M+A Partners

VAT Domestic Reverse Charge for Construction Services

The VAT domestic reverse charge for building and construction services has applied since 1 March 2021 and continues in force. HM Revenue & Customs (HMRC) made minor updates to its technical guidance in September 2024 to clarify certain wording and improve consistency of interpretation, without changing the underlying rules or their practical application.

Under the reverse charge, the responsibility for accounting for VAT shifts from the supplier (sub-contractor) to the customer (contractor). Instead of charging VAT, the supplier invoices net of VAT, and the customer accounts for both output and input VAT on their VAT return.

This measure was introduced to reduce VAT fraud in the construction sector and remains a key compliance focus for HMRC.

Does this affect you?

Businesses that make and/or receive supplies of construction services, where payments are required to be reported through the Construction Industry Scheme (CIS), may be impacted by the reverse charge rules.

The reverse charge applies where all of the following conditions are met:

+ Both supplier and customer are VAT registered (or required to be);
+ The supply is standard-rated (20%) or reduced-rated (5%);
+ The work falls within the CIS; and
+ The customer is not an end user or intermediary supplier.

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.

What is a reverse charge?

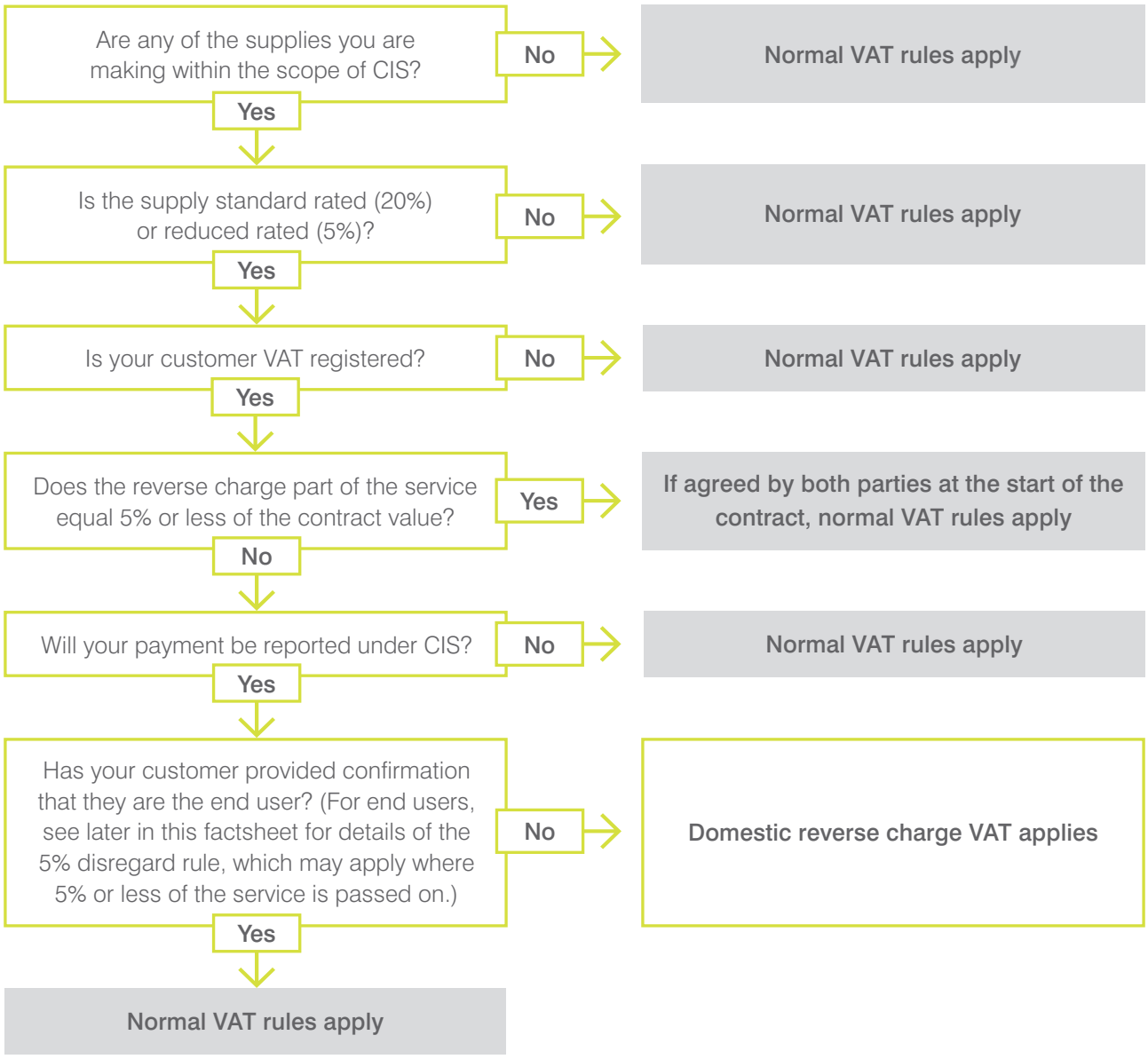
VAT normally works whereby a supplier of goods or services charges their customer VAT and then pays the VAT on the supply to HMRC as output tax; the customer then claims the VAT back as input tax.

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; and
+ 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 have to account for the full output tax on the supply and can only claim the input tax subject to the normal partial exemption restrictions and de minimis limits.

Decision chart



End users and intermediary suppliers

The reverse charge does not apply to supplies to **end users**. Businesses or groups of businesses that are VAT and CIS registered, but do not make onward supplies of the building and construction services supplied to them, are considered end users.

If the services are provided to a private domestic customer, the reverse charge does not apply, however the contractor supplying the householder does not become the end user, because it will still be making onward supplies of construction services.

+ The end user must provide written confirmation to their contractor of their end user status for the reverse charge not to apply;
+ This notification should be kept as part of normal business records and clearly show what supplies are covered; and
+ Where services are mainly supplied to domestic customers, a business may consider including a statement in its terms and conditions confirming that it will assume the customer is an end user or intermediary supplier unless notified otherwise. This places the responsibility on the customer to advise if this is not the case.

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. “Connected or linked” generally means they either have an interest in the same land or are in the same corporate group under section 1161 of the Companies Act 2006.

They must also provide written confirmation to their supplier or building contractor of their intermediary supplier status.

+ 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; and
+ 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.

Further details on this can be found here, within the VAT domestic reverse charge technical guide. If you are unsure whether these rules apply to your circumstances, please contact us.

Invoicing requirements

Businesses supplying construction services that fall under the reverse charge procedure must obtain their customer’s VAT registration number and take reasonable steps to verify that it is valid and that the goods or services are being purchased for a business purpose.

A VAT invoice is still required to be issued for supplies subject to the reverse charge. The invoice should include all the information normally required on a VAT invoice, except that VAT must not be shown 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 would have been charged if the supply had not been subject to the reverse charge.

VAT return treatment

Suppliers:

+ Include net value in Box 6; and
+ No VAT in Box 1.

Customers:

+ Include output VAT in Box 1;
+ Reclaim input VAT in Box 4 (subject to normal rules); and
+ Include net value in Box 7.

Accounting software suppliers including SAGE, Xero, and Quickbooks 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.

Which construction services does this apply to?

The list of services this applies to is the same as the list of 'construction operations' covered by the **Construction Industry Scheme**

+ 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; and
+ 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

It does not apply to services such as:

+ Manufacturing building or engineering components or equipment, materials, plant or machinery, or delivering any of these to site;
+ The professional work of architects or surveyors, or of building, engineering, interior or exterior decoration and landscape consultants;
+ Installing seating, blinds and shutters; and
+ Installing security systems, including burglar alarms, closed circuit television and public address systems.

Mixed supplies

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

For example, where professional services (e.g. architecture or design) are supplied with the construction services and these are not the main part of the contract, the whole amount will generally be treated under the reverse charge.

5% disregard rule

The 5% disregard operates in distinct situations under the domestic reverse charge rules.

1. **End user disregard rule**

Where a business customer receives construction services and is predominantly an end user, the domestic reverse charge does not apply, so long as they provide written confirmation to the subcontractor of their end user status.

Where the customer does make an onward supply of any of those services, however, this would normally mean the reverse charge rules still apply. HMRC provides for this with a 5% end user disregard. This allows the customer to still be treated as an end user and issue an end user declaration to their supplier providing the value of the services they are passing on does not exceed 5% of the total contract value.

In practice, where the 5% disregard applies, the customer may issue an end user declaration without needing to provide details of the minor onward supply. This 5% needs to be calculated based on the total contract value.

2. **Minor part of a single supply rule**

Separately, where there is a single supply of construction services, and only a minor element of that supply would otherwise fall under the reverse charge, there is a 5% disregard that can apply.

In these cases, if the reverse charge element is 5% or less of the total value of the supply, it can be ignored and VAT is accounted for under the normal VAT rules instead.

For example:

+ Where a £5,000 security system is installed and a small amount of additional lighting work is carried out, the 5% disregard may apply if the value of the lighting element is £250 or less; or
+ A joiner constructs a bespoke staircase offsite, and this is then installed onsite. Manufacturing or engineering components or equipment off site are usually not covered by the domestic reverse charge, however, by installing this onsite, it would bring the whole supply within the VAT domestic reverse charge for construction services. However, if the installation element is 5% or less of the total charge, the reverse charge can be disregarded and normal VAT rules applied.

However, this treatment is not compulsory and must be agreed by both parties, from the start of the contract, that it should apply on the basis of the overall contract values. The 5% should not be calculated on an invoice by invoice basis.

The 5% disregard does not apply where there is a single supply and the predominant element is zero-rated (for example, a new-build residential construction with a small element of commercial work). In these circumstances, the reverse charge procedure must still be applied to the standard-rated element.

The Flat Rate Scheme

Businesses using the Flat Rate Scheme (FRS) should consider whether it remains appropriate to continue using the scheme, as reverse charge supplies are excluded from FRS.

Where a business only makes reverse charge supplies, its FRS VAT returns will be nil and most input tax it incurs would also be irrecoverable.

Under the FRS, businesses normally pay HMRC less output tax than they charge to customers, based on the difference between the standard rate and their flat rate, which effectively provides an allowance for input tax. If there are no FRS supplies to declare, this benefit will be lost.

Cash Accounting Scheme

The **VAT Cash Accounting Scheme** cannot be used for supplies or services that are subject to the reverse charge.

It may continue to be used for any supplies that are not subject to the reverse charge.

Important compliance point

HMRC is moving from an “educational” approach to active enforcement, with increased checks, assessments where VAT has been incorrectly charged, and penalties and interest where systems or processes are inadequate.

If written confirmation of end user/intermediary status is not obtained, suppliers must assume the reverse charge applies.

Businesses should ensure they have appropriate systems and records in place, along with clear processes to support their VAT treatment decisions.

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Our Vision - to be the firm of choice, through our team fulfilling their potential and delivering exceptional client service

How M+A Partners can help

Our experienced team supports your business in understanding and applying the VAT domestic reverse charge correctly, including determining the correct VAT treatment of supplies and advising on CIS and end user status.

For further information on this topic, please get in touch with our experts.

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