



VAT: Reverse Charge for Building and Construction Services

With effect from **1 October 2019** a domestic reverse charge (DRC) is being introduced in the building and construction sector as a way of combatting VAT fraud, which HMRC believe is frequently occurring in this sector.

The implementation of these rules means that businesses working within the construction supply chain will not be paid VAT on the services they supply. Instead, their customer, the next contractor in the supply chain, will account for VAT instead as a DRC.

Details of what you need to consider and how these rules will impact you as either a sub-contractor or main contractor are set out below:



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SUB-CONTRACTORS

When you need to report under DRC

You will need to report under DRC if **all** of the following apply:

- The work you are carrying out is within the scope of the Construction Industry Scheme
- The contractor you are working for is VAT registered
- You are carrying out standard or reduced rate construction services
- The person you are working for is not the end user (i.e. they are a contractor working for someone else)

Accounting for VAT under DRC

If DRC applies you will need to do the following:

- Raise your invoice as normal including the appropriate VAT rate and amount but only show the **net** amount as being payable
 - ◊ Include **additional narrative** on your invoice to indicate that your customer is required to account for VAT under the reverse charge:
 - ◊ If the invoice is able to show the VAT separately include: *'Reverse charge – customer to pay VAT to HMRC'*
- If electronic invoices cannot show the amount of VAT that needs to be paid under the reverse charge separately include: *'Customer to account to HMRC for the reverse charge output tax on the VAT exclusive price of the items marked reverse charge'*
- **No entry** is required in box 1 of your VAT return
- The net amount of your invoice is included in Box 6 of your VAT return
- Your customer will only be required to pay you the **net** amount shown on your invoice



MAIN CONTRACTORS

Points to check

- Are you paying sub-contractors under the Construction Industry Scheme?
- Is the sub-contractor VAT registered?
- Are they carrying out standard or reduced rate construction services?



If the answer to **all** the above questions is **yes** then the sub-contractor should be issuing you an invoice under DRC.

It is important that you check that the sub-contractor has dealt with the DRC properly as if they have incorrectly charged VAT on reverse charge transaction and you have not taken any steps to correct this, you could be held jointly and severally liable for any VAT that has not been paid to HMRC by the sub-contractor.

Accounting for VAT on invoices received from sub-contractor subject to DRC

- The invoice you receive should include the VAT element but you will only be required to pay over the **net** amount to the sub-contractor. The invoice should clearly show that you are liable to account for the VAT element under DRC
- Complete your VAT return showing the VAT element subject to DRC as an input and output (with no net tax payable on that supply) by including the VAT amount in **Boxes 1 and 4** of the VAT return
- Enter the net amount of invoice in Box 7 (no amount is shown in Box 6 in respect of these supplies)

If you are not the end user, i.e. if you are acting as a sub-contractor yourself and will be raising an invoice for your services to another contractor, then you will need to apply the rules set out under the 'sub-contractor' heading overleaf.

OTHER POINTS TO NOTE

- If making **mixed supplies** (where the supply contains an element that is liable to the reverse charge) the whole supply is subject to the reverse charge (including materials).
- HMRC states that if the parties have **any doubt** over the correct VAT treatment, then provided the recipient is VAT registered and the payments are subject to CIS, it recommends that the reverse charge is applied.
- If **supplies span the 1st October 2019** then the following apply:-
 - ◇ Invoice with a tax point before 1st October 2019 - normal rules apply
 - ◇ Invoice with a tax point after 1st October 2019 - domestic reverse charge applies

HOW WE CAN HELP

As you will see this is quite a complex area so if you are unsure of any elements of this or if you need further guidance on exactly what supplies are caught within these rules, please do not hesitate to contact us. It is important that you are prepared for these changes and that your software is able to adequately handle the DRC accounting.

Disclaimer

This newsletter is intended to give general guidance only and no liability can be accepted for any action taken based on the information given.

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If you think this information might be useful to a friend or colleague, please pass it on.

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