



Explained

Domestic VAT Reverse Charge for Building and Construction Services





What is it?

Domestic Reverse Charge (DRC) is a new way of declaring VAT in the construction industry.

It will apply to all VAT standard rated and reduced rated construction services which fall within the CIS scheme, where your sale is not to an end-user (i.e. not to a property developer or business who will use the building for their own purposes). It has been introduced to combat VAT fraud in the industry, caused by a sub-contractor charging VAT on a sale but going missing or bankrupt before making a payment to HMRC. The new procedure moves the VAT liability down the supply chain, from the sub-contractor to the contractor. It was initially planned to come into force in October 2019 and again in October 2020 but it will definitely come into effect on the 1st of March 2021.

What has changed

How this affects your business depends on whether you are the sub-contractor or the contractor in a project involving construction and building services. It is also worth noting that it only applies to transactions reported under CIS between VAT registered companies in the UK.

Until the 1st March, the sub-contractor charges the contractor VAT and then declares the VAT on their VAT return to HMRC.

From the 1st March, when the new Domestic Reserve Charge for VAT comes into place, the subcontractor no longer charges VAT on their sales invoice. Instead, the subcontractor will make a statement on their sales invoice that the customer must declare VAT under the DRC rules and show the VAT liability that is appropriate to the supply (either 20% or 5%). The contractor will apply the domestic reverse charge to the invoice by declaring VAT on the sale (in effect declaring sales VAT on behalf of the supplier) and then claiming back VAT on the purchase (providing the contractor is not partially exempt).

What you need to do and how to prepare

These are the 3 main steps you need to take now:

1

Cashflow

Check how this will affect your cashflow. You will still have to pay VAT on goods you buy (cost of builders merchant supplies and equipment hire) but you will not be collecting VAT from your customers. Instead of your customer covering the cost of the VAT you will have to wait until HMRC give you the money back on your VAT return.

2

Submitting VAT Returns

Would it be beneficial to submit VAT returns monthly? There are obviously administration costs to consider but it would mean you receive your VAT refunds quicker.

3

Accounting Codes

Do you know which codes to use for this process in your accounting software? You will need to contact your software provider to find out how to process these transactions.

The DRC applies to

Any services which would normally be standard or reduced rated for VAT purposes and:

- ✓ Both parties are VAT registered
- ✓ The customer is registered for CIS
- ✓ The work is within the scope of CIS
- ✓ The customer is not an 'end-user' or 'intermediary supplier'

DRC doesn't apply to

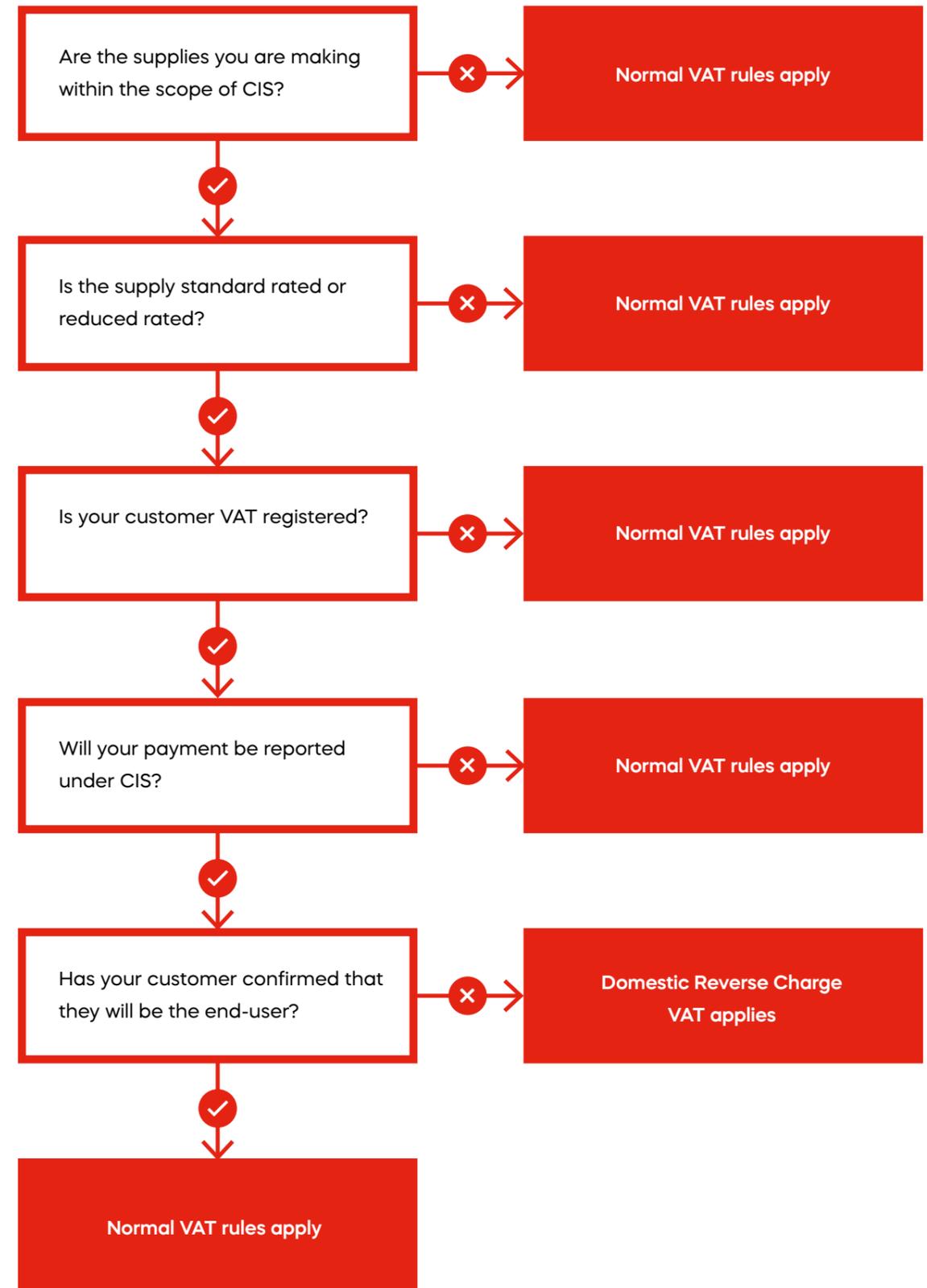
- ✗ Drilling or extracting of oil or natural gas
- ✗ Extracting minerals
- ✗ Manufacturing of equipment required for construction works
- ✗ Manufacturing of equipment required for building infrastructure
- ✗ Architectural, surveying, landscape work
- ✗ Making or installation of aesthetic works i.e. sculptures, murals, signboard
- ✗ Installing seating, blinds, shutters
- ✗ Installing security systems

How do I know whether I need to use Domestic Reverse Charge?

These flowcharts will help you decide whether or not you need to use Domestic Reverse Charge.

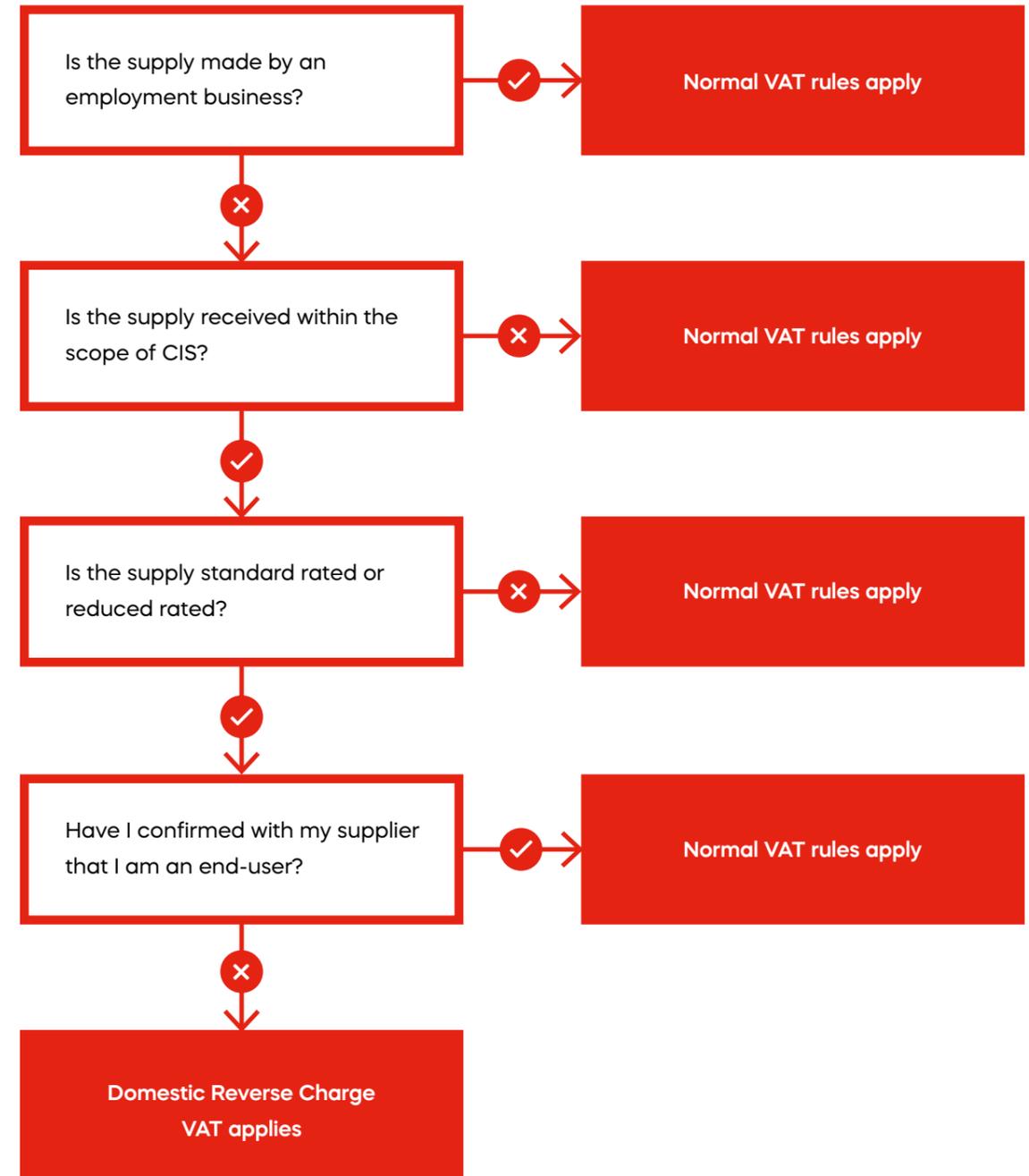
Flowchart for suppliers

Use this flowchart to see how you would decide whether to apply normal VAT rules or apply the domestic reverse charge. Do not use it for services supplied by employment businesses.



Flowchart for buyers

This flowchart is to help businesses receiving building and construction services check whether normal VAT rules or the Domestic Reverse Charge.





Get ready with Bracey's

Still not sure if your services fall within the new rules or need help determining if you are supplying an end user? Get in contact with us.

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