

## Algeco UK – Domestic Reverse Charge (DRC) guidelines

### What is DRC?

The **Domestic Reverse Charge (DRC)** is a VAT rule introduced to reduce VAT fraud in the construction industry.

- It applies to certain **construction services** (called “specified services”) that fall under the **Construction Industry Scheme (CIS)**.
- Instead of the supplier charging VAT, the **customer accounts for the VAT** (if they are not the “end user”) and then reclaims the VAT if they are a fully taxable person or organisation.

### When does DRC apply?

DRC applies when:

- The services are supplied at the standard or reduced rate of VAT
- Both the **supplier and customer are VAT-registered in the UK**.
- Payment for the services is required to be reported under the **CIS**.
- The customer has **not** confirmed in writing that they are the **end user** or an **intermediary supplier**.

### What are “specified services”?

DRC covers services such as:

- Construction, repair, extension, demolition, or dismantling of buildings/structures or land works (for example, walls, pipelines, power lines).
- Installation of systems (heating, lighting, air-con, power, water, fire protection etc).
- Internal cleaning as part of construction, repair, or restoration.
- Painting and decorating (internal or external).
- Work that prepares or supports the above (for example, site clearance, foundations, scaffolding, landscaping).

### What is not covered by DRC?

The following are **not specified services**:

- Manufacturing or delivering building materials, components, machinery, or equipment.
- Professional services (architects, surveyors, consultants).
- Supply of people by employment agencies.

### The 5% disregard rule

This rule is **optional** and only applies if both parties agree.

**Algeco UK does not apply the 5% disregard** — contracts are either fully inside or outside DRC.

## 6. How Algeco UK applies DRC

- **Customer responsibility:** Customers must notify Algeco UK in writing with their VAT number if applicable and their CIS number if applicable, whether

they operate any reliefs in regards to reporting payments under CIS and if they are applying end user status.

- For new customers: this is part of the credit application.
- For existing customers: applies **from date of notification only**. The VAT treatment on previous invoices will only be revisited if it can be demonstrated that the VAT treatment applied was incorrect.
- **Contract level, not account level:** DRC is applied per contract. If a contract includes specified services, the whole contract is under DRC.
- Once DRC is applied, customers cannot change VAT status for specific invoices, unless they issue an end user notification. If DRC is removed, it only applies from the date of notification. No backdating.
- Contracts without specified services cannot be manually amended to include DRC and contracts cannot be split into separate contracts for specified services and non-specified services.

### Examples

#### Example one

- Customer does not issue end user notification.
- Contract includes specified services.

**Outcome: DRC applies to all items on the contract.**

#### Example two

- Customer does not issue end user notification.
- Existing contract includes specified services.
- Customer adds 50 chairs to the same contract.

**Outcome: DRC applies to the chairs (since they are added to a DRC contract).**

#### Example three

- Customer does not issue end user notification.
- Existing contract includes specified services.
- Customer orders 50 chairs under a new contract/PO (no specified services).

**Outcome: DRC does not apply. Chairs are charged with standard VAT.**

### Additional information

- **Legislation:** VAT (Section 55A) (Specified Services and Excepted Supplies) Order 2019 (SI 2019/892)
- **HMRC guidance:**
  - [DRC VAT Manuals](#)
  - [Technical Guide](#)