



Global 3000 Service Pack Note

Tax - Domestic Reverse Charge VAT on Sales

Author	DCP		
Project	ZM60_000549.docx		
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INTRODUCTION

This service pack updates Debtors Ledger (and Sales Order Processing) to handle domestic reverse charge VAT (on sales).

HMRC have stated that for the building and construction industry VAT should be collected using the domestic reverse charge rules as of 1st October 2020. It should be noted that it is possible that these rules will be applied to other industries should this prove to be successful.

This service pack only covers changes for **sales** subject to domestic reverse charge VAT (i.e. Debtors Ledger and SOP). The changes for **supplies** subject to reverse charge VAT (i.e. Creditors Ledger and POP) have already been implemented and were released in service pack ZP60_000411_000.

A short summary of the documentation from the H.M.R.C. website (correct as per August 2019) is included below.

Full details can be found at <https://www.gov.uk/guidance/vat-domestic-reverse-charge-for-building-and-construction-services>

The domestic reverse charge (referred to as the reverse charge) is a major change to the way VAT is collected in the building and construction industry. It comes into effect on 1 October 2020 and means the customer receiving the service will have to pay the VAT due to HMRC instead of paying the supplier. It will only apply to individuals or businesses registered for VAT in the UK (although it will not apply to consumers). This will affect you if you supply or receive specified services that are reported under the Construction Industry Scheme (CIS).

The reverse charge means the customer receiving the specified service has to pay the VAT to HMRC instead of the supplier. In turn the customer can recover the VAT, subject to the normal rules for VAT recovery.

The reverse charge does not apply if the service is zero rated for VAT or if the customer is not registered for VAT in the UK.

If any of the services in a supply are subject to the reverse charge, all other services (even if that service would be excluded if it were being supplied as a single service) will also be subject to it.

If there is doubt whether a type of works falls within the definition of a specified service, as long as the recipient is VAT registered and the payments are subject to CIS, the reverse charge should apply.

The reverse charge does not apply to consumers or final customers of building and construction services.

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Completing your VAT Return, VAT on Sales.

For sales under the domestic reverse charge suppliers must **not** enter any output tax on sales to which the domestic reverse charge applies in box 1 of the VAT Return. The net value of the sale must be entered in box 6.

VAT documents - Invoices

When supplying a service subject to the domestic reverse charge, suppliers must:

- show all the information required on a VAT invoice
- make a note on the invoice to make it clear that the domestic reverse charge applies and that the customer is required to account for the VAT
- clearly state how much VAT is due under the reverse charge, or the rate of VAT if the VAT amount cannot be shown, but that VAT should not be included in the amount charged to the customer

If you use software to produce your invoices, and your system cannot show the amount of VAT to be accounted for under the reverse charge, then the wording should state that VAT is to be accounted for by your customer at the standard or reduced rate of VAT, based on the VAT-exclusive selling price for the reverse charge goods or services. But your customer must be able to identify the reverse charge goods or services, and a legend such as 'customer to account to HMRC for the reverse charge output tax on the VAT-exclusive price of items marked reverse charge' should be shown on the invoice. Under the VAT Regulations 1995 invoices for services subject to the reverse charge where the customer is liable for the VAT must include the reference 'reverse charge'. Here are some examples of wording that meet the legal requirement:

- reverse charge: VAT Act 1994 Section 55A applies
- reverse charge: S55A VATA 94 applies
- reverse charge: Customer to pay the VAT to HMRC

The changes that have been made include:

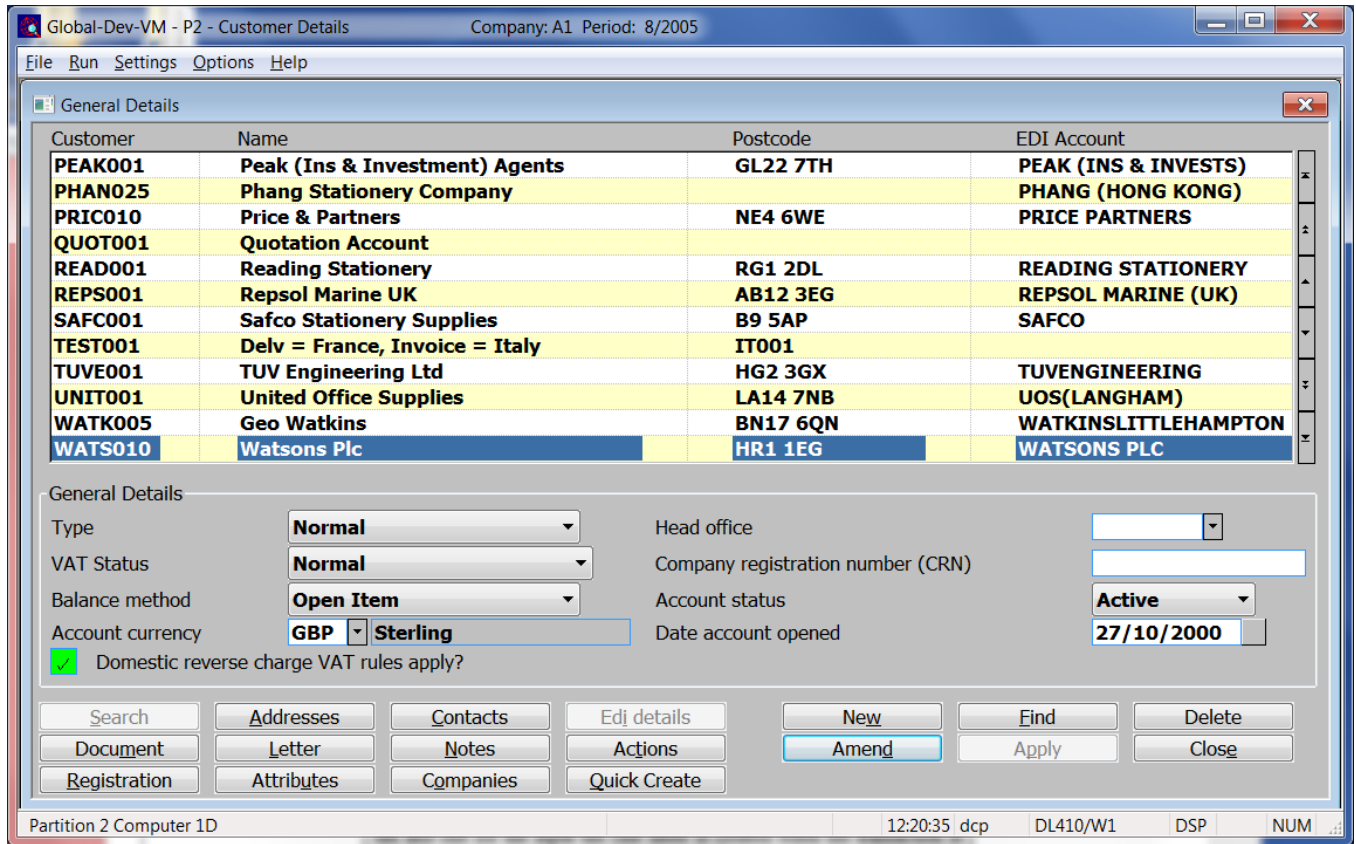
- Two new tax classes are operated for domestic reverse (output) tax on sales. Reverse charge transactions have two tax analysis records one for the output tax (analysed to tax class 'RS') and one to reverse the output tax (which is created when the transaction is posted and is analysed to tax class 'RT').
- A new customer setting (labelled 'Domestic reverse charge VAT rules apply') has been added. When set, Debtors Ledger transaction entry (Invoices/Credit Notes) and SOP Order Entry/Transaction Desktop will by default ensure that transaction dated on or after 01/10/2020 follow the domestic reverse charge rules whilst providing the ability to treat individual transactions using the standard VAT rules. The domestic reverse charge rules are not compatible with transactions where the analysis is by batch.
- Debtors Ledger auto-transfer has been updated so that transactions can be included for which the new reverse charge tax class ('RS') are to be applied.

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- For transactions where the reverse charge applies. The standard SOP invoice and credit note documents have been updated to omit the 'Total VAT' amount and to include the message 'Reverse charge: VAT Act 1994 Section 55A applies. Customer to pay the VAT to HMRC' (non PDF format documents show a shortened message).

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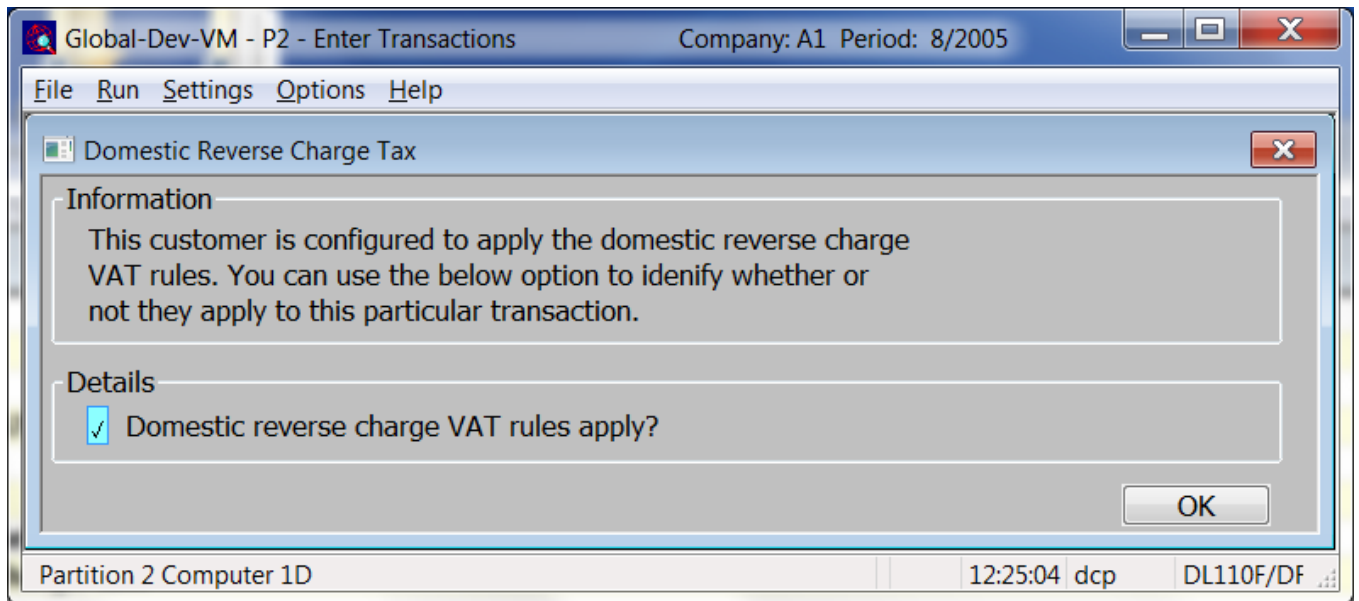
Customer Maintenance – General Details Window



<p>Domestic reverse charge VAT rules apply?</p>	<p><i>(Not available if the account type is 'Quotation' or 'Consumer' or if the tax (VAT) status is not normal). When this is set transactions (invoices/credit notes) are by default processed using the domestic reverse charge VAT rules. This setting is ignored if the customer is not registered for VAT in the UK (i.e. if they do not have a UK tax registration number).</i></p>
<p>Note</p>	<p>The domestic reverse charge rules are not compatible with transactions where the analysis is by batch.</p> <p>Reverse charge transactions have two tax analysis records one for the output tax and one for the input tax (the latter is created when the transaction is posted). The output tax is analysed to tax class 'RS' and its reversal is analysed to tax class 'RT'.</p>

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DL Transaction Entry – Domestic Reverse Charge Window



This window appears when you confirm your response to the transaction date prompt for an invoice or credit note and the domestic reverse charge rules apply to the customer.

Purpose This window enables you to identify the transaction as being subject to the domestic reverse charge tax rules.

The prompt is:

Domestic reverse charge VAT rules apply? If set when the invoice/credit note is produced the domestic reverse charge VAT rules (VAT Act 1994 Section 55A) are applied and it is the responsibility of the customer to pay the VAT to HMRC. The tax amount is shown and recorded as zero but the tax amount to be paid to HMRC by the customer can be seen in the tax analysis window.

Note Reverse charge transactions have two tax analysis records one for the output tax and one to reverse it (the latter is created when the transaction is posted). The output tax is analysed to tax class 'RS' and its reversal is analysed to tax class 'RT'.

In addition, reverse charge tax codes cannot be used if the tax analysis is by batch.

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SOP Transaction Desktop – Header Details Window

The screenshot shows a software window titled 'Global-Dev-VM - P2 - Transaction Entry'. The main area is divided into several sections:

- Transaction Details:** Includes fields for Customer reference (ORD00126), Required, Transaction date (30/09/2005), Expiry date (quotations), Cross-border cash book, Trading terms (C), and a button for 'Due 90 Days + Disc'. It also has checkboxes for 'Transaction is a supply of broadcasting, telecommunications or e-services (BTE)?' (unchecked) and 'Domestic reverse charge VAT rules apply?' (checked).
- Sales Details:** Includes dropdown menus for Sales office (MID - Midlands and Wales), Sales Rep. (AJ - Alan Jones), Territory (M03 - Midlands - West & Wales), and Class (WS - Wholesaler).
- Despatch Details:** Includes dropdown menus for Despatch from (MID - Midlands and Wales) and Delivery (VAN), a text field for Instructions (Van), a text field for Number of labels (0), and a date field for Despatch/Return date (30/09/2005).
- Settings:** Includes checkboxes for 'Acknowledgements required?' (unchecked), 'Part invoicing allowed?' (checked), and 'Part deliveries allowed?' (checked). It also has checkboxes for 'Combine orders for delivery?' (unchecked) and 'Combine invoices?' (unchecked), and a dropdown for 'Back orders?' (Allowed).

At the bottom, there are buttons for 'Search', 'Credit Note Options', 'Repeating Order', 'Price/Discount', 'Initial Comments', 'Trailer Comments', 'OK', and 'Close'. The status bar at the very bottom shows 'Partition 2 Computer 1D', '12:34:09 dcp', 'SO900X/XH', and 'EDT CAPS NUM'.

<p>Domestic reverse charge VAT rules apply?</p>	<p><i>(Only if the domestic reverse charge VAT rules apply to the customer. Cannot be changed once any goods have been invoiced).</i> If set when the invoice/credit note is produced the domestic reverse charge VAT rules (VAT Act 1994 Section 55A) are applied and it is the responsibility of the customer to pay the VAT to HMRC.</p>
<p>Note</p>	<p>When the domestic reverse charge rules are applied the invoice/credit note omits the 'Total VAT' amount and includes the message 'Reverse charge: VAT Act 1994 Section 55A applies. Customer to pay the VAT to HMRC' (non PDF format documents may show a shortened message).</p>

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SOP Order Entry – Header Details Window

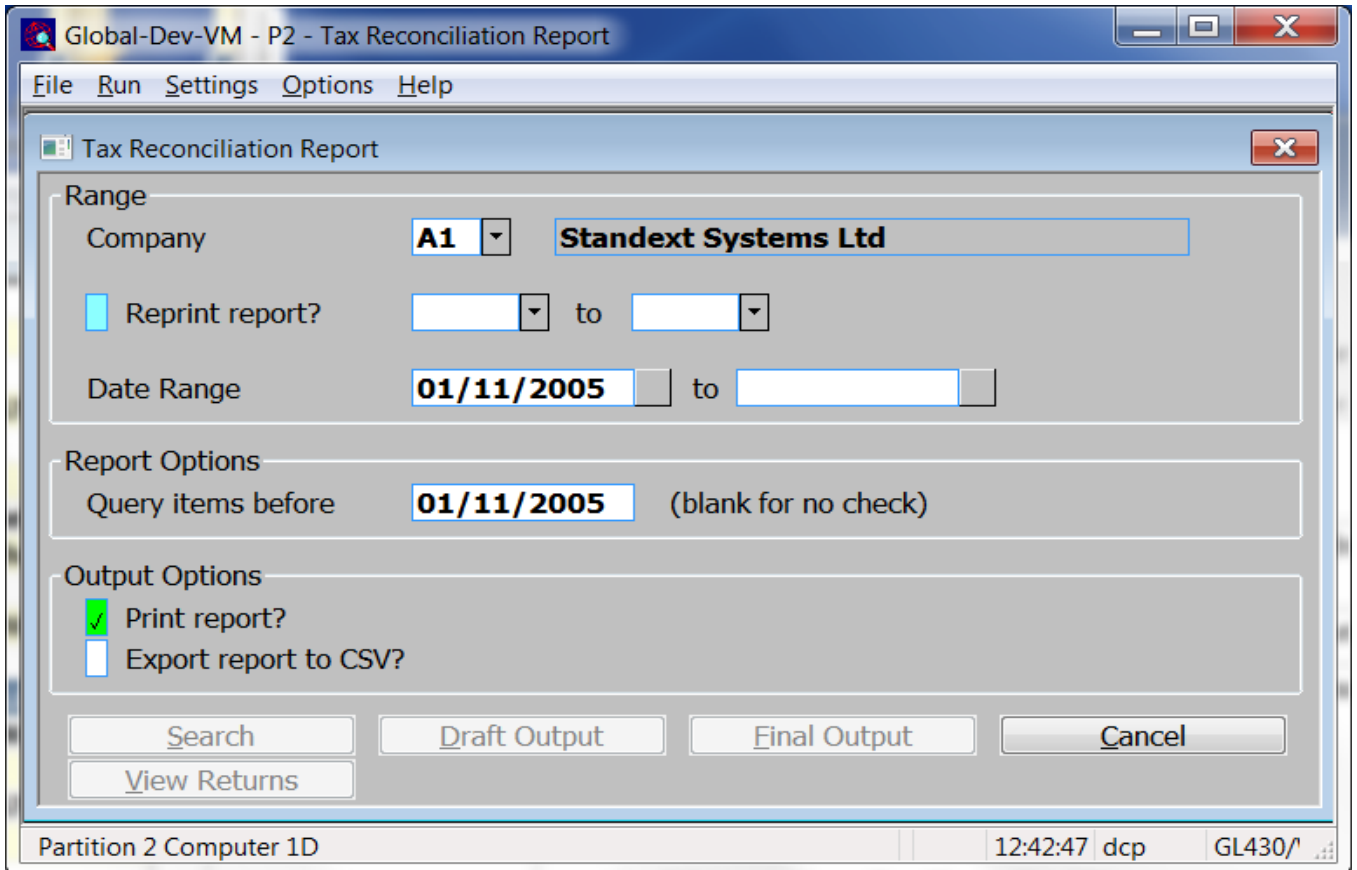
The screenshot shows the 'Sales Order Header Details' window with the following data:

- Customer Ref: ORD00126
- Delivery: VAN
- Instructions: Van
- Order date & time: 30/09/2005 12.32
- Expiry date: (empty)
- Main price list: MAINGBP
- Special price list: (empty)
- Trade disc scheme: FILE Filing
- Trade disc level: 1
- Negotiated disc%: 0.00
- Sales Rep.: AJ
- Terms code: C
- Class: WS
- Date Required: (empty)
- Payment method: Normal
- Cross-border cash book: (empty)
- Deliver from: MID
- Analyse to: MID
- Territory: M03
- Number of delivery labels: 0
- Despatch/Return date: 30/09/2005
- Acknowledgements required?
- Part invoicing allowed?
- Part deliveries allowed?
- Combine orders for delivery?
- Combine invoices?
- Back orders?: Allowed
- Transaction is a supply of broadcasting, telecommunications or e-services (BTE)?
- Domestic reverse charge VAT rules apply?

<p>Domestic reverse charge VAT rules apply?</p>	<p><i>(Only if the domestic reverse charge VAT rules apply to the customer. Cannot be changed once any goods have been invoiced).</i> If set when the invoice/credit note is produced the domestic reverse charge VAT rules (VAT Act 1994 Section 55A) are applied and it is the responsibility of the customer to pay the VAT to HMRC.</p>
<p>Note</p>	<p>When the domestic reverse charge rules are applied the invoice/credit note omits the 'Total VAT' amount and includes the message 'Reverse charge: VAT Act 1994 Section 55A applies. Customer to pay the VAT to HMRC'(non PDF format documents may show a shortened message).</p>

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VAT Reconciliation Report Window



This window appears when you select VAT Reconciliation Report from the Financial Reports menu

Purpose This window enables you to enter the selection criteria for the report. The report contains up to 11 sections each beginning on a new page which list:-

1. Sales (Domestic/Overseas), Tax Classes NS, AN, AV.
2. Sales (to the EC), Tax Classes ES, CN, CV.
3. EC Acquisitions, Tax Classes EA, EV.
4. Purchases (Domestic/Overseas), Tax Classes NP, BN, BV.
5. Purchases (from the EC), Tax Classes EP, DN, DV.
6. Discount Adjustment on Sales, Tax Class OD.
7. Discount Adjustment on Purchases, Tax Class ID.
8. Digital Services, Tax Class DS.
9. Domestic reverse charge supplies, Tax Classes RA, RD.
10. Reverse charge supplies, Tax Classes RP, RC.
11. Domestic reverse charge sales, Tax classes RS, RT.

If any of the sections in the detailed format have no entries, the section is omitted completely from the report.

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