



## VAT Domestic Reverse Charge for Construction

***This new system is coming in 1 March 2021.***

### What is it?

- This is an extension of the Construction Industry Scheme (CIS)
- It only applies to transactions between VAT registered contractors and sub-contractors that are already reported under CIS

### What is different?

- If you are supplying construction services to a VAT registered customer, you no longer account for the VAT.
- The customer now accounts for the VAT and has to pay it directly to HMRC instead of paying it to the subcontractor.

### What to do if you have started a project before 1 March 2021?

- The VAT treatment depends on the tax point – this is the date of the invoice or when you receive payment, whichever comes first.

### What happens if my business is not VAT registered?

- This does not apply to you so make sure that you tell the supplier/main contractor. They will have to charge you VAT if applicable as they did before.

### HMRC Checklist

VAT reverse charge for construction only applies if you can say yes to all of the following;

- Is any of your work covered by CIS?
- Are you VAT registered?
- Is the supply standard or reduced rate for VAT?
- Is your customer VAT registered?
- Will this payment be reported under the CIS rules?
- Are you sure your customer is not the end user?

If this does not apply, then you continue to apply VAT rules as before.

### Impact on Sub-contractors

- If you supply CIS work, then you will raise your VAT invoice as normal but you must make it clear on your invoice that reverse charge applies.
- VAT registered customers will no longer pay the VAT element to you as they will now need to account for this and pay it direct to HMRC.
- You may start to be due a repayment of VAT each quarter so could consider changing to monthly rather than quarterly VAT returns.
- Watch your cashflow as you will not longer be receiving the VAT and holding it until your VAT payment is due.
- Any domestic reverse charge VAT does NOT go in Box 1 on your VAT return but you do still include the value of the sale in Box 6.

### Impact on Contractors

- When you receive invoices from subcontractors, you need to make sure that you correctly account for the VAT at the appropriate rate.
- This VAT needs to be included in Box 1 on your VAT return and paid over as part of your normal monthly VAT payment.
- DO NOT enter the value of these purchases in Box 6.
- Enter the input tax to reclaim in Box 4 and include the value in Box 7.

There are some exceptions for low value and certain types of work undertaken so if in any doubt, please get in touch with us or contact HMRC direct.