

# Domestic Reverse Charge

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# The Domestic Reverse Charge

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The Domestic Reverse Charge (DRC) will come into effect from **1 March 2021**. You may need to apply the DRC if you are VAT registered within the UK and supply or buy building and construction services which fall under the Construction Industry Scheme (CIS).

The aim of the DRC is to reduce fraud within the construction industry; VAT will no longer be paid to the business/individual undertaking the construction service (e.g. subcontractor) and instead it will become the responsibility of the contractor to account for the VAT.

## Example

Roger, a roofer (who is VAT registered), supplies materials and roofs a new office building for a contractor (also VAT registered) and in turn supplies its construction services to the Developer (also VAT registered).

- Under the old VAT system, Roger would invoice the contractor £120,000, comprising of his bill for materials and labour plus £20,000 in VAT (20%).
- From **1 March 2021**, under the DRC, Roger would invoice £100,000 and on his invoice it would state that 'The Domestic Reverse Charge applies' and that the applicable rate of VAT is 20%.
- The Contractor would pay Roger's invoice of £100,000 and then account for output and input VAT of £20,000 on its own VAT Return for Roger's services.
- Roger does not account for output VAT on his invoice or accounting system. Roger charges and receives £20,000 less than under the old system, however he does not have to declare any output VAT to HMRC on the transaction. He includes the sale in Box 6 of his VAT return and he does not add any VAT in box 1.

## You do not need to apply the DRC if:

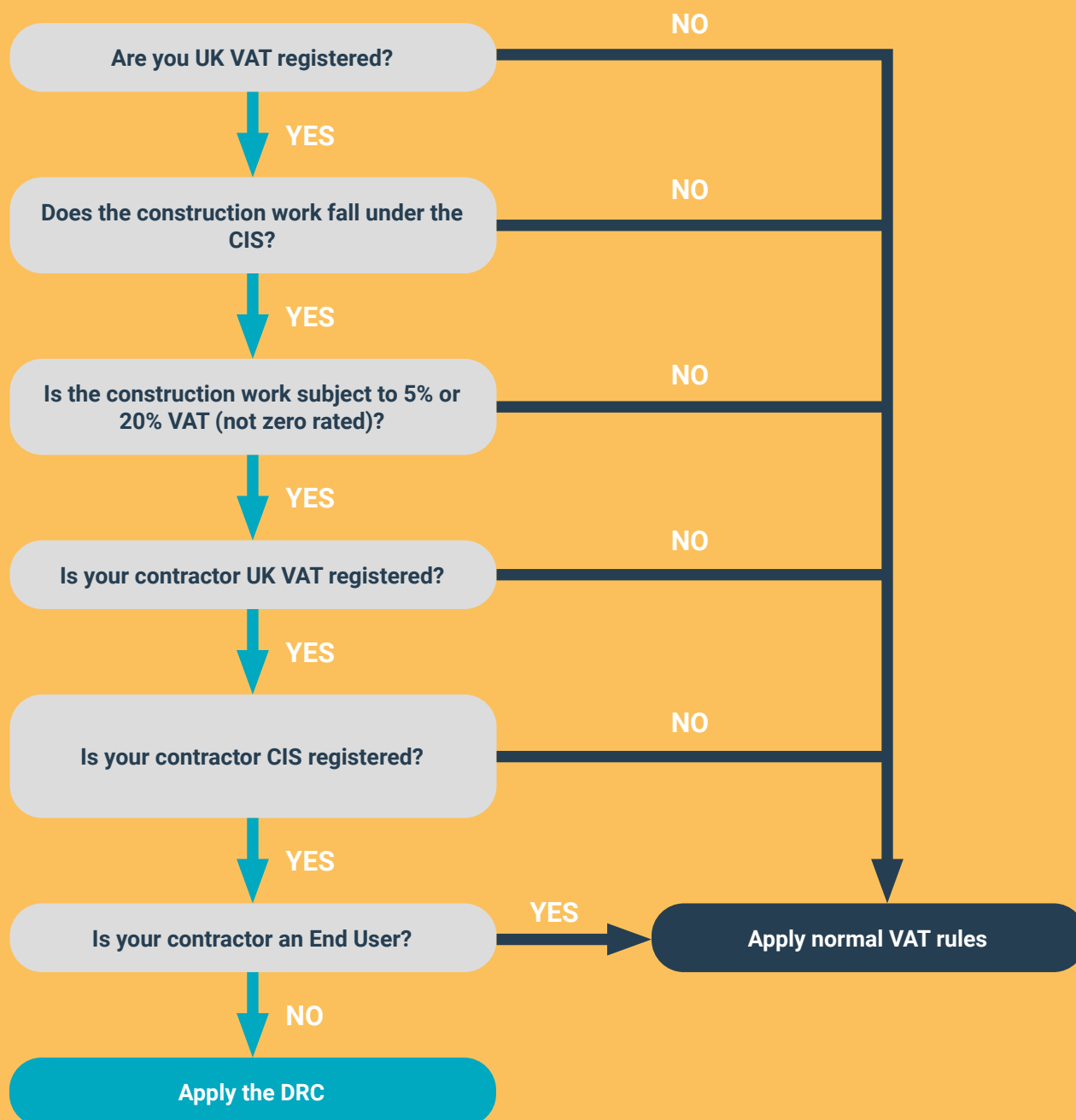
- The contractor or subcontractor are not UK VAT registered.
- The contractor is not CIS registered.
- The building and construction work does not fall under the CIS.
- The building and construction work is exempt from UK VAT.
- The contractor and subcontractor are connected e.g. a landlord and his tenant or two companies in the same group.
- The contractor is an End User or Intermediary Supplier (please see our FAQ section for definitions of these terms).

**The following pages include flow diagrams to help you determine whether you need to apply the DRC as a contractor or subcontractor.**



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# Subcontractor



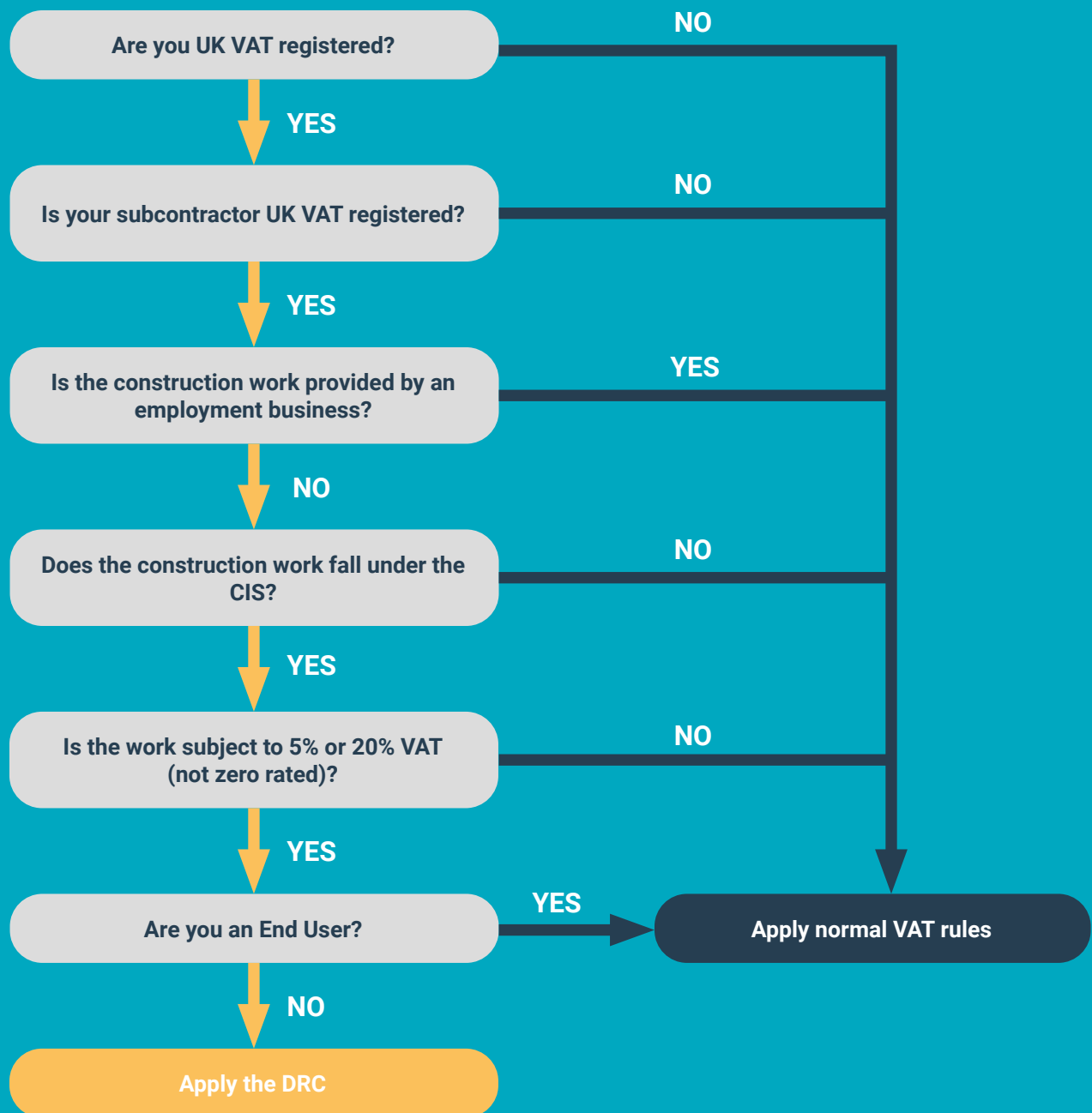
## Contact Us

If you have any immediate questions or if you would like to discuss anything further please contact us via email or give us a call on:

01483 898 400



# Contractor



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