

Guide to New ROI VAT rules for Construction Industry

From 1 September 2008, there will be a major change in the way that VAT is accounted for within the ROI construction industry. All subcontractors and principal contractors carrying out construction services in ROI are impacted by the new rules.

The new rules only affect construction operations that fall under the Relevant Contracts Tax rules. Therefore construction services provided to principal contractors will fall under the new regime but work done for a private individual or business will still be dealt with under the old rules. Any invoices raised after 1 September 2008 must be raised in accordance with the new rules.

It is only supplies of services (ie chargeable to VAT at 13.5%) that are affected by these new rules. The normal VAT rules still apply to supply of goods.

Highlighted below are the details of the old rules and new rules, together with the impact on both principal contractors and subcontractors. If you have any queries, do not hesitate to contact Anne Douglas in our tax department.

OLD RULES

- NI subcontractors carrying out construction services in ROI must register for ROI VAT. ROI subcontractors register for VAT when annual turnover exceeds registration limit (currently €37,500).
- Subcontractor charges VAT at 13.5% for construction services provided.
- If the subcontractor does not hold a C2 card and so qualify for gross payments, the principal contractor will deduct 35% of the VAT inclusive amount.
- Subcontractors and principal contractors include the VAT on all sales on bi-monthly VAT returns and pay the VAT to Revenue Commissioners. ROI VAT incurred on expenses and purchases in relation to these services are reclaimable on the relevant VAT returns.

NEW RULES

- Subcontractor no longer charges VAT on invoices issued to principal contractor for construction services provided.
- The invoice raised to the principal contractor should include all the same information as would normally be shown on a VAT invoice other than the VAT rate and VAT amount. The VAT number of the subcontractor should be included (if registered).
- The invoice to the principal contractor must include the following statement, "VAT ON THIS SUPPLY TO BE ACCOUNTED FOR BY THE PRINCIPAL CONTRACTOR".
- If the subcontractor does not qualify for gross payments, the principal contractor will deduct 35% of the invoice amount rather than the VAT inclusive amount.

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- The subcontractor does not include any VAT on sales to principal contractors on his VAT return for the period in which the supply relates.
- The principal contractor must include the VAT on the services received from the subcontractor on his VAT return as VAT on sales (Box T1) for the relevant period.
- The principal contractor should also include the VAT within VAT on purchases (Box T2) within the same period.

Impact on subcontractors

- Subcontractors that provide construction services to principal contractors no longer charge VAT on their invoices. Invoices must be provided as specified above.
- NI subcontractors that provide construction services to principal contractors ONLY and are not principal contractors themselves are no longer required to register for VAT. However, they will need to be registered in ROI to reclaim any ROI tax suffered on expenses.
- Subcontractors that provide construction services to both principal contractors and private individuals need to be registered for VAT but only account for VAT on sales made to non principal contractors. The sales made to principal contractors should not be included on the VAT return.
- If the subcontractor holds a C2 card then they will receive the invoice payment in full from the principal contractor; otherwise 35% will be deducted from the invoice total rather than the VAT inclusive total.
- In respect of completion of UK VAT returns, the UK VAT authorities have not amended their guidance in respect of construction services provided outside the UK. Therefore sales for construction **services** carried out in ROI do not need to be included within the UK VAT return. Remember that box 8 on UK VAT returns are for sale of 'goods' only.

Impact on Principal Contractors

- All principal contractors are required to be registered for VAT and must pay over the VAT due on construction services provided by subcontractors.
- Principal contractors are obliged to ensure that the invoices that they receive from the subcontractors are correct. They must ensure that the services provided fall within the new regime and the invoice includes all the relevant information.
- If an ROI subcontractor is not registered for VAT because their turnover is below the registration threshold (currently €37,500) then no VAT is due on that supply.
- If an NI subcontractor is not registered for VAT it will be due to the fact that they are only providing services to principal contractors rather than being below the registration threshold and so VAT is payable on the supply.