



Improving the operation of the Construction Industry Scheme

Who is likely to be affected?

Businesses and individuals who are subcontractors or contractors participating in the scheme. Also commercial third party software developers, agents and accountants and payroll bureaux representing those operating and participating in the scheme.

General description of the measure

A series of changes will be introduced to improve the operation of the Construction Industry Scheme (CIS) making it easier for businesses to access gross payment status, reduce administration burdens and move more transactions online. These include:

- the threshold for the turnover test will be reduced to £100,000 in multiple directorships;
- the initial and annual compliance tests will focus on fewer obligations;
- the nil return obligation will be amended;
- joint ventures where there is already one member with gross status will be allowed easier access to gross payment status;
- allow an earlier repayment to liquidators in insolvency proceedings; and
- mandation of filing of CIS returns and online verification.

Policy objective

The aim of this measure is to reduce the costs on both businesses and HM Revenue & Customs (HMRC) by making the scheme simpler to administer. It will achieve this by allowing more sub-contracting businesses to achieve and maintain gross payment status so improving their cashflow. Moving more transactions online will simplify processes for businesses and agents, reducing their administrative burden through reduced contact with HMRC. By simplifying the tax system for these business, this measure will improve the competitiveness of UK tax administration in the construction sector.

Background to the measure

The Government announced at Budget 2014 consultations to review improvements to the scheme.

A consultation document entitled *Improving the operation the Construction Industry Scheme (CIS)* was published on 27 June 2014 with proposals to reduce the administrative burden of operating the scheme. A separate informal consultation was circulated to large business on 3 July 2014 with revisions to reporting obligations for large payments and improvements in registration for joint ventures. The Government's aims were supported by most respondents to the consultations. A summary of responses and a technical note is published today on GOV.uk. Guidance to reflect changes from April 2015 will be available from March 2015.

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2015 for nil returns, joint ventures and repayments in cases of insolvency; 6 April 2016 for mandating online filing of CIS returns and changes to gross payment status tests and 6 April 2017 for mandating of online verification.

Current law

The current legislation setting out requirements of the compliance tests is at Schedule 11 to the Finance Act (FA) 2004.

Further provisions are covered in:

- Paragraph 7, part 2 and paragraph 11, part 3 of Schedule 11, FA 2004 for the turnover test and the prescribed amount of turnover is at Regulation 28 of (SI2005/2045).
- Regulation 4 (10) of SI2005/2045) for nil returns
- Section 70 FA 2004 for monthly return requirements
- Section 69 FA 2004 for verification
- Regulation 56 (5) of SI2005/2045.

Proposed revisions

Regulations will be introduced to take effect from 6 April 2015 to:

- amend parts 2 and 3 of Schedule 11 to FA 2004 to relax the requirements for joint ventures to gain gross payment status where one member already has it;
- amend Regulation 4 (10) of (SI2005/2045) to replace the nil return obligation with a voluntary notification; and
- amend Regulation 56 (5) of (SI2005/2045) to allow an earlier repayment to liquidators where a company is in insolvency proceedings.

Further regulations will be introduced later to:

- amend Section 135 (1) of FA 2002 to facilitate mandatory online filing of CIS returns and mandatory online verification; and
- amend Schedule 11 to FA 2004 to allow a simplified compliance test.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	nil	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact.					
Economic impact	The measure is not expected to have any significant economic impact.					
Impact on individuals, households and families	The simplification proposals for acquiring gross payment status will benefit some of the approximately 90,000 active subcontractors who currently have net payment status but meet turnover level requirements for gross status. Approximately 5 per cent of sole-trader contractors (2000) may require additional support as legislation is introduced to make verification and online filing mandatory. The measure is not expected to impact on family formation stability or breakdown.					

Equalities impacts	The majority of those using the scheme are male. There will be some equalities impacts when online filing and online verification is mandated for contractors who are not able to access a digital channel or object to online filing and/or verification on religious grounds. In these cases where HMRC is satisfied a customer is unable to access a digital channel, provision for capture of the data in non-digital format will be made. The same criteria used for assessing customers in the Real Time Information programme will be used. The Government does not expect the number of contractors who are not able to access digital channels to be significant.
Impact on business including civil society organisations	<p>These proposals are expected to relieve some of the regulatory burden of the CIS scheme.</p> <p>The following measures, nil returns, joint ventures and repayments are expected to have a negligible impact on businesses. The measures simplifying the qualifying conditions for gross payment status will Benefit companies and partnerships by increasing their cash-flow.</p> <p>The main changes to the CIS will take place in 2016 and 2017 and it is anticipated that it will affect approximately 40,000 businesses. Approximately 5 per cent of sole-trader contractors (2000) may require additional support as legislation is introduced to make verification and online filing mandatory.</p> <p>Estimates of the impact on businesses will be established and published once details of the measure have been finalised.</p>
Operational impact (£m) (HMRC or other)	HMRC will incur costs to make changes to, or introduce new, IT systems to enable improvements to the CIS scheme. There will be annual administrative savings for HMRC once the new processes are implemented. The levels of costs and savings will depend on the final design of the changes and these will be established as the details of the new processes are developed.
Other impacts	<p><u>Small and micro business assessment</u>: the revised tests for gross payment status will benefit small contractors if they apply.</p> <p>Other impacts have been considered and none have been identified.</p>

Monitoring and evaluation

The measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Julie Campbell on 03000 586670 (email: Julie.campbell1@hmrc.gsi.gov.uk).