

# CIS – Domestic Reverse Charge.

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Sage



# Housekeeping

The image shows a presentation slide for 'Sage 50 Accounts Budgets' by Jacquie Wilson. The slide features a photo of a woman in a kitchen setting working on a laptop. A 'Questions' sidebar is overlaid on the right side of the slide, containing several icons and a text input field. Three green arrows point from text boxes to specific icons in the sidebar: 'Automatically Muted' points to the microphone icon, 'Submit your questions' points to the question mark icon, and 'Download Handouts' points to the document icon. The sidebar also includes an 'Exit' button at the bottom left and a 'Send' button at the bottom right. The text 'Want answers?' is visible in the sidebar with a dashed arrow pointing to the 'Ask the staff a question' input field.

Automatically Muted

Submit your questions

Download Handouts

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**Questions**

# Poll

Are you.....

- **A subcontractor?**
- **A main contractor?**
- **Both a main contractor and a subcontractor?**

# Notional VAT



# Notional VAT.

Reverse charge will apply notional VAT on the VAT return for **supplier invoices**

Notional VAT affects both sales and purchase boxes, therefore no Overall VAT is due

Notional VAT allows HMRC to analyse the amount of VAT had normal VAT rules applied

Our products has features to account for this notional VAT automatically


VAT Return		
01 Jan 19 to 31 Mar 19		
VAT due on sales and other outputs	1	£5,403.67
VAT due on acquisitions from other EC Member States	2	£0.00
Total VAT due (the sum of boxes 1 and 2)	3	£5,403.67
VAT reclaimed on purchases and other inputs (including acquisitions from the EC)	4	£220.00
<b>Net VAT to be paid to Customs or reclaimed by you (difference between boxes 3 and 4)</b>	<b>5</b>	<b>£5,183.67</b>
Total value of sales and all other outputs excluding any VAT	6	£27,018
Total value of purchases and all other inputs excluding any VAT	7	£3,480
Total value of all supplies of goods and related costs, excluding any VAT, to other EC member states	8	£0
Total value of acquisitions of goods and related costs excluding any VAT, from other EC member states	9	£0

# DRC on Supplier invoices



# Incoming Supplier invoice where DRC applies.

The subcontractor / supplier has invoiced us for work they have completed for us



**SUBBIE & SONS**  
BUILDING SERVICES

INVOICE

Description	Net	VAT
Labour	£55	£0
Materials	£55	£0
Reverse Charge Customer to pay output tax of £22 to HMRC		
<b>Total</b>	<b>£110</b>	<b>£0</b>

They have indicated that the supplies are subject to reverse charge

The Notional VAT has been calculated but not added to the total of the invoice



# Processing the incoming DRC supplier invoice.

A/C*	Attach	Date*	Due On*	Ref	Ex.Ref	N/C*	Department*	Project Ref	Cost Code	Details	Net	T/C*	VAT	Amount Paid	Pay Date	Bank A/C	Pay Ref
SUBBIE	+	09/12/2021	08/01/2022			6000	0				55.00	T21	0.00	0.00	//		
SUBBIE	+	09/12/2021	08/01/2022			5000	0				55.00	T21	0.00	0.00	//		

- T21 is used for Domestic Reverse Charge at 20%
- T26 is used for Domestic Reverse Charge at 5%
- If these codes have been previously used then the next available codes will be used
- Using these codes will result in no VAT being picked up in the VAT column the Notional VAT will be picked up at the point of VAT return Calculation.

# Impact on the VAT return.

- Using DRC on a supplier invoice applies notional VAT
- The VAT value of the invoice impacts both boxes 1 and 4.
- These cancel one another out meaning no overall impact on the amount owed to or from HMRC
- This serves the purpose of reporting to HMRC what would have been owed under normal circumstances.
- The NET element impacts box 7 as normal

VAT Return		Domestic Reverse charge	
01/12/2021 - 31/12/2021			
VAT due in the period on sales and other outputs	1	22.00	
VAT due in the period on acquisitions of goods made in Northern Ireland from EU Member States	2	0.00	
Total VAT due (sum of boxes 1 and 2)	3	22.00	
VAT reclaimed in the period on purchases and other inputs (including acquisitions in Northern Ireland from EU member states)	4	22.00	
Net VAT to pay to HMRC or reclaim	5	0.00	
Total value of sales and all other outputs excluding any VAT	6	0.00	
The total value of purchases and all other inputs excluding any VAT	7	110.00	
Total value of dispatches of goods and related costs (excluding VAT) from Northern Ireland to EU Member States	8	0.00	
Total value of acquisitions of goods and related costs (excluding VAT) made in Northern Ireland from EU Member States	9	0.00	

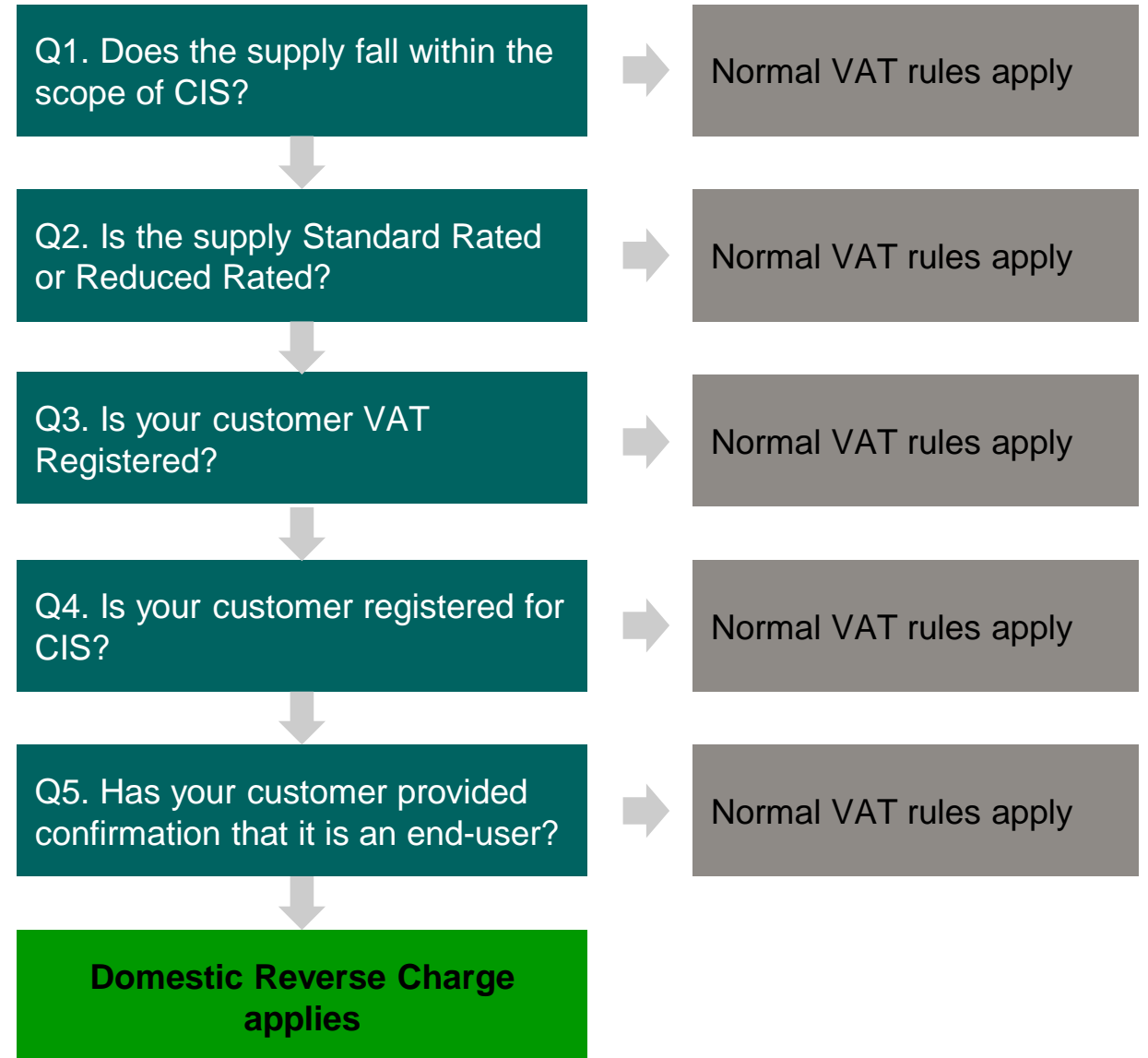
# DRC on Customer invoices



# Outgoing customer invoice where DRC applies.

The customer you are invoicing for your services is:

- VAT Registered
- Not the end-users in the supply chain
- Receiving services subject to the Construction industry scheme



# Processing a DRC customer invoice.

Service Invoice

Clear form | Insert row (F7) | Remove row (F8) | Copy cell above (F6) | View item (F3) | Pay by card | Cash sale | Memorise | Recall | Delete | Quick print | Print | Send to Excel | View Online

Details | Improve your cash flow with Direct Debits and Card Payments. [Find out more](#)

Order  
Footer  
Payment

Main contractor  
Street 1  
Street 2  
Town  
Postcode

Type: Invoice | Inv.No.: <AutoNumber>  
Format: Service | Order No:  
Date\*: 09/12/2021 | Due On\*: 08/01/2022  
A/C\*: MAIN | Item No.: Item 2 of 2

Customer Order No.:

Details	Amount £	Net £	VAT £
Labour	100.00	100.00	0.00
Materials	0.00	0.00	0.00

Deduction	Description	Net £
Net Value Discount		0.00

Total GBP £: 100.00 | 0.00  
Carriage GBP £: 0.00 | 0.00  
Gross GBP £: 100.00

Less Deposit GBP £: 0.00  
Amount Due GBP £: 100.00

Save | Close

Edit Item Line

Details

Description: Materials  
Details: Materials  
Order Reference: | Order Line Reference: 0

Values

Qty/Hours: 1.00 | Discount %: 0.0000 | Net GBP £: 0.00  
Unit Price GBP £: 100.00 | Disc. GBP £: 0.00 | VAT GBP £: 0.00

Posting Details

Nominal\*: 4000 | Tax Code: T21 0.00 | Department: 0 | Default  
Negative line:  Make negative

Additional Information

Line Information: | Project Details: Project: |

Calc. Net | Discounts | OK | Cancel

# Processing a DRC customer invoice.

- It is important to remember that the invoice must clearly state the transaction is subject to reverse charge
- Our standard layouts have been configured to automatically display reverse charge supply on invoices.
- It will also calculate the VAT without adding to the overall total of the invoice.

Domestic Reverse charge  
Street 1  
Street 2  
Town  
Postcode

Tel:

VAT Reg No:

Main contractor  
Street 1  
Street 2  
Town  
Postcode

INVOICE Page 1

Invoice No	1
Invoice Date	09/12/2021
Order No	
Account Ref	MAIN

\* Indicates REVERSE CHARGE SUPPLY - Customer to pay VAT to HMRC

Quantity	Description	Unit Price	Net Amt	VAT %	VAT
1.00	* Labour	100.00	100.00	0.00	0.00
1.00	* Materials	0.00	0.00	0.00	0.00

Customer to pay output tax of £20.00 to HMRC

Total Net Amount	£	100.00
Carriage Net	£	0.00
Total Tax Amount	£	0.00
Invoice Total	£	100.00

# Processing a DRC customer invoice.

- With Sales invoices We are passing the liability on to our customer therefore DRC invoices will not impact box 1 of the VAT return.
- For sales invoices and sales credits, using reverse charge will impact box 6 with the net amount only

VAT Return		Domestic Reverse charge	
01/12/2021 - 31/12/2021			
VAT due in the period on sales and other outputs	1	0.00	
VAT due in the period on acquisitions of goods made in Northern Ireland from EU Member States	2	0.00	
Total VAT due (sum of boxes 1 and 2)	3	0.00	
VAT reclaimed in the period on purchases and other inputs (including acquisitions in Northern Ireland from EU member states)	4	0.00	
Net VAT to pay to HMRC or reclaim	5	0.00	
Total value of sales and all other outputs excluding any VAT	6	100.00	
The total value of purchases and all other inputs excluding any VAT	7	0.00	
Total value of dispatches of goods and related costs (excluding VAT) from Northern Ireland to EU Member States	8	0.00	
Total value of acquisitions of goods and related costs (excluding VAT) made in Northern Ireland from EU Member States	9	0.00	

# Useful information

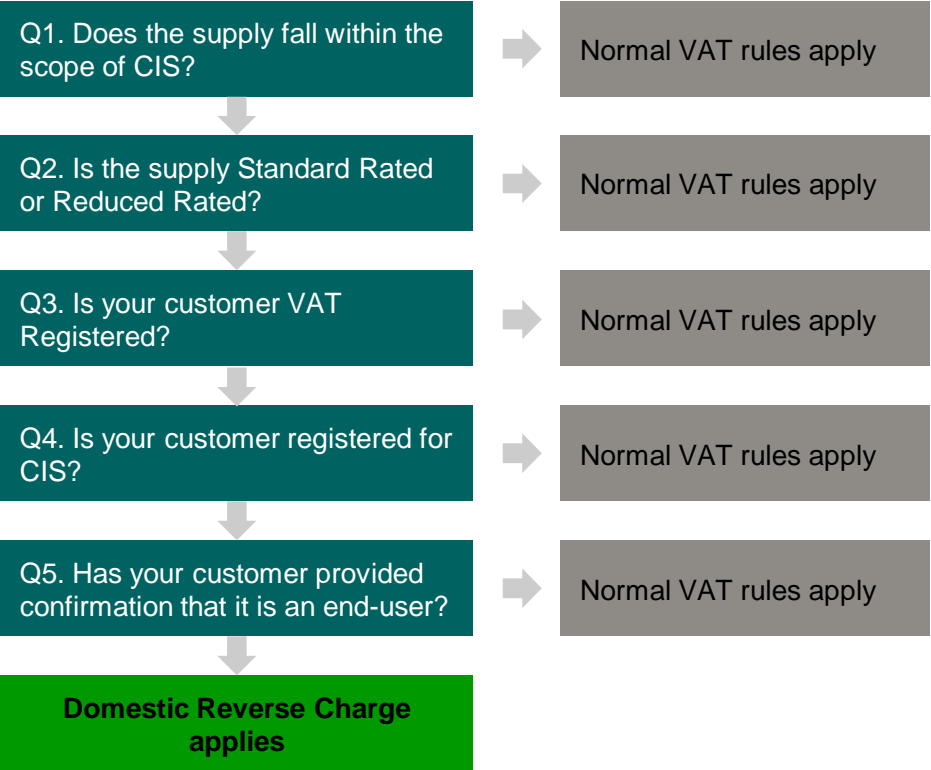




# HMRC Flowcharts.

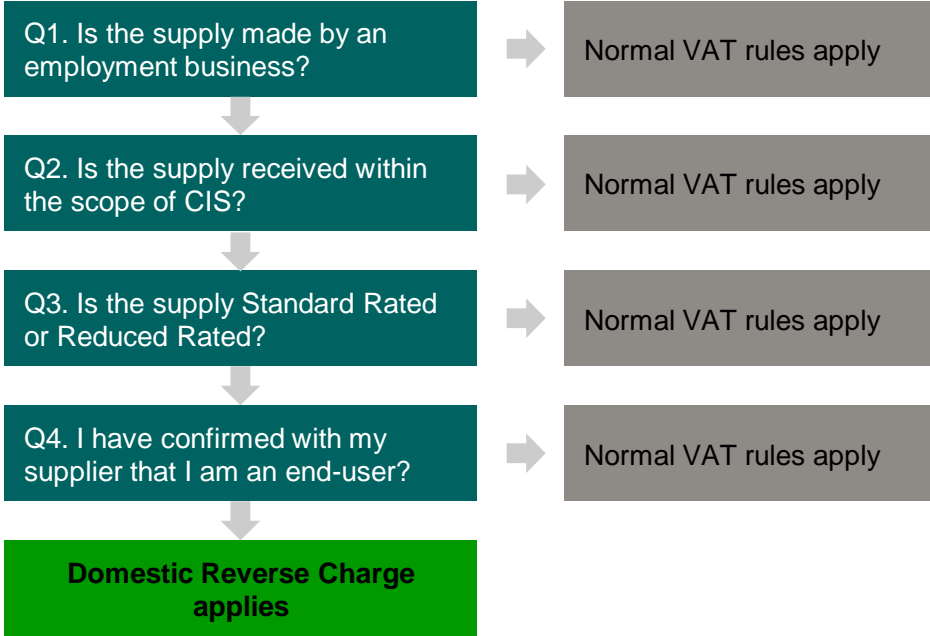
## Annex 1

Use this flowchart to see how you would decide whether to apply normal VAT rules or apply the Domestic Reverse Charge. Do not use it for services supplied by employment businesses.



## Annex 2

This flowchart is to help businesses receiving building and construction services check whether normal VAT rules or Domestic Reverse Charge.



<https://www.gov.uk/guidance/vat-reverse-charge-technical-guide>

# Frequently Asked Questions.

## What if my invoice contains materials AND labour?

If materials are used as part of the supply of services then the reverse charge will apply. This is different to the CIS scheme where materials are specifically excluded from calculations.

There can be exceptions to this such as the 5% disregard so please check the HMRC guidance on this

## What if I use VAT Cash Accounting or Flat Rate VAT?

Transactions subject to the reverse charge should be excluded from the cash accounting scheme and from the flat rate scheme. They will be treated under standard rules.

Users of the Flat Rate Scheme will have to consider if it's still beneficial to them bearing in mind that under the scheme they cannot recover VAT incurred on purchases of materials, overheads and so on.

## What if my project spans the 1<sup>st</sup> of March?

For invoices issued for supplies that span the 1<sup>st</sup> March 2021, the tax point needs to be considered

- If the tax point falls before 1<sup>st</sup> March 2021 then normal VAT rules apply
- If the tax point falls after 1<sup>st</sup> March 2021 then Domestic Reverse Charge rules will apply
- To understand the tax point rules see [here](#)

<https://www.gov.uk/guidance/vat-reverse-charge-technical-guide#employment-businesses-supplying-construction-workers.gov.uk>

<https://www.gov.uk/vat-record-keeping/time-of-supply-or-tax-point>

<https://www.gov.uk/guidance/vat-reverse-charge-technical-guide>

# HMRC Flowcharts.

## Do I need to use the CIS module for Domestic Reverse charge?

No, you do not need to be using the Sage 50 CIS module to be able to process Domestic reverse charge. Continue to process as you are now but use the new tax codes where Domestic reverse charge applies

## What Nominal codes do I use for Domestic Reverse charge?

You do not need to change the nominal codes you currently use, the Domestic Reverse charge relies on the New DRC tax codes to be recorded correctly.

## Does Domestic Reverse charge apply if I use and agency?

'Employment businesses supplying Construction workers re, for VAT purposes, treated as supplying staff rather than building and constructions staff.

Supplies by employment businesses are not subject to the reverse charge, even if those supplies are within the scope of CIS'

<https://gb-kb.sage.com/portal/app/portlets/results/viewsolution.jsp?solutionid=200427112542346>

<https://www.gov.uk/guidance/vat-reverse-charge-technical-guide>

# Summary.

- Use the HMRC flowcharts to Establish where DRC applies
- Where a transaction is subject to DRC T21 can be used for standard rated items and T26 for reduced rate items.
- If Domestic reverse charge is applied to an invoice for labour any goods attached must also be treated under domestic reverse charge unless they fall into the 5% rule.
- If you think a supplier has invoiced incorrectly you need to reject the invoice and ask for it to be reissued correctly.
- You do not need to be using the CIS module for Domestic reverse charge.

## Useful links

[Construction Industry Scheme \(CIS\) Reverse Charge \(sage.com\)](#)

[Show the Domestic Reverse Charge wording on invoices and credit notes \(sage.com\)](#)

[CIS Reverse Charge - Common questions \(sage.com\)](#)

[CIS Domestic Reverse Charge VAT - Free live webinar \(sage.com\)](#)

# Upcoming Webinars.

## Upcoming

VAT Return

Projects - Part 2

Invoicing

Report Designer  
Edit your invoice layout

Recurring items

Tips and Tricks in  
Sage 50cloud Accounts

## Key Topics

### **Festive messaging**

**Thurs Dec 12pm**

Create a festive message, add new ranges or inform customer of price changes using the letters feature.

### **Credit control part 1 - Aged reports**

**Thurs Sep 1 2pm**

How can the credit control features help you to get paid on time.

## **What is Sage Membership ?**

**Sage University – [Sageu.com](https://www.sageu.com)**

**Sage City – [Sagecity.com](https://www.sagecity.com)**

**Sage Masterclass**

# Member Masterclass

## Season 1: Finding and keeping great people

Built exclusively for Sage members and available to everyone for a limited time only.


Your greatest asset is your people. So, how do you find and keep the best?

Whether you're a one-person business or already lead a team, a great hire is game-changing.

In the very first season of Member Masterclass, you'll discover:

- How to create a world-class onboarding experience.
- How to develop and nurture your talent.
- How to retain the talent you have.

Visit [sage.com/uk/masterclass](https://sage.com/uk/masterclass) now and learn from visionary leaders on how to hire and retain top talent.




SEASON 1: FINDING AND KEEPING GREAT PEOPLE

### How to create a more human company


Join Michael Acton Smith, Co-Founder and Co-CEO of Calm, and discover techniques to help you build a happier, healthier and more productive workplace.

Watch the keynote




### How to make your people thrive and come alive

**Julia Jahm**  
Global Employee Experience Lead




**Duke Stump**  
Chief Brand Officer at NewLab

### Building a business with soul




**Charlie Gladstone**  
Author and Creative Entrepreneur

### The life-changing magic of emotional intelligence at work




### How to create a deeper connection with your people

**Bobette Buster**  
Author, Film Producer, and Professor of Storytelling



### Why successful recruitment doesn't end with onboarding

**Khalilah Olokunola**  
Chief People Officer at TRU Colors



### How to spark inspiration and create a positive culture

**Duke Stump**  
Chief Brand Officer at NewLab

And  
more...

# Thank you!

