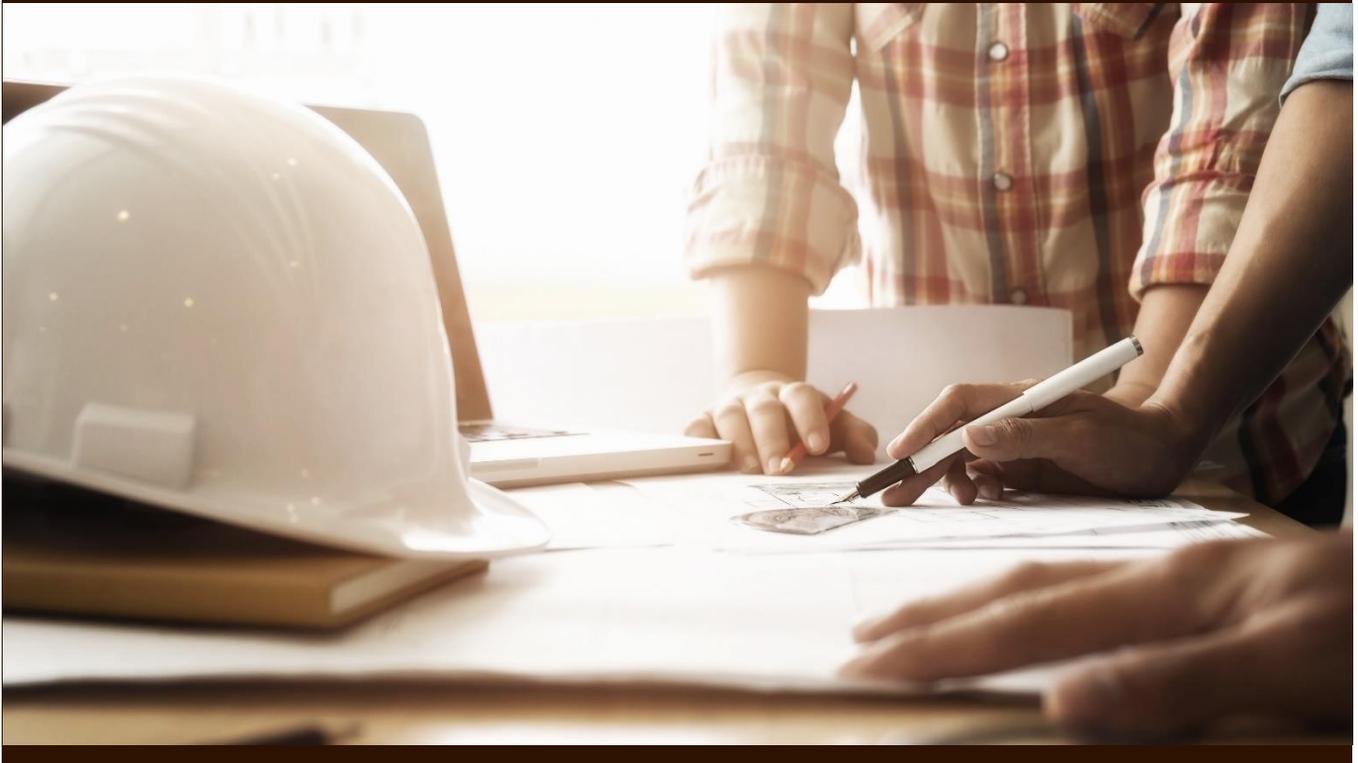


DOMESTIC REVERSE CHARGE VAT FOR CONTRACTORS



A reminder that from 1 March 2021, the long awaited VAT changes for CIS registered contractors, who are registered for VAT, will apply. The following notes explain what needs to be done.

What will happen on 1 March 2021?

Presently, if you receive an invoice from a subcontractor (SC) for construction services, and the SC is registered for VAT, you will pay the VAT inclusive amount to the SC and claim back the VAT element on your VAT return.

This process is changing from 1 March 2021 as a growing number of “nefarious” SCs have registered for VAT, collected the VAT added to their invoices from contractors and then disappeared without paying over the VAT collected to HMRC.

To counter this, from 1 March 2021, most of the supplies of services from VAT registered SCs will be subject to the “domestic reverse charge for building and construction services” (DRC). In plain English this means that SCs will no longer add VAT to their invoices for affected construction services. Instead, you will pay the VAT on their supply, to HMRC.

This does not mean that you will have to foot the extra VAT cost for your SCs.

You will still be able to recover the SC VAT that you have paid, as input VAT on your VAT return – subject to the usual rules – so there should be no long-term effect on your costs or cash flow (you add the SCs VAT to your output tax and claim back the same amount as input VAT).

Generally speaking, the DRC will affect supplies of building and construction services supplied at the standard or reduced rates and which also need to be reported under the CIS regulations. The DRC will not apply if the services supplied to you are subject to the zero-rate for VAT purposes.

Unlike the CIS rules, where tax is deducted from your SCs' supply of labour, not materials, the DRC change will affect both supplies for VAT purposes.

Needless to say, this change has expanded the grey areas that VAT registered contractors will need to adapt to or face the dark-side of HMRC's penalty regime. Listing all these complications in this update would no-doubt send you to sleep. Instead, we have added below the minimum actions that you will need to consider before 1 March. Please read this shopping list and then contact us; if required, we will help you make the changes to your accounting processes to keep you the right side of this new legislation.

Matters you need to consider before 1 March 2021:

1. Are the supplies from your SCs affected? Check to see if the services you request from SCs are subject to the DRC. It is up to you to make this distinction not your SC. Not all services are subject to the DRC. Generally speaking, construction services are included but certain specialist services are not. See the definitive list we have added to this update.
2. Review your invoicing to customers. If your customer is classified as an "end user" your supply to that customer is not subject to the DRC rules. An "end user" is a business that does not make onward supplies of building services.
3. Update your accounts software. Make appropriate changes to your accounts software or other records that create your VAT returns.
4. Beware cash flow consequences. Consider the effects that adapting to DRC may have on your cash flow.
5. Changes to your sales invoices. From 1 March 2020, your invoices will need to include a formal statement if they are a DRC supply.

The above check list covers the basic issues you will need to consider. Please call if you need help considering these matters.

You will have to apply the domestic reverse charge if you supply any of these services:

- 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 - 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

The following services are not subject to the reverse charge:

- 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 art works 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

How we can help

If you are interested in further clarification on some of the changes about to be enacted then do not hesitate to contact us. Call us on **01753 888211** or email **info@nhllp.com**