

## **VAT Reverse Charge for Construction Services**

See below some key areas of the VAT rule changes for the Construction Industry that come into force on 1 March 2021.

### **Who is affected?**

Anyone in the Construction Industry or in Linked Services should consider fully whether the services they provide will be caught by the rule changes. Businesses may find that part of their services are within the new rules and part of their services are outside the scope.

### **The new VAT changes apply when all the following are met;**

- The supply for [VAT](#) consists of construction services and materials.
- It is made at a standard or reduced rate of VAT.
- Between a UK VAT registered supplier and UK VAT registered customer.
- Supplier and customer are both registered for CIS.
- The customer intends to make an ongoing supply of construction services to another party.
- The supplier and customer are not connected.

### **The CIS reverse charge does not apply to any of the following supplies:**

- Supplies of VAT exempt building and construction services.
- Supplies that are not covered by the CIS, unless linked to such a supply.

### **The CIS reverse charge does not apply to taxable supplies made to the following customers:**

- **A non-VAT registered customer**
- **'End Users' i.e. a VAT registered customer who is not intending to make further on-going supplies of construction**

*The main feature of the above is that those offering construction services to the general public will not have to apply the reverse charge but those acting as subcontractors to other contractors will need to look at the type of services and may well have to apply reverse charge VAT.*

### **What services are affected? \*\***

- Constructing, altering, repairing, extending, demolishing or dismantling buildings or structures (whether permanent or not), including offshore installation services.
- Constructing, altering, repairing, extending, demolishing of any works forming, or planned to form, part of the land, including (in particular) walls, roadworks, power lines, electronic communications equipment, aircraft runways, railways, inland waterways, docks and harbours.
- Pipelines, reservoirs, water mains, wells, sewers, industrial plant and installations for purposes of land drainage, coast protection or defence.

- Installing heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection systems in any building or structure.
- Internal cleaning of buildings and structures so far as carried out in the course of their construction, alteration, repair, extension or restoration.
- Services which form an integral part of or are part of the preparation or completion of the services described above. This includes 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.
- Painting or decorating the inside or the external surfaces of any building or structure.

### **Excluded services \*\***

- Drilling for, or extracting, oil or natural gas.
- Extracting minerals (using underground or surface working) and tunnelling, boring, or construction of underground works, for this purpose.
- Manufacturing building or engineering components or equipment, materials, plant or machinery, or delivering any of these to site.
- Manufacturing components for heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection systems, 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.
- Making, installing and repairing artworks such as sculptures, murals and other items that are purely artistic.
- Installing seating, blinds and shutters.
- Signwriting and erecting, installing and repairing signboards and advertisements.
- Installing security systems, including burglar alarms, closed-circuit television and public address systems.
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\*\* There may be other services falling part of the regulations, please check to be sure. The list is intended to show examples and be generic to raise awareness and encourage further advice to be sought specific to your circumstance.

### **Changes that CIS businesses should be considering:**

- The business will need to identify relevant CIS contracts and “end-users”.
- Bookkeeping systems will need to be adapted to cope with invoicing obligations. Many of the software providers have now included specific VAT codes to be used for reverse charge VAT transactions.
- Bookkeepers need to be aware of how to deal with your transactions.
- The use of the VAT Flat Rate Scheme and Cash accounting may no longer be possible.
- Cash flow could be affected, and so businesses should look at their overall cash requirements sooner rather than later as refunds may no longer be as regular as perhaps used to.

If you believe that the DRC is relevant to a supply you make then you should follow this process:

1. Check your customers VAT number
2. Check your customers CIS registration
3. Review the supplies/contracts you carry out, to confirm the type of supply is a standard or reduced rate supply and that DRC will apply and advise the customer.
4. Ask your customer to confirm that they are or are not the end user
5. Deal with the transaction under the DRC method as appropriate

## **How does this affect my VAT returns and what should my paperwork now look like?**

If we look at a simple scenario:

You, as a subcontractor are to charge £100 plus VAT to another contractor for some building work that you have done.

Before the 1st March 2021 you would raise an invoice for £100 and account for £20 of output VAT (so gross £120), and this would be paid over to HMRC in your VAT return.

The contractor would claim back the £20 input VAT after paying you £120.

Post 1st March 2021 you would raise an invoice for £100 and mark clearly on the invoice "reverse charge: VATA 1994 section 55A applies".

The amount of VAT should be shown or if this can't be shown the rate of VAT that is applicable on the supply; however, the customer is NOT to be charged for it, and would there pay you £100.

No output VAT would appear on your VAT return for this transaction.

If the customer of yours is NOT the end customer in the supply chain, your customer must add £20 to his output VAT figure in Box 1 of the Vat return. But also claim £20 as input VAT in box 4 of the return, thus applying the VAT reverse charge mechanism. They then take the same approach as you when raising their next invoice on.

If the customer of yours is the end user and invoices the end client, then they must apply the first part of the above paragraph to your transaction. They will then raise a sales invoice charging the end customer for the supply and charging the relevant amount of Output VAT to them. This then becomes a normal sales invoice and is treated in the usual manner.

What this is doing is stopping the possibility of any VAT monies being paid by businesses but not making its way to HMRC. Therefore, by only having the relevant amount of genuine output vat paid at the end of the line the matter is dealt with cleanly and in one go. Although, it makes for a record keeping nightmare.

## **Next Steps**

Check that your accounting system can deal with reverse charge transactions and that you know how to process the transactions.

Most of the major software brands will have already addressed the processing of reverse charge items and are able to enable the transactions to be processed without any issues.

You need to be thinking about your invoices and how possibly your systems/processes/information taken all works now and whether any changes need to be made to these systems.

**If you need further guidance the Hames team are on hand to help – please call our office on 01455 292005 or email [alison@hamespartnership.co.uk](mailto:alison@hamespartnership.co.uk)**