

# VAT Reverse Charge for Construction Services

Course book



...market leaders for VAT training

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## Course book

This document contains further information for the course

### VAT Reverse Charge for Construction Services

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# Programme

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What, when and why are the changes coming in?

When does the reverse charge apply?

Specified services and excluded services

End users and intermediary suppliers

The reverse charge mechanism

Tax points

VAT return periods

Changes in status

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## **Course timings**

The course will start at **10:00**

The course will finish at **13:00**

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## Session 1: An introduction to the changes

### What has changed?

- The domestic reverse charge has been introduced for construction services
  - It also covers goods when supplied with services
- It is effectively an extension of the Construction Industry Scheme (CIS)
  - It differs from the CIS treatment where the supplies are apportioned and CIS only applied to the service element
- It affects the way VAT is collected - the customer is responsible for accounting for VAT instead of the supplier
- The value of these services does not count towards the VAT registration threshold for the customer

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### Why do we need the changes?

- The domestic reverse charge is intended to tackle VAT fraud in the construction industry
- The most common fraud is 'missing trader fraud'

#### What is missing trader fraud?

- The supplier charges the customer VAT
- The supplier collects the VAT but goes 'missing' and does not pay the VAT to HMRC

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## The domestic reverse charge

It was established in Section 55 of the VAT Act 1994 and has been applied to the supply of...

- Mobile phones
  - Computer chips
  - Wholesale gas and electricity
  - Emission allowances
  - Wholesale telecoms
  - Renewable energy certificates
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## What is the reverse charge mechanism?

- The supplier does not charge VAT to the customer
  - The customer accounts for the VAT on the supply at the appropriate rate
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## When were the changes being introduced?

- Initially due to come in from 1 October 2019 but was postponed for 12 months. Delayed again in October 2020.
  - The reverse charge was finally introduced on **1 March 2021**
  - HMRC have said that they will apply a light touch to errors made within the first 6 months of this date
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### **Actions to consider...**

- Contractors will need to review contracts with sub-contractors, to decide if the reverse charge will apply to their services
- Sub-contractors will need to contact their customers to get confirmation from them if the reverse charge will apply
- Sub-contractors that use the Flat Rate Scheme should consider whether they should stop doing so

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### **How will the reverse charge impact cash flow?**

- Sub-contractors will no longer have the benefit of collecting output VAT from their customers ahead of paying it to HMRC
- Customers will no longer have to pay VAT to sub-contractors before they can recover input VAT from HMRC

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## Session 2: When does the reverse charge apply?

### When does the reverse charge for construction services apply?

- It applies to the majority of construction contractors and sub-contractors in the UK
- Specified supplies between VAT registered businesses that are registered under the Construction Industry Scheme (CIS)
- It only applies to supplies within the chain of supply up to the supply to the end user
- It does not apply to zero rated supplies - only standard and reduced rate supplies

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### What are specified services?

- These are generally services defined as 'construction operations' under the CIS
- They include...

Construction	Alteration
Repair	Extension
Painting and decorating	Demolition of buildings
Civil Engineering	Installation of heating, lighting, air-con

**See Appendix 1 for details**

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## Which construction services are excluded from the reverse charge?

- Those that are defined as being 'non-construction operations' under the CIS
- Examples...

Drilling	Extraction	Artistic works
Professional work – architects, surveyors	Manufacture of building & engineering components	Manufacture of components for systems
Signwriting & signboards	Seating, blinds & shutters	Security systems

**See Appendix 2 for details**

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## What if a supply contains a mix of reverse charge and excluded services?

- If any part of the supply is subject to the reverse charge, the whole supply will then be subject to it
- The reverse charge can be applied...
  - where there has already been a reverse charge service between two parties on a construction site, and
  - both agree that any subsequent construction supplies on that site between them can be treated as reverse charge services
- If there is doubt, the reverse charge can be applied provided the recipient is VAT registered and the payments are subject to CIS
- If the reverse charge part of a supply is 5% or less of the whole supply, normal VAT rules are applied

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## When does the reverse charge not apply?

- Customers of construction services that are **not** making an onward supply of construction services – **end users**
- There will also be an exclusion for businesses connected with end users – **intermediary suppliers**
- Employment businesses that supply construction workers – because they are not generally supplying construction services

*The normal VAT rules will apply in these cases*

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## What is an end user?

- Consumers and final customers that are not supplying building and construction services are called end users
- They can be businesses, or groups of businesses, that do **not** make onward supplies of construction services but...
  - Are registered for CIS as mainstream or deemed contractors because they carry out construction operations, **or**
  - The value of their purchases of building and construction services exceeds the threshold for CIS

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## What is an intermediary supplier?

- VAT and CIS registered businesses that are connected or linked to end users
- To be connected or linked they must either...
  - Share a relevant interest in the same land where the construction works are taking place, **or**
  - Be part of the same corporate group or undertaking as defined in section 1161 of the Companies Act 2006
- An example would be landlords and tenants of commercial property

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## Intermediary suppliers as an end user?

- Intermediary suppliers can call themselves end users in communications and confirm this in writing
- An example of confirmation wording:

*'We are an end user for the purposes of section 55A VAT Act 1994 reverse charge for building and construction services. Please issue us with a normal VAT invoice, with VAT charged at the appropriate rate. We will not account for the reverse charge.'*

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## Identifying the end user

- It may not always be obvious who the end user is
- The supplier should ask the customer if they are an end user or intermediary and keep a record of this
- It is the responsibility of the end user to inform the supplier of this so that normal VAT rules can be applied when invoicing

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**Scenario 1**

A group of companies has a specialist construction management company that is responsible for appointing contractors to carry out construction services for group companies. One of the group companies requires an office refurbishment, so the construction management company contracts with an office fit out company to perform the work. The fit out company invoices the construction management company, which in turn invoices the group company on successful completion of the work.

**Should the office fit out company raise a domestic reverse charge invoice?**

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**Each company within the group has its own VAT registration – should the construction management company apply normal VAT rules when invoicing the group company?**

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## Session 3: Applying the domestic reverse charge

### What is the reverse charge? - recap

- The supplier does not charge VAT to the customer
- The customer accounts for the VAT on the supply at the appropriate rate

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### Domestic reverse charge invoices

- Include the information that appears on a VAT invoice
- State that the domestic reverse charge applies and the customer must account for VAT
- Show the value of VAT separately from the amount payable
  - Or the rate of VAT if the amount cannot be shown
- If software cannot show VAT amount you must include wording such as '*customer to account for the reverse charge on the VAT-exclusive price of items marked reverse charge*'

*If changes have already been made to invoices, where errors occur, HMRC will take into account the change to the implementation date*

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## The domestic reverse charge process

### Suppliers

- Raise a reverse charge invoice
- Output VAT on these sales is **not** accounted for in box 1 of the VAT return
- Net value of the sale should be entered in box 6

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### Customers

- It is their responsibility to account for VAT on the supply
- Receive a reverse charge invoice from the supplier
- Must verify that the VAT shown on the supplier's invoice is correct
- VAT is accounted for on the VAT return...
  - Output tax added to box 1
  - The same amount added as input tax to box 4 provided they are not partially exempt
  - Net value of the supply should be added to box 7

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## The domestic reverse charge in practice

ABC Ltd, a VAT registered sub-contractor supplies building services to 123 Ltd, a VAT registered main contractor, for services of £100,000

**ABC Ltd will...**

- show VAT on the invoice of £20,000
- state “reverse charge applies” on the invoice

**123 Ltd will...**

- account for the £20,000 as output tax
- reclaim the same amount provided they are not partially exempt

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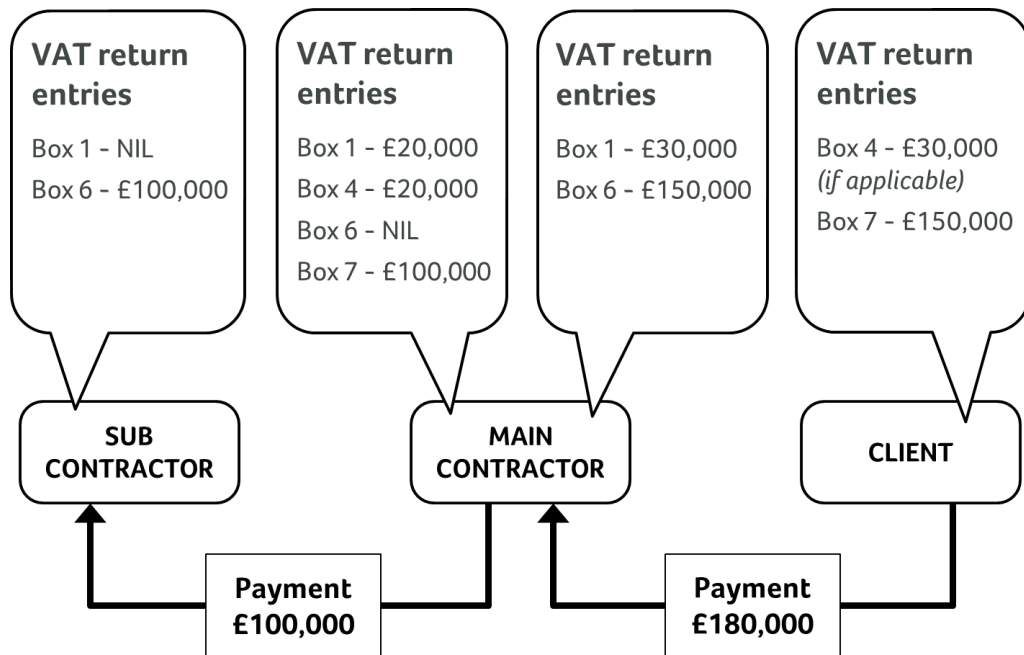
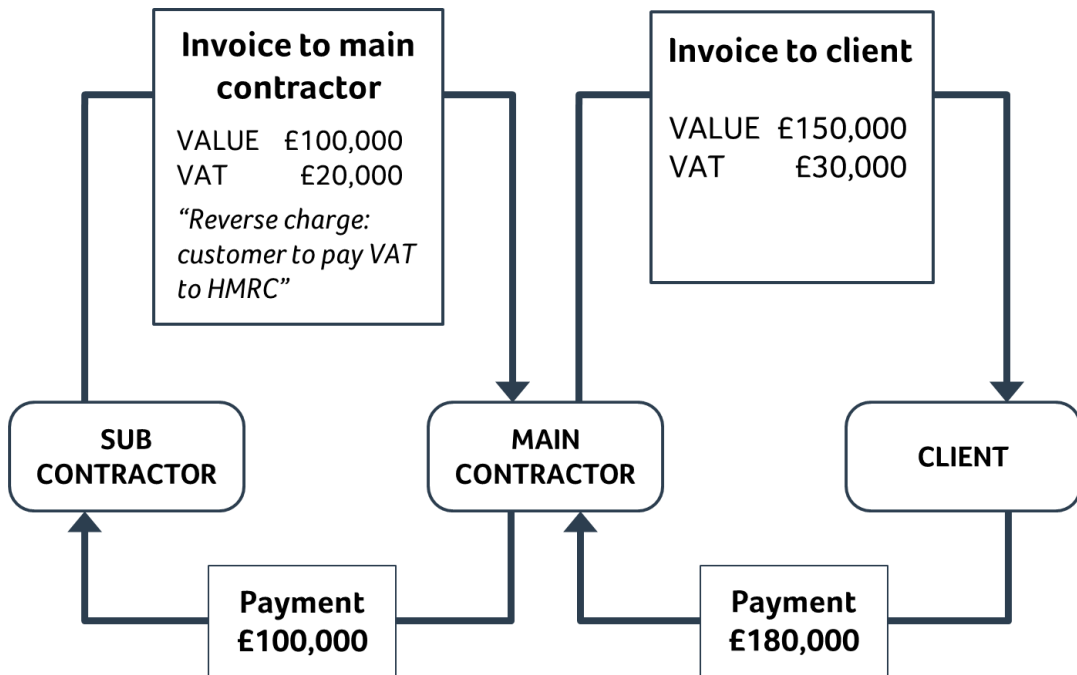
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### The reverse charge mechanism




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## Session 4: Practical aspects

### How will the changes affect the tax point of construction transactions?

- Suppliers of specified construction services must consider the time of supply and tax points
- A tax point is the date the transaction takes place for VAT purposes
- Providing building and construction services is usually a continuous supply of services for VAT purposes
- This means VAT is due when an invoice is issued or payment is received, whichever is earlier
- Suppliers will need to consider each contract and when the reverse charge should be applied

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### How do you deal with tax points before and after the 1<sup>st</sup> March 2021?

- Tax points before 1 March 2021 should have the normal VAT rules applied
- Tax points on or after 1 March 2021 should have reverse charge applied

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## What about authenticated tax receipts and self-billed invoices?

- The tax point is normally the date the supplier receives payment
- For supplies entered into accounting systems before 1 March 2021, but paid on or after that date, the transitional arrangement for VAT treatment is as follows...

Date entered in customer's accounting system	Date payment made	VAT treatment
Before 1 Mar 2021	On or before 31 May 2021	Normal VAT rules
Before 1 Mar 2021	On or after 1 June 2021	Domestic reverse charge
On or after 1 Mar 2021	On or after 1 March 2021	Domestic reverse charge

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## How might the reverse charge affect some suppliers?

- Some businesses may find that they become repayment traders because they no longer pay the VAT on some of their sales to HMRC
- Repayment traders can apply to move to monthly returns to speed up payments
- The supplier will need to consider their existing VAT quarters and whether the business wants to have monthly returns from March 2021

**Repayment trader** – VAT return is a net claim from HMRC rather than a net payment

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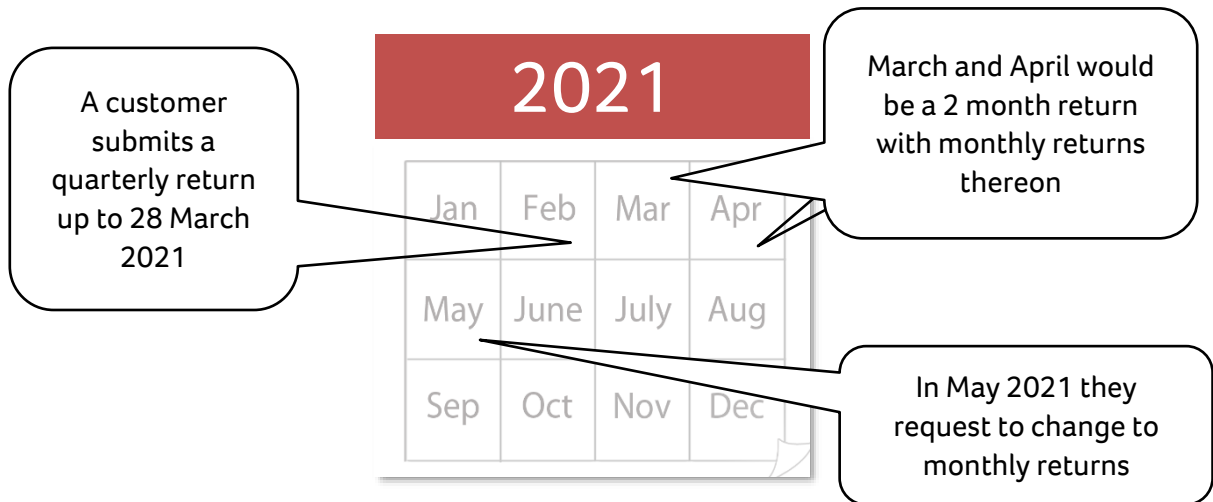
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### Opting for monthly VAT returns – examples





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## Opting for monthly VAT returns and the delay in implementation

- Businesses may have opted for monthly VAT returns prior to the original date of 1 October 2019
- This can be reversed using the stagger option on the HMRC website
- May be better to remain on monthly returns to avoid potential issues

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## How do you determine the treatment of existing contracts before 1<sup>st</sup> March 2021?

- It may be difficult to establish whether or not the reverse charge applies in the run-up to 1 March 2021 and after
- HMRC recognises it will be easier if one VAT accounting treatment is given to all contracts with a sub-contractor
- This should avoid uncertainty and delay to payments
- If the reverse charge applies to more than 5% (by volume or value) or more of the contracts, it can be applied to all the contracts
- Contracts starting after 1 March should be determined at the start of the contract

*Example* - a construction group may be a property developer on some sites and on others a building contractor, and on both sites their status could change

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## **End user and intermediary status – what can suppliers do to safeguard themselves?**

- Ask the customer whether they are an end user or intermediary supplier
- Keep records of the answers given
- Remember it is the customers responsibility to make the supplier aware if they are an end user or intermediary supplier
- For repeat contracts it may be obvious that the customer is an end user and VAT can be charged in the normal way
- Be aware that end users include UK VAT retail, manufacturing, utilities and property investment sectors as well as public bodies and property developers

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## **What if you are a main contractor that normally deals with end users?**

- There is no need to check the VAT, CIS or end user status of the customer and normal VAT rules should be applied
- Consider making a statement in your terms and conditions that places the responsibility on the customer to state whether they are an end user or not

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## How do you verify the VAT status of a customer?

There are two ways to check a supplier's VAT registration number is valid...

- Call the HMRC VAT Helpline
- Use the new online UK VAT number checker  
[www.tax.service.gov.uk/check-vat-number/enter-vat-details](http://www.tax.service.gov.uk/check-vat-number/enter-vat-details)
  - Replaces the VIES - VAT Information Exchange System

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## Should you be verifying that your customer is CIS registered?

- There is no need to verify the CIS registration of existing customers if your contract is within CIS
  - Do keep evidence where you have it
- Ask new customers to provide details of their registration as a contractor for CIS purposes and keep evidence
- HMRC recommends using the CIS verification system

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## What if the status of the customer changes and is no longer an end user?

- The customer's status changes from an end user to being a supplier of specified construction services

*Example* - a customer sells its interest in a development to a third party and continues to supply specified construction services to the new owner

- The customer should notify the supplier that the end user exclusion no longer applies and charges for services in future would be subject to reverse charge
- The new treatment will apply at the point the customer's circumstances change
- If the change happens during an invoice period the supplier can...
  - Opt to change to the new treatment for the entire invoice period, *or*
  - Wait until the next invoice period before changing to the new treatment

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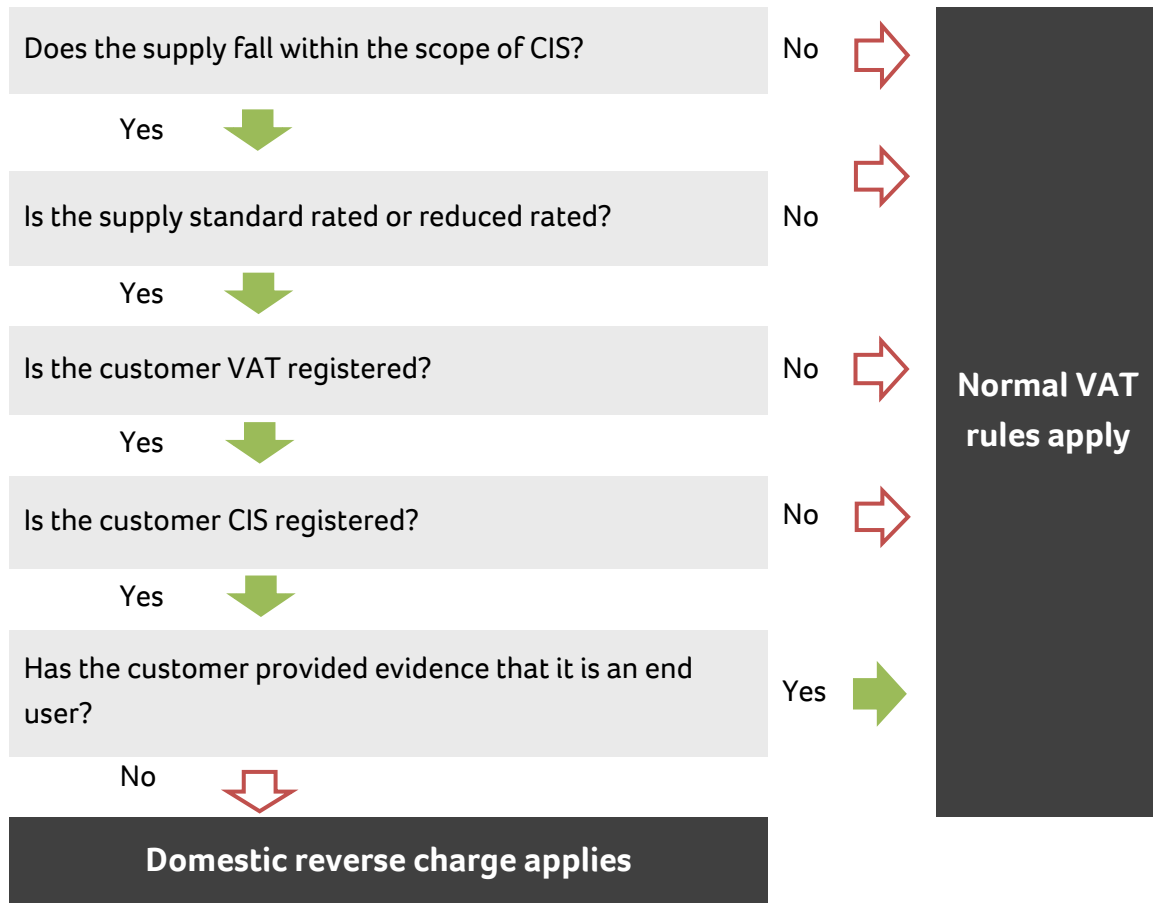
## What about businesses that use the Cash Accounting Scheme?

- You cannot use the Cash Accounting Scheme for the supply of services subject to the reverse charge
- This may have an impact how some businesses manage their accounts, but not on cash flow as no VAT is actually paid
- The customer accounts for the VAT directly to HMRC and reclaims it simultaneously on the same VAT return



## Session 5: Workshop

### How do you decide when to apply the reverse charge to construction services?



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**Scenario 3**

A main contractor requires the services of a company to supply air conditioning units for a medical centre that is currently under construction.

The contractor is registered for VAT and CIS.

**Should the supplier of the units apply the domestic reverse charge?**

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**Scenario 4**

A school awards a contract to a double-glazing company to replace all the windows in the school gymnasium.

**Should the double-glazing company apply the domestic reverse charge?**

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**Scenario 6**

A university appoints a main contractor to demolish a derelict building for the building of a car park. The main contractor appoints a demolition company to carry out the demolition works and arranges for a fellow subsidiary in the same group of companies to build the car park. The main contractor and the fellow subsidiary are both registered for VAT and CIS.

**Should the demolition company apply the domestic reverse charge?**

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**Should the main contractor building the car park apply the domestic reverse charge?**

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**Scenario 7**

The company that is building the car park in scenario 5 appoints a company to manufacture signs for the car park, which in turn appoints another company to erect the signs.

**Should the company manufacturing the signs apply the domestic reverse charge?**

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**Should the company erecting the signs apply the domestic reverse charge?**

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**Scenario 8**

Under a separate contract the company that is building the car park in scenario 5 appoints the company that is erecting the signs to paint the surface of the car park with roads markings to indicate the car parking bays.

**Should this supply be subject to the domestic reverse charge?**

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**Scenario 9**

The main contractor in scenario 3, that required the supply of air conditioning units, now asks the same company that supplied them to build a Sports Hall for a commercial organisation. They are also asked to supply and install the same air conditioning units.

The organisation will charge its customers for the use of the hall.

**Should the supply and installation of the air conditioning units be subject to the domestic reverse charge?**

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### **What plan of action should be in place?**

- Identify those supplies that will be affected
- Consider how your accounting system will cope and identify the changes required
- Make staff and suppliers/customers aware of the changes
- Set up a process to gather and validate each customer's VAT status
- Be aware of the potential cash flow impact and plan for it

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### **Useful resources**

- VAT reverse charge technical guide  
[www.gov.uk/guidance/vat-reverse-charge-technical-guide](http://www.gov.uk/guidance/vat-reverse-charge-technical-guide)
- VAT reverse charge for building and construction services  
[www.gov.uk/guidance/vat-domestic-reverse-charge-for-building-and-construction-services](http://www.gov.uk/guidance/vat-domestic-reverse-charge-for-building-and-construction-services)

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## **Appendix 1: Services affected by the domestic reverse charge**

You will have to apply the reverse charge if you supply any of these 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



## **Appendix 2: Services excluded from the domestic reverse charge**

The following services are not subject to the reverse charge:

- 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



## Appendix 3: Wording

### End User

'We are an end user for the purposes of section 55A VAT Act 1994 reverse charge for building and construction services. Please issue us with a normal VAT invoice, with VAT charged at the appropriate rate. We will not account for the reverse charge.'

### Subcontractor

Under the VAT Regulations 1995 invoices for services subject to the reverse charge where the customer is liable for the VAT must include the reference 'reverse charge'. Here are some examples of wording that meet the legal requirement:

- reverse charge: VAT Act 1994 Section 55A applies
- reverse charge: S55A VATA 94 applies
- reverse charge: Customer to pay the VAT to HMRC

### Authenticated tax receipt and self-billing invoices

Here are some examples of wording that can be included on these documents:

- reverse charge: we will account for and pay the output tax due to HMRC
- reverse charge: as the UK customer we will pay the VAT due to HMRC

### Adjustments

Here are some examples of wording you can use for credit notes:

- reverse charge: customer to account for the output tax adjustment of EX to HMRC
- reverse charge: customer to account for the output tax adjustment of EX to HMRC
- customer to account to HMRC for the adjustment to reverse charge output tax on the VAT exclusive price of items marked reverse charge (use this if the VAT amount cannot be shown).



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