



VAT Domestic Reverse Charge



*Understanding the VAT domestic reverse charge
for construction businesses*

What is the VAT domestic reverse charge?

If you work in construction, the VAT domestic reverse charge changes who pays VAT to HMRC. Instead of you charging VAT on your invoice, your customer might have to account for it themselves. It only applies in certain situations mainly between VAT-registered contractors and subcontractors working under CIS.

The VAT domestic reverse charge is a rule designed to stop VAT fraud in the building and construction industry. It applies when both the supplier and the customer are VAT registered and working under CIS. Under the reverse charge, the customer (contractor) not the supplier (subcontractor) is responsible for reporting the VAT to HMRC.

That means:

1. You don't charge VAT on your invoice.
2. Your customer records both the input and output VAT on their VAT return instead.
3. You still list the amount of VAT that would have been charged, but mark the invoice as 'VAT domestic reverse charge applies'.

When does the reverse charge apply?

You must apply the VAT domestic reverse charge if:

- The work falls under the Construction Industry Scheme (CIS).
- The service is standard or reduced rated for VAT.
- The customer is VAT registered.

- The customer is registered for CIS.
- The customer is not an end user (i.e. they will pass the work on as part of another construction project).

If any of the above don't apply, use normal VAT rules instead.

Who counts as an 'end user'?

An end user is a business or individual who uses the building or construction work for themselves and doesn't make further supplies of those services.

Example: If you're a subcontractor working for a main contractor, the reverse charge usually applies. But if you're hired directly by a homeowner, landlord, or property developer to do work on their own property, normal VAT rules apply.

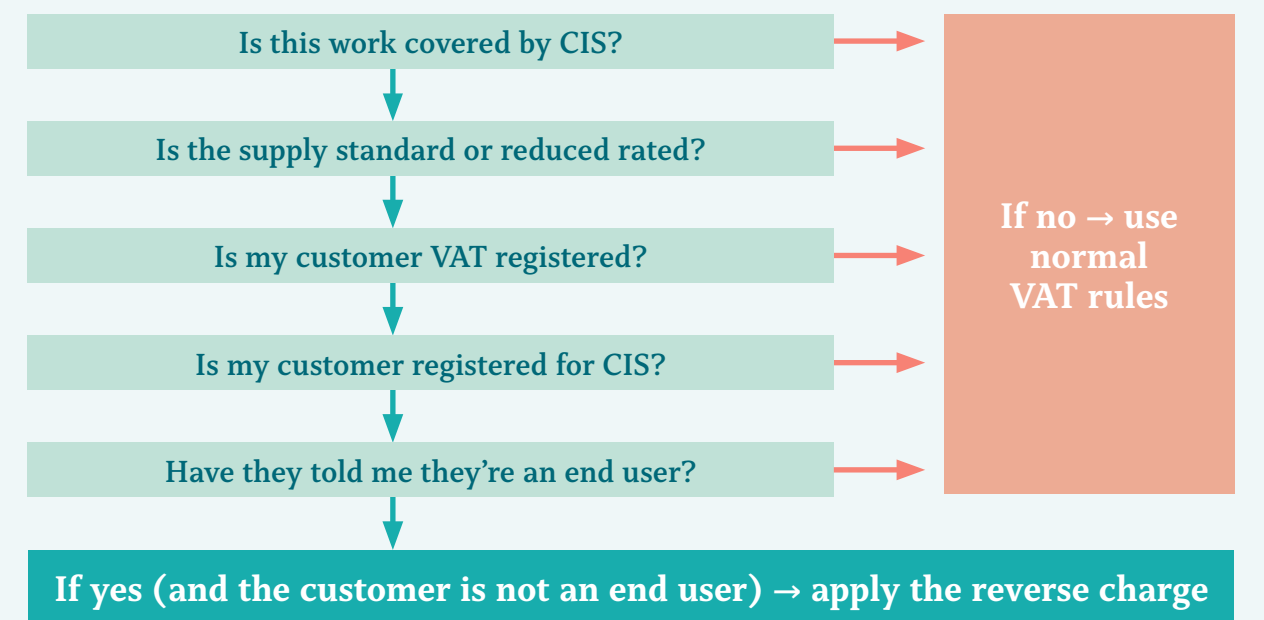
What should you show on your invoice?

1. State 'VAT domestic reverse charge applies' or 'Customer to account for VAT to HMRC'.
2. Show the VAT rate and amount (but don't include it in the total).
3. Include both your and your customer's VAT numbers.



Step-by-step checklist

Before invoicing, ask:



Example: A subcontractor installs wiring for a VAT-registered main contractor under CIS. Because both are VAT registered and it's part of a larger project (not the final user), the reverse charge applies. The subcontractor invoices for £10,000 and writes: 'VAT domestic reverse charge applies: customer to account for VAT to HMRC (20%)'. The main contractor records £2,000 output VAT and £2,000 input VAT on their VAT return.

Helpfully, most bookkeeping software is set up to deal with the VAT domestic reverse charge at the click of a button.

Who is responsible?

It is both the supplier and the customers joint responsibility to ensure the VAT domestic reverse charge has been applied correctly. Customers therefore need to check invoices received from suppliers carefully, to make sure they have been invoiced correctly.

Need help understanding the VAT domestic reverse charge?

It can be confusing to get this right, especially if you're juggling multiple clients and projects. We help construction business owners set up clear VAT systems and avoid HMRC mistakes, so you can stay focused on growing your business.

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