**Domestic Reverse Charge (DRC) on VAT in QuickBooks Online**

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**VAT: domestic reverse charge for building and construction services**

**by QuickBooks**•120•Updated 2 hours ago

The domestic reverse charge (referred to as the reverse charge) is a major change to the way VAT is collected in the building and construction industry. It will be put into effect on 1 March, 2021.

This means that customers receiving the service will have to pay VAT due to HMRC instead of paying the supplier.

It will only apply to individuals or businesses registered for VAT in the UK (although it will not apply to consumers).

This will affect you if you supply or receive specified services that are reported under the Construction Industry Scheme (CIS).

[What do contractors need to do?](https://c34.qbo.intuit.com/app/clients#sh-collapse1)

If you're a contractor, you'll need to review all your contracts with sub-contractors to decide if the reverse charge will apply to the services you receive under your contracts. You'll need to notify your suppliers too.

[What do sub-contractors need to do?](https://c34.qbo.intuit.com/app/clients#sh-collapse2)

If you're a sub-contractor, you'll need to contact your customers to get confirmation from them if the reverse charge will apply, including confirming if the customer is an end-user or intermediary supplier.

[How does the domestic reverse charge affect you?](https://c34.qbo.intuit.com/app/clients#sh-collapse3)

HMRC understands that implementing the reverse charge may cause some difficulties. For more details on this change and to learn how it may impact your business, please [visit this HMRC page](https://www.gov.uk/guidance/vat-domestic-reverse-charge-for-building-and-construction-services#overview).

[What does this mean?](https://c34.qbo.intuit.com/app/clients#sh-collapse4)

This means that customers receiving the service will have to pay VAT due to HMRC instead of paying the supplier.

It will only apply to individuals or businesses registered for VAT in the UK (although it will not apply to consumers).

This will affect you if you supply or receive specified services that are reported under the Construction Industry Scheme (CIS).

The charge applies to standard and reduced-rate VAT services:

* for individuals or businesses who are registered for VAT in the UK.
* reported within the Construction Industry Scheme.

[How can QuickBooks help me?](https://c34.qbo.intuit.com/app/clients#sh-collapse5)

From 1 March 2021 QuickBooks will have two new VAT codes (20% and 5%) that customers will be able to use to account for the VAT reverse charge. Once the code has been selected and the transaction is saved, QuickBooks will automatically account for the reverse charge and the VAT will be reflected on your VAT return; you do not need to amend or adjust your return.

If you are an existing customer and have enabled VAT and CIS, then you do not need to set up anything. You will only need to enable and select the VAT code to apply it to invoices or bills.

Once the VAT code has been selected and the transaction is saved, QuickBooks will automatically account for the reverse charge and the VAT will be reflected on your VAT return; you do not need to amend or adjust your return.

[Where can I find the codes and how do I activate them?](https://c34.qbo.intuit.com/app/clients#sh-collapse6)

The codes will be available for activation on 1 March 2021 and onwards.

First make sure [VAT is setup](https://quickbooks.intuit.com/learn-support/en-uk/sales-taxes/set-up-and-edit-vat-settings-vat-codes-and-vat-rates/01/239371#M12) and [CIS is turned on](https://quickbooks.intuit.com/learn-support/en-uk/customer-lists/cis-in-quickbooks/01/239830#M1995) in QuickBooks. Then go to your Taxes page and follow these steps to activate the code in QuickBooks:

1. Go to **Edit VAT**.
2. Select **Edit Rates.**
3. Select the gear icon above VAT codes.
4. Click **Include Inactive**.
5. Use the toggle on the codes that you want to activate in QuickBooks.

[How to the codes affect the VAT return?](https://c34.qbo.intuit.com/app/clients#sh-collapse7)

Excluded from the VAT Flat Rate Scheme, the domestic reverse charge should be accounted for and reported the same way as transactions under the standard VAT scheme. Reach out to your accountant to see which scheme is most beneficial for you and your business.

Here’s an example of how an invoice for £100 on the standard rate VAT should be reporting in the next VAT Return:

**Transactions not under reverse charge:**

|  |  |  |
| --- | --- | --- |
|  | Flat Rate Scheme | Standard Scheme |
| Subcontractor(invoice issuer) | Box 1: Flat rate % applied to £120Box 6: £120 | Box 1: £20Box 6: £100 |
| Contractor(invoice receiver) | N/A | Box 4: £20Box 7: £100 |

**Transactions under reverse charge:**

|  |  |  |
| --- | --- | --- |
|  | Flat Rate Scheme | Standard Scheme |
| Subcontractor(invoice issuer) | Box 6: £100 | Box 6: £100 |
| Contractor(invoice receiver) | Box 1: £20Box 4: £20Box 7: £100 | Box 1: £20Box 4: £20Box 7: £100 |

[What do I need to add to my invoices?](https://c34.qbo.intuit.com/app/clients#sh-collapse8)

For invoices and other VAT documents, you need to include the following:

* Show all the information required on a VAT invoice (for example, VAT Registration Number, the date of service supplied and total amount due).
* Make a note on the invoice that clearly states the domestic reverse charge applies and that the customer is required to account for the VAT due.
* Clearly state the exact amount of VAT due under the reverse charge, or the rate of VAT if the VAT amount cannot be shown, but the VAT should not be included in the amount charged to the customer.
* Invoices for services subject to the reverse charge must include the reference ‘reverse charge’ according to the VAT regulations 1995.

Here are some examples of approved references that you can use:

* VAT Act 1994 Section 55A applies
* S55A VATA 94 applies
* Customer to pay the VAT to HMRC

[What about credit notes and adjustments?](https://c34.qbo.intuit.com/app/clients#sh-collapse9)

If you need to adjust the amount of VAT due, you can do so by reducing the total VAT due in the VAT Return for the period in which the credit note was issued.

Then adjust the amount of input VAT (this is VAT which is included in the price when you purchase VATable goods or services for your business) in the same VAT return in accordance with any input tax adjustment calculations that apply.

Remember to include the reduction in the value of the supply in the VAT Return for the period in which the credit note is issued.

**Note:** If the original supply was accounted for under a self-billing or authenticated receipts system then it will be for the customer rather than the supplier to generate the credit note, but otherwise the same procedure will apply.

[What happens if I have not submitted my VAT Return?](https://c34.qbo.intuit.com/app/clients#sh-collapse10)

If you notice a change in the amount of reverse charge services before the end of your accounting period, you can change your primary records of the sale (or purchase) and make sure the correct figure appears in the VAT account.

For those with credit notes spanning the transition period, check out [section 15 on the HMRC website](https://www.gov.uk/guidance/vat-reverse-charge-technical-guide#invoices) for more details.

[Do I need to pay additional charges to use CIS reverse charge for CIS in QuickBooks?](https://c34.qbo.intuit.com/app/clients#sh-collapse11)

No, there are no additional charges. Learn more about [QuickBooks and the plans we offer.](https://quickbooks.intuit.com/uk/pricing/)

[What if my construction project begins before the reverse charge but ends after it comes in?](https://c34.qbo.intuit.com/app/clients#sh-collapse12)

It will depend upon when the tax point is. In most cases, this will be the date of issue of the VAT Invoice, or the receipt of payment – whichever occurs first.

“Time of Supply” rules apply for prepayment. If a prepayment was made then it will be the date that the supplier received payment, and if there is no invoice or the invoice was issued 15 or more days before the work is finished then it will be the date that the work was finished.

If the tax point is on or after 1 March 2021 then the reverse charge should be applied. If the tax point is before that date, current VAT rules apply.

[What VAT rates does the reverse charge for construction services apply to?](https://c34.qbo.intuit.com/app/clients#sh-collapse13)

It applies to both standard and reduced-rate VAT supplies. It doesn’t apply to zero-rated supplies.

[What do I do if the VAT reverse charge for construction services doesn’t apply to the services I provide?](https://c34.qbo.intuit.com/app/clients#sh-collapse14)

Normal VAT rules will apply, which is to say, you should invoice for the VAT and account for it in your VAT return.

[What construction services does the VAT reverse charge apply to?](https://c34.qbo.intuit.com/app/clients#sh-collapse15)

[According to HMRC](https://www.gov.uk/guidance/vat-domestic-reverse-charge-for-building-and-construction-services#whentouse), you must use the reverse charge for the following services:

* Constructing, altering, repairing, extending, demolition or dismantling buildings or structures (whether permanent or not), including offshore installation services.
* Constructing, altering, repairing, extending, demolishing of any works forming, or planned to form, part of the land, including (in particular) walls, roadworks, power lines, electronic communications equipment, aircraft runways, railways, inland waterways, docks and harbours, pipelines, reservoirs, water mains, wells, sewers, industrial plant and installations for purposes of land drainage, coast protection or defence.
* Installing heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection systems in any building or structure.
* Internal cleaning of buildings and structures, so far as carried out in the course of their construction, alteration, repair, extension or restoration.
* Painting or decorating the inside or the external surfaces of any building or structure.
* Services which form an integral part of, or are part of the preparation or completion of the services described above - including site clearance, earth-moving, excavation, tunnelling and boring, laying of foundations, erection of scaffolding, site restoration, landscaping and the provision of roadways and other access works.

[What is exempt from the VAT reverse charge for construction services?](https://c34.qbo.intuit.com/app/clients#sh-collapse16)

Do not use the charge for the following services, when supplied on their own:

* Drilling for, or extracting, oil or natural gas.
* Extracting minerals (using underground or surface working) and tunnelling, boring, or construction of underground works, for this purpose.
* Manufacturing building or engineering components or equipment, materials, plant or machinery, or delivering any of these to site.
* Manufacturing components for heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection systems, or delivering any of these to site.
* The professional work of architects or surveyors, or of building, engineering, interior or exterior decoration and landscape consultants.
* Making, installing and repairing art works such as sculptures, murals and other items that are purely artistic signwriting and erecting, installing and repairing signboards and advertisements.
* Installing seating, blinds and shutters.
* Installing security systems, including burglar alarms, closed circuit television and public address systems.

[Does the VAT reverse charge for construction services apply to work provided for home/domestic individuals?](https://c34.qbo.intuit.com/app/clients#sh-collapse17)

No. It only applies to VAT registered businesses registered for the CIS.
If the services are provided for non-VAT-registered individuals or other kinds of ordinary non-business individuals then standard VAT rules apply.

[Is Making Tax Digital for VAT affected by the VAT reverse charge for construction?](https://c34.qbo.intuit.com/app/clients#sh-collapse18)

Making Tax Digital (MTD) only changes how businesses submit their VAT returns and how VAT is accounted for – both of which must be done digitally using functional compatible software and hence it has no direct impact on the VAT reverse charge other than the fact any reverse charges must be recorded digitally, along with the rest of your VAT.

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