

Reverse charge -A letter to send to your subcontractors

This letter should go to all VAT registered Subcontractors who you pay for construction operations, whether paid gross or net being subcontractors whose UTR you have verified.

Dear XXXXX,

We are writing to you because you are a valued subcontractor of ours who is VAT registered and who provides us with construction services so who is paid under the terms of our CIS scheme (gross or net).

We think it is sensible to warn you of major changes to the VAT scheme for construction which HMRC are imposing and which will begin on 1st March 2021. They will affect the payments we will make you after that date. It is important that you know and understand the changes and plan for them because they may have a large repercussion for your cashflow this spring .

The published guidance that has been released by HMRC so far is at

www.gov.uk/government/publications/vat-reverse-charge-for-building-and-construction-services

It is also useful to look at and understand the published guidance on the CIS scheme itself which can be found at www.gov.uk/government/publications/construction-industry-scheme-cis-340

We are VAT registered no xxxxxxxxxxxx (COMPLETE)

We are CIS registered no xxxxxxxxxxxx (COMPLETE)

The work you do for us is within the scope of the CIS scheme and we are not end users of the projects on which we engage you. **Check this**

It seems likely that when working as a subcontractor for us the new reverse charge rules will apply to all the applications for payment or invoices that you send to us. This means that after 1.3.2021 when you do £1000 of standard rated work for us

- You will invoice for £1000 showing your supply as standard rated but NOT adding the £200 VAT to the amount due from us
- We will pay £1000 (not £1200 as now)
- Our VAT return will show £1000 plus £200 VAT as both an input and an output. We will therefore gain no advantage from the change.
- Because you have not been paid £200 VAT by us, you will not owe HMRC £200 VAT
- If you buy substantial materials used in subcontracted work, you may need to speak to your accountants to decide whether you should ask to send in monthly VAT returns in order to recover the VAT you have spent on materials each month rather than wait for a quarterly repayment.
- If you do some work for end consumers like domestic customers, or for customers who are not VAT registered, you will bill them the VAT as now. The new rules only affect supplies you make to firms who are not the final user of the building or structure and who are VAT

registered. It is therefore sensible from now on to keep a record of your customers VAT numbers and ask them whether they include the payments they make to you on a CIS return (i.e., the work is within the CIS scheme and they are CIS registered)

The change is ahead –you must prepare

If the contractors, you work for do not pay you VAT after 1.3.2021 there will be implications for the flow of cash in your business and you MUST check how you can manage these.

For example

Will you have the money to pay your historic VAT bill from the last quarter in the old rules if no VAT is paid to you after 1.3.21?

Can you afford to pay wages and PAYE if VAT is not flowing through your bank account?

We will not be allowed to pay you VAT after the date of change so you must have prepared to withstand a period when cash flow may be stretched. Your invoices will need to be in a new format that does not add VAT to the total due. If you invoice for VAT after that date, we will return the invoice which will delay payment. Be prepared.

Transition

The cut over date is 1.3.2021. Invoices dated up till 28.2.2021 will request VAT and can be paid with VAT. Invoices dated on 1.3.2021 and after will not show VAT in the amount payable columns.

Staged or interim payments made after an application for payment when a QS has certified work will be governed by the date of the payment itself. So staged or interim payments made up to or on 28.2.2021 will have VAT added. Those paid after that date will not be paid with VAT.

We understand that this is a major change for everyone and will worry you.

- Read the government website
- Talk to your accountant
- Plan out how you will pay your bills through the final quarter of 2019 when cashflow will be at its most difficult
- Redesign your invoices and applications for payment
- Consider how you will monitor whether your customers are VAT registered and CIS registered
- Think about whether you will need to be a monthly repayment trader.

Remember that the Government will soon have a dedicated reverse charge website where there will be more information. This letter is intended only to warn you of the change and allow you to make your own preparations. We hope you find it helpful.

Yours faithfully,