



Understanding the VAT domestic reverse charge (DRC) for building and construction services

From 1 March 2021, the DRC must be used for most supplies of building and construction services.

Who must comply?

VAT registered contractors and sub-contractors supplying and receiving services covered by the CIS scheme.



What do I need to do as a sub-contractor?

- Ensure your customer is VAT registered.
- Raise a normal sales invoice with VAT but show on the invoice that only the NET amount is payable.
- Your customer will only pay you the NET amount invoiced.

What do I need to do as a main contractor?

- Check if your customer is an end user. If YES, invoice and pay over the VAT as normal.
- If NO, see point above
- For invoices received by you under DRC from Sub-Contractors:
 - a) Only pay the NET invoice amount to the supplier.
 - b) Complete your VAT return showing the input VAT on the supply as normal in Box 4 and the NET amount in Box 7.
 - c) Account for the subcontractor's output VAT (on their behalf) by entering the VAT amount unpaid on the supplier invoice in Box 1 of your VAT return.

When does the DRC not apply?

Zero rate VAT construction services are not affected as there is no VAT to account for.

If your business is not already required to be VAT registered.

Will there be any benefits?

Many sub-contractors will become NET VAT repayment businesses and may want to switch to monthly VAT returns.

How do I ensure my business complies?

- Get familiar with the rules.
- Understand how your accountancy software will account for these transactions.

What supplies are caught under the recharge rules - Domestic Reverse Charge (DRC)?

1

Construction, alteration, repair, extension, demolition or dismantling of buildings or structures (whether permanent or not)



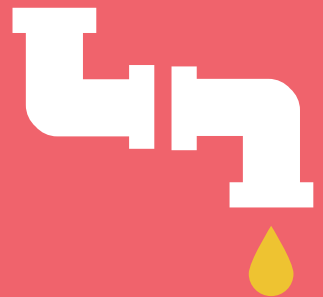
2

Construction, alterations, repair, extension or demolition of any works forming, or to form, part of the land,



3

Installation in any building or structure of systems



4

Internal cleaning of buildings and structures that is carried out as part of construction, alteration, repair, extension or restoration.



5

Painting or decorating the internal or external surfaces of any building or structure.



What supplies are exempt from the recharge rules?

- Drilling for, or extraction of, oil or natural gas.
- Extraction (whether by underground or surface working) of minerals and tunnelling or boring, or construction of underground works, for this purpose.
- Manufacture of building or engineering components or equipment, materials, or delivery of any of these things to site.
- Manufacture of components for systems of heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection, or delivery of any of these things to site.
- The professional work of architects or surveyors, or of consultants in building, engineering, interior or exterior decoration or in the laying-out of landscapes.
- The making, installation and repair of artistic works.
- Sign writing and erecting, installing and repairing signboards and advertisements.
- The installation of seating, blinds and shutters.
- The installation of security systems.

These lists are not exhaustive, and the general advice is that if a supply needs to be reported through the CIS regime, it is likely to be subject to the DRC.

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