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VAT: Domestic Reverse Charge For Building And Construction Services



If you are providing services which fall within the Construction Industry Scheme (CIS) then from 1 October 2019 HMRC are bringing in some changes which will affect the way you have to account for VAT.

What is this change?

Where building and construction services are being provided which would need to be reported under CIS, then the responsibility for reporting the VAT is shifting from the supplier to the customer.

OK, what does that mean?

The supplier of the services would issue a sales invoice without charging any VAT, stating on the invoice that the sale falls within the domestic reverse charge for building and construction services.

The customer would then calculate the VAT at the appropriate rate (20% standard rate or 5% reduced rate depending on the nature of the construction project) and declare this as sales VAT on their own VAT return, they can then also reclaim the VAT as purchase VAT on their return subject to the normal rules.

So why has HMRC decided to bring in these new rules?

There are two reasons why HMRC has decided to bring in these changes.

Firstly, HMRC is trying to close the loop where fraudulent companies will charge VAT on the provision of their services within the construction sector labour supply chain, and then disappear before paying the VAT over to HMRC.

The other reason is to help reduce instances where suppliers in the construction industry apply the wrong VAT rate to a supply, (i.e. charge 20% VAT when it should be 5% reduced rate) which the customer would then not be able to reclaim back.

So the reverse charge only applies to the services where CIS is applied?

Unfortunately, it is slightly more complicated than that.

If any of the services supplied are subject to the reverse charge, then all other services being supplied at the same time are also subject to the reverse charge (even if they wouldn't be if supplied by themselves).

Also, the provision of supply and fix works will also be subject to the reverse charge. So, if you construct something offsite and then install it onsite, even though the installation will

only be a minor element of the supply the whole supply is subject to the reverse charge rules.

Finally, if there has already been a supply of construction services under the reverse charge between two parties on a site then, as long as both parties agree, any subsequent construction supplies between those two parties on that site can also be treated under the reverse charge.

Below is a list of some supplies which are affected by the reverse charge:

- Construction, extension, demolition, alteration or repair of buildings or of any works forming part of the land
- Installation in any building (whether or not in the course of construction) of a heating, lighting, air conditioning, power, water, drainage etc system
- Internal cleaning of buildings (so far as carried out in the course of construction, extension, etc)
- Painting or decorating the internal or external surfaces of any building

Are there any times the new rules wouldn't apply?

Yes, there are. If the services being provided would be zero rated (for example, on a new build project) then the reverse charge isn't applicable.

Also, if you are providing the services to the end user of the service (i.e. the homeowner, landlord, tenant or property developer) or an intermediary connected with the end user (such as a company which is part of the same corporate group as an end user) then the reverse charge rules wouldn't apply and VAT should be charged on the sale in the normal way.

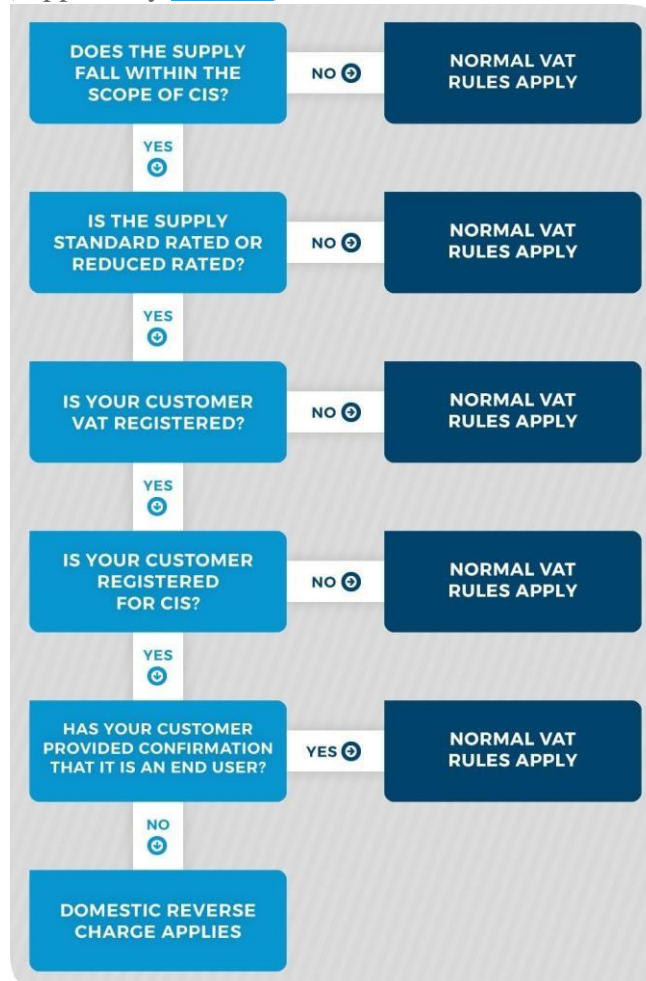
There are also a number of services which are excluded from the reverse charge, these are similar to the list of services which are excluded from CIS and include but are not limited to:

- Installing security systems (including burglar alarms, CCTV and public address systems)
- Installing seating, blinds and shutters
- Signwriting and erecting
- Making, installing and repairing art work,
- Professional work of architects or surveyors

Finally, if the customer is not VAT registered then the reverse charge rules do not apply and VAT must be applied to the sale in the normal way. Therefore VAT numbers will need to be obtained from customers and then verified using the [European Commission website](#).

So, what does this mean for me?

Firstly, you will need to prepare for the change by determining if any of your sales or purchases will be affected by the new reverse charge rules, this can be done by using the following flowchart (supplied by [HMRC](#).)



If the reverse charge does affect you, then you should contact the relevant suppliers and customers to let them know so they are also prepared for the change.

The next step is making sure that the accounting systems, you are using are up to date and able to deal with the new rules.

The final item to consider is, if these changes will have an impact on your cashflow, which is particularly true for subcontractors. If most of your sales fall within the reverse charge rules, then as you will no longer be collecting as much (or any) VAT on your sales, but still incurring VAT on your costs. As such you will be out of pocket until you complete your VAT return, at which point you will be reclaiming the VAT suffered on your purchases from HMRC. As such, in order to help with cash flow, it would be advisable in this situation to switch from quarterly to monthly VAT returns in order to get the VAT suffered back more quickly from HMRC. As the new rules come into place from the start of October, then the best time to make the change will be in October.

However, contractors will no longer suffer a delay between paying out VAT and recovering it, since both will be dealt with in the same VAT return.

What happens if I get it wrong?

HMRC have acknowledged that implementing these changes may cause some difficulties and as such are applying a light touch regarding any errors made in the first 6 months of implementation. Any errors made will need to be corrected as soon as possible, but HMRC will not consider penalties for these errors if you have been trying to comply and have acted in good faith.

Also, in order to avoid any uncertainty and potential errors HMRC, have given a provision in relation to contracts which are already existing as at 1 October 2019. In order to make it a little bit easier it has been agreed that one VAT treatment be applied to all contracts with a particular subcontractor. So, if you review the services being provided on contract with a subcontractor and the reverse charge would apply to at least 5% (by volume or value) of the contracts then the reverse charge can be applied to all of the contracts.

If there is any remaining doubt if a supply falls within the reverse charge then there is a simple fall back rule. As long as the recipient of the supply is VAT registered and at least part of the payment is subject to CIS then the reverse charge rules should apply.

Where can I find more information?

Full HMRC guidance can be found [here](#).