



VAT Reverse Charge For Building And Construction - FAQs

From 1 March 2021 the domestic VAT reverse charge must be used for most supplies of building and construction services.

You need to prepare for this change by:

- Checking when you must use the reverse charge on your sales, purchases or both
- Making sure your accounting systems and software can deal with the reverse charge
- Considering whether the change will impact your cash flow
- Making sure all your staff who are responsible for VAT accounting are familiar with the reverse charge and how it will work
- Contacting your clients and suppliers to let them know how the changes affect you

Q: What Is The Domestic VAT Reverse Charge For Building And Construction Services?

From 1 March 2021, businesses in the supply chain that provide construction services within the scope of the Construction Industry Scheme (CIS), will no longer receive VAT for providing construction services unless they are providing those services directly to an End User. Instead the responsibility for paying VAT to HMRC will sit with the business that receives the construction services (the customer).

Q: When Will You Have To Apply The Reverse Charge?

You will have to apply the reverse charge when all the following conditions 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 registered for CIS.
- The customer intends to make an ongoing supply of construction services to another party.
- The supplier and customer are not connected.

Q: What Services Are Affected By The Reverse Charge?

You must use the reverse charge for the following services:

- 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
- painting or decorating the inside or the external surfaces of any building or structure
- services which form an integral part of, or are part of the preparation or completion of the services described 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

Q: What Services Are Excluded From The Reverse Charge?

Do not use the charge for the following services, when supplied on their own:

- 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 art works such as sculptures, murals and other items that are purely artistic signwriting and erecting, installing and repairing signboards and advertisements
- installing seating, blinds and shutters
- installing security systems, including burglar alarms, closed circuit television and public address systems

Certain services can become included:

- If there is a reverse charge element in a supply, then the whole supply will be subject to the domestic reverse charge.
- If there has already been a reverse charge service between two parties on a construction site, and if both parties agree, any subsequent construction supplies on that site between the same parties can be treated as reverse charge services.
- If there is doubt whether a type of works falls within the definition of a specified service, as long as the recipient is VAT registered and the payments are subject to CIS, the reverse charge should apply.
- The contractor is asked to consider all construction contracts with a sub-contractor. If they can see that reverse charge applies to more than 5% of contracts (by volume or value) with that sub-contractor, then the reverse charge may be applied to all the contracts.



Q: How Will The Reverse Charge Work And How Do I Complete My VAT Return?

The customer receiving the specified service must account for the VAT instead of the supplier. The supplier will not charge VAT on its invoice. Suppliers must not enter any output tax on sales under the reverse charge. The supplier only needs to enter the net value of the sale in box 6.

If you buy services subject to the reverse charge, you must enter the VAT charged as output tax on your VAT return. Make sure you do not enter the net value of the purchase as a net sale. You may reclaim the input tax on your reverse charge purchases, subject to the normal VAT rules. This is likely to result in an overall net effect of zero on your VAT return.

Q: What Are End Users And Intermediary Suppliers?

The reverse charge does not apply to consumers and final customers, called end users, if they tell their supplier or building contractor in writing that they're an end user. End users are 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.

Intermediary suppliers are VAT and Construction Industry Scheme registered businesses that are connected or linked to end users. If intermediary suppliers buy construction services and re-supply them to a connected or linked end user, without making material alterations to the supplies, they're all treated as if they're end users and the reverse charge does not apply if they notify their supplier or building contractor in writing that they're intermediary suppliers.

To be connected or linked to an end user, intermediary suppliers must either:

- have a relevant interest in the same land where the construction works are taking place, for example, landlord and tenant
- be part of the same corporate group or undertaking as defined in section 1161 of the Companies Act 2006

Q: When To Check If Your Customer Is VAT And CIS Registered Or An End User?

Where sales operations or networks are clearly set for domestic (work carried out in the UK) consumer sales it's not necessary to check the VAT, CIS or end user status of the customer and the normal VAT rules should apply.

If there is any doubt you should always ask the customer whether they're registered for VAT and CIS and whether they're an end user.

If you often deal with end users or intermediary suppliers, you can include a statement in your terms and conditions to say you'll assume that your customer is an end user or intermediary supplier unless they say they're not. This places a responsibility on the customer to respond if this is not the case.



Q: How Will The Reverse Charge Affect My Cashflow?

The reverse charge may also mean your business will make net repayment claims to HMRC, as you no longer receive VAT on your sales. If so, you should consider moving to monthly returns and can apply using your online VAT account.

If you are a sub-contractor you should also be aware that your customers will no longer be paying you VAT, which will reduce the gross value of payments coming into your business. So, you'll need to consider and plan for the impact of this on your day-to-day cashflow.

Q: How Do You Determine Which VAT Treatment Applies?

The VAT treatment is determined for payments due on any supplies entered into your accounting system before 1 March 2021, but paid on or after 1 March 2021.

Date Entered In Customers Accounting System	Date Payment Made	VAT Treatment
Before 1st March 2021	On/Before 31st May 2021	Normal VAT Rules
Before 1st March 2021	On/After 1st June 2021	Domestic Reverse Charge
On/After 1st March 2021	On/After 1st March 2021	Domestic Reverse Charge

For contracts starting after 1 March 2021, you should decide whether the reverse charge applies from the start of the contract.

Q: Change Of VAT Treatment During A Contract

There may be contracts where a change in customer circumstances means the VAT treatment changes from the reverse charge to the normal VAT accounting rules or vice-versa. Where this occurs, the customer must notify the supplier to enable the correct VAT treatment to be applied. The new treatment will apply at the point the customer's circumstances changed. If this change happens during an invoice period (where there would be one invoice including both reverse charge and normal VAT rules), the supplier can decide to change to the new treatment for the entire invoice period or wait until the next invoice period before changing to the new treatment.

Q: How Will The VAT Reverse Charge Impact On Accounting Scheme's?

You cannot use the VAT Cash Accounting Scheme for supplies of services that are subject to the reverse charge. Similar, reverse charge supplies are not to be accounted for under the Flat Rate Scheme. Users who receive reverse charge supplies will have to account for the VAT due to HMRC and recover it simultaneously on the same VAT Return. In most cases it will no longer be beneficial to remain on the Flat Rate Scheme, unless you have substantial supplies to end users and intermediary supplies, and you should consider leaving the scheme before 1 March 2021 (as, under the scheme, you cannot recover VAT incurred on purchases of materials and overheads).



Q: How Does It Work Regarding Invoices?

When supplying a service subject to the CIS reverse charge, suppliers must show all the information that is normally required on a VAT invoice, except that:

- A note on the invoice must make clear that the CIS reverse charge applies and that the customer is required to account for the VAT.
- No VAT is charged on the invoice.
- It should state how much VAT is due under the reverse charge, or the rate of VAT if the VAT amount cannot be shown, but that VAT should not be included in the amount charged to the customer.

Under the VAT Regulation 1995, invoices for services subject to the reverse charge where the customer is liable for the VAT must include the reference 'reverse charge'. Here are some examples of wording that meet the legal requirement:

- Reverse charge: VAT Act 1994 Section 55A applies.
- Reverse charge: S.55A VATA 94 applies.
- Reverse charge: Customer to pay the VAT to HMRC.

If you have any further questions with regards to the VAT Reverse Charge please feel free to get in touch with a member of our team at info@raffingers.co.uk or via www.raffingers.co.uk