



NOVUS

React / Maintain / Build

Reverse Charging of VAT /

2021 – a year of change
for the Construction Industry

V.01

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2021 will see the biggest change in VAT accounting /

This booklet has been designed to give an overview of the changes and the potential impacts it could have throughout the Construction Sector. We advise subcontractors to seek further guidance from Her Majesty's Revenue and Customs (HMRC) or their accountant.

What is changing?

A new reverse charge taxation system will be imposed on the construction sector from March 2021.

VAT will no longer flow between supply chains but services are still vat-able supplies and subject to vat which will be calculated as a paper exercise.

When?

The change comes into force on 1st March 2021 and will affect services provided with a tax point on or after that date.

However there is work to be done in preparation for the changes.

What businesses does it impact?

All VAT-registered businesses receiving a supply of specified services from another VAT-registered business on/after 1st March 2021.

Only applies where the payment for the services provided needs to be reported for CIS purposes.

How does it affect me?

Affects payments to subcontractors, raising of client invoices.

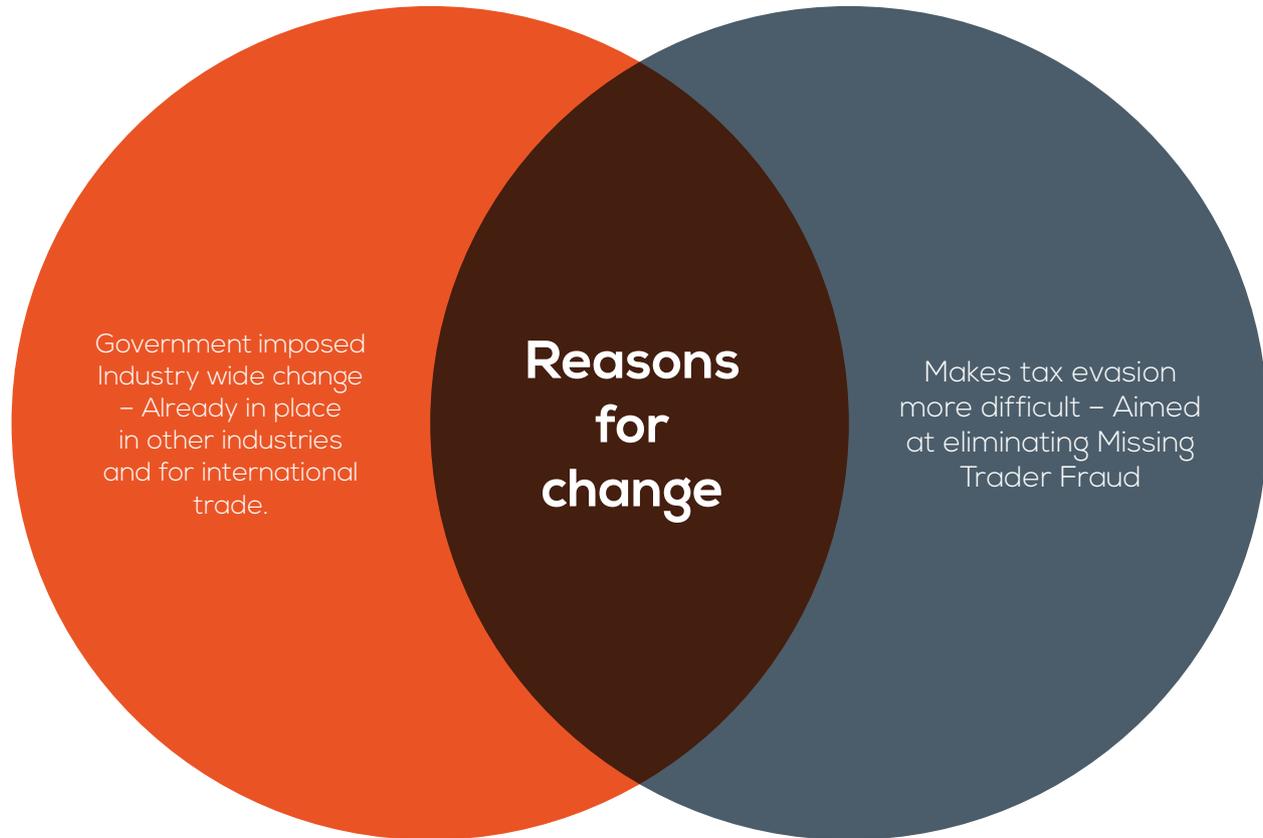
Additional information will need to be attained and recorded for each contract.

Definitions and terms /

Below are some definitions of the main terms used in Reverse Charging and throughout this booklet.

Reverse Charge/ DRC	Mechanism for accounting for VAT whereby the customer charges themselves VAT rather than the supplier charging VAT. Also referred to as Domestic Reverse Charge.
End User	<p>Customer who uses the building or construction services themselves rather than sell them on. E.g. Work carried out on our own property or offices, recipient who makes onward supplies to a connected company, or if supplier and recipient are landlord and tenant or vice versa.</p> <p>Please note that written confirmation of End User status is required. This can be done via email, letter or a statement included in contracts that the customer will be treated as an End user unless they advise otherwise as long as the customer has signed the contract.</p>
Connected Company	Connected parties within a corporate group structure or with a common interest in land.
Main Contractor	Contractor delivering works for an End User.
CIS	Construction Industry Scheme (HMRC's construction-specific tax-collecting regime).

Background to changes /



Services that will be affected /

Reverse charging in the construction industry has been closely aligned with the scope of CIS already in operation. Classification of Construction services affected by DRC is the same classification as specified services under CIS.

Services Affected by DRC

- Construction services
- Within the scope of CIS
- Standard and reduced rated supplies
- Both parties must be VAT registered or required to be VAT registered.

Services Unaffected by DRC

- Material only supplies
- Services not within the scope of CIS
- Zero-rated supplies
- Companies not required to be VAT registered
- Services made to End user, recipient who makes onward supplies to a connected company, or if supplier and recipient are landlord and tenant or vice versa.
- Customers need to have been confirmed as an end user either by written/email notification or contractually.



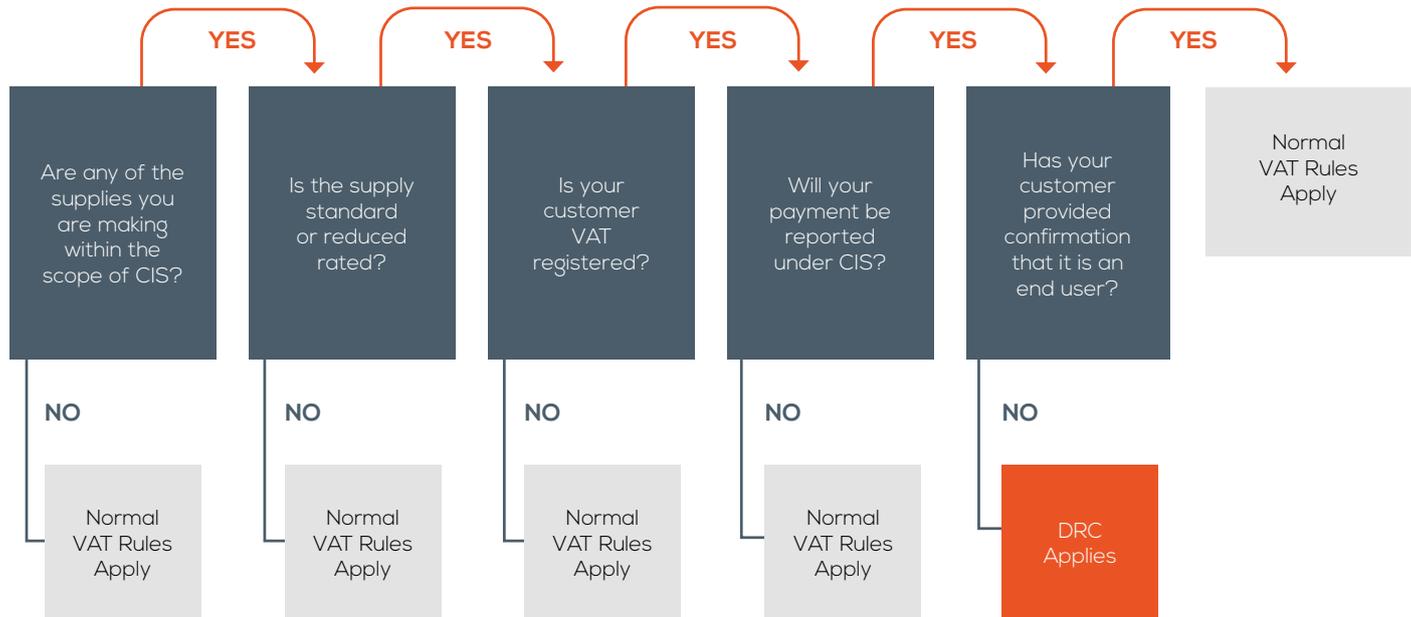
If a supply contains a mixture of specified and other construction services then the whole supply will be classed as a single supply of specified services and be subject to DRC.

Invoicing supply and fit separately doesn't change the treatment. DRC still applies as it is still considered a single supply.

The tax date is the trigger point - services with a tax point date on or after **1st March 2021** will be accounted for under the new rules.

When the new rules apply /

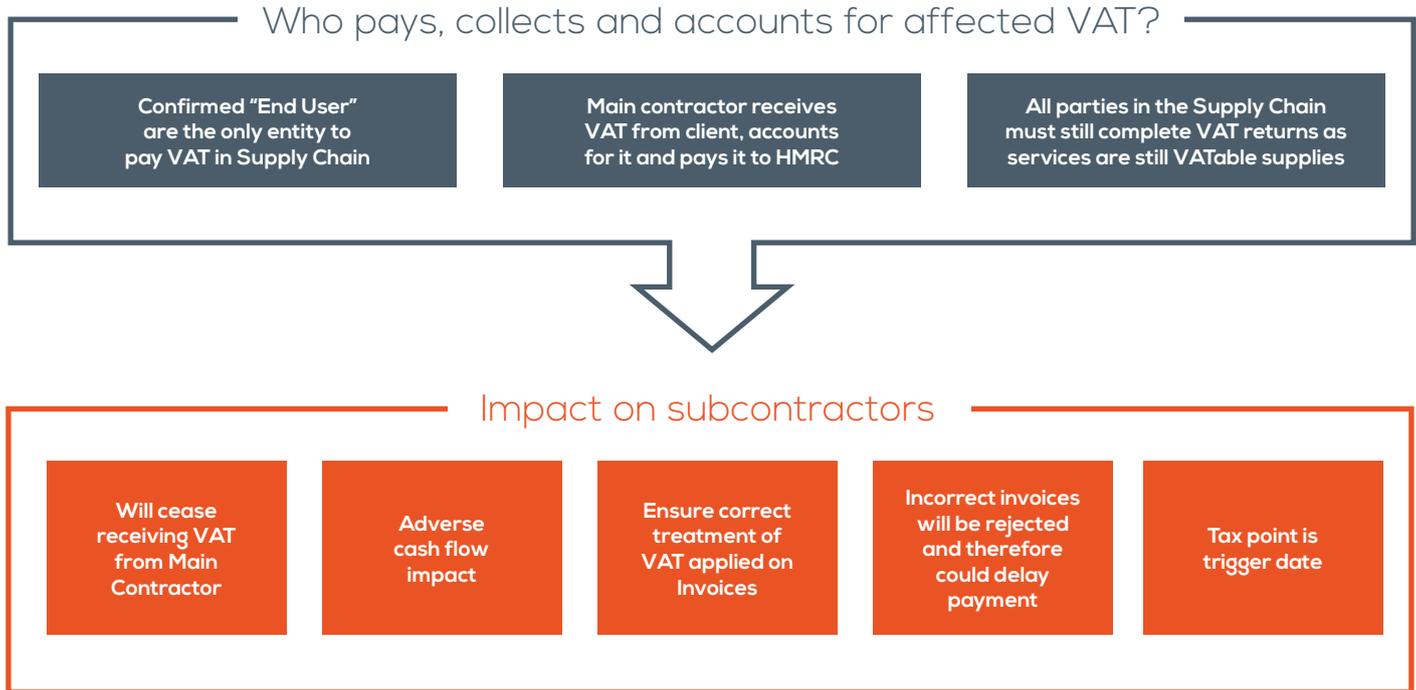
This flowchart is a useful tool to determine whether to apply normal VAT rules or whether DRC should apply.



Confirmation needs to be received in written format as per the definitions.

What changes? /

The diagram below demonstrates key responsibilities within Reverse Charging and the potential impact on subcontractors.



New vs Old - Process /

The table below highlights the differences between the current process and Domestic Reverse Charge (DRC). It clearly demonstrates the shift in the responsibility and impact on payments to HMRC.

Firm in Chain	Current Process	DRC								
Labour Provider/ Subcontractor	<table border="1"> <tr> <td>Charges</td> <td>Services + VAT</td> </tr> <tr> <td>Pays HMRC</td> <td>VAT received from Major subcontractor</td> </tr> </table>	Charges	Services + VAT	Pays HMRC	VAT received from Major subcontractor	<table border="1"> <tr> <td>Charges</td> <td>Services + reverse charges VAT</td> </tr> <tr> <td>Pays HMRC</td> <td>Nil VAT</td> </tr> </table>	Charges	Services + reverse charges VAT	Pays HMRC	Nil VAT
Charges	Services + VAT									
Pays HMRC	VAT received from Major subcontractor									
Charges	Services + reverse charges VAT									
Pays HMRC	Nil VAT									
Major Subcontractor	<table border="1"> <tr> <td>Charges</td> <td>Services + VAT</td> </tr> <tr> <td>Pays HMRC</td> <td>Difference between VAT received and paid</td> </tr> </table>	Charges	Services + VAT	Pays HMRC	Difference between VAT received and paid	<table border="1"> <tr> <td>Charges</td> <td>Services + reverse charges VAT</td> </tr> <tr> <td>Pays HMRC</td> <td>Nil VAT</td> </tr> </table>	Charges	Services + reverse charges VAT	Pays HMRC	Nil VAT
Charges	Services + VAT									
Pays HMRC	Difference between VAT received and paid									
Charges	Services + reverse charges VAT									
Pays HMRC	Nil VAT									
Main Contractor	<table border="1"> <tr> <td>Charges</td> <td>Services + VAT</td> </tr> <tr> <td>Pays HMRC</td> <td>Difference between VAT received and paid</td> </tr> </table>	Charges	Services + VAT	Pays HMRC	Difference between VAT received and paid	<table border="1"> <tr> <td>Charges</td> <td>Services + VAT</td> </tr> <tr> <td>Pays HMRC</td> <td>VAT received from End User</td> </tr> </table>	Charges	Services + VAT	Pays HMRC	VAT received from End User
Charges	Services + VAT									
Pays HMRC	Difference between VAT received and paid									
Charges	Services + VAT									
Pays HMRC	VAT received from End User									
Customer/End Consumer	<table border="1"> <tr> <td>Pays</td> <td>Full invoice inclusive of VAT</td> </tr> </table>	Pays	Full invoice inclusive of VAT	<table border="1"> <tr> <td>Pays</td> <td>Full invoice inclusive of VAT</td> </tr> </table>	Pays	Full invoice inclusive of VAT				
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Impact on invoice layout /

Below is an example of the potential impact the changes will have on invoice layouts. For further information on this topic please view the HMRC guidelines (www.gov.uk/guidance/vat-domestic-reverse-charge-for-building-and-construction-services) and contact your System providers.

Invoices will need to state amount of VAT applicable on services provided however this should not be included in the total amount payable on the invoice.

Description	Sub Total	VAT Rate	VAT	Total
Construction Services	£ 100.00	20%	£20.00	£ 120.00
VAT Reverse Charge				

Invoices should state that reverse charging applies

Sub Total:	£	100.00
VAT (20%)	£	20.00
Reverse Charge applies	-£	20.00
Total:	£	100.00

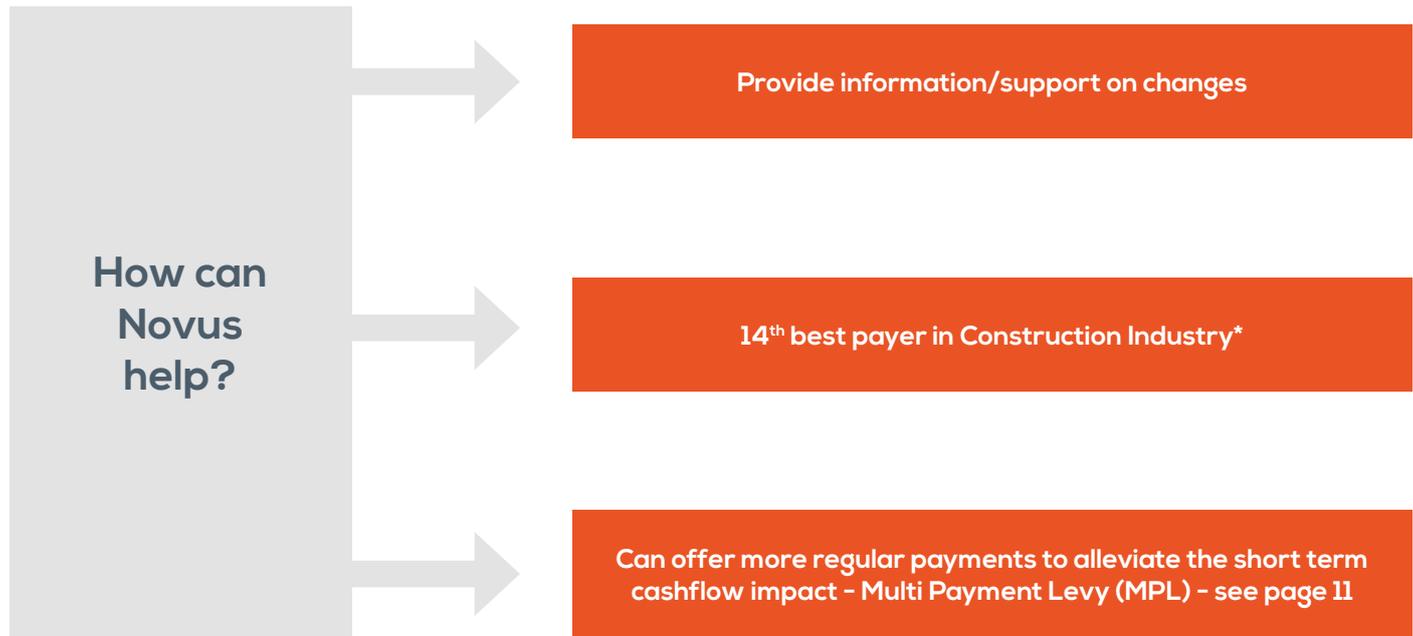
Balance Due:	£	100.00
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Reverse charge: S55A VATA 94 applies

Novus will use Purchase Orders to notify subcontractors whether DRC applies therefore it is essential to ensure orders are received in advance of starting works – not retrospectively.

Support /

We see our supply chain as an extension of Novus and your continued success is integral to ours. Below is an example of how we can assist and support you throughout this transition of VAT Reverse Charging.



* Reported in Construction News – 14th if ranked by paying to terms (91% of invoices) or 21st if ranked by average time to pay (33 days).

Novus – Multi Payment Levy (MPL) /

Novus recognises that Domestic Reverse Charge (DRC) may adversely affect the cashflow of some subcontractors and are keen to support our supply chain through this period. We would like to point out that we do offer an early payment scheme, known as the Multi Payment Levy (MPL), whereby payments can be released earlier than the standard end of month payment run, in exchange for a 3% levy on the gross value of all invoices.



Novus process a subcontractor payment run every week and, following the authorisation of their invoices, any subcontractor signed up to this levy is eligible for their payments to be included on the first available payment run.

Anyone wishing to take advantage of our MPL scheme should email novusquality@novussolutions.co.uk to request a monthly payment arrangement opt out form.

Further information /

Further information can be obtained on Reverse Charging in the Construction Sector from the below:

HMRC detailed guidance

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

JTC Tax Newsletter

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