

VAT Treatment of construction services

This document should be read in conjunction with Section 16(3), Section 16(5), Section 41(4), Section 66(4) & (4B), Section 94(8), Section 97(3) and Schedule 3 paragraphs 9(1), 15(2) and 16 to the VAT Consolidation Act 2010 (VATCA 2010)

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Table of Contents

1	Construction Work.....	3
2	Taxation of construction services	3
3	VAT Registration	3
3.1	Principal contractors.....	3
3.2	Sub-contractors	4
3.2.1	Irish Resident	4
3.2.2	Non-Resident	4
4	Rates of VAT	4
4.1	Reduced rate of VAT	4
4.2	Second reduced rate of VAT	5
4.3	Standard rate of VAT	5
5	The “two-thirds rule”	5
6	Reverse charge.....	5
6.1	When the reverse charge applies	5
6.2	How the reverse charge operates	6
6.3	Government Departments, local authorities and public bodies.....	6
7	Supplying construction services to connected persons	7
7.1	Connected Persons	7
8	Other supplies	8
8.1	Taxable persons carrying out work for themselves	8
8.2	DIY projects.....	8
	Appendix 1: Examples of how the reverse charge operates.	9

Introduction

This guidance sets out the VAT treatment of construction services.

This guidance does not deal with Relevant Contracts Tax (RCT) or supplies of property. For further information on these areas please see Revenue's guidance on [RCT](#) and [VAT on Property](#).

1 Construction Work

The supply of construction services, in relation to immovable goods, includes:

- construction, extension, alteration, and demolition services, and
- building, electrical, plumbing, plastering, heating, painting, roofing, flooring and other construction related services.

2 Taxation of construction services

VAT on construction services that are not subject to [RCT](#) are taxed under normal VAT rules. For example, a builder who builds an extension for a private individual charges and accounts for VAT on the supply under the normal rules.

Supplies of construction services, by a Sub-Contractor to a Principal Contractor, where the operation of RCT is required are dealt with on a [reverse charge](#) basis. The reverse charge also applies where there is a supply of construction services in the State between two connected persons.

Construction service providers may be involved in different types of contracts therefore it is important to be aware of the different VAT treatment for each contract.

3 VAT Registration

Taxable persons engaged in construction services are obliged to register for VAT if their annual turnover from the supply of such services exceeds, or is likely to exceed, the [services threshold](#).

3.1 Principal contractors

Principal contractors required to operate [RCT](#), who receive construction services from a subcontractor, must register and account for VAT irrespective of their turnover. This applies to both resident and non-resident principal contractors.

A non-resident principal contractor who supplies construction services in the State, which are not subject to RCT, must register and account for VAT in the State irrespective of their turnover, even if the job is a 'once-off' contract.

A principal contractor must always account for VAT on construction services received from non-resident sub-contractors irrespective of whether that sub-contractor is VAT registered.

3.2 Sub-contractors

3.2.1 Irish Resident

Irish resident sub-contractors who supply construction services in the state must register for VAT if the services threshold is exceeded or likely to be exceeded.

3.2.2 Non-Resident

Non-resident sub-contractors who only supply construction services in the State to principal contractors are not obliged to register or account for VAT in the State. However, they are required to register for VAT for the purposes of claiming a refund of VAT, subject to the usual conditions.

Where a non-resident sub-contractor provides construction services to customers in the State other than principal contractors, they must register and account for VAT irrespective of their turnover.

4 Rates of VAT

4.1 Reduced rate of VAT

The [reduced rate](#) of VAT applies to the following:

- The supply of construction services which includes construction work generally; renovation and demolition of buildings; maintenance and repair of buildings; the installation of plumbing, heating and electrical services; and the supply and installation, maintenance and repair of fixtures¹.
- The supply and placing in a fixed position of garden sheds, greenhouses and similar structures, subject to certain conditions².
- The supply only of ready to pour concrete and concrete blocks, subject to certain conditions.³
- The installation of solar panels (subject to the two-thirds rule) if there is a separate installation contract⁴.

¹ For further information see Revenue's guidance on [fixtures and fittings](#)

² For further information see Revenue's guidance on [Garden sheds and prefabricated structures](#)

³ Paragraph 16 of Schedule 3 to the VAT Consolidation Act 2010

⁴ For further information see Revenue's guidance on [Solar panels](#).

4.2 Second reduced rate of VAT

The [second reduced rate](#) of VAT applies to the following:

- The supply and installation of heat pump heating systems⁵

4.3 Standard rate of VAT

The [standard rate](#) of VAT applies to the following:

- The supply of all other building materials.
- The supply of scaffolding, the hire of scaffolding, and the hire and erection of scaffolding.
- The supply of fittings, the installation of fittings, and the supply and installation of fittings.

5 The “two-thirds rule”

The application of the two-thirds rule should always be considered with regard to the applicable VAT rate when invoicing for VAT on construction services. Further information on the “two-thirds rule” is available [here](#).

The two-thirds rule cannot apply to supplies of construction services between the following parties: -

- Construction services where principal contractors account for VAT on the receipt of construction services from sub-contractors.
- Construction services between two connected parties.

6 Reverse charge

Under normal rules VAT is charged and accounted for by the supplier of the goods or services. However, where the reverse charge applies to the supply of goods or services, the recipient rather than the supplier, is obliged to account for the VAT due.

6.1 When the reverse charge applies

The reverse charge applies where there is a supply of construction services:

- By a sub-contractor to a principal contractor (which includes public bodies) where the operation of RCT is required.
- Between two connected persons.

⁵ For further information see Revenue’s guidance on Heat pump heating systems.

6.2 How the reverse charge operates

- The charge for services by a sub-contractor does not include VAT.
- The VAT registered sub-contractor issues an invoice to the principal contractor, which shows all the same information as appears on a VAT invoice, except the VAT rate and VAT amount. The invoice should include the VAT registration number of the sub-contractor.
- The invoice should also contain the statement 'VAT on this supply to be accounted for by the principal contractor'. [1]
- The principal contractor pays the sub-contractor for the services. This payment should not include VAT.
- If RCT is to be deducted by the principal contractor, it should be calculated on the VAT-exclusive amount.
- The principal contractor should include the VAT on the services received from the sub-contractor in Box T1 of its VAT return for the period in which the supply is made. [2].
- Where entitled to do so, the principal contractor can claim a simultaneous input credit in its VAT return for the period. [3]

[1] If agreed by both the principal contractor and the sub-contractor the principal contractor may issue the invoice.

[2] In the case of a payment in advance of completion of the supply, the principal contractor will include the VAT on the payment in the VAT return for the period in which the payment is made.

[3] A Principal contractor for RCT purposes includes local authorities, Government Departments and boards established by or under statute. Many of these bodies would not be entitled to VAT input credit.

See Appendix 1 for examples which illustrate how and when the reverse charge is operated.

6.3 Government Departments, local authorities and public bodies

Government Departments, local authorities and public bodies who are principal contractors for the purposes of RCT and who receive construction services are required to register and account for VAT on those services.

Generally, these bodies do not engage in any taxable activities, and therefore, are not normally entitled to claim any deduction for VAT incurred. For further information please see Revenue guidance on [Procurement of goods and services by a public body](#).

See Appendix 1, example 3 which illustrates how the reverse charge is operated.

7 Supplying construction services to connected persons

Where the supplier and the recipient of a construction service are connected persons and the recipient of the service is a taxable person then the recipient must account for the VAT due under the [reverse charge](#) basis and the ["two-thirds rule"](#) does not apply.

The supplier of the construction service must provide a document to the recipient indicating that the recipient is liable to account for the VAT. The recipient may draw up this document if both parties agree.

The document must contain the details required on an invoice other than the amount of tax payable and the rate of tax applicable.

Where the supplier and the recipient of a construction services are connected persons, and the recipient of the service is not a taxable person, then VAT is chargeable by reference to the market value of the work carried out.

7.1 Connected Persons

Generally, the supplier of a construction service is connected to others if they are relatives or spouses/civil partners or if they are trustees of a settlement, are in partnerships, have control over or are controlled by others including bodies of persons. For the full definition of a connected person and control, reference should be made to [section 97\(3\)](#) and [section 4\(2\)](#) of the VATCA2010.

Where a connected person of the owner of land carries out construction work for the landowner, the connected person is not regarded as developing such land in the course of a business of developing immovable goods. Rather the connected person is regarded as providing a construction service to the landowner.

Example

John Murphy buys land with the intention of developing 10 residential properties on it. The intention is to sell 8 houses and retain 2 for rental purposes. John Murphy engages a connected company, Murphy Construction Ltd., to carry out construction of the 10 houses. John Murphy is regarded as a person who developed 8 houses in the course of a business of developing immovable goods and is regarded as developing the other 2 houses in the course of the property rental business.

Notwithstanding the fact that Murphy Construction Ltd. carried out development as defined in Section 2 VATCA 2010 and was entitled to full deductibility in respect of the construction of all 10 houses, the company is regarded as having carried out a construction service for John Murphy rather than having developed the 10 houses in the course of a business of developing immovable goods.

8 Other supplies

8.1 Taxable persons carrying out work for themselves

Where a sole trader carries out building work for their own benefit the transaction is treated as a self-supply and VAT is not recoverable on the input costs incurred in making the supply/carrying out the work.

8.2 DIY projects

Building materials, except for ready to pour concrete and concrete blocks, are liable to VAT at the [standard rate](#) of VAT. There is no provision for the repayment of any VAT to private individuals who undertake their own building work.

Appendix 1: Examples of how the reverse charge operates.

Example 1 – Principal Contractors and Sub-contractors

A Ltd is renovating a factory building for a manufacturing company. A Ltd invoices the manufacturing company in February as follows:

Construction services:	€740,740
VAT @13.5%:	€100,000
Total:	€840,740

These services do not come within the reverse charge since A Ltd is not a Sub-Contractor to the manufacturing company for RCT purposes.

B, a building contractor, supplies services to A Ltd. A Ltd is the Principal Contractor and B is the Sub-contractor. A Ltd does not hold a deduction authorisation for B.

B incurred €13,000 VAT on purchases in January/February for the purposes of the business.

B charges A Ltd €600,000 in January for the building services. B does not charge any VAT on this amount. A Ltd accounts for the VAT on the construction services from B. VAT chargeable on the services at 13.5%⁶ = €81,000.

As the construction services provided by the Sub-Contractor to the Principal Contractor were invoiced during January/February the VAT on these services is accounted for by reverse charge in the VAT return for that period.

January/February VAT Return - A Ltd, Principal Contractor

VAT 3 Return - Example of reverse charge		
VAT 3 Return Headings	Example Explanation	Amount
T1 VAT on Sale	A Ltd includes VAT of €181,000 as VAT on Sales (VAT on its own sales of €100,000 plus reverse charge VAT of €81,000 on services received from B).	€181,000.00
T2 VAT on Purchases	A Ltd can claim input credit of €81,000 (reverse charge amount) VAT in the same return.	€81,000.00
T3 Net Payable	A Ltd should pay Revenue €100,000.	€100,000.00
T4 Net Repayable		€ 0.00

Revenue will notify the Principal Contractor as to the rate of RCT to be deducted from the payment to the Sub-Contractor (i.e., 0%, 20% or 35%).

⁶ The VAT rates used in the examples in Appendix 1 are those applying at a point in time and you should therefore check the [Revenue website](#) to ensure that you are applying the correct rate to a specific transaction.

January/February VAT Return - B, Sub-Contractor

VAT 3 Return - Example of reverse charge		
VAT 3 Return Headings	Example Explanation	Amount
T1 VAT on Sale	B does not account for VAT on the services supplied to A Ltd as B only does work for a Principal Contractor. VAT on sales figure is "Nil".	
T2 VAT on Purchases	B is entitled to input credit of €13,000.	€13,000.00
T3 Net Payable		
T4 Net Repayable	B is entitled to a repayment of €13,000.	€13,000.00

Example 2 - Principal Contractors and Sub-contractors

The facts are as in Example 1 but B also does building work for private householders in January/February. RCT does not apply to this work. B accounts for VAT of €70,000 in respect of these supplies.

C is a Sub-Contractor, who has an electrical business, but who does occasional work for B. C's only supplies in this period are made to B. C is registered for VAT. C charges B €48,000. C has incurred VAT of €1,000 for which C is entitled to input credit.

B is a Principal Contractor in respect of the electrical services received from C. (For A Ltd see Example 1).

January/February VAT return - B, Building Contractor

VAT 3 Return - Example of reverse charge		
VAT 3 Return Headings	Example Explanation	Amount
T1 VAT on Sale	In the January/February VAT return B includes VAT of €76,480 (€70,000 VAT charged to private householders plus €6,480 reverse charge VAT on services received from C). B does not charge VAT on supplies to A Ltd, as Principal Contractor, as A Ltd accounts for VAT on the reverse charge basis.	€76,480.00
T2 VAT on Purchases	B claims VAT of €19,480 (€13,000 input credit as in Example 1 and €6,480 reverse charge on the supplies from Sub-Contractor C).	€19,480.00
T3 Net Payable	B pays Revenue €57,000.	€57,000.00
T4 Net Repayable		€ 0.00

January/February VAT return - C, Electrical Contractor

VAT 3 Return - Example of reverse charge		
VAT 3 Return Headings	Example Explanation	Amount
T1 VAT on Sale	C does not account for VAT on any supplies as C only provided services to a Principal Contractor. VAT on sales is "Nil".	€ 0.00
T2 VAT on Purchases	C claims VAT input credit of €1,000.	€1,000.00
T3 Net Payable		
T4 Net Repayable	C is entitled to a VAT repayment of €1,000.	€1,000.00

Example 3 – Government Departments, local authorities and public bodies

A County Council contracts for the building of a road with D Ltd which charges €1,000,000 for its construction services in January/February. For RCT purposes the County Council is a Principal Contractor and the construction company is a Sub-Contractor.

January/February VAT Return - County Council

VAT 3 Return - Example for reverse charge		
VAT 3 Return Headings	Example Explanation	Amount
T1 VAT on Sale	D Ltd invoice the County Council for €1,000,000. It does not charge VAT. The County Council calculate the VAT at 13.5%, €135,000 and show this as VAT on sales (T1) in its January/February VAT return.	€135,000.00
T2 VAT on Purchases	The County Council is not entitled to any VAT deduction, so it shows VAT on purchases as "Nil".	€ 0.00
T3 Net Payable	The County Council returns €135,000 VAT to Revenue.	€135,000.00
T4 Net Repayable		€ 0.00