



Improving the operation of the Construction Industry Scheme (CIS)

Summary of Responses

10 December 2014

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1. Executive Summary

Background

- 1.1 The Government is committed to making the tax system quicker, simpler and easier for businesses by reducing administrative burdens.
- 1.2 At Budget 2014, the Government said it would consult over summer 2014 to improve the operation of the Construction Industry Scheme (CIS).
- 1.3 The proposals were to:
 - make it easier to obtain gross payment status through easing the turnover and compliance tests;
 - introduce an online digital account for CIS;
 - upgrade CIS online processes, including mandating CIS returns;
 - improve the online verification service, including mandating online verification;
 - relax the reporting requirements for certain large payments; and
 - make it easier to register Joint Ventures.
- 1.4 This document summarises the responses to these consultations.

Headline summary of the responses and Government response

- 1.5 The majority of responses supported the Government's proposals to improve the operation of the scheme, with some expressing concerns about the detail of the proposals. This document summarises the responses to the consultations.

Turnover Test

- 1.6 The majority of responses supported a reduction in the threshold for multiple partner/director businesses to £100,000. Secondary legislation will be introduced to reduce this threshold from April 2016.

Compliance Test

- 1.7 Most responses supported a simplified compliance test but around a third did not support inclusion of directors' individual filing requirements. A number of others said that PAYE payment obligations should not be removed as they were a core compliance for any employer. After further review the Government agrees that PAYE deductions should be included and directors' filing requirements be removed from the revised test.

Mandating CIS returns – support for the digitally excluded

- 1.8 Respondents generally supported the introduction of mandatory online filing providing there was support for those who are not able to access an online channel. The Government confirms that customers unable to access an online channel by reason of age, disability, remote location or religious objection will be offered alternative filing arrangements.

Online Appeals

- 1.9 The majority of responses supported an online appeals service. Respondents said this should be introduced independent of online filing. The Government confirms HMRC will introduce online appeals in 2015 for customers who register for it ahead of the timetable for full mandatory on-line filing. From 2016 the service will be rolled out to all contractors.

A change to the Nil Return Obligation

- 1.10 Most responses welcomed the change to the nil return obligation. This change will be introduced from April 2015.

An online account for CIS

- 1.11 All respondents supported a digital account for the scheme integrated with existing digital programmes to offer customers instant visibility of transactions, such as deductions from payments. The Government intends to proceed with plans to introduce a digital account for contractors and subcontractors.

Verification

- 1.12 Most responses favoured enhancing the existing online verification service. However, they did not support the immediate withdrawal of full verification by telephone, preferring an overlapping period to test the efficiency of the improved online service. The Government recognises the concerns regarding withdrawal of the telephone service are valid. Therefore, it will delay withdrawal of the main telephone service until 2017 to allow users to experience the improved system.
- 1.13 Views were mixed on the usefulness of a smartphone app for verification; many smaller office based contractors were enthusiastic about an app while other larger contractors didn't think they would use it. HMRC intends to introduce a web-based application capable of being used on any device.
- 1.14 Most respondents expressed strong concerns regarding HMRC's proposal to remove the obligation to verify every subcontractor. Contractors saw its value in ensuring data integrity and wanted to retain current practice. The Government will not explore this proposal further.

Joint Ventures

- 1.15 The informal consultation proposed that where one member of a Joint Venture already has gross payment status, the requirement for all fellow members to satisfy the compliance tests could be relaxed. Respondents strongly supported this proposal saying it would help speed up administration for new projects and investments. The Government intends to introduce legislation with effect from April 2015 to support this change.

Large Payments

- 1.16 The informal consultation proposed companies who only made gross payments above a specified amount should be able to deregister from the scheme. Stakeholders expressed very strong views that the proposal in its current form was unworkable and wouldn't relieve administrative burdens. The Government will not be take this proposal forward.

2. Introduction

Overview

- 2.1 A specialist tax deduction scheme for the construction industry has existed since 1972. It was introduced to encourage tax compliance by a mobile workforce, often paid in cash. The scheme continues to enable this workforce to fulfil its obligations and ensures the correct amount of tax is paid.
- 2.2 At the March 2014 Budget the Government announced that it would consult in summer 2014 on options to improve the operation of the scheme for smaller businesses and to introduce mandatory on-line CIS filing for contractors.
- 2.3 The consultations looked at ways of administering the scheme more efficiently whilst maintaining its integrity and the revenue protection it provides the Exchequer.
- 2.4 In considering reforms, the Government's objectives are to continue to protect tax revenue and to reduce costs for both HMRC and contractors by making the scheme simpler to administer and also to consider how these reforms fit within its wider digital programme.
- 2.5 A formal consultation under the [Government's code of Practice on Consultations](#) entitled 'Improving the operation of the Construction Industry (CIS)' was published on 27 June 2014 and the consultation period ended on 22 September 2014.
- 2.6 A further informal consultation was launched on 3 July 2014 and closed on 22 September. A copy can be viewed at Annexe B. As this was primarily focused on large businesses, it was not published on GOV.UK but instead sent to the [Construction Industry Scheme Operational Forum](#) and to all HMRC Customer Relationship Managers dealing with large construction businesses who sent it to the businesses they cover.
- 2.7 45 written responses were received from a variety of stakeholders including:
 - 11 from accountancy firms
 - 12 from contractors
 - 4 from individuals
 - 9 from professional bodies
 - 7 from representative bodies
 - 2 from local government.
- 2.8 The Government is very grateful to the businesses, representative and professional bodies and individuals who responded. The feedback has been invaluable and some changes have been made to the proposals as a result.
- 2.9 A number of changes have been made to the proposals reflecting concerns raised in the responses.

The Consultations

- 2.10 The consultations sought views on:

- **making it easier to obtain gross payment status through easing the turnover and compliance tests;**
 - **introducing an online digital account for CIS;**
 - **upgrading CIS online processes including mandating CIS returns;**
 - **Improving the online verification service including mandating online verification; and**
 - **relaxing the reporting requirements for certain large payments and registration of Joint Ventures.**
- 2.11 The consultations formed Stages 1 and 2 of the Tax Consultation Framework.
- 2.12 HMRC also held a number of meetings with interested parties to discuss the consultation proposals and the feedback from these meetings was considered as part of the consultation exercise.
- 2.13 The majority of responses focused on the proposals in the consultation documents and answered the detailed questions in the consultations. However some respondents expressed views outside the scope of the consultation so these are not included in this responses summary.
- 2.14 This document summarises the responses received during the consultation. It presents the Government's revised approach to improving the CIS.
- 2.15 **In addition to summarising the responses received HMRC is also publishing** today draft regulations for technical consultation on:
- Joint Ventures;
 - changing the nil return obligation; and
 - allowing an earlier CIS repayment where a company is undergoing insolvency proceedings. This proposal was not included in the consultations but HMRC received representations that such a change would enable earlier repayments to creditors.
- 2.16 This forms stage 3 of the Tax Consultation Framework and HMRC welcomes further comments on these documents. Comments should be sent to Julie Campbell by email at review.cis@hmrc.gov.uk by 7 January 2015.
- 2.17 Thirteen questions were asked as part of the formal consultation document and nine as part of the informal consultation. HMRC responses to these are set out in Chapter 3 and 4 respectively.

3. HMRC Formal consultation responses

3.1 This chapter draws out the key messages from the responses and gives the Government's response. The consultation asked thirteen questions around three themes:

- simpler gross payment status;
- CIS online including introducing mandatory online filing of CIS returns; and
- improving the verification process including mandating online verification.

Simpler gross payment status

3.2 There is a strong case for making it easier for subcontracting businesses to achieve and maintain gross payment status. Evidence suggests that current tests are complicated and the level of turnover required is dissuading business from applying.

3.3 Subcontractors who meet certain qualifying conditions can apply to be paid gross, without deduction of tax. The consultation sought views on the turnover tests and the compliance tests used to apply for gross payment status. It also sought views on the barriers to the take up of gross payment status.

Turnover Test

3.4 The Government proposed lowering the threshold for the upper limit of turnover in multiple partnerships or directorship businesses to £150,000, £120,000 or £100,000.

Question 1: Will decreasing the upper limit of the turnover test enable your business to apply for gross payment status. Do you have any other comments on the turnover test?

Responses

3.5 The majority of respondents supported a reduction to the lowest possible amount proposed of £100,000.

- A number of others supported a link between the CIS threshold and that for registering for VAT.
- A small number of respondents supported a reduction in the £30,000 individual partner/director threshold.
- Some others supported abolishment of the test and/or an alternative test.
- One respondent supported index linking the threshold.

Government Response

- 3.6 The Government is pleased that the reduction in the upper limit of turnover threshold was supported by respondents. This change will be introduced from April 2016.
- 3.7 The Government understands why the suggestion has been made to index link thresholds as inflation can reduce the value of thresholds over time. The Government does not support a reduction in the single limit below £30,000 or abolishing the test as this would compromise the revenue protection the scheme provides. Indexing the thresholds would be costly to implement. The Government will keep the threshold under regular review and make further adjustments where necessary.
- 3.8 An alternative test is already provided in the form of the prospective receipts test for companies who can demonstrate evidence of relevant payments earned of £30,000 and existence of construction contracts entered into where the aggregate value exceeds £200,000. The Government estimates that between 400 and 1000 extra business will now be able to access gross payment status as a result of the change to the turnover threshold.

Compliance Test

- 3.9 The CIS compliance tests apply at the initial application for gross payment status and then annually. The consultation proposed to include fewer tests in the initial and annual review.

Question 2: Will simpler annual compliance tests encourage you to apply for gross payment status if you haven't already or have been refused in the past?

Responses

- 3.10 The majority of respondents welcomed a compliance test focused on fewer obligations, seeing the current test as onerous and a barrier to gaining gross payment status. Others were content not to apply for gross payment status.
- 3.11 There were different views around which tests should be included in a simplified regime.
- Around a third of respondents were concerned that including the individual directors' income tax return filing obligations on corporate applications was inappropriate as these were the responsibility of the director not the company.
 - Others expressed concerns that the proposal to exclude PAYE obligations from the tests was a step too far. They argued that *PAYE compliance is a core compliance requirement for any employer*".
 - A couple of others felt the test should be so simple it should focus only on CIS.

Government Response

- 3.12 The Government has carefully considered these views and agrees that PAYE obligations, particular payment obligations, are a core obligation of contractors who are also employers and a good indication of the intention to be compliant. Therefore all PAYE obligations will be included in the revised test.
- 3.13 Directors' individual filing obligations are currently included in the compliance test, only on the initial application for gross payment status. The Government has listened to respondents and agrees that removing these from the test will not compromise the schemes' objectives. The revised test will consist of substantially fewer obligations, however the Government believes it is important to retain a core of obligations, which are simple to understand, to ensure that those who gain gross payment status are seen to comply with their current obligations. The new test will therefore include the following obligations and will be subject to existing exceptions /parameters;
- submit monthly CIS returns on time;
 - submit either an ITSA or CTSA return on time; and
 - remit all CIS and PAYE / employer deductions on time.

Question 3: What are some of the other barriers to the take up of gross payment status? Is there an advantage to net status in some situations? Why do some contractors never apply for gross payment status?

Responses

- 3.14 A variety of suggestions were made to improve take up of gross payment status (GPS) as well as understand some of the barriers which prevent this.
- 3.15 **A contentment with net payment status (subcontractors do not want GPS)**
This was the most popular view expressed. Many subcontractors are eligible for GPS even under the current test criteria but choose to have deductions taken from their payments. They see deductions as a type of 'savings' with HMRC towards their final tax bill.
- 3.16 **Lack of awareness of the eligibility criteria and complexity of application process.** Some subcontractors said they *'didn't know they could'* and suggested HMRC write to eligible businesses inviting them to apply. Others said guidance and information including the applications forms were hard to find and better guidance was needed for partnerships and Limited Liability Partnerships.
- 3.17 **Fear / lack of resources.** One or two said they do not apply for fear of losing it again while others are genuinely afraid of raising their profile with HMRC and triggering an enquiry. Small businesses without representation may not have the resources to apply.

Government Response

- 3.18 The guidance on gross payment status is currently in transition from the HMRC web pages to GOV.UK. As content moves across to GOV.UK, HMRC is reviewing customer needs and updating where appropriate. The Government does not consider it appropriate for HMRC to write to individual businesses to invite them to apply for gross payment status. This is an informed choice that businesses must make themselves or with help from their advisors.

CIS Online

- 3.19 The consultation sought views on improvements to the existing online channel and the introduction of mandatory online filing of CIS monthly contractor returns. Electronic filing of CIS returns was first introduced in 2007 and HMRC has seen a steady increase to 80% now choosing this method of filing. An improved online service will allow HMRC to offer benefits including amendments to returns and secure electronic messages.

Question 4: Will removing the option to make monthly CIS returns by paper present your particular business with any issues? How could HMRC help you overcome any difficulties?

Question 5: Would you welcome an online appeals service?

Question 6: Would an integrated online account help reduce costs and reduce the burden of operating the scheme?

Responses

- 3.20 The majority of responses supported the introduction of mandatory online filing; many with the caveat that there was provision for the minority of businesses who were unable to file online due to age, remoteness of location and disability. Some respondents said that there were a minority of contractors who did not own a computer or use the internet despite running a small business.
- 3.21 Around a third of respondents commented on using the Real Time Information (RTI) channel as an option for upgrading the existing channel. Some felt this was a good move while others who had experienced problems with using the RTI channel were more cautious and recommended development and testing before the system was rolled out for full use.
- 3.22 Many respondents welcomed the proposal to amend CIS returns online. Many of the written responses seemed to indicate this would be dependent on the introduction of a digital online account. A number of comments were received from commercial software developers keen that a similar facility is available for third-party software developers to provide for users within their software products and to receive the details of this as early as possible.
- 3.23 Most respondents strongly favoured an online appeals service, more so if their agents had access to it. Respondents were enthusiastic about the benefits of the new process in terms of time saving but cautioned keeping some human

contact and the ability to defer appeals to a full clerical review in difficult cases. Others favoured agents being able to access the service on behalf of clients.

- 3.24 There was unanimous support for a digital integrated online account for CIS from respondents. This would ideally have access for agents, be updated in real time and be easy to use and as effective as possible. Other features respondents would like to see were the ability to download data from the account to third-party software and a channel to notify HMRC of incorrect data. Many users would also like to see HMRC notifications of a change of status for subcontractors online as the current paper copies are frequently mislaid and often a cause of frustration for subcontractors when the wrong rate of deduction is unwittingly continued.

Government Response

- 3.25 Mandatory online filing of CIS returns will be introduced from April 2016. The Government confirms that following mandating of CIS returns, customers who are not able to file online by reason of age, disability or remote location will have continued access to an alternative method of filing CIS returns. The same application process used to determine exemption from online filing for RTI will apply. Guidance and information will be shared with the Construction Industry Operational Forum and representative bodies to help people prepare to apply if they believe they are in one of the groups who are exempt. All employers and companies have existing obligations requiring them to file online for CT and PAYE. There are approximately 5% of sole-trader contractor-only schemes which do not currently file any returns online. Of these the Government expects a small number may need to buy a computer and or online access. These businesses will be able to claim capital allowances against the cost.
- 3.26 To support the new CIS returns, and online amendments, HMRC will develop a digital software tool to enable contractors to submit CIS returns. Contractors with over fifty subcontractors will be encouraged to use third-party software. The Electronic Data Interchange (EDI) channel will also still be available for online transmissions.
- 3.27 The Government fully understands that third-party software providers are keen to reflect the CIS changes in their commercial products. HMRC will support them to enable delivery of changes for April 2016.
- 3.28 The online appeals service will be introduced independently of online filing in 2015. Contractors will be able to register for the new service and guidance will be made available on the process nearer the time. Following mandation of online returns from April 2016, it is expected that all contractors will use online appeals unless they are unable to access an online channel. The Government can also confirm that registered agents will be able to access the service. In response to the concerns raised, the Government can confirm that the option for a clerical review will remain.
- 3.29 HMRC is pleased that its vision for a digital account for subcontractors and contractors is well received and supported by stakeholders. As discussed in the consultation document, this project is an ambitious vision and is in the early ideas stages at present. However HMRC will be taking this project forward

alongside the other changes and will provide an update on the timetable at future fiscal announcements.

A change to the nil return obligation

- 3.30 A number of comments were received about the change to the nil return obligation. The consultation discussed HMRC's proposal to replace the statutory obligation to file a nil return with a voluntary nil notification. This was mainly welcomed by respondents as removing unnecessary and disproportionate penalties where no subcontractors have been paid.
- 3.31 Software developers expressed the wish to be updated if the format of the voluntary nil return will differ from the current CIS nil return in order to update third-party software products.

Government Response

- 3.32 HMRC can confirm that the format of the nil return will not be changing.
- 3.33 The aim of this change is to remove the penalties where a contractor has not made payments to subcontractors and no deductions are due. Customers have previously told HMRC these penalties are disproportionate and asked for them to be removed.
- 3.34 If contractors within the scheme do not make payments to subcontractors in any month they will still need to notify HMRC to avoid a penalty notice and charge notices being issued. If HMRC does not receive any notification, it will not be able to identify whether a return is late or whether a nil return is due and a penalty notice will be sent to customers. However, customers will be able to appeal using the new service and if the reason identified is 'no payments made to subcontractors this month' the appeal will be accepted and a nil return will be filed on the system. From April 2015, no penalties will be pursued when it is established there is a nil return. HMRC will update guidance to reflect the new process.

Verification

- 3.35 Verification is the process used by contractors to check that subcontractors have the correct rate of deduction applied to their payments. The consultation sought views on ways to improve and simplify the process and included introducing mandating online verification as a contribution to improving the existing online service.

Question 7: Would a search facility and/or a facility to verify more than one subcontractor at a time make the online verification service more user friendly? Is there anything else about the online service you would like to see improved?

Question 8: HMRC would like to understand what impacts removing the option to verify subcontractors by telephone could have on your business. How could HMRC help you overcome any difficulties?

Question 9: Would a Smartphone verification 'app' be a useful enhancement to the service and likely to be used by your business?

Question 10: Would allowing extra time to verify workers be helpful if online verification was mandatory?

Question 11: Do you have any views on how the existing verification process could be improved?

Question 12: Would it be feasible to remove the obligation to verify from certain categories of subcontractor?

Responses

- 3.36 The majority of responses favoured improving the current system. In addition to a search facility and being able to verify more than one subcontractor, contractors gave other suggestions which they felt should feature in an upgraded product.
- 3.37 Respondents said the service should be easy to use and provide contractors with the reason for a 'failed' verification or a higher rate response as this was one of the main reasons for users resorting to the telephone service to establish the reason.
- 3.38 A strong reason users gave for keeping the telephone service was that it was better at handling common misspellings of the subcontractor's name. Users said the new service should have software capable of detecting minor misspellings in the name; 'fuzzy name matching' eg if the name is Browne or Brown both could be picked up. This is the way the telephone operators positively verify a subcontractor where there are difficulties with misspellings.
- 3.39 However they did not favour any change in the current service provided by telephone until the proposed changes had been delivered and customers had had a chance to experience the improvements. Respondents said they saw a need for an emergency helpline and or a reduced service by telephone even after online verification had been delivered to deal with non-routine cases.
- 3.40 Other comments received related to verifying partnerships. Users said this was currently difficult to do online.
- 3.41 Agents expressed keenness to access the new service on behalf of clients.
- 3.42 Third-party software developers all agreed that any new HMRC rules on data matching must align with third-party software products. HMRC currently

provide a match and/ or verify service to third-party software providers. Third-party software groups told HMRC that many did not use the match service, it added confusion to the process and they would be happy for it to be removed.

- 3.43 Many of the responses said it would be helpful if HMRC provided extra time for contractors to verify their subcontractors. This would align the legislation with the reality that it is not always practical for contractors to verify as soon as a contract has been agreed.
- 3.44 The consultation proposed introducing a smartphone app to aid site based contractors. There were mixed views on the usefulness of such an app. Many smaller or less office based contractors were enthusiastic about the proposal while other larger contractors didn't think they would use it.
- 3.45 There was widespread agreement amongst all groups that the current verification process should remain unchanged. Industry representatives were strongly in favour of keeping it as it ensured they "knew" their workforce and it led to greater accuracy in the data they provided HMRC and a consequent fall in enquiries at the end of the year. The exception to this approach was verifying subcontractors within a group company which has several separate registration numbers. Respondents said in this instance it was onerous to verify in every case where administration is carried out by the same team.

The Government's Response

- 3.46 The Government recognises the concerns regarding the withdrawal of the telephone service and it will delay withdrawal of the main telephone service until 2017 to allow users to experience the improved system. A reduced telephone service will be retained for non-routine cases and to provide for the small number of contractors who are unable to access an online channel.
- 3.47 HMRC will not be able to provide the reason why verification 'failed' to the contractor as this will vary in each case on the information provided by the contractor. However with regard to fuzzy name matching, HMRC will be able to positively verify a subcontractor where the UTR matches to a registered CIS subcontractor, as long as the National Insurance Number or Company Registration Number (whichever is appropriate for the subcontractor type) also matches the UTR, even if the name provided has failed to match the CIS record.
- 3.48 The Government can confirm agents will have the same access to the new verification service as the present service.
- 3.49 The Government recognises the concerns raised around verifying partnerships online. HMRC will review this particular area to see if simplification improvements can be made to the verification process for partnerships.
- 3.50 The Government fully understands that third-party software providers are keen to reflect the CIS changes in their commercial products. There will be a full engagement process with third-party software providers to meet the timetable for an April 2016 change. Additionally the Government recognises that the existing two tier system of match and verify is confusing and adds no value to the process. HMRC will decommission the match function from April 2016 to reflect third-party software preferences.

- 3.51 Government policy on smartphone apps is to develop web based applications capable of being used on any screen size and which automatically respond to the device being used. This means users will not download a specific app from the App Store as with other commercial apps; instead they will go the HMRC's page on GOV.UK on their device and enter their security details.
- 3.52 After further consideration of the regulations governing timing of verification, the Government does not consider that any changes need to be made. Verification may be carried out any time after a contract has been agreed and before payment has been made. Many respondents felt this had to be done as soon as a contract had been agreed. HMRC will make the guidance on this point clearer.
- 3.53 HMRC recognises the serious concerns raised around further simplification of the verification process and will not currently be making any changes to the process.

4. HMRC Informal Consultation Responses

- 4.1 The informal consultation outlined initiatives to reporting requirements and registration for Joint Ventures and similar entities. It asked nine questions covering;
- relaxation of reporting of large payments; and
 - changes to the requires for gaining gross payment status for Joint Ventures

Relaxation of reporting of Large Payments

- 4.2 The consultation sought views from large contractors on removing contractors from the scheme where they paid only make gross payments above a certain amount. This was expected to relieve an administrative reporting burden where there was no risk to the Exchequer.

A1. Do you only pay subcontractors with gross payment status?

A2. What is the level/range of payments that you make?

A3. Would you withdraw from the CIS if this proposal was offered?

A4. What do you consider the appropriate level of payment for the purposes of this proposal?

- 4.3 All of the responses received and the discussion in roundtable events advised HMRC that contractors pay both gross and net paid subcontractors. Contractors advised HMRC that they would not withdraw from the CIS if this proposal was offered.

Government Response

- 4.4 It is clear from the responses that the proposal would not achieve its objective of relieving administrative burdens. The Government understands stakeholders' concerns about the practical difficulties with this particular proposal and does not intend to proceed with plans to implement it.

Joint Ventures

- 4.5 The consultation sought views on Joint Ventures and their access to gross payment status (GPS). It proposed where one member of a Joint Venture already has GPS, the Government could relax the requirements for all members of the Joint Venture to satisfy the requirements of the compliance tests.

B1. Do you enter into joint ventures?

B2. What form do they take; companies or partnerships?

B3. What is your usual level of participation in % terms?

B4. Would this proposal help your business?

B5. What do you consider an appropriate level of participation by the holder of gross payment status and why?

- 4.6 Responses were strongly in favour of this proposal with all saying it would help their business. Companies said that participation in Joint ventures is with either companies or partnerships and is usually on 50% terms.

Government Response

- 4.7 The Government will proceed with introducing legislation to relax the requirements for Joint Ventures to access GPS from April 2015. Where a member of a partnership or a shareholder in a company has GPS and they have at least a 50% interest in the partnership or company, GPS will be given to the Joint Venture.

5. General Questions

- 5.1 The formal consultation asked a general question on equality and impacts of the proposals and the responses to this question have been included in this section.

Question 13: Do you have any comments on the assessment of equality and other impacts in the summary of impacts table on page 17?

- 5.2 Almost a quarter of respondents dealt with this question in their response. Many felt the draft impact assessment needed to include the costs that businesses and third-party software developers will incur to implement the proposed changes. Concerns were also expressed that no costs were indicated for upgrading HMRC systems. Businesses felt it was important this cost impact was recognised so that it could be weighed against the benefits of the proposed changes.

Government Response

- 5.3 The Government recognises there will be some costs to both its own systems and to businesses and has today published an updated impact assessment which is included as part of a Tax Information and Impact Note on the GOV.UK site.

6. Next Steps

- 6.1 As announced at Autumn Statement 2014, secondary legislation will be introduced from April 2015 to facilitate a change to the nil return obligation and Joint Ventures. Changes to the tests for gross payment status and mandation of CIS returns will be implemented in April 2016. The new verification service will be introduced from April 2016 with withdrawal of the telephone service later in 2017. Secondary legislation will follow nearer implementation dates for later measures. An online appeals service will be introduced for CIS on an optional basis from 2015 with full registration by 2016. HMRC is in the early stages of scoping out the requirements for a digital account for CIS working closely with external IT partners.

Annex A: List of respondents

Association of Accounting Technicians (AAT)
Advance Contracting Solutions Ltd
Ash Accounting
Building and Engineering Services association
Balfour Beatty
British Application of Software Developers Association (BASDA)
BDO LLP
Black and Veatch Ltd
British Land
Chartered Accountants Ireland
Confederation of British Industry (CBI)
Chartered Institute of Taxation (CIOT)
Chartered Institute of Payroll professionals (CIPP)
Costain
Deloitte LLP
DK plant Hire
Eco Innovations
Freelancer and Contractor Services Association (FCSA)
Francis Clark LLP
Grant Thornton
Harold Smith Chartered Accountants
The Home Builders Federation
Institute of Chartered Accountants in England and Wales (ICAEW)
Institute of Financial Accountants
J & K Payroll
The Construction Industry Joint Taxation Committee
Liverpool City Council
Nottingham County Council
National Specialist Contractors Council
Low income tax Reform Group
PwC LLP
Philip Ryan Accountants
Progress Housing Group
Realm Ltd
TSB Fabrication Ltd

Annex B: Informal Consultation

3 July 2014

Construction Industry Scheme (CIS)

Some possible changes to CIS

In addition to the formal consultation we would like to discuss with larger companies changes to reporting requirements and registration in the CIS for joint ventures and similar entities.

Remove companies from the scheme where they only make gross payments above a certain amount.

The intention is to remove large companies who pose no risk to the Exchequer or the integrity of the CIS from the scheme.

We have not decided on an appropriate level of payment, but our initial analysis has looked at companies who make individual payments of £10,000 to gross payment registered subcontractors. We may consider other sums if appropriate.

So where a company only pays gross payees and each payment exceeds £10,000 the company can withdraw from the CIS. We are not wedded to the sum of £10,000.

One obvious downside is that we would not be able to inform contractors that a subcontractor no longer holds gross payment status and this has clear implications for either contractors or the Exchequer. It may well be that a company would need to remain in the CIS scheme just to verify a subcontractor's status at the time of each payment.

Questions

A1. Do you only pay subcontractors with gross payment status?

A2. What is the level/range of payments that you make?

A3. Would you withdraw from the CIS if this proposal was offered?

A4. What do you consider the appropriate level of payment for the purposes of this proposal?

Change the requirements for gaining gross payment status for joint ventures

Businesses are concerned that the formation of cross border joint ventures and the use of other types of joint venture structure are impeded by the requirement for all members of the joint venture to satisfy the CIS compliance tests in order that gross payment status can be gained.

We are interested in exploring whether it would be appropriate for gross payment status to be given to a joint venture where one member already has gross payment status. This relaxation will extend to partnerships and companies with a member who has qualified for gross payment status in their own right.

Our initial view is that we would not extend this relaxation beyond the entity which the gross payee has an interest in.

So if, for example a UK company and an EU company formed a 50/50 joint venture either as a partnership or as shareholders and the UK company had gross payment status then the JV would be able to gain gross payment status on the basis of the UK company's status (50% participation is indicative).

However, if the JV then entered into another joint venture with another the gross payment status of the JV cannot necessarily be assumed by the second JV.

Questions:

B1. Do you enter into joint ventures?

B2. What form do they take; companies or partnerships?

B3. What is your usual level of participation in % terms?

B4. Would this proposal help your business?

B5. What do you consider an appropriate level of participation by the holder of gross payment status and why?