Dear *sub-contractor*,

*We* are writing to our valued, VAT registered sub-contractors who provide us with construction services and therefore paid via the CIS scheme.

As you may already know, there are major changes coming to the VAT scheme for construction which HMRC are imposing and which will begin on 1st March 2021. It is important that you know and understand the changes and plan for them because they may have a large repercussion for your cashflow.

As a sub-contractor working for us the new reverse charge rules will apply to all the applications for payment or invoices that you send to us. See below for more information:

* 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.
* You will not owe HMRC £200 VAT as you have not been paid £200 VAT by us.
* If you buy 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 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 then you will bill them the VAT. You will need to determine whether your customer is an “End-User” or not.

We will not be allowed to pay you VAT after the Reverse Charge start date so you may have a period where cash flow may be stretched. We advise that you re-format your invoices so that it does not add VAT to the total due.

There is published guidance released by HMRC on the following site:

[www.gov.uk/government/publications/vat-reverse-charge-for-building-and-construction-services](http://www.gov.uk/government/publications/vat-reverse-charge-for-building-and-construction-services)

Yours faithfully,