

Construction Sector VAT Reverse Charge

Banbury 01295 270200 | Bicester 01869 252151
 High Wycombe 01494 448122 | Witney 01993 700010

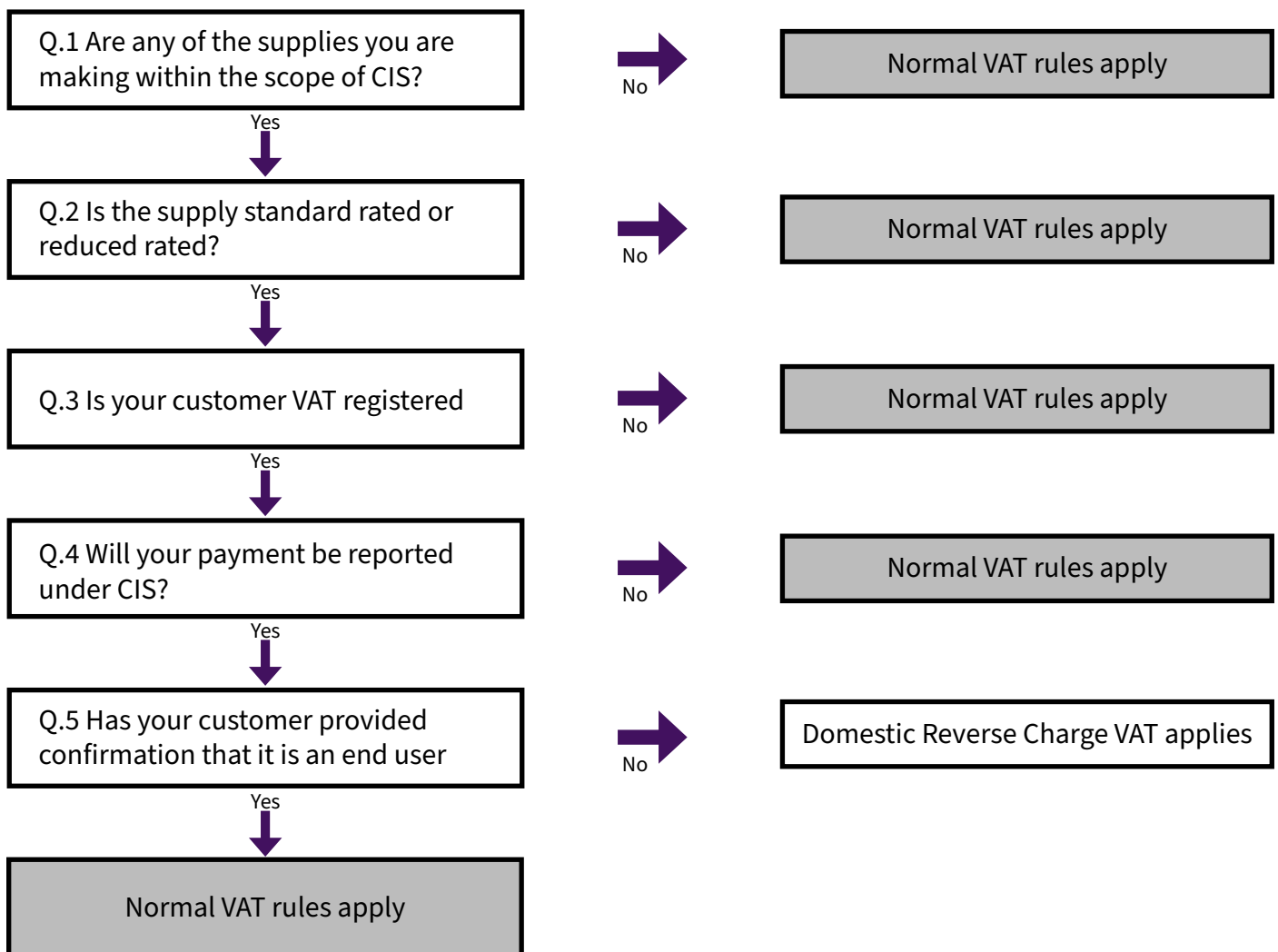
whitleystimpson.co.uk

Overview

The domestic VAT reverse charge for construction applies only to transactions that are reported under the CIS and are between VAT-registered contractors and sub-contractors (*both parties have to be VAT registered*).

Those supplying construction services to a VAT registered customer will no longer have to account for the VAT. Instead, the customer will account for the VAT (that is, it will be considered output tax for them, as if they've made the supply to themselves).

The payment received will be for the cost of the work done (plus materials used), net of any CIS deductions for tax and National Insurance but no VAT will be paid on the invoice.



Invoicing

When making a supply to which the domestic VAT reverse charge applies, suppliers must:

- Show all the information normally required to be shown on a VAT invoice.
- Annotate the invoice to make clear that the domestic reverse charge applies and that the customer is required to account for the VAT.

The amount of VAT due under the domestic reverse charge should be clearly stated on the invoice (at 20%/5%) but should not be included in the amount shown as total payable.

XYZ Construction Company
High Street, Anytown, Countyshire BC1 2DE

Construction Customer
Something House
Somewhere Street
Sometown
PQ5 6RS

Invoice no: 7934
Invoice date: 31 January 2020

To the provision of electrical services in connection with the conversion of Old Farm Barn to a dwelling

Labour and materials	£2,402.00
VAT at 5% (reverse charge applies)	£120.10
Total payable to XYZ	£2,402.00

Reverse charge: Customer to pay the VAT to HMRC

VAT Registration Number: 123 4567 89

XYZ Construction Company
High Street, Anytown, Countyshire BC1 2DE

Construction Sector Business
Something House
Somewhere Street
Sometown
PQ5 6RS

Invoice no: 7934
Invoice date: 31 January 2020

To the provision of carpentry work and plastering in connection with the refurbishment of an office building

Labour and materials for January	£10,000.00
Total payable to XYZ	£10,000.00

Rate of VAT due: 20%

Amount of VAT due: £2,000.00

Reverse charge applies: Customer to pay the VAT to HMRC

VAT Registration Number: 123 4567 89

Completion of the VAT return

Suppliers

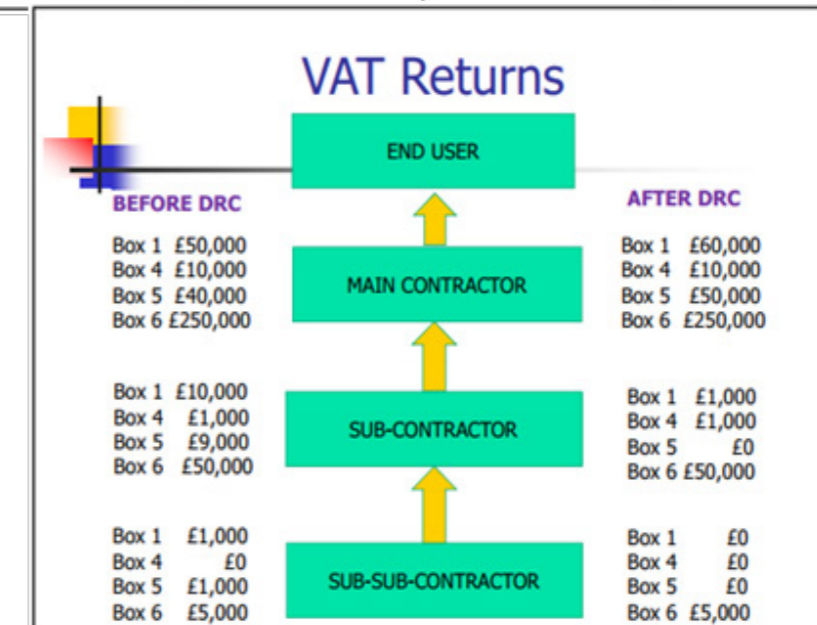
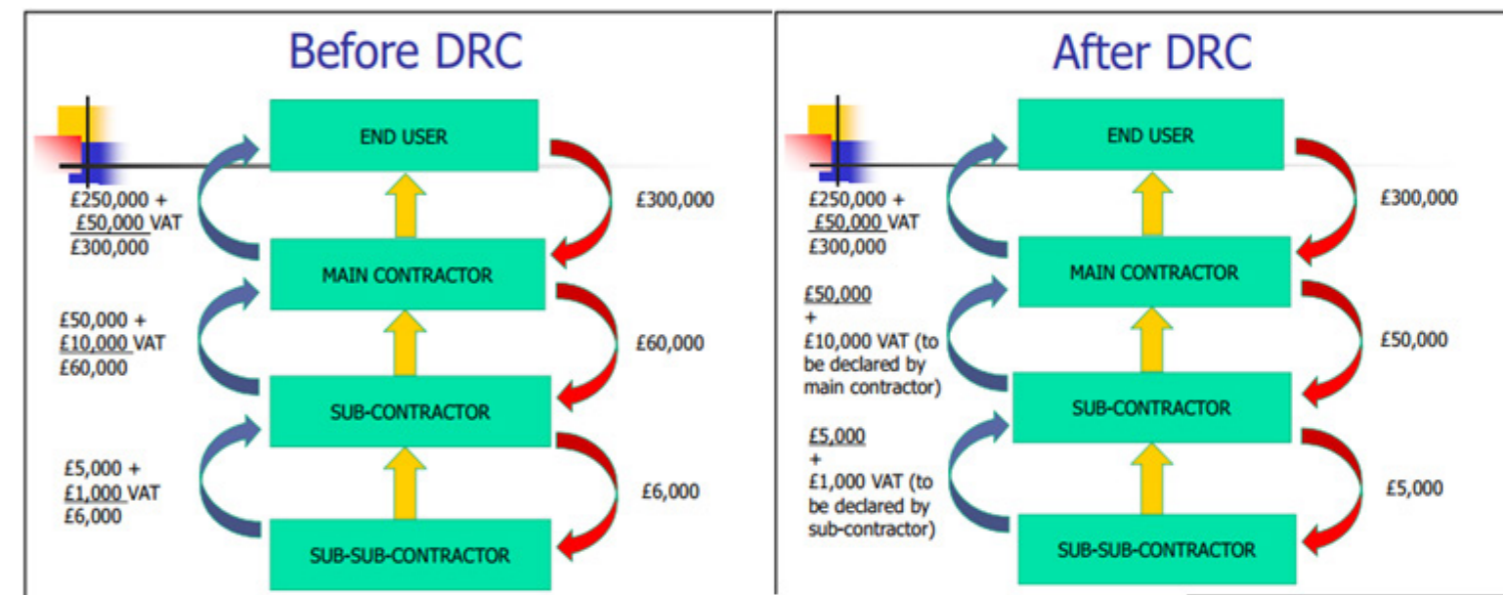
Suppliers of goods or services under the domestic reverse charge **must not** enter in box 1 of the VAT Return any output tax on sales to which the domestic reverse charge applies but **must** enter the value of such sales in box 6.

Customers

Customers **must** enter in box 1 of the VAT Return the output tax on purchases to which the domestic reverse charge applies but **must not** enter the value of such purchases in box 6.

They may reclaim the input tax on their domestic reverse charge purchases in box 4 of the VAT Return and include the value of the purchases in box 7, in the normal way.

When submitting your VAT return through your software, it will likely give you a prompt that the VAT declared in box 1 is too high in relation to the box 6 figure. You will need to confirm that the figures are correct and submit as normal.



The domestic reverse charge will not apply where:

- Services are supplied to the end user, such as the property owner, or directly to a main contractor that sells a newly completed building to the customer.
- The recipient makes onward supplies of those construction services to a connected company.
- The supplier and recipient are landlord and tenant or vice versa.
- The supplies are zero-rated.

Other points

- The receipt of reverse charge services will not count towards the VAT registration threshold for a business, which is good news for smaller businesses – they are not entered into box 6, VAT is only accounted for in box 1.
- To avoid uncertainty and delay for businesses with large numbers of existing contracts with sub-contractors at a variety of sites, if the reverse charge applies to more than 5% of contracts (by volume or value) with a sub-contractor, it can be applied to all the contracts.
- Businesses who will be regularly submitting repayment returns (as a result of no longer having to account for output tax on their services) are recommended to move to monthly returns.
- Subcontractors making reverse charge supplies can continue to use cash accounting for supplies that fall outside the reverse charge, but may find that the scheme no longer helps cash flow. If so, they may wish to consider withdrawing from the scheme.
- Flat rate scheme users whose services are subject to the reverse charge should consider whether the scheme is still beneficial.
- HMRC will apply a light touch to dealing with errors made in the first six months after the implementation date of 1st March 2021, provided the business is trying to comply with the legislation and has acted in good faith.

How VAT reverse charge works in software systems

General point

The supplier must state on the invoice that the customer is responsible for paying output VAT to HMRC (see example invoices above).

Xero - by default adds narrative to the invoice stating the above.

Sage - by default adds narrative to the invoice stating the above.

QuickBooks – does not add any narrative in by default, you will need to add manually into the invoice template. Consider creating a new template for Reverse Charge sales so that you don't overwrite existing templates which may be used for other sales that are not subject to reverse charge.

Clients should check the presentation as part of the implementation process and edit accordingly.