

CIS VAT Domestic Reverse Charge - New Rules On How VAT is Accounted For

The CIS VAT Reverse Charge means that the end user/customer pays the VAT to HMRC instead of the supplier of construction services

Are you a business operating in CIS and also VAT reg?

NO

Reverse charge does not apply

YES

Need to be aware of VAT changes scheduled to be introduced from 01/03/21 which may affect your business

IMPORTANT - The clients/customers you work for, who will be affected by the Reverse Charge, should confirm to you their status. You need to contact them to confirm this

Where are you in the supply chain?

Sub-contractor providing services to the main contractor, then the Reverse Charge applies and no VAT is charged

Sub-contractor providing services to another sub-contractor, then the Reverse Charge applies and no VAT is charged

Main contractor providing services to "end customer/user"

VAT is charged at the normal rate

CIS

CIS VAT Reverse Charge

Zero rated work

If your work is subject to CIS deductions (either 20% or 30%) then Reverse Charge is applied to THE WHOLE invoice value (labour AND materials)

Reverse charge applies where ALL of these conditions apply:

If work qualifies to be zero-rated e.g. new house build, then the Reverse Charge does not apply

- Supply to customer falls within CIS and;
- Your supply is standard (20%) or reduced (5%) rated and;
- Your customer is VAT registered and;
- Your customer is reg for CIS and;
- Your customer isn't the end client/customer

No to ANY of these questions

Normal VAT rules apply

I am a sub-contractor

What to do

I am a contractor

• Your customer will need to include the VAT on their VAT return;
• You do not include anything on your VAT return for Reverse Charge supplies;
• If you invoice a customer, you will either charge VAT as normal or use Reverse Charge (if your customer is the end client)

• You need to include the VAT on your Reverse Charge supply from the sub-contractor. (You reclaim this VAT from HMRC on your VAT return);
• You also use the Reverse Charge for your supplies if your customer is not the end client/customer;
• If your customer is the end user, you charge VAT under the normal rules

How does this affect my cashflow?

If you are a sub-contractor and use the Reverse Charge and therefore don't charge VAT to your customer, then.....

You don't get the cashflow benefit of the VAT payment from your customer

But you don't have to pay the VAT over to HMRC

Potential cashflow disadvantage where customers pay quickly and you submit VAT returns quarterly

Options

Move to monthly VAT returns

Prepare a cashflow forecast to identify and prepare for times when cash will be tight

Build up business cash reserves (ideally 3 months cash requirements) if you can