

New VAT domestic reverse charge for building and construction services from 1 March 2021

There are some changes to the way VAT operates within areas of the building and construction sector from 1st March 2021. These changes apply to businesses supplying other businesses with construction services where:

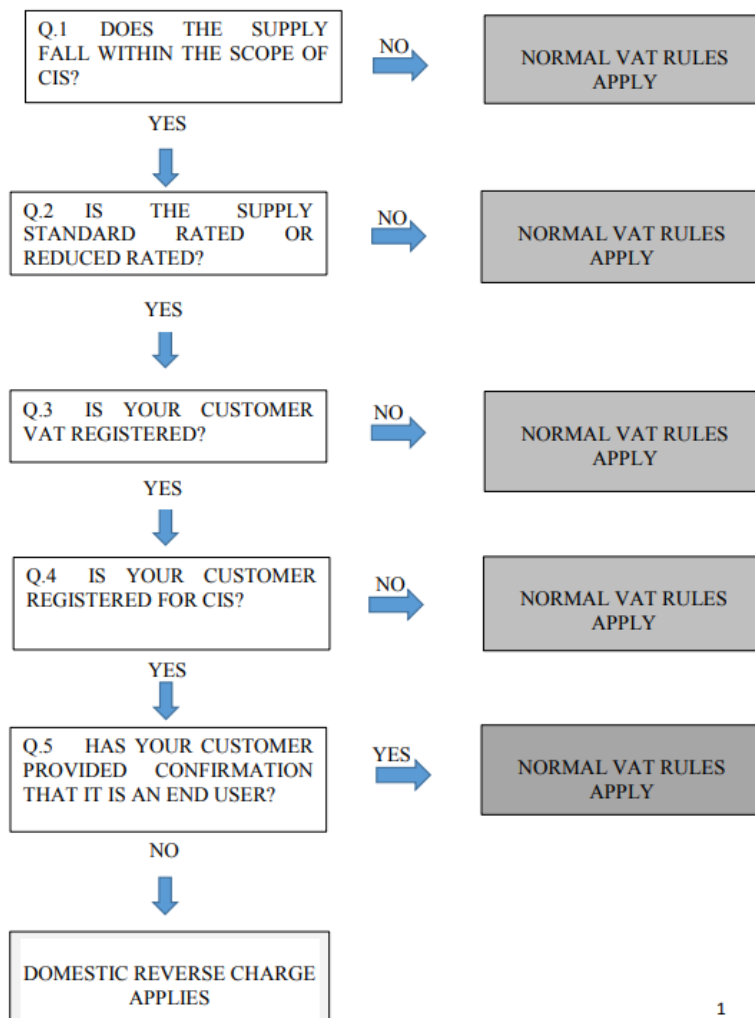
- the supplying business is registered for VAT in the UK AND
- payment for the supply is within the scope of the Construction Industry Scheme

A CIS Construction Industry VAT domestic reverse charge will apply. This means that customers receiving the service will have to pay the VAT due to HMRC instead of paying the VAT to the supplier.

If you SELL building and construction services, follow this flowchart:

Use this flowchart to see how you would decide whether to apply normal VAT rules, or apply the domestic reverse charge.

Do not use it for services supplied by employment businesses.

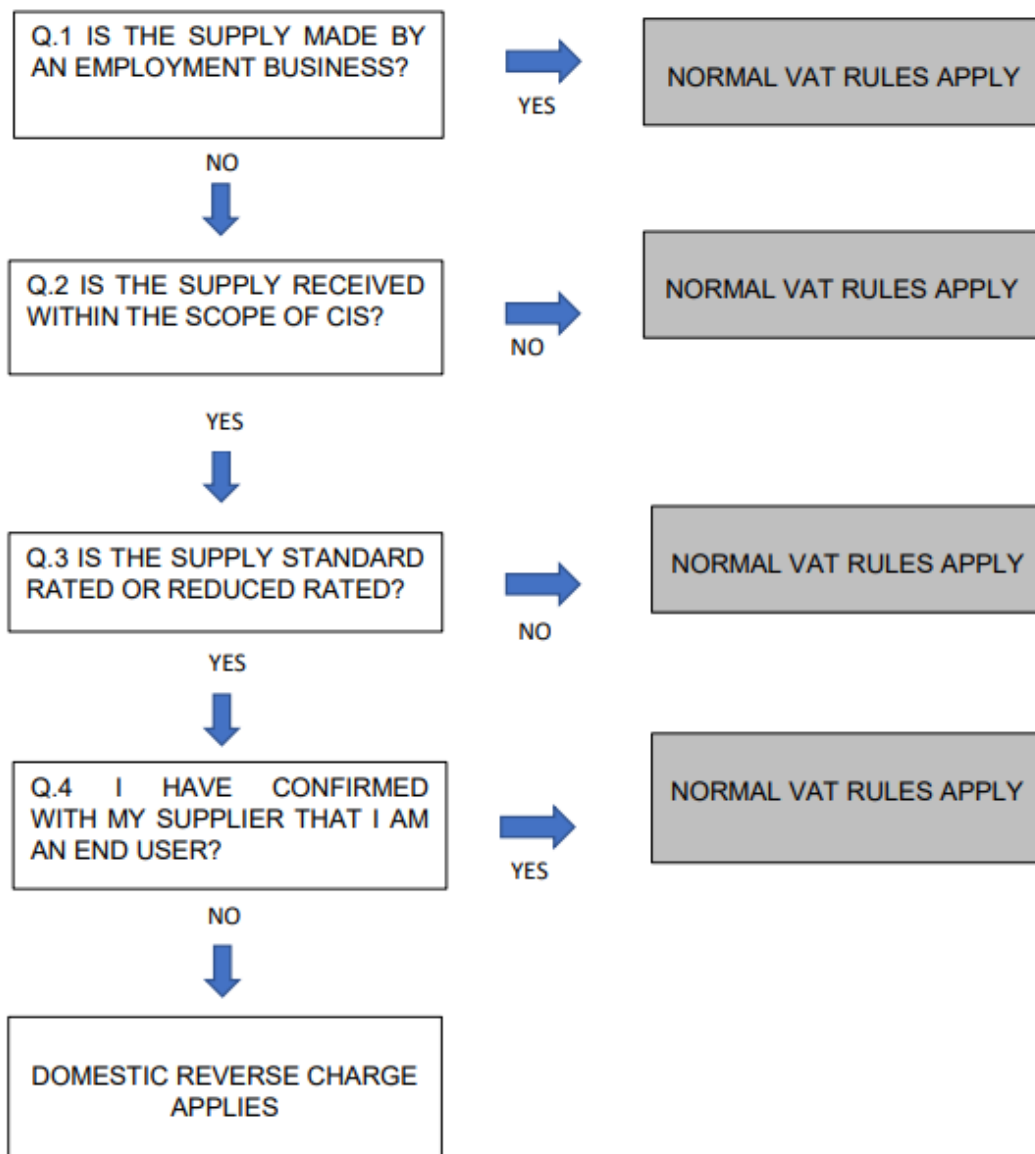


1

If you BUY building and construction services follow this flowchart:

Annex 2

This flowchart is to help businesses receiving building and construction services check whether normal VAT rules or the domestic reverse charge.



Key conditions

Apply the reverse charge when all the following are met:

- The supply for VAT consists of construction services and materials.
- It is made at a standard or reduced rate of VAT.
- Between a UK VAT registered supplier and UK VAT registered customer.
- Supplier and customer are registered for CIS.
- The customer intends to make an ongoing supply of construction services to another party.
- The supplier and customer are not connected.

The CIS reverse charge does not apply to any of 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.

The CIS 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.

What services are within the CIS reverse charge?

- Constructing, altering, repairing, extending, demolishing or dismantling buildings or structures (whether permanent or not), including offshore installation services.
- Constructing, altering, repairing, extending, demolishing of any works forming, or planned to form, part of the land, including (in particular) walls, roadworks, power lines, electronic communications equipment, aircraft runways, railways, inland waterways, docks and harbours.
- Pipelines, reservoirs, water mains, wells, sewers, industrial plant and installations for purposes of land drainage, coast protection or defence.
- Installing heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection systems in any building or structure.
- 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 inside or the external surfaces of any building or structure.
- Services which form an integral part of, or are part of the preparation or completion of the services described above. This includes 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.

Excluded services

- Drilling for, or extracting, oil or natural gas.
- Extracting minerals (using underground or surface working) and tunnelling, boring, or construction of underground works, for this purpose.
- Manufacturing building or engineering components or equipment, materials, plant or machinery, or delivering any of these to site.
- Manufacturing components for heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection systems, or delivering any of these to site.
- The professional work of architects or surveyors, or of building, engineering, interior or exterior decoration and landscape consultants.
- Making, installing and repairing artworks such as sculptures, murals and other items that are purely artistic.
- Signwriting and erecting, installing and repairing signboards and advertisements.
- Installing seating, blinds and shutters.
- Installing security systems, including burglar alarms, closed-circuit television and public address systems.

Certain services can become included

- If there is a reverse charge element in a supply, then the whole supply will be subject to the domestic reverse charge.
- If there has already been a reverse charge service between two parties on a construction site, and if both parties agree, any subsequent construction supplies on that site between the same parties can be treated as reverse charge services.
- If there is 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.
- The contractor is asked to consider all construction contracts with a sub-contractor. If they can see that reverse charge applies to more than 5% of contracts (by volume or value) with that sub-contractor, then the reverse charge may be applied to all the contracts.

Treatment of existing contracts to be ready for 1 March 2021

The VAT treatment is determined for payments due on any supplies entered into your accounting system before 1 March 2021 but paid on or after 1 March 2021.

Date entered in customer's accounting system	Date payment made	VAT Treatment
Before 1 March 2021	On or before 31 May 2021	Normal VAT rules
Before 1 March 2021	On or after 1 June 2021	Domestic reverse charge
On or after 1 March 2021	On or after 1 March 2021	Domestic reverse charge

For contracts starting after 1 March 2021, you should decide whether the reverse charge applies from the start of the contract.

VAT schemes

- You cannot use the VAT Cash Accounting Scheme for supplies of services that are subject to the reverse charge. You will need to move to the Standard VAT Scheme.
- If a business is likely to become a VAT repayable business, it will be beneficial for it to move to monthly VAT returns.

What do Contractors need to do?

- review all your contracts with sub-contractors to decide if the reverse charge will apply to the services you receive under your contracts.
- report both the input and output VAT on bills from your CIS subcontractor
- select the relevant VAT code in your software. Most software programmes are being updated with new domestic reverse charge VAT codes.

What do Sub-Contractors need to do?

- contact your customers to get confirmation from them if the reverse charge will apply, including confirming if the customer is an end-user or intermediary supplier.
- no longer charge VAT to your CIS customers.
- on your invoices state that CIS reverse charge applies, and that the customer is required to account for the VAT; suggested wording “Reverse charge: Customer to pay the VAT to HMRC”.
- state how much VAT is due under the reverse charge, or the rate of VAT if the VAT amount cannot be shown, (that VAT should not be included in the amount charged to the customer).