

VAT FOR CONSTRUCTION: DOMESTIC REVERSE CHARGE RULES FROM 1 MARCH 2021

FAQS

	QUESTION	ANSWER
1	Would IT and audio visual services fall within the scope of DRC?	<p>The supply and installation of audio visual equipment (electronic communication equipment) falls within the DRC if the installation requires substantial alteration or repair to the wall/ceiling it is affixed to when installing or removing the equipment. The installation or replacement of telecommunication wiring through pre-existing ducting in buildings would not fall within the scope of the DRC.</p> <p>A computer network installed in isolation would not fall within the DRC. However, if the computer network installation necessitates other construction work on the building, it would fall within the DRC as a mixed contract of work. A mixed contract includes both construction related and non-construction related work.</p>
2	How will self-billing work with the domestic reverse charge?	<p>Self-billing will operate as previously, although the customer will need to have procedures in place to be confident that the DRC applies or provide the required written notification of end user status before applying VAT as normal. There are transitional arrangements in place relating to when DRC applies to transactions spanning 1 March 2021, if the transaction is posted into the accounting system:</p> <ul style="list-style-type: none"> -Before 1 March 2021 and the payment date will be on or before 31 May 2021, then the normal VAT rules applies. -Before 1 March 2021 and the payment date will be on or after 1 June 2021, the domestic reverse charge applies on those specified supplies. -On or after 1 March 2021, the domestic reverse charge applies on those specified supplies.
3	We are end users/intermediaries receiving construction, repairs and maintenance services. Will the domestic reverse charge apply?	<p>The onus is on the customer to provide a written notification of end user/intermediary status to the supplier. VAT would then be applied as normal instead of the reverse charge. The supplier is not permitted under VAT law to charge VAT on the invoice without the written notification. This is the case even if they are aware that the customer is an end user or intermediary supplier. For a definition of an end user and intermediary supplier, please see below.</p>
<p>What is an end user? End users are the final customer, who do not make an onward supplies of the construction services supplied to them. This applies even if the end user is VAT and CIS registered provided they are receiving the supplies themselves, e.g. in respect of their own premises.</p> <p>What is an intermediary supplier? Intermediary suppliers are VAT and CIS registered businesses that are connected or linked to end users. For example, both parties have a relevant interest in the property such as landlord and tenant or are members of the same corporate group. If an intermediary supplier buys construction services and supplies them on to a connected/linked end user, without making material alterations to the supplies, then they are treated as the end user i.e. the domestic reverse charge does not apply.</p>		

4	If a roofer supplies materials and labour to a developer working for a private individual would the roofer apply the DRC?	The roofer would apply the DRC unless the developer provides written notification of end user or intermediary status.
5	Does a supply by a labour only subcontractor fall within DRC?	There is an important distinction between labour only supplies of construction services and supplies of labour. In the former, the supplier is responsible for overseeing the completion and quality of the work supplied. The latter would be a supply of staff who are placed under the supervision of the customer. The liability for insurance and site safety may help to indicate which type of supply is being made. So long as all other criteria are met, the supply of labour only construction services will fall into the DRC.
6	Does the legal status of the customer affect the DRC position?	<p>The legal form of the customer does not affect the DRC position e.g. sole trader, Jersey property unit trust, charity etc. Subject to any excepted supplies, supplies of most building and construction services fall within DRC if:</p> <ol style="list-style-type: none"> 1. The supply is within the scope of CIS; 2. The supply is subject to VAT at 5% or 20%; 3. The customer is both VAT and CIS registered; and 4. An end user notification has not been provided.
7	How will DRC apply to cash accounting?	You cannot use VAT cash Accounting Scheme for services subject to the reverse charge.
8	Flat Rate Scheme	Recipients of reverse charge services should not use the Flat Rate Scheme. All of the VAT on a reverse charge invoice received must be added to box 1, but FRS traders cannot claim the input VAT in box 4. For this reason the trader will be out of pocket by using the FRS and should withdraw from it before 1 March.
9	When would goods supplied fall within DRC?	Goods would only be subject to the DRC if they are ancillary to the main supply of services falling within the scope of DRC such as partitions supplied and installed. Where only goods are supplied, i.e. partitioning only without installation, this would not fall within the DRC.