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New Rules for Construction Services.

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New Rules for Construction Services

A significant change in VAT accounting procedures for construction services will be introduced from the 1 September 2008.

VAT must now be accounted for by the principal contractor in their VAT returns and the subcontractor will no longer charge VAT on their invoices.

This is known as the “reverse charge mechanism” and already applies to where goods are bought from other EU countries and the receipt of certain services from abroad.

What will the new rules apply to?

The services affected will be those currently governed by RCT provisions, where received by a ‘Principal Contractor’.

The services include all general building/land development and associated construction activities.

A principal contractor who must account for VAT on receipt of these services includes those engaged in construction or land development, local authorities, public utilities, government bodies, boards funded by the state, third level institutions, gas, electric, water and railway operations.

How will this affect you?

The ultimate effect of this is that the responsibility for accounting for the VAT will be shifted from the subcontractor to the principal contractor.

The subcontractor will no longer charge VAT on the construction services being provided. Instead they must issue a document with the net charge shown, indicating that the principal is liable to account for any VAT due thereon.

How can I prepare for the change?

In the lead up to 1 September 2008 and for a period following the implementation of the new rules the timing of invoices and related payments, in particular stage payments will have to be carefully considered.

The change in accountability for VAT on construction services will require the implementation of new accounting procedures to ensure that VAT is captured on the receipt of construction services. This will be particularly important for entities which are not entitled to deduct VAT on such services.

Relevant Contracts Tax

Application of RCT

RCT applies to a variety of activities which you may not readily identify as construction related. The following is a sample of services which are included under RCT provisions.

Construction, alteration, repair, extension, demolition of:

- Roadworks, power lines, docks, harbours, waterways, reservoirs, water mains, wells, sewers

Summary

The installation of systems of:

- *Heat, light, power and water supply, drainage, sanitation, air conditioning/ventilation, burglar/fire protection, telecommunication apparatus*

RCT interaction with new VAT rules

In circumstances where a principal does not hold a payments card for a subcontractor providing construction services after 1 September 2008, then RCT will still be deducted at 35% but from the net amount charged rather than the (VAT inclusive) gross amount as per current rules.

Principal Contractors Form RCT1

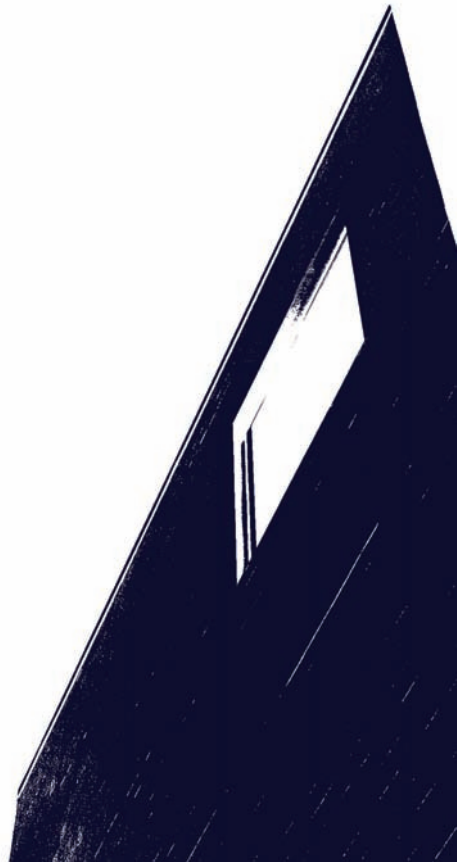
Since 1 April 2008, a new RCT1 form has been introduced. Before entering into a contract which is subject to RCT, the principal and sub-contractor must jointly complete the new form to the effect that they are satisfied that the contract is not a contract of employment. The completed form must be submitted to Revenue in specific circumstances. Certain subcontractors can apply to Revenue to be excluded from the requirement to complete the RCT1 form.

The introduction of the new VAT rules for construction services shifts the onus of accounting for VAT to the recipient who should start to prepare for this change now.

Relevant Contracts Tax will remain a strong focus of Revenue audits in particular the new VAT rules and RCT1 forms will be closely examined.

Now is the perfect opportunity to review your VAT and RCT accounting and compliance systems in preparation for the new rules.

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