

## **Section C - Payments made under relevant contracts, the VAT Reverse Charge, Invoices.**

As set out in Section B, where any part of a contract is for relevant operations, then the contract as a whole is a relevant contract and all payments under that contract are liable for RCT.

*The VAT Reverse Charge, however, only applies to payments that are in respect of construction operations, excluding haulage for hire.*

Again, it is essential then that the detail of the contract is considered rather than merely looking at each individual invoice/document.

This is an important principle that Boards need to consider when accounting for RCT and VAT.

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**C1 How should “retention payments” be dealt with where the contract was entered into and the work was carried out prior to 1st January 2012.**

RCT, and consequently VAT, must be applied to all payments made after 1st January 2012 under a relevant contract, irrespective of when the contract itself was entered into.

**C2 I have made a payment to a subcontractor without a Deduction Authorisation, what are the implications.**

As you have made an unreported payment (i.e. a payment made without having the required deduction authorisation) you shall be liable for a penalty.

The following penalty rates apply to unreported payments made after the 1<sup>st</sup> January 2015:

Sub-Contractor Type	Penalty Rate
“Unknown”	35%
0%	3%
20%	10%
35%	20%

The penalty becomes due when it is agreed by the Board of Management or decided by a Court.

For further information of Penalties please refer to the [Code of Practice for Revenue Audit](#) Section 5.5

**C3 What do we do with subcontractors who are not registered for, and are not charging, VAT.**

If a subcontractor is not VAT registered because his/her turnover is under the threshold he will not have a VAT number. The VAT Reverse Charge will not apply. RCT, however, must be operated on all payments under a relevant contract.

**C4 Is RCT calculated on the VAT inclusive or exclusive amount?**

Where the VAT Reverse Charge applies, RCT is charged on the VAT exclusive amount.

Where the payment is subject to normal VAT rules (i.e. is not in respect of construction services), RCT is charged on the VAT inclusive amount.

**C5 What happens where the invoice covers supplies as well as construction services?**

**RCT:** Where any part of the contract is for a construction operation, it is a relevant contract for the purposes of RCT.

RCT must be operated on **all** payments made under that contract.

**VAT:** The VAT reverse charge should only be applied to those services that are construction operations. The supplier must issue two invoices/documents, a document for the cost of the construction operations on which the VAT Reverse applies and a VAT Invoice for the cost of the supplies includes VAT at the appropriate rate.

**C6 How will a Board know that they must account for VAT on the reverse charge basis?**

The invoice/document issued by the subcontractor will state "VAT ON THIS SUPPLY TO BE ACCOUNTED FOR BY THE PRINCIPAL CONTRACTOR". However the board should ensure that the correct documentation is received i.e.

- that an invoice/document received with the above notation are for services correctly subject to reverse charge and
- that where services supplied do not come within reverse charge a normal VAT invoice is received.

**C7 Some construction contracts include the supply and installation of fittings including floor coverings that are not stuck down over their entire surfaces and light fittings that are not recessed. Are these supplies and fittings subject to the reverse charge?**

No. Supply and installation of fittings are not services within the scope of the reverse charge legislation. A supplier should issue a separate VAT invoice charging VAT at 23% for the element of the contract which relates to supply and installation of fittings.

**C8 Can the Board account for VAT on the cash basis?**

The cash basis cannot be used for construction services supplied by a subcontractor to a principal contractor therefore the normal invoice basis applies. This means that the liability will be computed by reference to the total VAT shown on the **invoices**

issued in the two month VAT period irrespective of whether payment has been received or made.

A claim by a subcontractor for payment in advance of completion should not take the form of an invoice. If a contract provides for a period of retention, the invoice in respect of retention money should be raised within 15 days of the end of the month in which the guarantee period expires. VAT should be accounted for by reference to the date the invoice is raised or should have been raised.