

YOUR GUIDE TO THE CHANGES

From 1 March 2021, the Construction Industry Scheme (CIS) VAT reverse charge comes into force. It applies to how construction businesses charge customers for work done, and we can't pretend that these changes are going to be easy to get to grips with. However, the nuances of the scheme will become clearer as we work through future projects with you case by case.

HMRC themselves recognise that this is a big change for the industry. For this reason they have said that they will operate a 'light touch' on errors and mistakes for the first six months. However, we recommend that you take advice from us or HMRC if you are in any doubt over aspects of the new rules.

To try and clarify the changes we've created a quick guide:

Why introduce new rules?

Missing VAT payments have become a substantial issue for HMRC. That's because supply chain subcontractors often charge and use the collected VAT as a means to pay bills, then have insufficient cash to pay the VAT due. These new rules are being introduced to put a stop to that.

When do you need to apply the CIS VAT reverse charge?

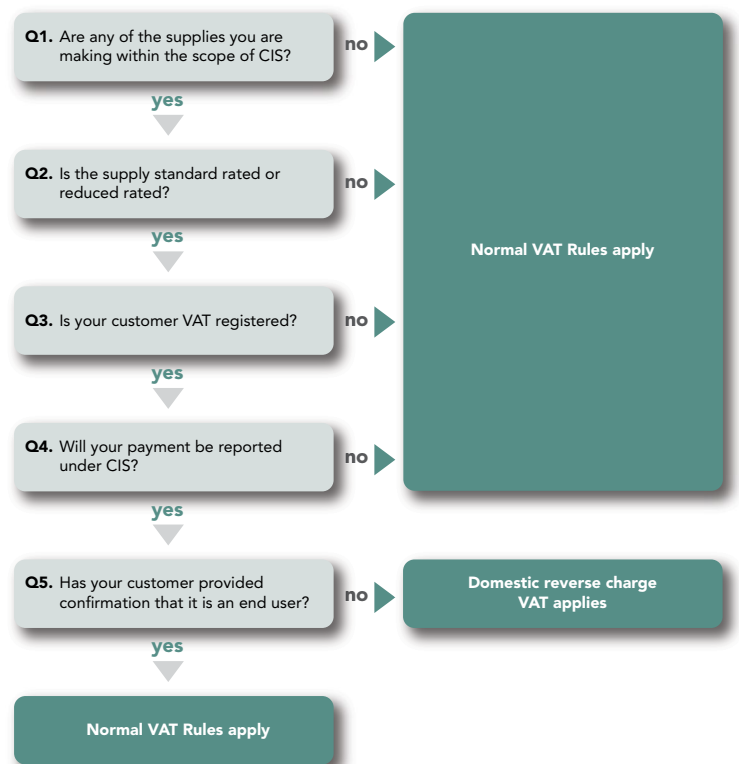
Brexit and COVID have twice delayed the introduction of these charges, but now they will come into force to supplies of construction work on 1 March 2021.

How to work out if they apply to you?

The short illustration adjacent will help when issuing an invoice for construction services. If you answer NO to any of the first four questions then normal VAT rules apply:

How CIS VAT reverse charge works

The flowchart overleaf will take you through the process.



HOW CIS VAT REVERSE CHARGE WORKS

SUBCONTRACTOR 1

At each stage of the project the following questions must be asked:

1. Are any of the supplies made within the scope of CIS?
2. Is the supply standard rated or reduced rated?
3. Is your customer VAT registered?
4. Will your payment be reported under CIS?

Answering 'No' to ANY of the above means that 'Normal VAT' rules apply.

If 'Yes' move to the next stage.

5. Has your customer confirmed that they are an 'end user'? If 'Yes' 'Normal VAT' rules apply.

SUBCONTRACTOR 1

Invoices the contractor and states that the reverse charge VAT rules apply. Invoice will state:

Reverse charge applies to items marked with 'Domestic Reverse Charge'. Customers need to account for VAT on these items to HMRC, at the rate shown.
No VAT charged by them to the contractor.

CONTRACTOR 1

Receives bill from Subcontractor 1 and enters it onto Xero.

VAT code is "Domestic Reverse Charge @ 20% VAT on Expenses".

Using this VAT code enters what would have been the input VAT in Box 4 of the contractor's VAT return and records the expenditure the inputs Box 7.

However, the value of the input VAT in Box 4 is also entered into Box 1 (output VAT), which cancels out the input VAT.

This is dealt with by Xero in the background and checked by Beverston when VAT return submitted.

CONTRACTOR 1

Invoices the next contact in the supply chain. If the next in the chain is the end user, normal VAT rules apply.

However, if the next in the supply chain is not the end user, Contractor 1 will need to invoice Contractor 2 with the VAT code being Domestic Reverse Charge @ 20% VAT on Income.

No output VAT will be charged to Contractor 2.

END USER

Receives invoice from Contractor with normal VAT included.

WHAT CONSTRUCTION SERVICES DOES THE NEW CHARGE APPLY TO?

You'll find a list and detailed HMRC explanation here:

www.gov.uk/guidance/vat-domestic-reverse-charge-for-building-and-construction-services#annexe1

PLEASE REMEMBER:

- The reverse charge not only applies to services outlined in HMRC's guidance but also on any construction materials directly used with those services. This is an important difference from the CIS scheme.

IMPORTANT CHANGES TO YOUR INVOICES

As a supplier, you must show all the information you normally would on a VAT invoice. However, there are three important changes:

- A note on the invoice must make clear that the CIS reverse charge applies and that the customer is required to account for the VAT
- No VAT is charged on the invoice
- It should state how much VAT is due under the reverse charge, or the rate of VAT if the VAT amount cannot be shown. However, VAT should not be included in the amount charged to the customer

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PLEASE CALL US ON 01752 977432, WE ARE HERE TO ADVISE AND HELP...