

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

22nd May 2020



Dear Chancellor

Re: Request for the postponement of reverse charge VAT until October 2021 at the earliest

We are writing as a coalition of construction industry representatives to request the postponement of reverse charge VAT, due to be implemented in October this year. We are calling for it to be delayed by a minimum of one year in recognition of the significant impact that the coronavirus has had on the industry. This request is supported by the Construction Leadership Council as part of its blueprint to ensure the industry has the capacity needed to lead the UK's economic recovery.

Construction companies are dedicating all their efforts to responding to the coronavirus. Until the lockdown in March the construction industry had been actively working with officials in your department and HMRC to prepare the industry for the introduction of reverse charge VAT. This is now very difficult to continue. Companies no longer have the capacity to prepare for this change. Furthermore, the virus has significantly impacted on activity and therefore cashflow in the sector.¹ The concern that reverse charge VAT will reduce cashflow in the supply chain risks the survival of many companies but especially SMEs.

We support initiatives that ensure the correct payment of VAT. However, those firms that pay properly risk being unfairly penalised not only by the withdrawing of VAT money in the supply chain at this crucial time.

Data on awareness levels and preparedness in the industry

We co-ordinated a cross-industry survey for two weeks in February 2020 to understand awareness levels and preparedness in the industry.

We received over 1,000 responses and found that:

- More than one third (39%) of respondents were not aware of reverse charge VAT;
- More than one third (36%) hadn't taken any steps to prepare;
- Less than one third had contacted their accountant (30%) or read guidance (24%);
and
- Almost half (46%) said their accountancy software was not ready for the change.

¹<https://www.ons.gov.uk/businessindustryandtrade/constructionindustry/bulletins/constructionoutputin/greatbritain/latest>

It must be acknowledged that these respondents are all members of a trade body and these bodies have implemented media awareness campaigns on this topic since 2018. Most firms operating in construction are small outfits with no representation and much harder to reach.

Firms lack the capacity to prepare

We have been holding regular roundtables with officials in your department and HMRC. We know that plans to communicate the policy have been delayed as government resources have been diverted to responding to the virus.

The scope for companies in the industry to prepare themselves has also dropped, as anecdotal evidence suggests that the staff required to prepare for the change, for example in finance or IT, have been furloughed as part of efforts to protect the firm.

Withdrawing cashflow from the supply chain risks the survival of some firms

Activity in construction has dropped significantly due to the virus. Firms that have accessed emergency finance through government-backed schemes will be diverting their profits to pay back these loans. They will therefore struggle to accumulate the working capital necessary to mitigate the impact on cashflow of reverse charge VAT.

The impact on cashflow is especially problematic for firms purchasing high value materials that are VAT-rated, but delivering construction services subject to reverse charge VAT.

Construction is fundamental to economic recovery post-coronavirus. The industry employs nearly 3 million people, contains nearly 315,000 firms (of which the vast majority are SMEs) and represents 9% of GDP. Delaying the implementation of reverse charge VAT will support the industry to contribute to this recovery and to retain the capacity necessary to deliver on the Government's housing and infrastructure projects in the years ahead.

We would be happy to discuss our request with you or your officials and look forward to hearing from you. Please send your response directly to the Federation of Master Builders (FMB) via PublicAffairs@fmb.org.uk.

Yours sincerely

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