



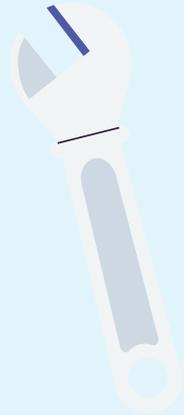
Beautiful
business

The trade and construction guide to Making Tax Digital, DRC and CIS



**MAKING
TAX
DIGITAL
READY**

A closer look at Making Tax Digital



What is Making Tax Digital?

Making Tax Digital (MTD) is a government initiative to digitise tax and make VAT submissions easier. Under MTD for VAT rules, VAT-registered businesses must keep digital accounting records and submit their VAT and Self-Assessment returns using HMRC-recognised software.

MTD for VAT

From April 2022, all VAT-registered businesses must use HMRC-recognised MTD software to:

- **Keep and maintain digital accounting records**
- **Submit VAT returns online**

Using the correct software is crucial, and the government has a [list](#) of MTD-compliant and HMRC-recognised software to help you get started.

If you aren't ready to adopt full MTD software yet, you could look into using MTD bridging software instead. Bridging software allows data to transfer through to HMRC from spreadsheets via 'digital links'. It's an interim option if you need some more time to find [the right MTD software provider](#), but there are several pitfalls to be aware of, which you can explore, alongside the pros and cons [here](#).



A closer look at MTD for ITSA

MTD for Income Tax Self Assessment (ITSA) is due to be introduced from April 2024 for sole traders (including self-employed tradespeople) and landlords with total business or property income above £10,000 per year.

Unlike the existing ITSA scheme, which only requires one filing per year (31 October for paper returns and 31 January if filing online), MTD for ITSA will require you to provide HMRC with quarterly updates. After the fourth quarter, an End Of Period Statement will need to be made for each income source. A final declaration will also need to be made including other sources of taxable income such as savings and investment income.

Key points to bear in mind:

- You'll need to keep digital records of all your business income and expenses.
- The deadlines for finalising tax affairs and making payments are not changing.
- As HMRC rolls out its MTD for ITSA pilot programme, you can stay up-to-date with using Xero for ITSA [here](#).

When do I need to comply with MTD?

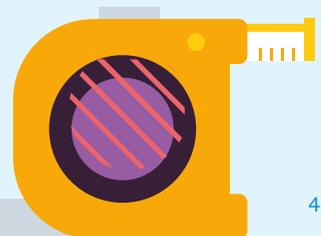
Answer our questions below to understand how MTD impacts you:

1. Are you a sole trader/ self employed?

If you're a non-VAT registered sole trader with turnover above £10,000 per year, then you'll need to comply with MTD for ITSA (from 2024).

2. What about VAT-registered sole traders?

If you're a VAT-registered sole trader, you'll have to comply with both MTD for VAT (from April 2022) and MTD for ITSA (from 2024).



86% of those
we surveyed agree
they found it easier
to prepare their
VAT return with Xero*

*based on a survey run by Xero in the UK in August 2021 of 375 Xero subscribers.

A closer look at Domestic Reverse Charge

What is Domestic Reverse Charge?

Domestic Reverse VAT Charge for Building and Construction Services (DRC)

was introduced by HMRC on 1 March 2021. Simply put, it's a new way of accounting for VAT and will apply to all VAT-registered construction businesses in the UK. It means that buyers or customers now need to account for VAT instead of suppliers.

What does this mean in practice?

DRC moves the VAT liability from the supplier (subcontractor) of a service in the construction industry to the customer (contractor).

As a tradesperson or business owner in the construction industry, this means that it's the responsibility of your customers, if they are VAT-registered, to account for the VAT on their VAT return, and you, as the supplier, will need to issue a reverse charge invoice to help facilitate this.

What do I need to do to comply with DRC?

How Domestic Reverse Charge impacts your business, depends on if you are acting as a subcontractor or a contractor.

If you are a VAT-registered subcontractor (supplier) who provides building and construction services to a CIS- and VAT-registered contractor (customer), then you no longer need to account for the VAT. Instead, your invoice should inform your customer that the VAT reverse charge is applied, and they are responsible for the VAT using the reverse charge procedure.

If you are carrying out work for a non-VAT registered customer, or an end user such as a domestic job in someone's home, then DRC will not apply and you must still account for the VAT yourself.

If you are a VAT-registered contractor (customer), you will instead account for both input and output tax on invoices you receive from your VAT-registered subcontractor.



[HMRC has a detailed list of services](#)

(e.g. construction, installation etc) to which reverse charge applies, as well as a full [explanation of exemptions](#).

How can I create a Domestic Reverse Charge invoice?

If you are a subcontractor, you need to ensure DRC is reflected on your invoices.

[Xero handles Domestic Reverse charge](#)

automatically, ensuring you have the right information shown on your CIS sales invoices.

In Xero, you can use the ‘Domestic Reverse Charge on Income’ tax rates when raising invoices for construction services and related supplies. Xero will know that VAT should not be charged and will inform your customer that they are to account for VAT. If you are using Xero’s CIS feature it will also automatically calculate the CIS your supplier should withhold, so everything is done for you.

You can view an example of a reverse charge invoice for one contract with different VAT rates [here](#).

How can I create a Domestic Reverse Charge bill?

If you are a contractor, you need to ensure DRC is reflected on the bills you receive from your subcontractors. In Xero, you can use the ‘Domestic Reverse Charge on Expenses’ tax rates when posting bills for construction services and related supplies. Xero will know that Reverse Charge is to be applied and will automatically ensure the correct VAT is calculated. If you are using the CIS feature, Xero will also calculate the amount of CIS to withhold.

What about adding Domestic Reverse Charge on my VAT return?

To support DRC, [Xero](#) has specific tax rates to use on invoices and bills in order to report the correct amounts on the MTD VAT return. Xero will do the work for you and ensure the boxes are updated with the correct values. It also gives you the option to drill down to details so you can double check anything you need to.

You can learn more about using Xero for DRC [here](#).



A closer look at the Construction Industry Scheme

What is the Construction Industry Scheme?



The Construction Industry Scheme (CIS)

is managed by HMRC and impacts tax and payments related to the construction industry. Simply put, it requires tax to be deducted at source when payments are made by a contractor or subcontractor.

What does this mean in practice?

If you make payments under a construction contract when one party is a contractor and the other party is a subcontractor, then you must comply with CIS regulations.

Under CIS rules, the contractor must deduct tax at source on any payments made to the subcontractor, depending on the subcontractor's registration status.

It's important to note that CIS does not apply to payments made to employees, as this is covered by the PAYE system.



What do I need to do to comply with CIS?



Contractors & CIS

If you're a contractor - such as a property developer or builder - and you pay subcontractors, you must [register with HMRC](#) before you take on your first subcontractor.

You'll also need to check if you should take on the subcontractor as an employee instead of subcontracting the work. This is important, as you could face a penalty if you falsely subcontract the worker as opposed to employing them.

Once you've confirmed that it's okay to subcontract the work, you'll need to check with HMRC that your subcontractor is registered with CIS.

Then, when you pay the subcontractor, you'll need to [deduct the right amount of tax](#) and National Insurance from their payments and send this directly to HMRC.

The deduction rates are:

- **20% for registered subcontractors**
- **30% for unregistered subcontractors**
- **0% if the subcontractor has ['gross payment' status](#)**

You'll also need to file monthly returns and [keep CIS records](#).

For a full breakdown of your obligations as a contractor under CIS, take a look [here](#).



What do I need to do to comply with CIS?



Subcontractors & CIS

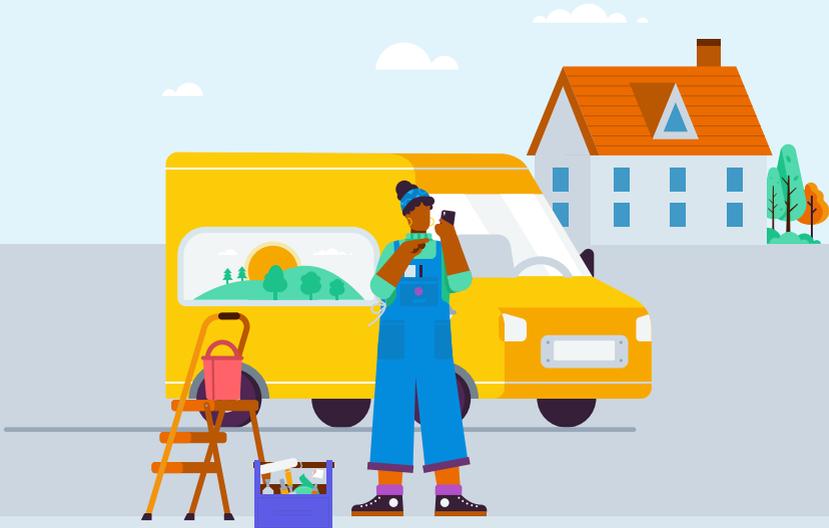
If you're a subcontractor - such as a sole trader, the owner of a limited company or a partner in a partnership or trust - you'll need to [register for CIS](#). You must ensure that you give your contractor your legal business name and Unique Taxpayer Reference so they can verify you and deduct the right amount of tax and National Insurance before paying you. Deductions will usually be 20%, but could be 30% if you are not registered for CIS or if the contractor cannot verify you with HMRC.

You should receive monthly statements outlining your payment and any deductions that have been sent directly to HMRC.

It's important that you double check these, as you're still responsible for paying the correct tax and National Insurance for your business, even if deductions have already been made throughout the year by contractors.

If you'd rather pay all your tax and National Insurance to HMRC at the end of the year yourself, you can apply for a [gross payment status](#) when registering for CIS.

For a full breakdown of your obligations as a subcontractor under CIS, take a look [here](#).



Can software help with CIS compliance?



As a contractor, using [CIS accounting software](#) can help you to easily and quickly make CIS scheme deductions and submit returns. [Xero](#), for example, automatically calculates the right amount of CIS deductions on your invoices the moment you create them, even if it's on your mobile phone when you're on the go. You can also submit CIS returns directly to HMRC securely with just the click of a button.

Additional features also allow you to check and verify your subcontractors with HMRC, so you can confirm their SVN and CIS deduction rate without hassle. You can send statements directly to your subcontractors in bulk, too.

When you enable CIS as a subcontractor, Xero uses CIS account codes to calculate and apply deductions to your transactions. You then create invoices as usual and check the deductions made by contractors on your behalf in the CIS Suffered report.



“

Xero is working well for us as a small business – but as we start to grow, we know it’s capable of supporting that too. It’s just a fantastic package and we’re very happy to have it on board to help us to do what we do best.”

Paul Walden, Owner,
Paul Walden Interiors

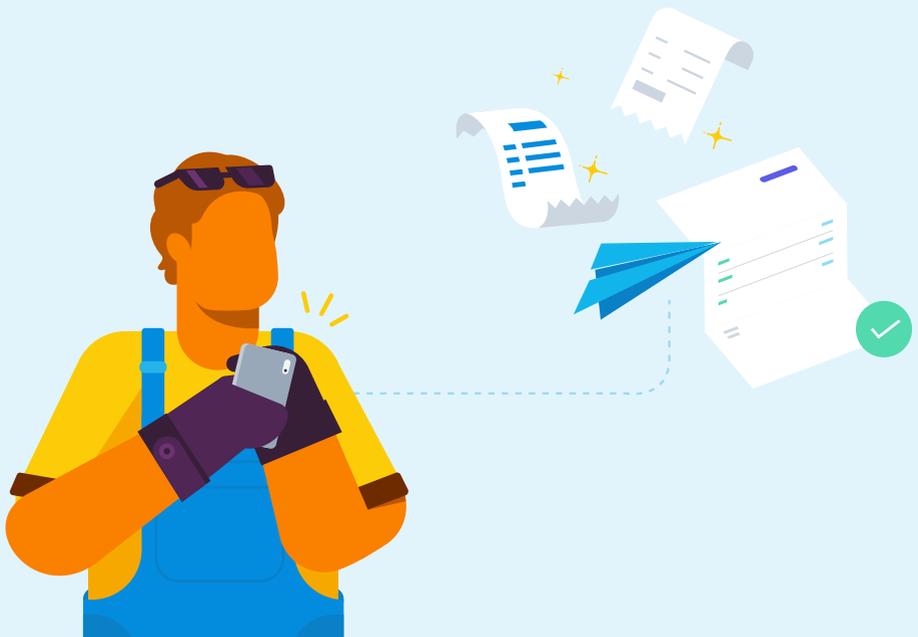


How to stay compliant with MTD, DRC & CIS

If you don't already use accounting software to support with MTD, DRC and CIS then this is a great time to start. Using cloud accounting software like Xero makes life a whole lot simpler, especially when it comes to navigating compliance with sometimes complex legislation such as DRC, CIS and MTD for VAT.

Xero is one of the UK's largest cloud accounting software providers with three million customers globally. Whether you're a builder, plumber, plasterer, carpenter, or managing a construction business, Xero can help you manage your business on the go and stay on top of your tax obligations.

Xero is HMRC-recognised, **fully compliant** with Making Tax Digital for VAT, and includes product features to support Domestic Reverse Charge, and Construction Industry Scheme obligations. Our multiple award-winning software also gives you direct access to accounting professionals who are on hand to support you.



Xero for trade and construction



Xero's **features** have been designed with tradespeople and construction business owners in mind, including the ability to:



1. Quote and invoice on the go

Send customised quotes and invoices on-the-go from your phone, wherever you are.

2. Accept payments instantly

Add a 'Pay now' button to invoices, making it easy for customers to pay you immediately.

3. Comply with government initiatives

Xero automates your CIS and Domestic Reverse Charge VAT calculations, and lets you submit MTD VAT returns online in minutes.

4. Sync with construction industry apps

You can also manage job costing, projects, and your employees by integrating Xero with industry-leading apps, such as Tradify, Simpro, ServiceM8 and many more.

5. Manage expenses on the move

Easily snap and scan receipts on your mobile and upload to Xero to keep accurate digital records - meaning no more lost receipts.



Paul Walden
Owner,
Paul Walden Interiors

“

Having Xero on board is great because we haven't got to worry about all that paperwork in the evening. We're saving hours. It's given us back our quality of life, rather than sitting at a desk, and constantly working through figures.”

Learn more about how Xero helped Paul's painting and decorating business thrive by reading his story [here](#). And he's not alone, based on a recent survey run by Xero:

- * **86%** agreed that Xero makes their life easier*
- * **78%** feel more in control of their business finances with Xero*
- * **88%** agreed that Xero has made Making Tax digital for VAT easy**

*based on a survey run by Xero in the UK in August 2021 of 704 Xero subscribers.

**based on a survey run by Xero in the UK in August 2021 of 375 Xero subscribers who submit VAT returns through Xero.

Your resources

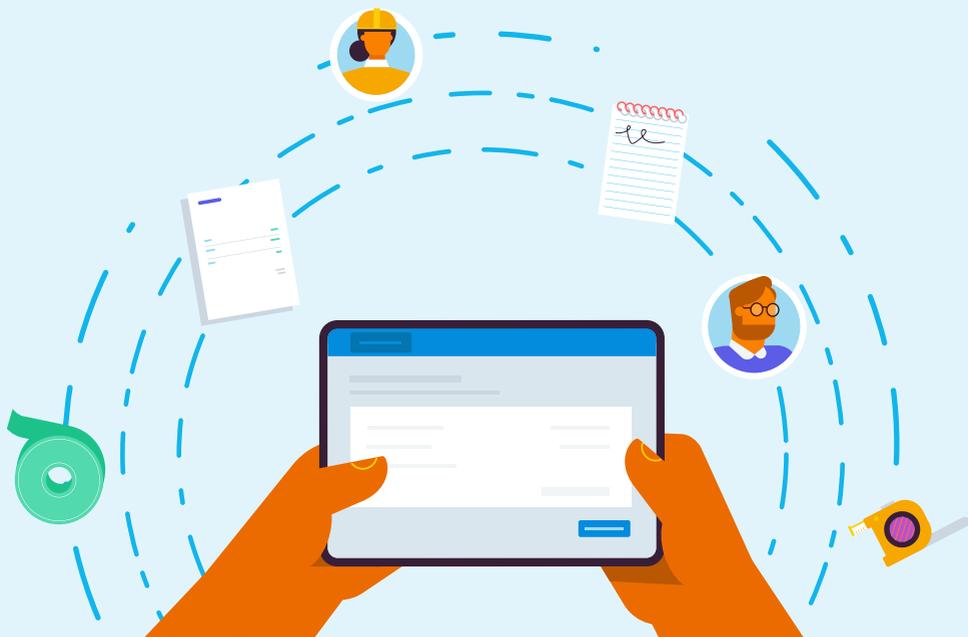
- * **To learn more about how Xero can support your business with Making Tax Digital, [register for our webinar](#)**

We'll be exploring what MTD for VAT means for you, along with how you can prepare and submit your VAT returns in Xero after April 2022.

- * **You can also explore our business resources to help ensure you're ready for the next phase of Making Tax Digital [here](#).**

- * **[Sign up](#) for a [free 30-day trial](#) to see how **Xero** can help your construction business thrive.**

If you're looking for an accountant or bookkeeper who specialises in helping clients in the construction industry, explore our [Xero advisor directory](#) to find your perfect match.



Try Xero for free!

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- * Add unlimited users
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