



Domestic Reverse Charge VAT For Construction

Your Guide



Domestic Reverse Charge VAT

1 March 2021

HMRC is introducing a new VAT legislation for the construction industry, which will come into effect in the UK on the **1st of March 2021**. The new legislation is called "Domestic Reverse Charge". This change will impact those of you who are in the construction industry. We have put together this guide to help explain the change and what you need to do as a business.

What is Domestic Reverse Charge VAT?

Domestic reverse charge (DRC) is a new way of accounting for VAT, which is applicable to all VAT registered construction businesses within the UK.

The new legislation changes the VAT liability between suppliers and customers. The change moves the VAT liability from the supplier (subcontractor) of a service within the construction industry to the customer (contractor).

This change has been implemented as an anti-fraud measure designed to counter criminal attacks on the UK VAT system.

How will this affect my business?

If you are a VAT-registered subcontractor (supplier) who provides building and construction services to a VAT-registered contractor (customer) who is CIS-registered then you no longer need to account for the VAT. The invoices supplied to customers should state that the VAT reverse charge is applied and they are responsible for this.

VAT-registered contractors (customers) will need to account for both input and output tax on invoices received from VAT-registered subcontractors.

Exemptions

There are some exemptions to the Domestic Reverse Charge. The reverse charge does not apply to the following supplies:

- Supplies of VAT exempt building and construction services
- Supplies that are not covered by the CIS, unless linked to such a supply
- Supplies of staff or workers

In addition to this, the reverse charge does not apply to taxable supplies made to the following customers:

- A non-VAT registered customer
- "End users" i.e a VAT registered customer who is not intending to make further on-going supplies of construction
- "Intermediary suppliers" who are connected e.g a landlord and his tenant or two companies in the same group.
- Overseas customers

Preparing your business



Software

If you're using accounting software, ensure you check it will manage the net VAT domestic reverse charge.

Xero software is already updated to manage this change!

Cash Flow

Consider whether the change will impact your cash flow. For subcontractors, this will likely impact your cash flow as you will no longer be receiving the VAT payment from your customer.



Communication

Ensure all your staff who are responsible for VAT accounting are aware of the change and how this will work.

Contractors should also consider contacting their subcontractors ahead of the change.

Checklist

This checklist will help you prepare for the implementation date, however if you've got questions, don't forget you can reach out to us!

1

You and your employees understand the change and when the reverse charge should and shouldn't be applied.

2

Your accounting software has been updated to reflect the domestic reverse charge (unless it is automatically updated).

3

You consider the impact of any cash flow changes that may occur and speak to an accountant if needed.

4

Your CIS customers and/or suppliers are informed that domestic reverse charge will apply to sales and/or purchases of building & construction services.



HMRC have put together guidance documents and a webinar that can provide you with further [information](#).



Xero Users

If you use Xero as your accounting software, whether as a subcontractor or contractor, your domestic reverse charge has been automatically updated and has this change covered.

Xero will ensure you have the right information on your CIS sales invoices and any CIS bills you receive, the input and output VAT will be accounted for.

Xero DRC Updates

Xero includes the following to help you manage and comply with DRC

- Four new taxes: 20% VAT on income, 5% on VAT income, 20% VAT expenses, 5% VAT on expenses
- Automatic DRC calculations in your invoices, bills and credit notes
- Automatic DRC updates on your "making tax digital" return



Let qualified experts take care of your accounting

Call us on 01932 485 325 or
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