



## Reverse Charge for Building and Construction Services

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**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 Xero as their accounting software, below are the steps to follow to ensure the appropriate VAT rate is added to their invoices.

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### Applying the reverse charge in Xero

Xero have a specific set of reverse charge tax rates to use on invoices and bills in order to ensure the correct amount of VAT is reported.

It should be noted that the non-Making Tax Digital (MTD) VAT return in Xero does not support the new domestic reverse charge. This means that MTD will need to be setup before the reverse charge can be applied in Xero.

Further details on how to set up MTD in Xero can be found here:



## Using the new VAT codes

To apply the domestic reverse charge tax rates within Xero, follow these steps:

1. In the **Accounting** menu, select **Advanced**;
2. Click **Tax Rates**;
3. Click **Add Domestic Reverse Charge Tax Rates**; and
4. Click **Add Domestic Reverse Charge Tax Rates** to confirm.



### Suppliers

Suppliers that provide a specified service do not account for the VAT due on the supply.

The total value of the sales subject to the reverse charge (including credit notes) will be entered in **Box 6** of the return as normal.

No sales tax is recorded in **Box 1**, as this is accounted for by the contractor.

### Customers

The VAT on sales gets deducted as an input in the VAT return, which means no net tax is payable to HMRC.

When completing the VAT return, Xero will automatically enter the tax on purchases subject to the reverse charge (including reductions due to credit notes), in **Box 1** of the return.

The input tax on reverse charge purchases is reclaimed in **Box 4**, subject to the normal rules (including reductions due to credit notes).

The net value of the purchases under the reverse charge (including credit notes) is entered in **Box 7**.

Further information on how the Construction Industry Scheme Reverse Charge works in Xero 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 Xero. If you need any further assistance, then please get in touch with your usual M+A Partners contact or email: [enquiries@mapartners.co.uk](mailto:enquiries@mapartners.co.uk)



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