

THE DOMESTIC REVERSE CHARGE



Understanding the Domestic Reverse Charge

By now, you'll know HMRC is introducing new VAT legislation for the construction industry. Domestic Reverse Charge (DRC) comes into effect in the UK on 1 March 2021. It has already been delayed twice from its original date of October 2019 due to Brexit and subsequently the Coronavirus pandemic.

What is the Domestic reverse charge?

DRC is the new way of accounting for VAT and will apply to all construction businesses in the UK who are VAT registered. Essentially, liability for VAT moves from the supplier of services in the industry (the subcontractor) to the customer (the contractor).

The new legislation is being guised as an anti-fraud measure. It has been designed to counter any complex unlawful attacks on the UK VAT system by criminal groups. It aims to cut down on "missing trader" fraud, where companies collect high quantities of VAT from their customers but have no intention of paying the VAT to HMRC.



This will affect your business processes, and it is important you understand how.

To help you, we have put together this straightforward guide with key information and our tips on getting prepared.

How will DRC affect your business?

The impact of DRC on your business depends on whether you are acting as a subcontractor or a contractor.

If, as a VAT-registered subcontractor (supplier), you provide building and construction services to a VAT-registered, CIS-registered contractor (customer) you do not need to account for the VAT. Instead, it is your responsibility to inform your customer that the VAT reverse charge is applied and they are responsible for the VAT using the reverse charge procedure. You can indicate this on your invoice.

If you are a VAT-registered contractor (customer) you must account for both input and output tax on all invoices you receive from your VAT-registered subcontractors.



The changes in summary

VAT accounting rules for construction firms before 1 March 2021



A subcontractor (builder) supplies services and building materials to a contractor (construction firm). Currently, the builder must charge for VAT and declare the VAT to HMRC through their quarterly VAT return.

VAT accounting rules for construction firms after 1 March 2021



A subcontractor (builder) supplies services and building materials to a contractor (construction firm). Under the new legislation, the construction firm must declare the VAT due on their quarterly VAT return and reclaim as they currently do

How to prepare for the legislation change

1. Look at your cash flow

Will the change have an impact on your cash flow?



If you are a subcontractor the answer is likely to be yes, as you will no longer receive VAT payments from your customers. If you are the contractor, your cash flow will receive a boost in the short term, as you will no longer be paying VAT to the subcontractor. However, it's worth remembering you will need to account for VAT as output tax as well as input tax, with the rest of your VAT accounting. Your accountant is there to help should you need it.

2. Inform your staff, contractors and/or customers



Any staff who are responsible for VAT accounting must be aware of the DRC and how it works. If you are a contractor, you must be in discussion with your VAT-registered subcontractors prior to 1 March 2021 to ensure they are aware of the changes and don't invoice you for VAT. If you are a subcontractor, be sure to contact your customers and make them aware you will be applying the DRC to invoices from 1 March 2021.

Your Checklist to be ready for the DRC

To be ready for the implementation date on March 1 make sure:



All staff understand the new domestic reverse charge for building and construction services rules, when it applies and when it doesn't. HMRC offer plenty of guidance, including a webinar you can watch on **GOV.UK** and search for " help and support "



Your accounting software has been updated to deal with the DRC



You understand the impact of any cash flow changes and speak to your accountant if you are unsure



Your CIS customers and/or suppliers are informed that the DRC applies to sales and/or purchases of building and construction services