

VAT: Domestic reverse charge for building and construction services

The VAT domestic reverse charge, commonly known as the reverse charge, for building and construction services is being introduced from 1 March 2021.

You will need to prepare for this change by:

- *Checking whether the reverse charge affects either your sales, purchases or both*
- *Contacting your regular clients or suppliers to let them know*
- *Making sure your accounting systems and software are updated to deal with the reverse charge*
- *Considering whether the change will have an impact on your cash flow*

1. What is the domestic reverse charge for building and construction services?

The reverse charge is a major change to the way VAT is accounted for on certain supplies in the building and construction industry. These changes come into force on 1 March 2021 and will mean that customers receiving 'specified supplies' will have to account for VAT due to HMRC, instead of paying it to the supplier.

2. Who is affected by the reverse charge?

The reverse charge will only apply if both supplier and customer are registered for VAT in the UK and the supply is of specified services that should be reported under the construction industry scheme (CIS).

3. What services are affected by the domestic reverse charge?

The reverse charge will affect supplies of building and construction services supplied at the standard or reduced rates of VAT which also need to be reported under CIS. HMRC define these supplies as 'specified supplies'. Our brochure '[VAT: domestic reverse charge for building and construction services](#)' includes detailed examples of the services caught under these changes.

There is an important difference between CIS and the reverse charge where materials are concerned. The reverse charge will apply to the whole invoice, including service and materials content.

If any of the services in a supply are subject to the reverse charge, all other services (even if that service would be excluded if it were being supplied as a single service) will also be subject to it.

If there is any doubt whether a type of works falls within the definition of a specified service, as long as the recipient is VAT registered and the payments are subject to CIS, the reverse charge should apply.

4. What services are excluded from the domestic reverse charge?

The reverse charge does not apply if the service is zero rated for VAT or if the customer is not registered for VAT in the UK.

It also does not apply to some other services and services supplied to end users or intermediaries connected with end users.

Our [brochure](#) also includes examples of the services not caught under these changes.

5. How will the domestic reverse charge work?

The reverse charge means the customer receiving the specified service has to account for the VAT instead of the supplier. The supplier will not charge VAT on its invoice. In turn the customer can recover the VAT, subject to the normal rules for VAT recovery. This is likely to result in a nil net effect on the customer's VAT return.

Most accounting packages should be able to deal with the reverse charge transactions by posting to a specific tax code and we expect a new code to be set up for the reverse charge by major software providers.

Our [brochure](#) has more detail on the specific VAT return entries (in the compliance issues section).

6. As a supplier, how will the domestic reverse charge affect me?

If you are a supplier, you will no longer charge VAT on your 'specified supplies' to VAT registered customers.

Suppliers may find that, because they no longer pay the VAT on some of their sales to HMRC, they become repayment traders, i.e. claim VAT refunds from HMRC. Suppliers should consider changing their VAT returns from quarterly to monthly to speed up payments due from HMRC.

7. What are end users and intermediary supplier businesses

The reverse charge does not apply to consumers or final customers i.e. those that do not make onward supplies of the building and construction services. These are end users.

Any end users who are registered for VAT and CIS will need to ensure their suppliers do not apply the reverse charge on services supplied to them by issuing a declaration of end user status.

Intermediary suppliers are VAT and CIS registered businesses that are connected or linked to end users. An intermediary supplier can also be treated as an end user when it is the final customer.

To be connected or linked to an end user, intermediary suppliers must either share an interest in the same land where the construction works are taking place or be part of the same corporate group.

8. When to check if your customer is VAT and CIS registered or an end user

We recommend that you check the status of your customers and keep a record for all contracts.

For businesses that often deal with end users, a practical way of dealing with the question of end user status is for the business to include a statement in their terms and conditions to say they will assume that their customer is an end user unless they say they are not. This places a responsibility on the customer to respond if this is not the case.

9. How can I verify the VAT status of my customers?

Before you can apply the reverse charge, you need to be satisfied that your customer is VAT registered. You can check that your customer's VAT number is valid and belongs to them on the European Commission website: <https://www.gov.uk/check-uk-vat-number>

10. How can I verify the CIS registration of my customers

You should ask new customers to provide details of their registration as a contractor for CIS purposes, or a copy of their CIS verification, and retain these.

However, if you are registered for CIS as a contractor, HMRC recommends you use the CIS verification system: <https://www.gov.uk/use-construction-industry-scheme-online>

How can we help?

If you have any questions about the domestic reverse charge, please contact a member of our VAT team: VATadvice@pkf-francisclark.co.uk

BRISTOL	EXETER	PLYMOUTH	POOLE	SALISBURY	TAUNTON	TORQUAY	TRURO
0117 403 9800	01392 667000	01752 301010	01202 663600	01722 337661	01823 275925	01803 320100	01872 276477