



Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

10 December 2020

Dear Chancellor

Re: Call to withdraw Reverse Charge VAT in Construction

We are writing to you as the major trade bodies in the construction industry to share our serious concerns regarding the planned introduction of Reverse Charge VAT on 1 March 2021. Collectively, we represent tens of thousands of companies throughout the construction sector, both contractors and sub-contractors, from the largest to the very smallest.

As you will be well aware, the construction sector has worked throughout the coronavirus pandemic, keeping vital services and infrastructure running, as well as playing a fundamental role in supporting the economy at a time when many businesses and sectors are struggling to operate. Your support through various schemes has been extremely welcome, and we are delighted that, whilst the Coronavirus Job Retention Scheme (CJRS) has helped many employers, the latest information shows that the number of construction employees on furlough is down to an average of 6% and most construction companies do not intend to make use of the CJRS going forward.

Impact on SMEs

As our sector works hard to deliver the Government's 'Build Build Build' strategy, the introduction of Reverse Charge VAT will have a significant negative impact on the industry, substantially increasing the burden on business and restricting cash flow in what is already an extremely difficult economic climate. VAT often makes up to 20% of an invoice, in an industry where margins are typically far lower, sometimes as low as 1 - 3%. As a result the changes will particularly impact SMEs that provide both services and materials. This is because they will have to pay VAT on the materials they purchase, including extremely costly elements such as steel, cladding and concrete, but will not be paid the VAT by their customer. For a significant number of companies this will be unsustainable and three case studies are set out below.

Case Study 1

A Build UK Specialist Contractor with 59 employees has an annual turnover of £14 million and provides installation services to tier 1 contractors on key infrastructure projects across the UK. Approximately £5.6million (40%) is spent on buying high value cladding, glazing and roofing products, which means on average its operations result in VAT payments of £337,000 to HMRC each quarter.

After the introduction of Reverse Charge VAT, the company will continue to pay VAT on all the materials purchased but will not receive VAT on the services it provides, leading to VAT repayments of £280,000 from HMRC each quarter. This change results in a peak cash flow gap in excess of £600,000 which will be extremely difficult to fund and would lead to a profitable business, which provides local employment and supports a supply chain, suffering a serious cash flow deficit.

Case study 2

Axis Europe PLC a medium-sized property services firm operating across the UK, employing around 950 people of which 10% are apprentices. Axis Europe is facing difficulties in accessing skills and in the recent past has declined important contracts, including those working on cladding, due to the lack of available contractors and pricing limitations. Its Chief Financial Officer has raised concerns that Reverse Charge VAT would further remove subcontractors from the supply chain, due to the cash flow issues it would create.

Concerns have also been raised as to the impact on material costs, as Reverse Charge VAT would require sub-contract companies to place downward pressure on payment terms for construction materials, resulting in increased material prices.

Case Study 3

Briggs Amasco Limited, a member of the National Federation of Roofing Contractors (NFRC) is a medium sized specialist roofing and waterproofing company with a turnover of £40 million. The company has 203 direct employees including 108 weekly paid roofing operatives and uses sub-contract labour.

The contractor works mainly as a subcontractor and if the Reverse Charge VAT is introduced its Finance Director has calculated that Briggs Amasco's working capital would be reduced by £1.245m: That is instead of having a VAT creditor of £1,143k it will have a VAT debtor of £102k at the end of April 2021.

Compliance

Companies that meet the appropriate threshold (two out of three of the following: 50 employees, £10.2 million turnover, £5.1 million balance sheet) are legally required to file financial statements at Companies House, which have been subjected to an external audit including the verification of VAT returns and payments. Construction companies will also be registered with the Construction Industry Scheme (CIS). These measures provide independent scrutiny which limits fraudulent behaviour and the introduction of Reverse VAT unfairly penalises those that pay their VAT and comply with their obligations.

Timing

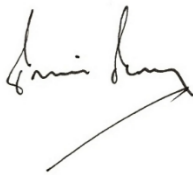
The timing of these proposed changes could not be worse, as companies across the industry are still dealing with the effects of coronavirus whilst also preparing for the end of the Brexit transition period, which will also have a significant impact.

Companies that provide accounts software and other supporting accounting services are in a similar position and have limited resources to support the sector implement this significant policy change.

Having demonstrated our commitment to supporting the UK economy and the fact that the majority of companies do pay VAT as required, **we would strongly urge you to reconsider this policy and withdraw the legislation that will introduce Reverse Charge VAT.**

We would be very happy to work with HMRC to combat fraud and work collaboratively to address its concerns with those businesses that are not complying with their obligations to pay VAT.

Yours sincerely



Brian Berry
CHIEF EXECUTIVE
 Federation of Master Builders

Supporting Reverse VAT letter

Build UK Contractor and Trade Association members which include:

- Asbestos Control and Abatement Division (ACAD)
- Association for Specialist Fire Protection (ASFP)
- Association of Concrete Industrial Flooring Contractors (ACIFC)
- Association of Ductwork Contractors and Allied Services (ADCAS)
- Association of Fencing Industries (AFI)
- Association of Lorry Loader Manufacturers and Importers (ALLMI)
- Association of Specialist Underpinning Contractors (ASUC)
- Association of Technical Lightning & Access Specialists (ATLAS)
- British Constructional Steelwork Association (BCSA)
- British Geomembrane Association (BGA)
- British Woodworking Federation (BWF)
- Building Engineering Services Association (BESA)
- CONSTRUCT Concrete Structures Group
- Catering Equipment Distributors Association (CEDA)
- Construction Employer's Federation (CEF)
- Construction Plant-hire Association (CPA)
- Contract Flooring Association (CFA)
- Door & Hardware Federation (DHF)
- Drilling and Sawing Association (DSA)

Engineered Panels in Construction (EPIC)
 Federation of Piling Specialists (FPS)
 Finishes & Interiors Sector (FIS)
 Highway Electrical Association (HEA)
 Insulated Render & Cladding Association (INCA)
 International Powered Access Federation (IPAF)
 National Access & Scaffolding Confederation (NASC)
 National Association of Shopfitters (NAS)
 National Federation of Demolition Contractors (NFDC)
 National Federation of Roofing Contractors Ltd (NFRC)
 Painting and Decorating Association (PDA)
 Resin Flooring Association (FeRFA)
 Rural and Industrial Design and Building Association (RIDBA)
 Single Ply Roofing Association (SPRA)
 Structural Timber Association (STA)
 The Tile Association (TTA)
 Thermal Insulation Contractors Association (TICA)

Civil Engineering Contractors Association (CECA)
 ECA
 National Federation of Builders
 Scaffolding Association
 SNIPEF
 The Electrical Contractors' Association of Scotland t/a SELECT