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## Scenario answers

This document contains the scenario answers for the course

### VAT Reverse Charge for Construction Services

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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?**

No. They are intermediary suppliers – connected or linked to end user as part of the same corporate group.

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

Yes – they are part of the same group and treated as if they are the end users – therefore the reverse charge does not apply.



### **Scenario 2**

A supplier of specified construction services makes taxable supplies of £1,000 and states that the VAT on these supplies is £150. If you were the customer and both VAT and CIS registered, and not the end user, which of the following would you do?

- 1) Advise the supplier that the amount of £150 is wrong and ask them to represent the invoice saying that the value of the VAT should be stated as £200
- 2) Process the invoice and account for £150 worth of VAT as input and output VAT
- 3) Ignore the amount of £150 on the supplier's invoice and account for £200 worth of VAT as input and output VAT without advising the supplier

### **Answer**

- 1) Advise the supplier that the amount of £150 is wrong and ask them to represent the invoice saying that the value of the VAT should be stated as £200

### **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?**

No – this is a supply contract (not supply and fit) – so it is outside the scope of the reverse charge



#### **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?**

No – the school is the end user. The contractor will need to ask the school to confirm this.

#### **Scenario 5**

A manufacturer appoints a demolition company to demolish a derelict building for the building of a car park.

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

No - seek confirmation that the manufacturer is the end user and charge VAT as normal.



### **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?**

Yes – they have an onward supply to the main contractor.

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

No – assuming the university is the end user it will not apply.

### **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?**

No – this is a supply of goods, so the reverse charge does not apply.

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

If this is not an intermediary supply, the reverse charge will apply.



### **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?**

Yes – this is within the CIS and the contract is with the company building the car park – not the end user.

### **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?**

Yes – this is a supply and fit contract for a main contractor for onward supply.



## Quick Question Answers

- 1. Choose all the rates that the reverse charge applies to...**  
Standard & Reduced
  
- 2. If the VAT reverse charge applies, who is responsible for paying the VAT due to HMRC?**  
The customer
  
- 3. If you supplied these 4 services to 4 different VAT registered customers, to which 3 would you apply the VAT reverse charge?**  
Groundworks and other preparatory works  
Construction, alteration and repair of buildings  
Internal and external painting and decorating
  
- 4. If materials and labour for a project are supplied by the same supplier, but under separate contracts, are they both subject to the reverse charge?**  
Yes. If the 2 separate contracts are for works within the scope of CIS and the works are provided at the same time on the same site, this is a single supply for VAT purposes and the reverse charge applies to both.
  
- 5. A steel fabricator manufactures at their premises and deliver to site. They then employ sub contractors to erect it. What elements are subject to the reverse charge?**  
Steel and subcontract
  
- 6. If you work for a house builder and supply white goods, does the reverse charge apply?**  
No
  
- 7. If you have a part paid invoice with a balance outstanding after 1st March, what do you need to do?**  
Nothing
  
- 8. Are property developers selling or granting an interest in property end users?**  
Yes

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