



Construction Industry Scheme reform

The Institute of Financial Accountants welcomes the opportunity to comment on the [Consultation](#) published on 27 April 2023.

We would be happy to discuss any aspect of our response and to take part in any further consultations in this area.

Established in 1916, the Institute of Financial Accountants (IFA) is an internationally recognised professional accountancy membership body. Our members work within micro and small to medium-sized enterprises or in micro and small to medium-sized accounting practices advising micro and SME clients. We are part of the Institute of Public Accountants (IPA) of Australia Group, the world's largest SME-focused accountancy group, with more than 49,000 members and students in 100 countries.

The IFA is a full member of the International Federation of Accountants (IFAC), the global accounting standard-setter. We are recognised by HM Treasury to supervise our members for the purposes of compliance with the Money Laundering Regulations, and by the Financial Services Authority in the Isle of Man.

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Questions raised in the Consultation

Question 1: What are your views on including VAT in the GPS compliance test?

1. In general, the IFA and its members are content with the proposal to add VAT to the GPS compliance test, feeling that doing so will not unduly impact small practice accountants and their small business clients.
2. However, the consultation document states that, while 16% of the active GPS population would be non-compliant on VAT grounds if the test was changed, almost all of these (15% of the population) would fail on issues which could be resolved by complying with their obligations in a more timely manner. In light of this, the IFA would encourage a cost-conscious approach which prioritises education and communication. In particular, the administrative burden placed on small businesses should be considered.

Question 2: Can you see any unintended consequences if VAT was added to the compliance test: are there barriers to submitting returns/payments in a timely manner, and could the proposal affect compliant or particular sized businesses?

3. Some IFA members were positive about potential consequences, stating that adding VAT to the GPS compliance test would strengthen the accountant's position regarding compliance, particularly when dealing with new client registrations. Being able to insist on good VAT practice and adequate VAT record-keeping, on the grounds of it being a HMRC requirement for GPS compliance, will help upstanding accountants keep their clients compliant while reducing the risk of losing clients to less scrupulous competitors.

Question 3: What channels of application are preferred, and do you envisage any challenges in shifting to digital?

4. The IFA, and most of our correspondents, support a digital direction of travel. However, it is essential that CIS taxpayers (and their accountants) are brought along on HMRC's change journey. Effective communications and education are essential to this.
5. We would also caution against mandating digital applications at present, especially if doing so would serve as a precursor to reducing CIS helpline support. This is due to ongoing issues with HMRC's digital estate and concerns about in-progress digital change programmes (particularly Making Tax Digital).
6. Our members regularly encounter situations which HMRC's digital systems are not currently able to adequately interpret. When this leads to errors, it is necessary for a human to become involved to resolve the issue – hence the importance of helplines. Several members reported issues with CIS administration which digitisation is not presently solving, including CIS payments and bills being split over multiple months without apparent cause, and overpayment refunds taking months to process despite the system showing that said refunds are due. These members are incurring additional non-billable hours of work on the phone to HMRC sorting issues arising from the current CIS system, and one member reported having a client who has been unable to draw an income from their business for several months due to HMRC delays in paying refunds.
7. Further, we would advise HMRC to ensure digitally-excluded individuals receive adequate recognition and support in any change to the current application process. "Digitally-excluded" should here be taken to mean anyone incapable of using the internet to complete complex interactions, and the subset of taxpayers who are unable to register online because they lack the requisite identification or references (for example self-employed recent immigrants who do not have a National Insurance Number).

Question 20: Are there areas of the CIS in terms of its scope and or administration where simplifications or improvements could be made?

8. Further to paragraph 6, most IFA members consulted for this representation expressed concern and a degree of fatigue about the current digital system for CIS, the difficulty of speaking to a HMRC employee with sufficient expertise, and regular lengthy delays to processing refunds. As stated in

paragraph 6, these delays have a real and significant financial, mental and emotional impact on small business owners who are dependent on their business' liquidity in order to draw an income and meet their personal financial obligations.

9. One member highlighted a potential failure of internal communications, where they arranged on their client's behalf to transfer part of a CIS overpayment to pay their client's Corporation Tax bill (in lieu of a refund). Two months after this arrangement had been agreed, the client received a chase letter stating that their Corporation Tax payment was overdue, further to which no overpayment refund had been processed. In theory, IFA members consulted have no objection to the CIS or the proposed addition of VAT to the GPS compliance test; but in practice, HMRC's administration of the CIS is putting financial strain on small businesses and administrative strain on small practices.

General comments

10. As an accountancy professional body specialising in small practice accountants with small business clients, we have elected to only answer those consultation questions relevant to our expertise and membership. Questions 4-19 (being primarily concerned with commercial landlords and large groups) have therefore not been included in this representation.
11. The IFA would also like to raise a concern about the volume and proximity of HMRC consultations opened on "Tax Administration and Maintenance Day", 27th April 2023. In total 11 consultations were opened 27th April, with deadlines falling in either June or July. This gives professional bodies and other interested parties approximately 8-12 weeks to respond to up to 11 consultations.
12. For professional bodies, providing meaningful representation requires engagement with members (which itself takes time, as members cannot be expected to respond immediately upon their professional body's request), collation of member responses and internal deliberation before a representation can be written, assured and submitted.
13. Professional bodies like the IFA are therefore left facing difficult decisions over where to focus attention and resource – decisions which would not be necessary if HMRC consultations were spaced more evenly throughout the year, and/or deadlines were extended where necessary in recognition of the proximity of so many consultations opening at once.
14. Labelling 27th April "Tax Administration and Maintenance Day" suggests that HMRC are considering making this mass release of consultations a regular annual event. The IFA would strongly caution against this, and request HMRC consider a more reasonable approach to stakeholder consultation. If this approach is maintained over time, inevitably consultation responses will skew further towards the largest professional bodies, whose interests are not always necessarily aligned with smaller accountancy practices and their small business clients who are the backbone of the UK economy.

Contact details

Should you wish to discuss this response further, please contact Matt Barton, IFA Technical Manager, at mattb@ifa.org.uk.