



# The Domestic Reverse Charge: Construction Industry FAQs

Do you work in the construction industry? If yes, the Domestic Reverse Charge (DRC) is set to commence on 1 March 2021.

You may recall the DRC had previously been set to be introduced on 1 October 2019, was postponed until 1 October 2020 and then was further delayed until 1 March 2021 due to the impact of Coronavirus. In the absence of any last minute announcements, this is set to go ahead so it is important you re-familiarise yourself with the rules.

## What and who does it apply to?

The DRC applies to “construction operations”, which is broadly the same definition used for the Construction industry scheme (CIS), so if you are a VAT registered CIS subcontractor or contractor, you need to be aware.

The DRC operates by excluding VAT on amounts charged to VAT registered clients within construction operations, unless the client is an “end user”. VAT is still calculated and recorded on the invoice along with appropriate wording stating the DRC applies and therefore VAT has not been charged. It is the duty of the end user to make their status known.

## What does the recipient of the DRC invoice do?

The recipient of a DRC invoice must report the VAT that they have not been charged (but itemised on their invoices), on their own VAT return. They will record this as ‘output’ VAT (like a sale) and pay this to HMRC but then recover as ‘input’ VAT, if appropriate (like a normal purchase).

## What happens if client is both a contractor and end user?

If construction services are provided to a contractor which also includes work on the client as the end user (e.g on their own building), then if the DRC work is 5% or less than the invoice total, the normal VAT rules apply to the whole invoice. If it is more than 5%, the DRC will apply to the whole invoice.

## What happens if the sale is zero rated for VAT purposes?

Where there is a zero rated sale (for example in construction of a new dwelling), the DRC does not apply and the invoice should be prepared in the usual way. This even applies where you supply and fix standard rated goods into a new build property (e.g. oven hobs or carpets etc).

## What happens if I am VAT registered but my contractor is not?

You should charge VAT as normal as the DRC only applies where your client is VAT registered

## What does this mean for my business' finances?

Where you supply construction services to a contractor and historically charge VAT on your invoice, you only have to pay over this VAT on submission of your VAT return. This can aid cash flow. Under the DRC, you will not be charging VAT and so will not benefit from the time difference between receiving from the contractor and paying over to HMRC. For some businesses who only do work for contractors and so will no longer charge VAT, they be in a VAT repayment position and should consider moving over the monthly VAT returns to ensure they recover the VAT at the earliest opportunity.

## What happens if I get it wrong?

HMRC understand that this change may be difficult to understand and have confirmed a ‘light touch’ to dealing with any errors in the first 6 months of the new legislation and long as you have acted in good faith.