

## Domestic Reverse Charge VAT for Construction Services

From 1<sup>st</sup> March 2021 building and construction services companies will be required to process invoices using a new domestic reverse charge VAT mechanism. Full guidance for this can be found on the HMRC website here: <https://www.gov.uk/guidance/vat-domestic-reverse-charge-for-building-and-construction-services>. To find out whether this affects you or not please read this guidance carefully and speak to your tax advisor if you have any questions.

The system has been fully updated to handle the processing of domestic reverse charge VAT but this will require both this system and your back office accounts system to be setup accordingly. Full guidance for each back-office accounts system is detailed below – please read the section relevant to you.

### Report Layouts

In addition to the program enhancements to support reverse charge VAT, several report layouts (especially your Sales Invoice and Contract Certificate Invoice layouts) need to be updated to be in accordance with this new legislation so that they meet the legal requirements. See the section titled ‘VAT documents’ towards the end of HMRC’s guidance document for more information about this.

All our standard layouts have therefore been updated in accordance with this. Those wishing to update their layouts themselves using Crystal Reports Designer can use these as a guide. Here is a list of the standard reports that have been affected by this legislation:

- Sales Invoice (SalesInvoice.rpt)
- Credit Note (SalesCreditNote.rpt)
- Application for Payment (ContractValuation\_Application.rpt)
- Historical Application for Payment (ContractValuationHistory\_Application.rpt)
- Consolidated Application for Payment (ContractValuationConsolidation\_Application.rpt)
- Contract Sales Invoice (ContractCertificate\_Invoice.rpt)
- Historical Contract Sales Invoice (ContractCertificateHistory\_Invoice.rpt)
- Consolidated Contract Sales Invoice (ContractCertificateConsolidation\_Invoice.rpt)
- Subcontractor Order (SubcontractorOrder.rpt)
- Subcontractor Payment Certificate (CISPaymentCertificate.rpt)
- Subcontractor Statement (CISSubcontractorStatement.rpt)
- Subcontractor Self Bill Invoice (CISSelfBillInvoice.rpt)
- Subcontractor Retention Release Self Bill Invoice (CISRetentionSelfBillInvoice.rpt)

### Reverse Charge VAT Implementation

Reverse charge VAT is applied to invoices based on the settings picked up from the VAT Codes table, i.e. VAT Codes need to be specifically setup to handle reverse charge VAT. The actual figures posted to the VAT Return when reverse charge VAT is applied are as follows:

- **Sales:** The VAT that your Customer is due to pay on your behalf is calculated on all Sales Invoices, Contract Internal Valuations, Contract Applications & Contract Certificates so it can be displayed on invoice layouts, but the VAT value is not added to the invoice total. These VAT values are essentially only notional figures and ultimately a zero-rated invoice is posted into the Sales Ledger. This will therefore only end up affecting Box 6 (Value of Sales) on the VAT Return.
- **Purchasing & Subcontractors:** The VAT that you (acting as the Customer) are due to pay on your Suppliers/Subcontractors behalf is calculated on all Purchase Invoices, Subcontractor

Internal Valuations, Subcontractor Applications, Subcontractor Certificates, Subcontractor Invoices and Subcontractor Payments (in the case of Deferred VAT on Subcontractor Certificates), but the VAT value is not added to the invoice total as it is not due to be paid to the Supplier/Subcontractor. When these transactions are posted into the back-office accounts system (via the Purchase Ledger for Purchase Invoices or as Nominal Journals for Subcontractor transactions), in addition to the usual postings affecting Box 4 (VAT on Purchases) & Box 7 (Value of Purchases) on the VAT Return, it also posts the VAT value to Box 1 (VAT on Sales).

After installing this upgrade, please ensure that you re-run the 'System Control -> Ledger Links -> Ledger Synchronisation -> Import VAT Codes' routine to make sure the latest VAT settings are imported from your back-office accounts system.

The system also has two new settings to control where the VAT values (input and output) of reverse charge VAT are posted. These are setup in 'Subcontractors -> Subcontractor Setup -> Subcontractor Settings' on the 'Reverse Charge VAT' tab:

Subcontractor Settings									
General	Orders	Timesheets	Application	Processing	Payment	Nominal	Reverse Charge VAT	Notes	SMS
Reverse Charge VAT Purchases (Input) Nominal Code:						2201	...		Purchase Tax Control Account
Reverse Charge VAT Sales (Output) Nominal Code:						2200	...		Sales Tax Control Account

If neither of these are specified, the system will use the 'Subcontractors VAT In' account specified on the 'Nominal' tab.

Please note that as all supported back office accounts systems have implemented reverse charge VAT differently when posting nominal journals. Reverse charge VAT Codes are not accessible out with the sales, purchase and subcontractor modules, however, as the subcontractors module posts all transactions to the back office via nominal journals, the postings generated differ based on the back office type selected. The only time this could cause a problem is when migrating from one of these systems to another; in this scenario, please make sure all pending postings are updated before migrating.

### **Updating Existing VAT Codes**

Customer and Supplier VAT Codes can be changed within Contract Costing as normal (which in turn will automatically update the back office) or can be changed within the back office and re-imported.

Subcontractor VAT Codes can also be changed individually on both the Subcontractor and Subcontractor Order. However, we have also added two new 'Bulk Change VAT Code' routines accessible via an 'Operations' button on the Subcontractor and Subcontractor Order lists – just filter the list to obtain the subset you are looking for and run the routine. Changing the default on the Subcontractor will also allow you to specify options to update existing Orders.

Subcontractor Orders now pick up their default VAT Code from a new 'Default Subcontractor VAT Code' field added to the Job Sales Phase 'Analysis' tab. If this is empty then the default VAT Code from the Subcontractor will be used, followed by the system wide one setup in 'Subcontractor Settings'. To update the default Sales or Subcontractor VAT Codes on Job Sales Phases please use the Job Sales Phase import routine, which can be used to update existing records.

## Sage 200

In Sage 200, VAT Codes are setup and configured in the 'Accounting System Manager -> Settings -> VAT Rates' menu. All versions since Sage 200c v2019 Summer Enhancements have had support for domestic reverse charge VAT with the addition of the 'CIS Reverse Charge Sales' and 'CIS Reverse Charge Purchases' options in the 'EC Terms' drop-down list. This allows multiple different VAT Codes to be setup with different rates for both sales and purchases reverse charge postings.

This not to be confused with the previously existing 'Reverse charge sales' and 'Reverse charge purchase' options which have now been renamed by appending '(Mobiles)' to their name. Only one sales and one purchase VAT Code could be setup with these types making them incompatible with CIS RC VAT regulations which require multiple RC VAT rates.

By default, new company datasets are not created with any reverse charge VAT Codes so these will need to be setup accordingly:

Code	Name	VAT Return	Terms	%	Input Code	Output Code
0	Exempt	<input checked="" type="checkbox"/>	Not Applicable	0.00	15100	26100
1	Std Rate	<input checked="" type="checkbox"/>	Not Applicable	20.00	15100	26100
2	Zero Rated	<input checked="" type="checkbox"/>	Not Applicable	0.00	15100	26100
4	EC Zero SL	<input checked="" type="checkbox"/>	Sales Goods & Related Services	0.00	15100	26100
5	EC Service	<input checked="" type="checkbox"/>	Sales Non-Related Services	0.00	15100	26100
6	EC Service	<input checked="" type="checkbox"/>	Purchase Non-Related Services	0.00	15100	26100
7	EC Zero PL	<input checked="" type="checkbox"/>	Purchase Goods & Related Services (Intra EU)	0.00	15100	26100
8	EC Std PL	<input checked="" type="checkbox"/>	Purchase Goods & Related Services (Intra EU)	20.00	15100	26100
9	Out of Scope	<input type="checkbox"/>	Not Applicable	0.00	15100	26100
10	UK RC VAT Purchases 20%	<input checked="" type="checkbox"/>	CIS Reverse Charge Purchases	20.00	15100	26100
11	UK RC VAT Sales	<input checked="" type="checkbox"/>	CIS Reverse Charge Sales	20.00	15100	26100
12	UK RC VAT Purchases 5%	<input checked="" type="checkbox"/>	<div style="border: 1px solid black; padding: 2px;">           CIS Reverse Charge Purchases            Not Applicable            Sales Goods &amp; Related Services            Sales Non-Related Services            Purchase Goods &amp; Related Services (Intra EU)            Purchase Non-Related Services            Reverse Charge Sales (Mobiles)            Reverse Charge Purchases (Mobiles)            CIS Reverse Charge Sales            CIS Reverse Charge Purchases         </div>	20.00	15100	26100

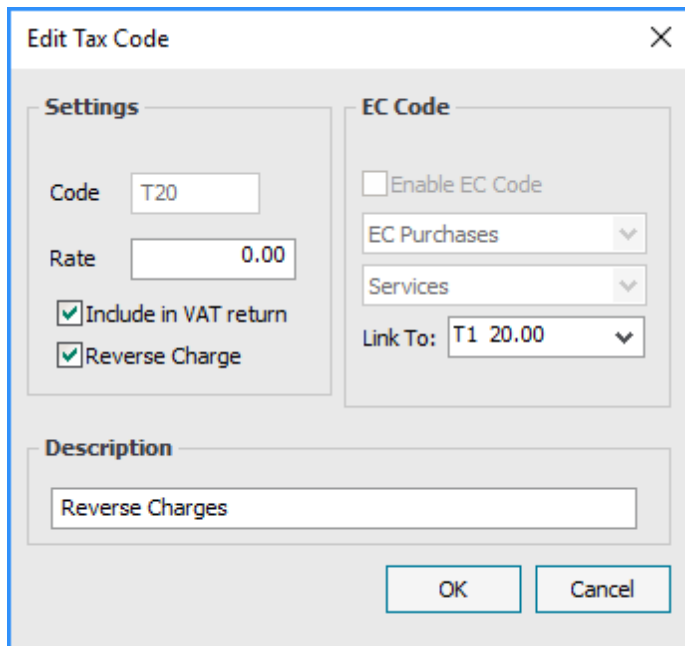
For each VAT rate you require you will need to create two new reverse charge VAT Codes, one for sales and the other for purchases. For example, if in addition to 'Standard Rate' VAT you also need to reverse charge 'Reduced Rate' VAT, you will end up creating four new VAT Codes. There is no need to create a reverse charge VAT Code for zero rated goods – these can just be posted using the standard zero rate VAT Code (VAT Code 2 – 'Zero Rated' in the Sage 200 default setup).

### Subcontractor Nominal Postings

When a nominal journal is posted to Sage 200, no automatic entries are made on the VAT return when a Reverse Charge Purchase VAT Code is used. The nominal postings we generate to the Input Goods, Input VAT and Output VAT Nominal Accounts therefore all specify a VAT Code against them.

## Sage 50 Accounts

In Sage 50 Accounts, VAT Codes are setup and configured in the 'Settings -> Configuration' menu on the 'Tax Codes' tab. All versions since v15/2009 have had support for reverse charge VAT with the addition of the 'Reverse Charge' flag on the 'Edit Tax Code' screen and new company datasets get assigned VAT Code T20 as the default reverse charge VAT Code:



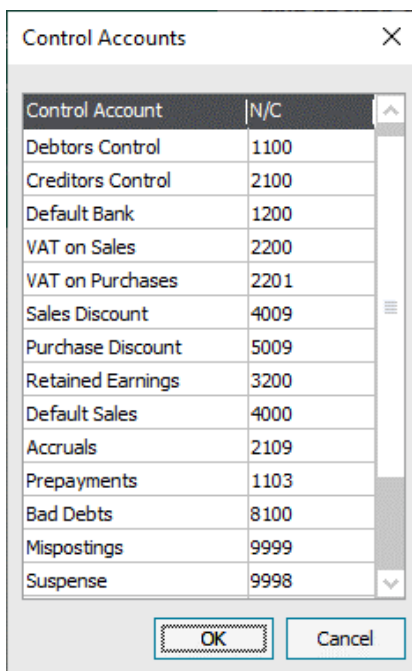
The way Sage have made this work is by making use of the 'Link To' field to specify which rate should be used for the reverse charge. It is important when creating new VAT Codes that the 'Rate' field remains at zero and the 'Link To' field is specified instead. If you need to reverse charge 'Reduced Rate' VAT then you will need to create a new VAT Code linked to the appropriate VAT Code (T5 – 'Lower Rate' in the Sage 50 default setup). There is no need to create a reverse charge VAT Code for zero rated goods – these can just be posted using the standard zero rate VAT Code (T0 – 'Zero rated' in the Sage 50 default setup).

### Subcontractor Nominal Postings

When a nominal journal is posted to Sage 50 Accounts, any **GOODS** value posted against a Reverse Charge Purchase VAT Code is automatically used to calculate the corresponding VAT value (based on the VAT Rate entered against that VAT Code) which is then entered into both Box 4 (VAT on Purchases) and Box 1 (VAT on Sales) on the VAT Return. The nominal postings we generate to both the Input VAT and Output VAT Nominal Accounts therefore do not specify a VAT Code to post them against; only the Input Goods does.

## Additional Points to note for Sage 50 Users

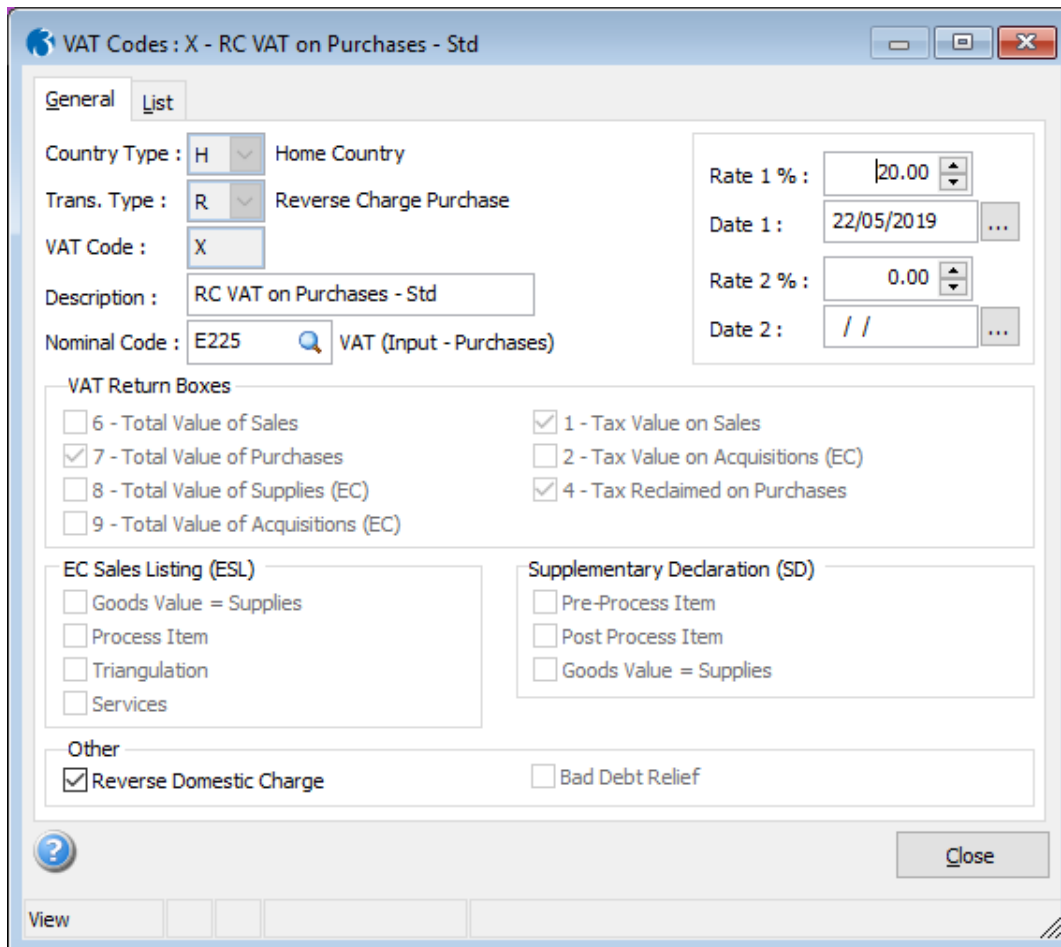
1. As Sage 50 Accounts will always recalculate the reverse charge VAT value based on the goods value of the invoice (this applies to both Purchase Invoice and Subcontractor Invoices/Certificates), so there is no point in adjusting the value of VAT on any of these postings within the system (i.e. the Purchase Invoice VAT Split screen).
2. Prior to Sage 50 Accounts v26/2020, their API does not expose the 'Reverse Charge' flag on the 'Edit Tax code' screen so we must use an alternate method to identify reverse charge VAT Codes. What they do expose is the 'Link To' and EC VAT related fields, so we can ignore all EC VAT codes and use the 'Link To' field to determine when a VAT Code links to a different code. The limitation with this method is that VAT Code T0 cannot be used for reverse charge VAT as this is the default for all other non-reverse charge VAT Codes and we have no way of identifying whether one has been specified or has just defaulted to T0. As most companies use the Sage 50 Accounts default VAT Code setup, this is unlikely to be a problem as T0 is 'Zero rated' and therefore would not apply to reverse charge VAT. The 'Reverse Charge' flag was exposed to their API in v26/2020 so this issue does not exist from that version onwards.
3. In order for the VAT element of these Sage 50 Accounts nominal journal postings to be correctly identified as VAT, the reverse charge nominal accounts setup on the 'Reverse Charge VAT' tab of the 'Subcontractor Settings' screen should correspond to the 'VAT on Purchases' and 'VAT on Sales' accounts setup in the 'Settings -> Control Accounts' screen within Sage 50 Accounts:



Control Account	N/C
Debtors Control	1100
Creditors Control	2100
Default Bank	1200
VAT on Sales	2200
VAT on Purchases	2201
Sales Discount	4009
Purchase Discount	5009
Retained Earnings	3200
Default Sales	4000
Accruals	2109
Prepayments	1103
Bad Debts	8100
Mispostings	9999
Suspense	9998

## Pegasus Opera II/3

In Pegasus Opera, VAT Codes are setup and configured in the 'Administration -> VAT Processing -> VAT Codes' menu. Only Opera 3 (2.61.00) or higher and Opera II (7.81.00) or higher have an Opera Importer that is compatible with receiving reverse charge VAT postings:



**VAT Codes : X - RC VAT on Purchases - Std**

General List

Country Type : H Home Country

Trans. Type : R Reverse Charge Purchase

VAT Code : X

Description : RC VAT on Purchases - Std

Nominal Code : E225 VAT (Input - Purchases)

Rate 1 % : 20.00

Date 1 : 22/05/2019

Rate 2 % : 0.00

Date 2 : //

**VAT Return Boxes**

6 - Total Value of Sales

7 - Total Value of Purchases

8 - Total Value of Supplies (EC)

9 - Total Value of Acquisitions (EC)

1 - Tax Value on Sales

2 - Tax Value on Acquisitions (EC)

4 - Tax Reclaimed on Purchases

**EC Sales Listing (ESL)**

Goods Value = Supplies

Process Item

Triangulation

Services

**Supplementary Declaration (SD)**

Pre-Process Item

Post Process Item

Goods Value = Supplies

**Other**

Reverse Domestic Charge

Bad Debt Relief

Close

View

For each VAT rate you require you will need to create two new reverse charge VAT Codes, one for sales and the other for purchases. For example, if in addition to 'Standard Rate' VAT you also need to reverse charge 'Reduced Rate' VAT, you will end up creating four new VAT Codes. There is no need to create a reverse charge VAT Code for zero rated goods – these can just be posted using the standard zero rate VAT Code (VAT Codes H/S/Z and H/P/Z for sales and purchases respectively in the Opera default setup).

All reverse charge VAT Codes should be setup as Country Type 'H – Home Country' and either Transaction Type 'V – Reverse Charge Sale' for sales; or 'R – Reverse Charge Purchase' for purchases. In addition to this, the 'Reverse Domestic Charge' setting needs to be ticked so the Opera Importer know to bypass the de-minimis value check.

### Subcontractor Nominal Postings

When a nominal journal is posted to Pegasus Opera, any VAT value posted against a Reverse Charge Purchase VAT Code is automatically posted to both Box 4 (VAT on Purchases) and Box 1 (VAT on Sales) on the VAT Return. The nominal postings we generate to the Output VAT Nominal Account therefore do not specify a VAT Code to post them against; only the Input Goods and Input VAT do.

## Impact on Reverse Charge VAT in the Republic of Ireland

The implementation of reverse charge VAT for the UK has also has a knock on effect for users in the Republic of Ireland. Reverse charge VAT was implemented for the construction industry in the Ireland over 12 years ago, before any reverse charge VAT legislation came into effect in the UK. The implementation we therefore had to come up with was not able to make use of reverse charge VAT handling built into any of the back-office accounts systems. The Irish implementation is also slightly different in that invoices produced in Ireland should not have any indication of what VAT rates or values apply and that this is up to the principle contractor to determine.

We therefore came up with a way for the system to recognise a single, specific zero-rated sales VAT Code as 'Reverse Charge' for sales transactions; and for other standard rated purchase VAT Codes to be able to be marked as 'Reverse Charge' for Subcontractor transactions. With this new release, the need for a separate way of handling reverse charge VAT for Subcontractors has been removed. These codes should be adjusted in the back-office accounts system to be officially recognised as reverse charge VAT Codes and the 'System Control -> Ledger links -> Ledger Synchronisation -> Import VAT Codes' should be run to adjust the settings accordingly. The now obsolete 'Subcontractors -> Subcontractors Setup -> Select Reverse Charge VAT codes' routine has therefore been removed.

On the sales side, however, the 'Irish Reverse Charge VAT' tab on the 'Sales -> Sales Setup -> Sales Invoice Settings / Contract Sales Settings' screens remain in place (still only visible when the default scheme in the Subcontractors module is set to 'RCT'). Although Irish companies can still setup Reverse Charge Sales VAT Codes in Pegasus Opera and Sage 200 (as described above), this is not possible in Sage 50 Accounts (as highlighted in the 'Additional Points To Note For Sage 50 Users' section above), this option therefore remains to allow a zero rated VAT Code to be considered as reverse charge VAT.