

AW Tax Facts:

Domestic Reverse Charge

What is it?

A major change in the way that VAT is collected in the constructions industry. It takes effect from the 1st October 2019.

The Domestic Reverse Charge stipulates that the end contractor has to pay the output VAT to HMRC instead of the subcontractor. The end contractor can also recover the VAT, subject to the normal VAT rules. The subcontractor does not charge VAT on its supply of services to the Contractor, but can continue to claim input VAT under the normal VAT rules.

- **End Users** - The Reverse Charge does not apply to consumers or final customers. Usually businesses that do not make onward supplies of the building or construction services in question, but are registered as for CIS as deemed contractors because they carry out construction operations
- **Zero rated** - The Reverse Charge does not apply if the service is zero rated for VAT or if the end customer is not registered for VAT (i.e. domestic households).

What does this mean for a subcontractor?

If you are unsure if you are supplying a customer who is an end user – you need to ask the customer if they are an end user and keep a record of their answer. It is up to the customer to make the supplier aware that they are an end user and that VAT should be charged in the normal way.

If your customer is a contractor, you do not charge VAT on the invoice issued, but you can claim input Vat as usual.

The cash accounting scheme cannot be used for sales under the Reverse Charge. However, it can be used for any supplies made outside of the CIS scheme. You will have to use the Cash Accounting Scheme on your purchases. This may not help your cash flow. If this is the case, you can leave the Cash Accounting Scheme and use the normal Accruals Basis.

If you are purely a subcontractor in the CIS industry you will now be in a repayment position with HMRC, and it would be worth moving to submitting monthly VAT Returns to generate these repayments sooner.

On raising a sales invoice under the Reverse Charge:

- Show all the information required on a VAT invoice
- Make a clear note on the invoice that the Domestic Reverse Charge applies and that the customer is required to account for the VAT
- Clearly state how much VAT is due under the Reverse Charge, or the rate of VAT if the VAT amount cannot be shown – remember, this VAT is not to be included in your VAT Return.

Wording that must be included on your sales invoice:

- Reverse Charge: VAT Act 1994 Section 55A applies
- Reverse Charge: s55A VATA 94 applies
- Reverse Charge: Customer to pay the Vat to HMRC



What does this mean for a contractor?

You need to review all existing contracts with sub-contractors, to decide if the Reverse Charge will apply to all services received. If it does you will need to notify your subcontractors that this is the case.

You will also need to verify that your sub-contractors are, in fact, VAT Registered – this can be built into the verification process for determining CIS status. You can check that your sub-contractors are registered for VAT at http://ec.europa.eu/taxation_customs/vies (You will need your subcontractors VAT number).

If you are using the Cash Accounting Scheme you would normally account for the VAT on subcontractors supplies once payment has been made. However, as the cash accounting scheme will no longer be available, you will account for the VAT and recover the same VAT on the same Return – i.e. at the time the invoice is received.

The VAT Return is completed as follows – enter the output VAT on the purchases in box 1 of the VAT Return – do NOT enter the net value in Box 6. The Input VAT is declared as usual on the VAT Return. This therefore increases the amount you have to pay to HMRC, as no relief is given on the input VAT.

Self-billing invoices to your sub-contractors must show:

- The suppliers name, address and VAT Registration number – as well as the usual VAT invoice details
- Clearly mark the invoice with the reference "Self Billing"
- Clearly state the amount of VAT due under the Reverse Charge, or the rate of VAT if the VAT cannot be shown under the Reverse Charge (due to software constraints)

Wording that must be included on the self-billing invoice:

- Reverse charge: we will account for and pay the output tax to HMRC
- Reverse charge: as the UK customer we will pay the Vat due to HMRC.

What do you need to do to be ready for the Domestic Reverse Charge?

- Check whether the Reverse charge affects either your sales, purchase, or both
- Ensure that your accounting systems and software is updated to deal with the Reverse Charge
- Consider if there will be an impact on your cash flow.