cloud Accounts as their accounting software, below are the steps to follow to ensure the appropriate VAT rate is added to their invoices.

Applying the reverse charge in Sage 50cloud Accounts

Two new tax codes have been created in Sage 50cloud Accounts **v26 and above**. The new codes must be used for both sales and purchase transactions, where the domestic reverse charge applies.

T21 to be used where CIS Reverse Charge Standard Rate applies; and

T26 to be used where CIS Reverse Charge Reduced Rate applies.

These codes can be used by both the subcontractor and the main contractor, ensuring that the VAT return is updated correctly.

For users that do not have Sage 50cloud Accounts v26 or above, the reverse charge tax codes will need to be manually created.

Further information on how to create a tax code in Sage can be found here:



Using the new VAT codes

When the new codes are used, only the net amount needs to be added, the VAT calculation for the return will complete automatically.

Subcontractors

When a subcontractor uses tax code **T21** or **T26** on an invoice for their main contractor, **Box 6** of the VAT return (total value of sales excluding VAT) will be updated with the net amount of the sale.

Main contractors

When a main contractor uses tax code **T21** or **T26** to record their purchase from the subcontractor, the net value of the purchase affects **Box 7** of the VAT return (total value of purchases excluding VAT).

The VAT value affects **Boxes 1 and 4** of the VAT return. The VAT is paid and reclaimed on the same VAT return, often termed Notional VAT.

Further information on how the Construction Industry Scheme Reverse Charge works in Sage 50 can be found here:



Further details on how to invoice for supplies of construction services subject to the new reverse charge can be found in our factsheet by clicking here:



At **M+A Partners**, we are here to advise and support you in applying the VAT Reverse Charge using Sage 50cloud Accounts. If you need any further assistance, then please get in touch with your usual M+A Partners contact or email: enquiries@mapartners.co.uk



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