

## Reverse Charge VAT



# Overview

Reverse Charge VAT is a major change to the way VAT is collected in the building and construction industry and comes into effect on 1 March 2021.

It applies to individuals or businesses registered for VAT in the UK where providing or receiving specified services is reported under the HMRC Construction Industry Scheme (CIS).

Under the new rules, the provision of standard or reduced-rate building services will not be invoiced in the normal way. Under Reverse Charge VAT, the main contractor would account for the VAT on the services of any subcontractor and will have to pay the VAT due to HMRC instead of paying the subcontractor. If the service is zero-rated for VAT, Reverse Charge VAT will not apply.

## Preparing for Reverse Charge VAT

To prepare for the introduction of Reverse Charge VAT on 1 March 2021, businesses in the construction industry should:

- Check to see if reverse charge affects their sales, purchases or both
- Make sure their accounting systems and software are updated to deal with the reverse charge
- Consider whether the change will have an impact on their cashflow
- Make sure their staff who are responsible for VAT accounting are familiar with the reverse charge and how it will operate.

### What contractors need to do

Contractors will need to review all their contracts with subcontractors, to decide if the reverse charge will apply to the services they receive under those contracts. They will need to notify the providers if it will.

### What sub-contractors need to do

Subcontractors will also need to contact their customers to get confirmation from them on whether the reverse charge will apply, including confirming if the customer is an end user or an intermediary supplier.

### Type of works affected

The reverse charge will affect building and construction services provided at the standard or reduced rates of VAT that also need to be reported under CIS.

There is an important difference between CIS and the reverse charge where materials are included within a service. The reverse charge applies to the whole service whereas CIS payments to net status subcontractors are apportioned and no deductions are made on the materials content.

Services affected in the building trade include, but are not limited to, construction, alteration, repair, demolition, installation of heat, light, water and power systems, drainage, painting and decorating, erection of scaffolding, civil engineering works and associated site clearance, excavation, foundation works, etc. The definitions are linked to those defined by the CIS legislation.

### Type of works excluded

Some works will not be covered by Reverse Charge VAT and invoicing will continue as is. This includes:

- Professional services of architects or surveyors, or of consultants in building, engineering, interior or exterior decoration or in the laying out of landscape
- Drilling for, or extraction of, oil, natural gas or minerals, and tunneling or boring, or construction of underground works, for this purpose
- Manufacturing of building or engineering components or equipment, materials, plant or machinery, or delivering any of these things to site
- Manufacturing components for systems of heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection, or delivering any of these things to site
- Signwriting and erecting, installing and repairing signboards and advertisements
- The installation of seating, blinds and shutters and the installation of security systems

