

Domestic Reverse Charge for Construction Services

A new Statutory Instrument will introduce the domestic reverse charge into UK legislation via VATA 1994 s55A to relevant supplies of construction services with effect from 1 October 2019.

The reverse charge only applies to business to business transactions, where the customer is registered for VAT and is required to report the relevant supplies through the Construction Industry Scheme (CIS). The services only apply to standard and reduced rate supplies; the rules do not apply to zero rated supplies.

How it works

A DRC means that the customer receiving the supply of specified construction services must account for the VAT due rather than the supplier. In turn, the customer deducts the VAT due on the supply as an input, meaning no net tax is payable to HMRC.

Supplies that will be affected

The DRC only applies to supplies subject to VAT at the standard (20%) or reduced rate (5%), on supplies that are covered by the CIS. This means supplies between contractors and sub-contractors, subject to CIS, will be affected.

The DRC will not apply when services are provided to end users. End users are generally contractors or recipients who use the building or construction services themselves, rather than onward selling these services as part of their own supply of construction services. Even where some end users are required to report under CIS, because they are 'deemed contractors', the DRC will not apply.

It's the responsibility of the end user to make the supplier aware of their end user status. If they do not provide written confirmation, the DRC should be applied by the supplier.

The legislation also allows for those connected to end users, including landlords or tenants, to also be treated as end users. This means intra-group and leasing re-charges of building and construction services connected to an end user are also excluded from the reverse charge.

Mixed Supplies

If there is a reverse charge element in a supply then the whole supply will be subject to the domestic reverse charge.

Also, if there has already been a domestic reverse charge supply on a construction site, if both parties agree, any subsequent supplies on that site between the same parties can be treated as domestic reverse charge supplies.

If in doubt, provided the recipient is VAT registered and the payments are subject to CIS, it is recommended that the reverse should apply.

Tax Points

Building and construction services are normally continuous supplies of services. Tax points are therefore either the issue of a VAT invoice or receipt of payment, whichever is earlier.

In cases where work exceeds 12 months then without an invoice being issued, an annual tax point will apply and an invoice should be raised to reflect this.

Where supplies span the introduction of the DRC on 1 October 2019, the VAT treatment is as follows:

- Invoices with a tax point pre 1 October 2019 – normal VAT rules will apply
- Invoices with a tax point post 1 October 2019 – the DRC will apply

Suppliers' VAT Returns

Supplies of services and associated goods subject to the DRC are not included in Box 1 of the VAT return. The net value of the sales is included in Box 6.

Customers' VAT Return

Customers must include the VAT due on those supplies received under the DRC in Box 1 of their VAT return. They do not include the net value of those sales in Box 6.

Input tax on DRC purchases can be included in Box 4 of the same VAT return and the net value included in Box 7 as normal.

Invoicing

Normal VAT invoicing rules apply. However, the invoice should also be marked "domestic reverse charge applies" and clearly state that the customer is required to account for the VAT due.

The invoice should confirm the value of the VAT due under the reverse charge, but should not be included in the amount shown as 'Total VAT Charged'.

DRC applies to the following building and construction services at either standard or reduced rate VAT:

- construction, alteration, repair, extension, demolition or dismantling of buildings or structures (whether permanent or not), including offshore installations;
- construction, alteration, repair, extension or demolition of any works forming, or to form, part of the land, including (in particular) walls, roadworks, power-lines, electronic communications apparatus, aircraft runways, docks and harbours, railways, inland waterways, pipe-lines, reservoirs, water-mains, wells, sewers, industrial plant and installations for purposes of land drainage, coast protection or defence;
- installation in any building or structure of systems of heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection;
- 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 internal or external surfaces of any building or structure;
- It also applies to services which form an integral part of, or are preparatory to, or are for rendering complete, the services described in the bullet points 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.

Exclusions

Supplies of the following supplies are not covered by the domestic reverse charge if supplied on their own:

- drilling for, or extraction of, oil or natural gas;
- extraction (whether by underground or surface working) of minerals and tunnelling or boring, or construction of underground works, for this purpose;
- manufacture of building or engineering components or equipment, materials, plant or machinery, or delivery of any of these things to site;
- manufacture of components for systems of heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection, or delivery of any of these things to site;
- the professional work of architects or surveyors, or of consultants in building, engineering, interior or exterior decoration or in the laying-out of landscape;
- the making, installation and repair of artistic works, being sculptures, murals and other works which are wholly artistic in nature;
- sign writing and erecting, installing and repairing signboards and advertisements;
- the installation of seating, blinds and shutters;
- the installation of security systems, including burglar alarms, closed circuit television and public address systems.

HMRC Flow Chart

Are any of the supplies you are making within the scope of CIS?	NO	Normal Rules apply
YES		
Is the supply standard or reduced rated?	NO	Normal Rules apply
YES		
Is your customer VAT registered?	NO	Normal Rules apply
YES		
Will your payment be reported under CIS?	NO	Normal Rules apply
YES		
Has your customer provided confirmation that it is an end user?	NO	Domestic Reverse Charge applies
YES		
Normal VAT rules apply		

CONTACT US

If you have any queries or concerns please contact French Duncan VAT Director Maria McConnell on 0141 221 2984 or email m.mcconnell@frenchduncan.co.uk

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