

**"The Inland Revenue and the Construction Industry:
Working together for a New Scheme"**

**ANALYSIS OF FEEDBACK
AND RESPONSES TO QUESTIONS RAISED**

INTRODUCTION

In response to industry concerns about the cumbersome nature of the existing Construction Industry Scheme (CIS), the Government asked the Inland Revenue to review the CIS and put forward proposals for a new scheme that will meet 3 broad aims:

- ◆ To reduce the regulatory burden of the scheme on construction businesses;
- ◆ To improve the level of compliance by construction businesses with their tax obligations;
- ◆ To help construction businesses to get the employment status of their workers right.

A consultation document entitled *The Inland Revenue and the Construction Industry: Working together for a New Scheme* was published by the Inland Revenue on 27 November 2002 and outlined the following proposals:

- ◆ Replacement of the Registration Card (CIS4) and Gross Payment Certificates (CIS6 and CIS5) used in the current scheme with a **verification service**;
- ◆ Introduction of a new **employment status declaration**;
- ◆ Replacement of vouchers used in the current scheme with a **periodic return**;
- ◆ Introduction of a **new computer system** capable of supporting the use of 'e' services and the Inland Revenue's risk assessment and compliance strategies.

Responses to these proposals were invited by 28 February 2003. This report summarises the feedback received and responds to some of the main questions raised.

CONSULTATION

During the consultation exercise (from 27 November 2002 until 28 February 2003), the Inland Revenue distributed over 1,000 hard copies of the consultation document. Our website, containing an electronic version of the document, received more than 3,000 hits. And over 20 meetings were held nationwide with industry representatives. .

In response, we received 202 replies.

FEEDBACK RECEIVED WAS BROADLY POSITIVE AND INDICATED THAT THERE WAS AN ACCEPTANCE THAT THE CURRENT SCHEME NEEDED TO BE CHANGED.

To enable us to look in more detail at the feedback received, we have broken the responses down into 3 main sections:

1. What you liked about the proposals, with specific examples of responses received.
2. Those areas where you expressed concern or wanted to know more about how the finer detail of our proposals would work.
3. Your own ideas about what adjustments or amendments you would like to see.

SECTION ONE - WHAT YOU LIKED

REGISTRATION

The main change with regard to Registration was that it would no longer be necessary to report personally to an Inland Revenue office to register. Under the new proposals, registration can be done over the telephone or Internet. The response rate to this proposal was low (38%), with the majority being in support. Below are some of the responses we received.

We welcome the extension of IT to enable contractors/subcontractors to register electronically.
KPMG

The proposed changes to registration...will be welcomed.
Small Business Council

..welcome proposal that subcontractors will be able to register over the telephone and Internet. ...will undoubtedly reduce the regulatory burden....
National Specialist Contractors Council

The enhancements to the proposed process are welcome.
Association of Chartered Certified Accountants

VERIFICATION

Two thirds of those who responded to the Consultation Document commented on the proposed Verification process. Just under half of those who commented were in agreement with this proposal, nine percent disagreed, and three percent expressed no firm opinion one way or the other. Of the remainder, either some concern was expressed or requests were made for further clarification on the finer detail of this process. One of the main causes of concern was the proposed frequency of verification (on a contract by contract basis). As a consequence, this proposal has now been amended (please see Section 2 of this Report).

Those in agreement with this proposal particularly liked:

- The removal of bureaucracy.
- The removal of cards/certificates and the need to travel to present.
- Cost savings.

Some examples of the feedback we received are:

What is particularly refreshing is that once the verification process is in place the cost benefit to the subcontractor in not having to travel to a contractor will be significant and welcome.
Confederation of Construction Specialists

..the length of time it will take me to check a central register either with our local tax office or on a website will be small in comparison to what we have to do at present to view the original cards.....I am very much in favour of this proposal.
ECL Contracts Limited

I would welcome the change of not having to present the Certificate in person to the contractor.
Woodhouse Plant

We broadly welcome the proposals to replace cards and certificates. The current system whereby a subcontractor is required to travel to present documents is ill-suited to twenty first century business needs. **DLA**

Although you say the cost to contractors of complying with this [verification] aspect of the process will increase, I venture to suggest that (at least in our case) it is likely to decrease.
Mortimer Bentley & Co Ltd

PERIODIC RETURNS

Of all respondents, over half commented on the move away from vouchers and End of Year Returns towards periodic returns. Of those, just over sixty per cent agreed with this proposal, seven per cent disagreed, less than three per cent gave no firm indication, and just under thirty per cent sought further information. Features of the proposals that were particularly welcomed were:

- Abolition of voucher system.
- Savings in time and costs.
- Improvements for contractors, especially if it can be linked to software.
- Abolition of End of Year return.

All our members welcomed this proposal, the administration burden of the existing system is widely abhorred and any moves to simplify this are all to the good.

Scottish Building Employers Federation

I am very supportive of the proposal to drop the requirement to submit vouchers, replacing these with periodic returns by contractors. This would do a great deal to reduce the needless administrative burden in the completion and return of vouchers....

McCarthy & Stone plc

The proposals made by the Revenue in the Consultation Document go some way to simplifying the system. Specifically the periodic returns (potentially by internet) instead of vouchers is to be applauded.

Recruitment and Employment Confederation

The Group welcomes this proposal. It is widely recognised that the completion of vouchers and the annual return is a huge administrative burden on main contractors.

Stewart Milne Group

We spend a lot of time processing vouchers, completing year end returns, and asking subcontractors to visit our offices. The removal of these will greatly reduce our workload.

Derby City Council

E OPTIONS

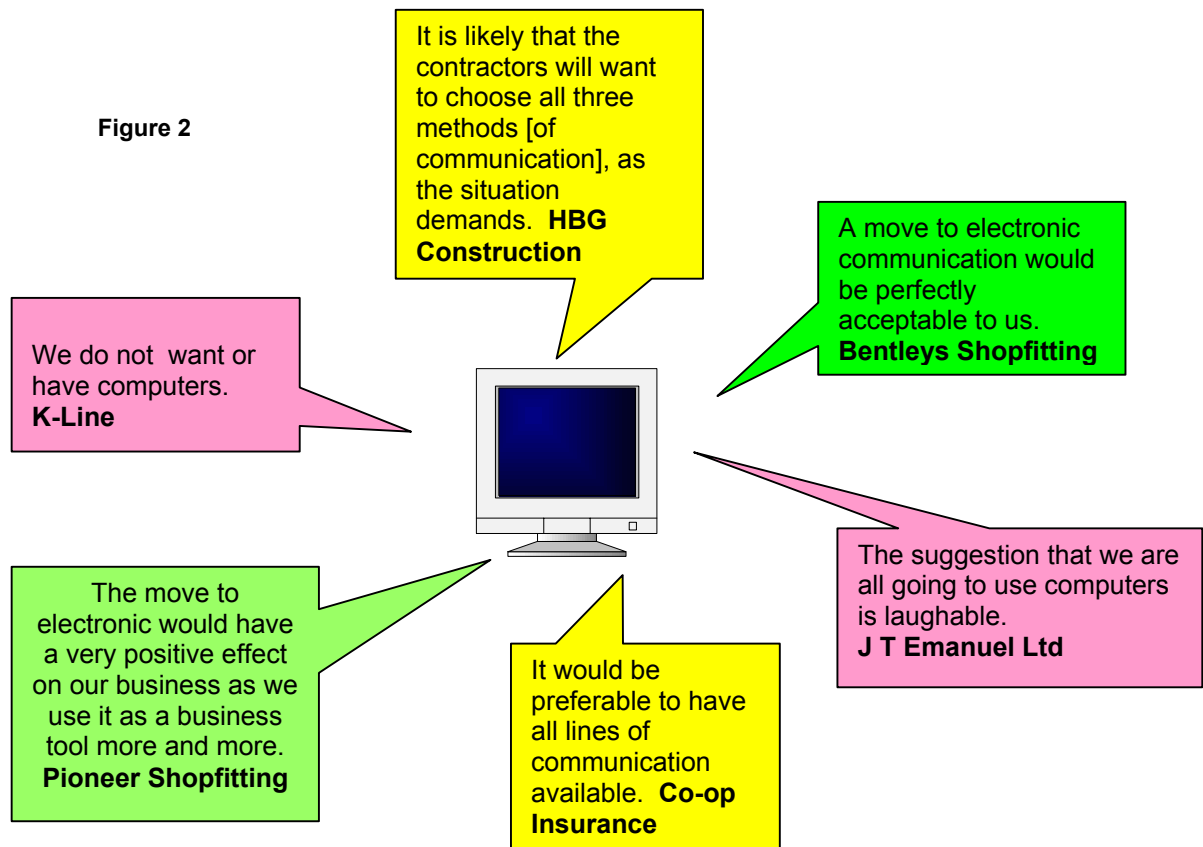
The consultation document proposed that the new scheme could be operated through a range of communication channels to suit the individual needs of construction businesses, including paper, Internet and telephone. We found that e-mail was a popular medium for those who contacted us regarding the consultation document (see Figure 1 below), but it was also clear that many construction businesses valued the more traditional methods of communication.

A sample of feedback received can be seen below at Figure 2.

Figure 1

Email	48%
Written	34%
Meetings	12%
Telephone	6%

Figure 2



SECTION TWO - WHERE YOU HAD CONCERNS

The proposals outlined in the consultation document were communicated in high level terms. There were therefore a number of areas where respondents expressed concern and wanted to know more about how the processes would work.

It should be borne in mind, however, that there is still a great deal of work to be done in regard to the finer detail of the reformed scheme and, in this respect, we will be continuing to consult with the construction industry over the coming months. In the meantime, for the purposes of this summary, we list below the main questions raised by respondents and provide our response based on information currently held.

1. **Verification on a contract by contract basis is unworkable:** The industry were united in their view that verification would not be practical on a contract by contract basis. We have accepted this view and currently are considering confining the verification process to those subcontractors who have received no payments from the contractor in the current and two previous tax years. Subcontractors who have received payments from the contractor in the current and two previous tax years will not have to be verified.
2. **The Employment Status declaration:** There is already a general obligation that all businesses should consider employment status rules when engaging a worker. Failure to comply with this obligation carries with it a penalty sanction.

The purpose of the proposed declaration is to bring this existing requirement into prominence. Contractors in the construction industry are therefore being asked to confirm that they have correctly considered the employment status of their workers to ensure that those that are actually employees are not included in the construction industry scheme.

However, feedback during the consultation period has indicated that the industry would ideally like some additional help with status issues and we are currently looking at possible options in this respect, one of which includes a new computerised tool which will give guidance on employment status.

3. **Opening hours of Call Centres:** It was suggested that, especially where emergency work is involved, our Call Centres will need to be available 24 hours a day, 7 days a week. In the coming months we will be continuing the consultation process with industry representatives and, in this respect, we have already set up a number of advisory panels to assist us in understanding the business trends of the industry. We will use the information we gain from these meetings to put in place a service that will be appropriate to demand.

4. **Robustness of Inland Revenue IT systems:** It was emphasised by respondents that our computer systems needed to be robust and fit for purpose in order to be able to deal with the new proposals effectively. For example, contractors might need to be able to verify subcontractors via the Internet outside of normal office hours.

These views have been noted and will feature in our discussions with industry representatives and our IT partners.

5. **Lack of ID:** A number of respondents have reservations regarding the withdrawal of photocards as they believe it may increase fraud. One of the main aims of the reform of the scheme is to reduce the regulatory burden on the industry. Both the Government and the Inland Revenue have received a number of representations from subcontractors advising that the burden of travelling to present the CIS4 registration card and CIS6 tax certificate personally is having an adverse effect on their business. In withdrawing the cards, therefore, we are responding to the concerns of the industry.

However, we understand business concerns about the potential risk of mis-use of subcontractor identities. Therefore, we will be working with the industry over the coming months on how we might increase compliance whilst at the same time reducing the burden on contractors and subcontractors.

6. **Resourcing and Effective Policing:** The Department will support the industry in introducing the new scheme and ensuring its successful operation. We recognise the need to police the new scheme effectively and are currently reviewing the organisational and operational structure of our construction industry scheme compliance.
7. **Transitional arrangements:** We will not be asking those who are already registered for the CIS to re-register for the new scheme. A simple process will be devised that will allow transfer between the two schemes. Only those who are new to the construction industry taxation scheme would need to register using the new system.

SECTION THREE - WHAT YOU WOULD LIKE TO SEE

A number of those who responded put forward their own ideas and suggestions. In this section we will deal with some of these.

1. ***Incentives should be made available to small construction businesses to encourage them to verify and file periodic returns electronically, as has been done with e-PAYE:*** Following the recommendations of the Carter Review it will be mandatory for employers to file their End of Year PAYE returns electronically by 2010. Incentives are being offered to assist smaller businesses (with less than 50 employees) in moving towards this mandatory requirement.

In contrast, there are currently no plans to make electronic communication mandatory in respect of the reformed construction scheme. It will be up to individual contractors and subcontractors to decide on what is the most practical and cost-effective way of running their business. The e-options contained in the Consultation Document are there to provide an increased element of choice for those operating the scheme. Of course, many small contractors or subcontractors will also be employers. So they will be eligible for the payroll e-filing incentives, (as well as the extended capital allowances for ICT equipment for SMEs).

2. ***All CIS4 holders should be placed onto PAYE/All those who are not registered for VAT to be placed on PAYE:*** Whether a worker is categorised as employed or self-employed is completely dependent on the terms and conditions under which they are engaged. It is possible for a worker to be employed on one contract and self-employed on another.

The purpose of the employment status declaration is to highlight the importance of the status issue and therefore encourage contractors to get status right, not to place workers on to PAYE who are genuinely self-employed.

3. ***For those receiving net payments a variable deduction rate should be introduced according to individual circumstances:*** Individual circumstances are likely to be open to constant change and the level of administration required to keep track of such changes is likely to be unacceptably high to both the Inland Revenue and the Industry. This suggestion will therefore go against one of the stated aims of the reform, which is to reduce the administrative burden.

4. ***Deemed contractors, whose main business is not connected to the construction industry, should be excluded from any construction industry taxation scheme:*** This issue will be considered during our continuing consultation with the industry.

5. ***The "reverse premium" arrangement between landlord and tenant to accommodate fit out of premises should be excluded from the scheme:*** This issue will be considered during our continuing consultation with the industry.

SECTION FOUR - IN CONCLUSION

Finally, we would like to thank all those who took part in the consultation exercise, especially those who

- attended regular sub-group meetings
- travelled to regional forums
- provided individual feedback.

The implementation of a successful scheme will not be possible without the continuing support of all interested parties and we look forward to working with you again during the next phase of consultation.

LIST OF INDUSTRY RESPONDENTS

Abbey National Group	ECL Contracts Ltd
Albion Fencing Ltd	Edinburgh City Council
AMH Holdings Ltd	Electrical Contractors Assoc.
Anglia Polytechnic Univ.	Environment Agency
Anglian Windows	Ernst & Young
Anglo Holt Construction	Euro Windows Ltd
Asda Property	Exchequer Software Ltd
Ashridge Construction Ltd	Farrell, S
Assoc. of British Insurers	Federation of Master Builders
Assoc. of Chartered Cert. Accts.	Federation of Small Businesses
Assoc. of Ductwork Contractors & Allied Services	Fitzgibbon, M
Atkinson, E	Fitzpatrick, K
AEWU	G & J Seddon
B&K Leeds	Gibson, A
Baker Tilly	Gillingham, A
Balfour Beatty	Glass & Glazing Confederation
Bentleys Shopfitting	Grant Thornton
Binnie, J	H W S Royse
Birrell, I	Harper Macleod
Blick Rothenberg	Harrison, R
Boots Group plc	Hawthorn, E
Brian G Loades	Haynes Manufacturing UK
British Pest Control Assoc.	HBG Construction Ltd
British Property Federation	Heaton, R
Brown, D	Henderson, G
Caerphilly County Boro. Council	Herts County Council
Carillion	Higgins Group
Chartered Inst. of Taxation	Hillier Hopkins
Confederation of British Industry	Horwarth Clark Whitehill
Confederation of Construction Specialists	Hurstway Construction Co Ltd
Construct Concrete Structure Group	Inst. of Chart. Accts. England & Wales
Construction Confederation	Inst. of Chart. Accts. Scotland
Construction Employers Federation of NI	Inst. of Payroll & Pensions Management
Co-op Insurance	Interserve fm
Cowmeadow, D	Interwon Ltd
Cox Manning	Ipswich Boro Council
Crest Nicholson	J T Emanuel Ltd
Croydon Council	James Clark Properties
Davenport, B	John Smart & Son
David Wilson Homes	K-Line
Deloitte & Touche	Knight Fencing Services
Derby City Council	KPMG
Diamond Build	Laidlow, M
DLA	Lanham & Francis
Don Barker Ltd	Leach Homes

Leicester City Council	Samson, P
Lewis, J	SAP (UK)
Lindum Group	Scholes, M
London Boro of Barnet	Scope
London Boro of Brent	Scottish Building Employers Federation
London Boro of Richmond upon Thames	ScottWilks Legal LLP
Maidenhead & District Housing Assoc.	SDWS
Mansells	Skanska
McCarthy & Stone	Slough Estates
McNamara, P	Small Business Council
Meljo Construction	Society of Motor Manufacturers & Traders
Methodist Homes for the Aged	South & West Yorks Local Authorities Group
MG Rover Group	South East Tax & National Insurance Liaison Group
Milton Keynes Council	Sovereign
Mortimer Bentley	Sterling 2000 Ltd
Multibuild	Stewart Milne Construction
Nabarro Nathanson	Swindon Boro Council
National Specialist Contractors Council	Syngenta
National Trust	Tara Management Services
Needhams Building Contractors	Tax in Industry
Network Rail	TGWU
Nordex UK Ltd	Transco
Orange	TRC Midlands
Parrott Building Contractors	UCATT
Perth & Kinross Council	UK Steel Enterprise Ltd
Peter Duffy Ltd	Underwood Barron
Pettit, K	University of Strathclyde
Pioneer Shopfitting	Vodafone
Plantragg Developments	W Rowland Waller
Pollution Monitors Ltd	Wandsworth Boro Council
Premier Tax	Waterloo Housing Assoc.
Quarry, P	Williams, M
R B Williams Building Contractors	Willmott Dixon Ltd
R Reid & Sons (Ellon) Ltd	Wilson & Co
Recruitment & Employment Confederation	Wilson, N
Rogerson Roofing	Woodhouse Plant
Royal Boro of Kingston upon Thames	Yorkshire Water Services
Royal Inst. of Chartered Surveyors	Yum!

NOTE: This list does not include those who asked for confidentiality.