



VAT Reverse Charge in the Construction Industry



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VAT Reverse Charge in the Construction Industry

From 1st March 2021, those working in construction and building services will have to deal with VAT differently.

The VAT reverse scheme is designed to combat VAT fraud within the construction industry. The scheme was originally due to come into force in October 2020 but was delayed due to the impact of the Coronavirus pandemic.

What is the VAT Reverse Charge?

The VAT Reverse Charge is a change to how VAT is handled for certain types of services within the construction industry. Customers receiving services in this sector will have to pay the VAT directly to HMRC rather than paying it to the supplier.

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

Who the VAT Reverse Charge affects

The charge applies to standard and reduced-rate VAT services:

- for individuals or businesses who are registered for VAT in the UK
- reported within the Construction Industry Scheme

If you are not registered for VAT in the UK, the reverse charge will not apply. If the VAT reverse charge does not apply, you should follow the normal VAT rules.

See the last page for flowchart.

When you must use the reverse charge in the construction industry

The reverse charge should be used 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

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Remember that the reverse charge applies to the services listed above plus any construction materials used directly for those services. It is **NOT POSSIBLE** to split labour and materials relating to the same services into separate invoices to avoid apply the reverse charge.

This is different to the CIS scheme, which does not cover materials.

Some services will not fall within the scope of the domestic reverse charge; however, where there is a reverse charge element in a supply then the **whole** supply may be subject to the domestic reverse charge.

What is exempt from the reverse charge in the construction industry?

The charge should not be used 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

When does domestic reverse charge not apply?

The domestic reverse charge will apply to specified services unless:

- The services are supplied to an end user, such as the property owner, or directly to a main contractor that sells or lets a newly completed building
- The recipient is not VAT registered and not required to be VAT registered
- The recipient is not registered for the CIS
- The supplier and recipient are landlord and tenant or vice versa, or
- The supplies are zero-rated
- There are special rules if 5% or less of the total invoice is a reverse charge supply – this is called the 5% disregard rule and, in these case, normal VAT rules apply. However, this is unlikely to occur in most cases
- If you are classified as an employment business. Please note this is different to labour only contractor, where reverse charge rule will apply.

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Who is an End user?

For reverse charge purposes, consumers and final customers are called end users. They're 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.

The reverse charge does not apply to supplies to end users where the end user tells their supplier or a building contractor in writing that they're an end user.

What do these changes mean?

The supplier of the services (the sub-contractor) would issue a sales invoice without charging any VAT, stating on the invoice what the VAT amount or rate would have been, and that the invoice falls within the reverse charge rules e.g. "Reverse charge: S55 VATA 94 applies".

The customer (the contractor) would then calculate the VAT at the appropriate rate 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.

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 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.

The impact on building and construction businesses

Businesses that supply construction services will need to familiarise themselves with what is (and isn't) included under the reverse VAT charge.

They will need to ensure that their systems and accounting software are capable of processing reverse charge supplies, and they will also need to make regular checks to ensure they are compliant when making purchases.

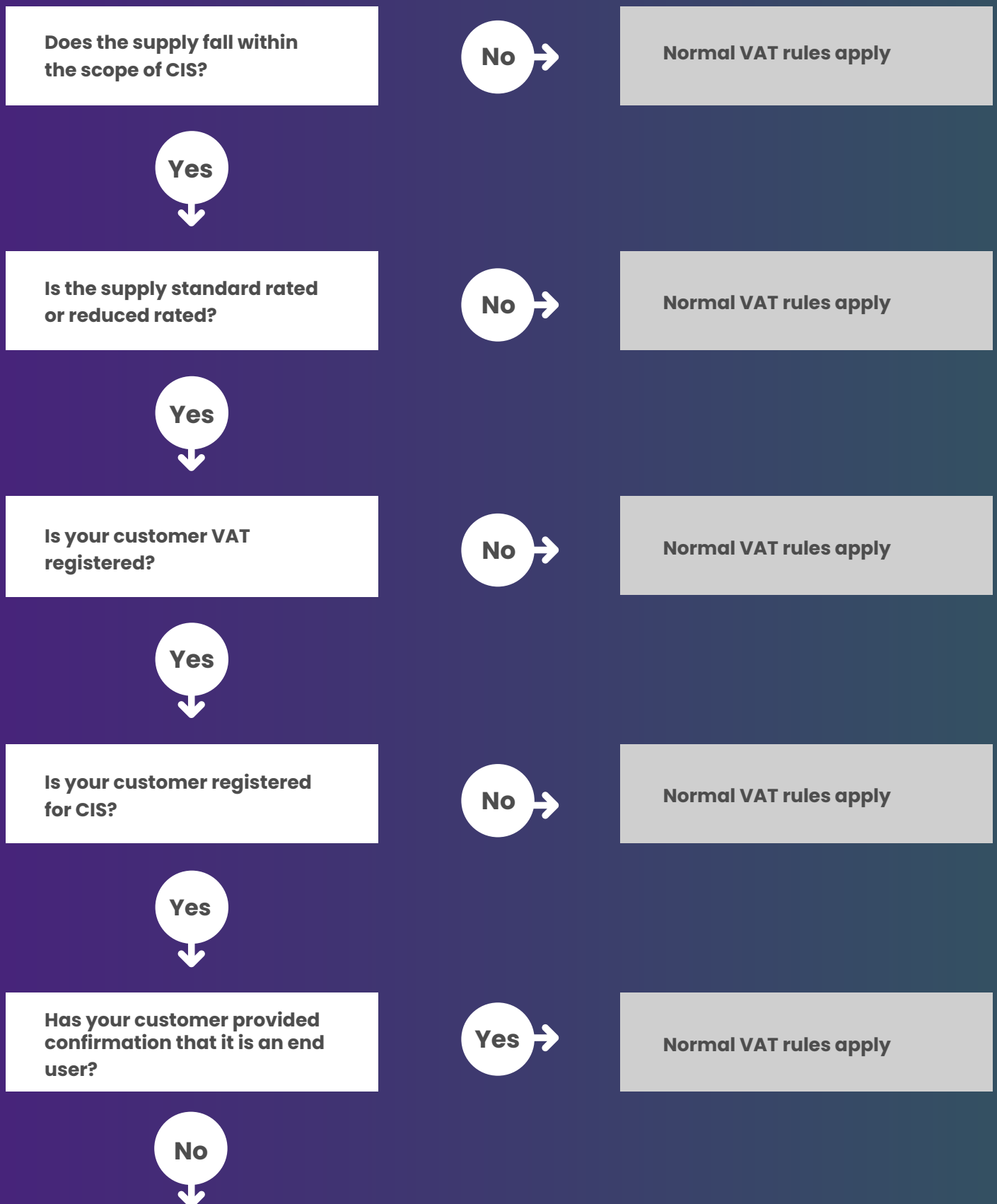
For further clarification on the VAT Reverse charge or any other VAT issues, please speak to specialists such as ourselves.

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

Call the team at EKWilliams on 01942 816 512 or email info@ekwgroup.co.uk.

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.



Domestic Reverse Charge applies

Sourced from gov.uk