



Practical VAT Update 67: June 2026

The Construction Sector Reverse Charge: Five Years On...

Practical VAT Update 67: June 2026

The Construction Sector Reverse Charge: Five Years On...

1. Introduction

I last reviewed the “domestic reverse charge” (“DRC”), as everyone now calls, it in July 2023, so we are long overdue! Since then, HMRC have tweaked their guidance here and there and added a Manual on the subject, but this doesn’t seem to have added much beyond the (pretty useful) Technical Guide.

The basic idea of the scheme is pretty straightforward, and those of you who have purchased services from abroad will be familiar with the concept. In essence, the customer charges itself the VAT and simultaneously recovers it.

What’s the problem with that? As the TV meerkats would say, “Simples”. However, as many will already know, nothing is really simple in VAT (except possibly its name)...

There were two big practical issues with the DRC, namely:

- A loss of cashflow for subcontractors in the supply chain who used to rely on the VAT to tide them over for a few months, and
- A surprisingly complex process for working out whether the DRC actually applies to a given contract or not

That said, a logical approach to the rules should help to clarify where you stand. This Update goes through the various steps and tests to decide whether you’re caught, and then has a look at how the scheme works in practice, before a quick review of the bits and pieces as a whole.

With any luck, you’ll finish up with a better idea of what it’s about and how it works. And, indeed, whether you need to worry about it at all.

Of course, if you would like to discuss any of the points which crop up in this Update, please get in touch on **028 71 876 220** or by email at ciaranmcgee@cjmtax.co.uk.

2. Are The Services Within The CIS Rules?

The first question to ask yourself is: are my services within the CIS rules?

For the vast majority of businesses in the construction sector, the answer will be “yes”, and it will not be especially hard to work out whether you’re caught.

However, for those of you who aren't sure, or for the inevitable border-line cases, the guidance from HMRC (see link at the end of the Update) may be helpful.

First of all, the kinds of services which **ARE** included:

- constructing, altering, repairing, extending, demolishing 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

Next, the kinds of services which **AREN'T** included:

- 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

As I say, in general this won't be a shock to most businesses in the construction sector. Nevertheless, probably worth a look just to be sure.

Supplies Of Staff

One very important thing to note is how the rules apply to “employment businesses”. This essentially boils down to “what is the nature of my supply?”, a classic among the “Philosophy of VAT” questions.

If you’re supplying STAFF rather than services, your contract does not fall within the list above, and so the answer to the question at the start of this section is “no”.

What actually constitutes a supply of staff is one of the most vexed questions in the world of VAT. However, a good rule of thumb is that if your customer exercises control over the staff and is responsible for their mistakes, then you’re supplying staff.

If, however, you direct the staff, and would be expected to make good any mistakes, etc, which those staff made, then it’s virtually certain that you’re not really supplying staff – you’re supplying the construction work those staff are carrying out.

HMRC provide the following commentary on the distinction between labour-only subcontractors and employment businesses:

“Supplies by labour only sub-contractors are subject to the reverse charge if the supplies are within the scope of the Construction Industry Scheme and all the other conditions are met.

The supplies made by the employment business are not subject to the reverse charge **even if those supplies are within the scope of the Construction Industry Scheme.**

The supplying business should be treated as an employment business if these apply:

- the customer contacts the employment business and asks for a number of workers over a number of days
- the employment business provides an hourly or daily rate for the workers
- a timesheet is used to record the hours and days worked
- the customer sends the signed timesheet agreeing the hours and days worked to the employment business
- the customer pays the employment business
- the customer is responsible for the works carried out and for correcting any defects

The supplying business should be treated as a labour only sub-contractor if these apply, the:

- customer contacts a business and asks for a skilled labourer (for example, a bricklayer, electrician or plumber) to carry out specified services
- business provides a price for the works or agrees a measured rate per square metre
- supplying business is responsible for the labourer's works
- supplying business is responsible for correcting any defects following completion of the works
- customer, or its representatives, agrees that the work has been carried out or certifies payment for the value of works carried out to date

The reverse charge applies to the services supplied by the business (if those services are within the scope of Construction Industry Scheme) and VAT should not be charged on the invoices."

Hopefully this will help to clarify the position for the majority of businesses. However, as I say, this can be a very grey area. Any doubts, please give me a call...

What Does My Answer Mean?

If you answer "yes", then you've met the first step. So read on...

If you answer "no", then you can stop here and move on with your life. You do not need to worry about the reverse charge scheme, as it does not affect you. Just keep following the normal VAT rules...

If you have any questions about the contracts you're engaged in and whether they're caught by the new rules, please don't hesitate to get in touch on **02871 876 220**, or at [**ciaranmcgee@cjmtax.co.uk**](mailto:ciaranmcgee@cjmtax.co.uk).

3. Is The VAT Rate 20% Or 5%?

Again, for the vast majority of contracts, this will be an easy one.

It is important to note, however, that there are some "interesting" aspects which crop up for zero-rated contracts, e.g.: for building new houses, etc. I cover this in a bit more detail below.

The key question here is: what rate of VAT am I charging my customer? If the answer is anything other than 0%, then the contract is potentially within the scheme.

In practice, this means the following kinds of contract (among others):

- Building new commercial property
- Qualifying 5% services, such as qualifying conversions of domestic property
- Repairs, maintenance and renovations

Clearly, in real life there are all sorts of contracts, but typically you will know what rate of VAT you should be charging. If not, get in touch! The details are, as usual, at the end of this section.

Zero-Rated Issues

Logically, where a supply is zero-rated, there is no VAT going AWOL, or indeed to be reverse-charged. From HMRC's perspective, therefore, there is no need to bring these supplies into the scheme.

For businesses operating in the sector, however, it is a bit of a pain, as your invoicing is likely to end up having several different formats depending on whether work is caught by the reverse charge, is not caught but has a positive VAT rate, or is not caught because it's zero-rated. A bit more detail follows on the practical operation of the scheme in section 7 below.

HMRC's Technical Guide (see links at the end of the Update) includes the following comments for businesses involved in building new houses:

"The reverse charge does not apply to standard-rated items which are included in a zero-rated supply of building and construction services, for example the supply and incorporation of ovens and hobs.

If you supply standard-rated services for new build housing, the reverse charge will apply. If your customer is an end user and confirms this to you in writing, the reverse charge will not apply and you should use the normal VAT rules."

This isn't going to win the Nobel Prize for Literature, I think, but it is probably clear enough.

There are some "look out" points, however, which you should be aware of. I've gone through them in turn.

- *Scaffolding For New Housing Developments*

In general, scaffolding services are "CIS" services, and are chargeable at the standard-rate – so far so clear.

However, where the services are provided as part of a building project for new homes, the position can be a bit more confused under the new regime. This was one area which had caused trouble and the guidance was revised. Let's have a look at what it says now.

HMRC comment as follows (emphases added):

"For scaffolding supplied for zero-rated construction work the services of erecting and dismantling scaffolding can be zero-rated. **Charges for the hire of scaffolding are not covered by the zero rate and are liable to VAT.**

The VAT liability of any supply of scaffolding will depend on what is being supplied under the contract in each case.

The **hire of goods on its own is not** a service that is **covered by the reverse charge**. Any VAT due on the hire of scaffolding for new build housing work should be accounted for under **normal VAT rules**.

A contract for the **hire, erection and dismantling** of scaffolding is **within the scope of the Construction Industry Scheme**. If the scaffold supplier's invoice shows **separate charges** for the hire of scaffold and the cost of the labour to erect and dismantle it, the labour element will be VAT zero-rated as a service carried out in connection with the construction of new build housing.

The reverse charge does not apply if the scaffolding is supplied for **a zero-rated construction project.**"

In other words, where an invoice relates to a new housing development, it will escape the reverse charge. This is a slight change, as previously the rule was rather confusing and could lead to parts of supplies falling under the DRC, and parts not.

The guidance also more clearly addresses where the DRC will apply than was previously the case:

"Scaffolding for standard or reduced rated construction projects

Scaffolding supplied in relation to standard or reduced rated construction work (contracts for the hire, erection and dismantling of scaffolding for construction work) will be liable to VAT at the standard rate. This should be accounted for under the reverse charge if all the other reverse charge conditions are met — unless the customer is an **end user**.

If the scaffold supplier's invoice shows **a single charge** for the hire of scaffold and labour, the **full value of the supply** is subject to the reverse charge, unless the customer is an end user."

Nevertheless, do note the important comments on invoice-splitting in section 7 below, however...

○ *Hiring Equipment*

Another area of possible confusion is the hire of equipment.

"The supply of operated plant or machinery used on new build housing developments is zero-rated and not subject to the reverse charge."

It is unlikely to be a shock to businesses working in this area that hiring equipment with an operator is eligible for the zero-rate in new housing developments (and similar zero-rated projects).

The key point is: if it's zero-rated, it's not subject to the reverse charge rules.

- *Materials As Part Of Residential Renovations and Conversions*

HMRC make the following comments:

“Building and construction services may be liable to the reduced rate of VAT if the:

- refurbishment or renovation of residential premises have been empty for more than 2 years
- conversion of premises from non-residential to residential use and works that result in a change to the number of dwellings in a building

The standard rate of VAT is due on the supply and fix of goods that are not ordinarily incorporated in residential conversions and refurbishments, and the reverse charge applies... However, if your customer notifies you in writing that they are an end-user, normal VAT rules apply.”

In reality, this does make sense when you think about it: the VAT rate applying to both the services and the materials is 5%, not 0%. However, because the 0% VAT rule is slightly different for materials, this might cause some confusion. Tread with care...

What Does My Answer Mean?

If after all of that you can remember your initial answer, then a “yes, my services are charged at 5% or 20%” means you need to keep on reading...

If you've answered “no”, then this is where you can hop off the ride...

If you have any questions about the VAT liability of your supplies and whether they're covered by the scheme, please don't hesitate to get in touch on **02871 876 220**, or at ciaranmcgee@cjmtax.co.uk.

4. Is Your Customer VAT-Registered?

This is one of the easier tests. You need to find out whether your customer is VAT-registered, and this is best done by simply asking them. I strongly recommend getting a “paper-trail” for this kind of thing – emails will certainly do. Clearly, that is much more persuasive evidence than telling an investigating HMRC officer “he told me he wasn't VAT-registered”.

Ask the question, and make sure you can prove that you've asked it.

Once they confirm their VAT number, you can check it by visiting HMRC's UK VAT number checking website, which can be accessed [HERE](#). A link to the site is also included in the usual "helpful links" section at the end.

What Does My Answer Mean?

If you've answered "yes", then onward, to the next step.

If you've answered "no", then your customer can't (logically) apply the reverse charge, so you will need to charge it to them in the usual way.

If you have any questions about VAT numbers, checking VAT numbers or getting VAT-registered, please don't hesitate to get in touch on **02871 876 220**, or at ciaranmcgee@cjmtax.co.uk.

5. Will The Payment Need To Be Reported Under CIS Rules?

This question follows logically from the first question. If the services are covered by the CIS rules, then there is the potential for a CIS deduction and reporting obligation to apply.

Once again, many businesses will know the answer to this one without too much hassle. You can verify a CIS subcontractor's registration by clicking [HERE](#).

Nevertheless – you should, again, ask the question (or questions) and show you have asked it (or them).

CIS is a real joy for those who have "funny" situations to deal with, so I am not going to get stuck into the mire too much here. Suffice to say, you should check whether, even though your *services* are potentially covered by the CIS, the actual *contract* in question is covered. The guidance can be accessed [HERE](#) – it's a great read...

Working out where you stand is probably best done by a mixture of reading the guidance, ringing HMRC and seeking professional advice.

Oh, and just to make sure we are all kept on our toes, significant changes were made to the CIS regime with effect from 1 April 2026...

What Does My Answer Mean?

If it's a "yes", then move on to the next question.

If it's a "no", then you're not covered by the new reverse charge. Just stick to the normal VAT rules for that contract.

CIS rules are definitely outside my comfort zone, but I'll be happy to refer you to someone who can help if you give me a call on **02871 876 220**, or email me at ciaranmcgee@cjmtax.co.uk.

6. Has Your Customer Confirmed They're An End User?

This month's quiz finishes with one of the messier questions. What's more, just to keep it interesting, the effects of the answers are reversed this time... And to make it even more exciting, HMRC have updated their guidance pretty radically here.

HMRC's guidance on the definitions here are fairly clear. Note, however, that "end-user" is only *part* of the issue. An intermediary supplier who is linked to the end user, or has a relevant interest in the property in question, is also effectively an "end-user", so normal VAT rules, rather than the reverse charge rules, apply.

Here's what HMRC have to say on the subject:

"End user

If you're an end user you're a business, or group of businesses, that:

- are VAT and Construction Industry Scheme registered
- do not make onward supplies of the building and construction services that you receive

Building contractors are not usually end users because they make onward supplies of construction services. There will not always be an end user (for reverse charge purposes) in each construction supply chain.

For example, if services are provided to a private domestic customer, the reverse charge does not apply because the customer will not be VAT registered. This does not mean that the contractor supplying the householder becomes the end user because it will still be making onward supplies of construction services. Supplies made to them by sub-contractors will therefore still be subject to the reverse charge if the other conditions are met.

The reverse charge does not apply for supplies to end users when the end user tells their supplier or building contractor in writing that they're an end user. Once an end user notification has been made it is not necessary for the contractor to ask for any further details like VAT and Construction Industry Scheme registration status.

Where a business customer receives construction services and is predominantly an end user, but may be re-supplying a very small proportion of the services received (less than 5% by value), this would normally trigger an obligation to apply the reverse charge. But there is a 5% disregard which allows the business customer to still issue an end user declaration to their supplier. They do not have to disclose the details of those re-charges to the supplier.”

I cover the 5% disregard in section 7 below. For the most part, this is all fairly clear. The key point to note is: no notification, no end user.

There is not, practically-speaking, a great deal of difference between end users and intermediary suppliers. Nevertheless, there is a separate definition, and we should have a look at what HMRC say on the subject:

“Intermediary suppliers

Intermediary suppliers are VAT and Construction Industry Scheme registered businesses that are connected or linked to end users.

If you buy construction services and re-supply them to a connected or linked end user, without making material changes to the supplies, you can be treated as an end user and the reverse charge does not apply.

To be connected or linked to an end user, you must either:

- have a relevant interest in the same land where the construction works happen — such as a landlord and tenant
- be part of the same corporate group or undertaking — as defined in section 1161 of the Companies Act 2006 on the government legislation website

The reverse charge does not apply for supplies to intermediary suppliers where they tell their supplier this in writing. Once an intermediary supplier notification has been made it is not necessary for the contractor to ask for any further details like VAT and Construction Industry Scheme registration status.

Intermediary suppliers can refer to themselves as end users when notifying their suppliers.”

HMRC go on to explain what it might mean to have an intermediary supplier in the chain:

“If there is an intermediary supplier and end user in a supply chain

The intermediary supplier and the end user do not need to apply the same VAT treatment in relation to the reverse charge.”

This is a welcome clarification.

Choosing to be an End User

One big change to the guidance is here: it is explicitly confirmed that a customer can choose to be an end user.

“Being an end user is **optional** but in order to be treated as one the customer **must tell** the supplier or building contractor **in writing** that they are an end user. Only once the notification is made can the supplier stop applying the reverse charge and charge VAT under normal rules. It is optional so there is **no legal obligation** to be treated as an end user.”

This is helpful, and there are circumstances where for the sake of certainty, as much as anything else, people will actually choose to be an end user.

There is also useful discussion of what to do when you are confronted with a possible end user:

“Supplies to possible end users

If you’re a supplier, and you believe your customer is an end user but they have not notified you in writing, you should still apply the reverse charge rather than charge VAT under normal rules — if the customer is VAT and Construction Industry Scheme registered.”

Again: no written notification, no end user. Obviously, suppliers can ask their customers whether or not they are an end user (and it may be wise to do so), but as noted above, there is no legal obligation to be an end user.

Design & Build Contracts

It is also well worth noting what HMRC have to say on this topic. It won’t apply in every case, but it’s common enough to have a look at here:

“Under a design and build contract, the design and build company will both:

- buy in building and construction services from multiple suppliers
- offer those services as a single supply to the client of a designed and built building

If the conditions to be an intermediary supplier are met, the design and build company is not treated as carrying out material alteration or processing of the services it buys in. This means it can be treated as an intermediary supplier of building and construction services. This also includes supplies such as scaffolding which are integral to the design and build but are not supplied onwards.

A design and build company can be a connected party or linked to an end user. Normal VAT rules would then apply to supplies bought in.

If the design and build company is **not a connected party** of or linked to an end user, it will not be regarded as an intermediary supplier. So the reverse charge will apply to construction services bought in for onward supply.”

Get It In Writing

This test requires that the end-user/intermediary actually confirms that they have that status.

HMRC explain how this should be done:

“Making written notification

If you’re an end user or intermediary supplier you can make written notification to your supplier or building contractor:

- by post
- by email
- in a contract

You should keep this as part of normal business records and make clear what supplies are covered.

Contracts can be any of the following:

- for specific supplies
- a Heads of Agreement
- call-off type contract — for supplies that are to be made at a date in the future

If the notification is in a contract issued by the supplier, this will be valid **if customer gives written agreement to the contract.**

Once written notification has been given there is no need to re-issue it if the customer changes from an:

- end user to an intermediary supplier
- intermediary supplier to an end user”

Pretty clear, thank goodness. They also suggest how you might go about putting it in writing:

“To notify your customer that you are an end user or intermediary supplier you could use the following wording:

‘We are an end user for the purposes of section 55A VAT Act 1994 reverse charge for building and construction services. Please issue us with a normal VAT invoice, with VAT charged at the appropriate rate. We will not account for the reverse charge.’”

Note that, very importantly, the reverse charge is the *default setting* where the other conditions are met, and written notification has not been provided by the customer. HMRC make this clear here:

“If a written notification is not made correctly the customer will be liable for accounting for the VAT that should have been charged under the reverse charge.”

It is also probably not a bad idea **as a supplier** to include some form of words to the effect that you will assume that the reverse charge applies unless otherwise stated in your contractual documentation, just to cover yourself. Here’s what HMRC have to say:

“You can include a statement in your terms and conditions to say you’ll assume that your customer is an end user or intermediary supplier unless they say they’re not. This places a responsibility on the customer to respond if this is not the case.”

What Does My Answer Mean?

As I mentioned at the start of the section, the answers are reversed for this question. Happily, however, it’s the last question either way!

If it’s a “yes”, then you’re out of the scheme, and the normal VAT rules apply.

If it’s a “no”, then you’re covered by the new reverse charge – and it’s definite. Unless you can use the “5%” escape route, which is discussed in greater detail in section 7.

If you have any questions about end-users and the implications for the DRC, just give me a call on **02871 876 220**, or email me at ciaranmcgee@cjmtax.co.uk.

7. How Does It Work In Practice?

The basic idea is, as I said at the beginning, “Simple”.

A short example will show how it will generally work in practice:

- **Example 1: Getting Plastered...**

Dave is a plasterer working as a subcontractor for BigBuilders Ltd, a large construction firm based in Belfast. The current project is the remodelling of a large

office block in the city centre. Unsurprisingly, BigBuilders Ltd is VAT-registered and is also registered for CIS.

On 1 May 2026, Dave issues an invoice for £20,000. He does not charge VAT, because the reverse charge applies and all of the other conditions are met.

The entries on the VAT return are as follows.

For Dave, he puts £20,000 in Box 6 of his return, and that's it.

For BigBuilders Ltd, it's a bit more involved. VAT of £4,000 is due (as it's a 20% rate supply). However, this will be recoverable in full in BigBuilders Ltd's hands (given the normal rules for VAT recovery). So it's a net nothing...

The VAT return entries are:

Boxes 1 and 4:	£4,000
Box 7:	£20,000

Not too difficult to handle!

There are, of course, a few questions to "tick off".

Time After Time

First, when is the VAT due to be accounted for? HMRC have a helpfully clear reply, and also address the question of transitional supplies for contracts using self-billed invoices or authenticated receipts.

"VAT is due when a VAT invoice is issued, or payment is received, whichever is earlier (this is called the tax point).

For invoices issued for supplies that become liable to the reverse charge, the VAT treatment for invoices with a tax point:

- before 1 March 2021 – the normal VAT rules will apply and you should charge VAT at the appropriate rate on your supplies
- on or after 1 March 2021 – the domestic reverse charge will apply

Transitional supplies for authenticated tax receipts or self-billed invoices

For authenticated tax receipts or self-billed invoices the tax point is normally the date the supplier receives payment.

The transitional arrangements for how to determine the VAT treatment for payments due on any supplies depends on the date they were entered into your accounting system.

If the date entered is:

- before 1 March 2021 and the payment date will be on or before 31 May 2021, use the normal VAT rules
- before 1 March 2021 and the payment date will be on or after 1 June 2021, use the domestic reverse charge
- on or after 1 March 2021, you must use the domestic reverse charge”

Hopefully most businesses affected by these rules will now have got their affairs in order, but this is real life, and I am sure there are one or two operators who may need to look back at what they were doing at the time they came in...!

Paperwork Peculiarities

Secondly, what do the invoices need to look like?

They're not really that different from a “normal” VAT invoice. Include everything you normally would (your own details, etc), but you should make sure you also include:

- a) Customer's VAT number
- b) A statement making it clear that the reverse charge applies. This should be clearly and prominently included on the face of the invoice. There is no set wording, but something like “Reverse charge – customer to pay the VAT to HMRC” will do, and if you're really keen, you can include “VATA 1994, s 55A applies to this invoice”. But you don't have to...
- c) The amount of VAT that the customer will need to account for. This might be most easily shown with a breakdown by VAT rate in some cases. For other contracts, just a lump sum of £X,000 will do. It will depend on the contract, I suspect...

So, some care needed, but nothing to lose sleep over, really.

What Happens If I Get It Wrong?

As noted above under section 6, the default setting is the reverse charge where the other conditions are met, and you haven't been notified your customer is an “end-user” or “intermediary supplier”.

Unsurprisingly, HMRC will have the power to assess for VAT from the party which ought to have paid the VAT. This applies equally where the reverse charge wasn't applied, but should have been, and VAT was paid over to the supplier.

The most likely issue in a case like that, I suspect, will be that HMRC will seek to refuse input tax credit, because the supply hasn't been properly handled.

Oddball Run

Overall, then, once you know if you're in or you're out, it doesn't look that hard to manage.

However, it's important to note that the scheme comes with a few "funny" bits and pieces as well. Let's have a look at them:

- *Cash Accounting*

The scheme rules mean that the Cash Accounting scheme cannot apply to affected invoices.

Practically, as a supplier, where you're not actually paying over VAT, this seems unlikely to be a huge headache, but best to know about it anyway.

For the customer, this means that the VAT return entries must reflect the payment or invoice date, whichever is the earlier. However, again, where the input VAT can be fully recovered, this is unlikely to be a huge issue.

- *Flat Rate Scheme ("FRS")*

Reverse charge invoices are completely excluded from the VAT return for traders operating under the FRS

In reality, therefore, if a supplier is making a lot of reverse charge supplies, it will probably make sense to get out of the FRS as early as possible, and start applying the normal VAT registration rules.

This is because it will allow you to recover all your input VAT, instead of the limited relief available under the FRS.

- *Invoice Splitting*

It may be tempting, as a supplier used to using VAT as working capital, to try to find a way around it, for example by splitting invoices between labour (reverse charge) and materials (not, theoretically, reverse charge).

It's not worth the bother.

HMRC have explicitly stated that this will be viewed as a single supply of construction services with materials, even where separate invoices are raised for the different elements of the supply.

Any attempt to suggest there are two orders or contracts – e.g.: a contract for labour and another one for materials – is also not really worth your time. HMRC say:

“If a customer enters into 2 separate contracts with the same supplier, one of the contracts is within the scope of the Construction Industry Scheme, and the contracts are linked, with both to be carried out on the same site, the reverse charge will apply to both contracts (subject to the 5% disregard) as they comprise a single supply for VAT purposes.”

So snookered again... but note the reference to the 5% disregard, which we look at next.

- *The 5% Disregard*

This midget gem relates, in many respects, to the invoice-splitting point above.

Theoretically, the rules capture all of a particular invoice’s work, even if only £1 is covered by the reverse charge. However, if the reverse charge element is less than 5% of the total invoice value, then the normal VAT rules apply instead.

Again, an example is probably the easiest way to explain this point:

- **Example 2: Plumb Daft...**

Ben is a plumber who lives in Belfast. He regularly does work for BigBuilders Ltd.

Recently, BigBuilders Ltd have had serious trouble with the drains at their HQ. They hired Ben to sort it out, and confirmed that they were an “end user” for the purposes of this work.

He agreed a fee of £10,000 plus VAT for this job.

Shortly before he packed up, he was asked to check some of the plumbing work at the office site which Dave was working on in Example 1.

This was a much smaller job, and the value came to just £400 plus VAT.

For convenience’ sake, Ben raised one invoice, on 1 May 2026, totalling £10,400 for the both jobs.

On this occasion, because the non-end-user element came to just 3.8% (£400/£10,400), the normal VAT rules apply, rather than the reverse charge. Accordingly, Ben charged VAT on this invoice, for a total of £2,080. He included it as a normal sale (Box 1 and Box 6) on his VAT return.

If you have any doubts about the various odds and ends which come with the DRC, please give me a call on **02871 876 220**, or email me at ciaranmcgee@cjmtax.co.uk.

8. Summary: What Are The Key Points I Need to Remember?

The reverse charge scheme only applies when the conditions are met – hence the various questions to work your way through. Many businesses will find themselves caught by these rules. While the actual handling of the rules from the perspective of invoicing and VAT returns is not particularly difficult, keeping track of different contracts for the same customer might end up a bit of a pain... Also, do be aware of the “oddballs”, in particular the FRS, the 5% disregard, and the fact that invoice splitting won’t really work.

It is definitely worth checking out HMRC’s two flowcharts, one for suppliers and one for customers, which can be found [HERE](#). They are pretty helpful...

More detailed guidance can be found at the links below:

- **HMRC’s Guidance To The Scheme:** Click [HERE](#)
- **HMRC’s Technical Guide To The Scheme:** Click [HERE](#)
- **Check a UK VAT Number:** Click [HERE](#)
- **Check a CIS Registration:** Click [HERE](#)
- **HMRC’s CIS Guidance:** Click [HERE](#)

Hopefully this Update has been helpful, and should you wish to discuss any of the issues arising – or indeed anything else VAT-related – please don’t hesitate to contact me for a free, no obligation initial enquiry.



Ciaran McGee, MA (Oxon), FCA, CTA

Tel: 028 71 876 220

Email: ciaranmcgee@cjmtax.co.uk

Web: www.cjmtax.co.uk