
Corporate

Improving the operation of the Construction Industry Scheme (CIS)

Response to Consultation *(published 27 June 2014)*

Introduction

1. The Institute of Financial Accountants (IFA) and the Federation of Tax Advisers (FTA) welcome the opportunity to comment on the consultation document in respect of Improving the Operation of the Construction Industry Scheme (CIS) published by HM Revenue & Customs (HMRC) on 27 June 2014.
2. We should be happy to discuss any aspect of our comments and to take part in all further consultations on this area.
3. Information about the IFA and the FTA is given below.

Who we are

4. The IFA is an internationally recognised professional accountancy membership body whose members work for small and medium-sized enterprises (SMEs) or who run or work in small and medium-sized accounting practices (SMPs) that advise SMEs.
5. At the IFA, we put small and medium enterprises (SMEs) first, recognizing their role as vital wealth-creators, as employers to more than half of the UK's private sector workforce and as the power behind vibrant urban and rural communities. We hold the interests of small and medium practices (SMPs) in the accounting profession in equal regard.
6. The FTA is the Tax Faculty of the IFA and is the modern membership body for agents who provide tax compliance and planning expertise to SMEs and entrepreneurs. It is the tax representative for IFA and FTA members.
7. We are proud of our unique relationship with our members, who predominantly come from a SME/SMP background. As a professional accountancy body, we aim to provide the very best support and guidance to our members who operate within this arena, frequently tailoring policies and recommendations to meet the unique challenges and trading relationships associated with smaller business.
8. Founded in 1916, the IFA supports over 10,000 members and students in more than 80 countries with a programme of professional qualifications and education. As well as resources, events, training and seminars. IFA members uphold high standards of conduct, confidentiality and ethics and undertake annual continuing professional development (CPD) activities.
9. The IFA is a full member of the International Federation of Accountants (IFAC), the global body for the accountancy profession. As such, the IFA takes its place alongside the UK and Ireland's six chartered accountancy bodies, as well as 135 national and regional accountancy organisations representing 125 countries and jurisdictions.
10. The IFA is formally recognised as an awarding organisation by Ofqual, the public body responsible for monitoring standards, exams and qualifications (other than degrees) in England, underlining the quality of the IFA's work and the integrity of its qualifications; and is authorised by HM Treasury for Anti Money Laundering supervision.

General Comments

11. Our overriding comments in relation to the consultation is that a lot of our members and their clients value the process of paying their tax in instalments under CIS, rather than as a lump sum and therefore the proposals in the consultation may not result in a significant increase in those applying for gross payment status.
12. However, the additional flexibility provided in the reduction of threshold level and the proposed relaxation of the compliance test are welcomed. Although there may be challenges for certain contractors to meet their compliance obligations, the move to bring CIS online appears sensible and long overdue. The key to improving the verification process is a successful upgrade of HMRC's systems, but the scaled down process to just those

with gross payment status, does raise additional questions that need to be addressed.

Specific comments on the consultations

13. In addition to our general comments, our comments on specific questions set out in the consultation are set out below.

Q1: 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.

14. Lowering the upper limit of the turnover test would certainly allow more businesses that our members work with to apply for gross payment status. In particular, we believe it would be of benefit to general builders who incur significant materials costs and who are currently excluded from registering for gross payment status
15. We welcome the fact that the new threshold would also apply to closely held companies.
16. In our view, a threshold test at the lower level of £100,000 would seem the most appropriate, as it would provide more businesses with the option to register for gross payment status. However, whilst lowering the threshold would provide more flexibility to businesses, the concern is that by allowing more businesses to qualify for gross payment status, this would put more pressure on those businesses to make sure that they have sufficient funds to meet their tax obligations at the end of the year. This concern is expanded further under Question 3.
17. We have no additional comments regarding maintaining the sole trader threshold at £30,000.

Q2: 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.

18. In our view, for those already under gross payment status, the proposals would make their compliance obligation less stringent. However, this may result in bad practice elsewhere, putting extra pressure on advisers to meet their compliance obligations.
19. For those not currently under gross payment status, we believe that this would, at best provide limited additional encouragement to register and only to those who would benefit from the cashflow advantages of gross payment status, but for whatever reason, are behind with their PAYE obligations .

Q3: 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.

20. In our view, in many instances contractors actively choose not to have gross payment status, based on recommendation from their accountants, in order to have the comfort that their tax liability is being covered by regular instalments rather than having to set aside money for a lump sum payment. There are often competing demands within their business which have an adverse impact on cashflow. The concern is that these other demands could deplete the funds notionally set aside to meet their tax obligations at the end of the year.

Q4: 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.

21. We concur with the view expressed that a system upgrade is required as it is clear that the current system is not able to handle the number of contractors.
22. In many instances those contractors that currently choose not to file online are not IT literate and are at the latter stages of their working life. The challenge will be getting such contractors to comply with a mandatory online system. Those contractors that do not have professional advisers will need time to adjust to these changes to ensure they are compliant going forward.
23. In the event that HMRC do introduce a mandatory online filing requirement, detailed consideration must also be given on how to raise awareness of these changes and providing an appropriate transition period.

Q5: Would you welcome an online appeals service.

24. Our members would welcome an online appeals service, which is fully transparent and facilitates a speedy resolution to any enquiry raised. In particular, we believe that such an appeal process would reduce the amount of time spent by our members explaining to the debt collection department of HMRC that an appeal is in process.
25. There will be clearly be a need to understand fully how the system will work and learning from the experience of RTI would be a good start. Hopefully by automating the system, clerical errors made by HMRC can be quickly rectified without the need for numerous phone calls. Overall on this basis, this proposal is welcome.

Q6: Would an integrated online account help reduce costs and reduce the burden of operating the scheme.

26. In our view, an integrated online account would greatly help reduce the burden of operating the scheme and is long overdue. The ability to automatically offset PAYE is also a welcome enhancement of the scheme, given the often lengthy delays in HMRC making repayments to contractors.
27. Anything that speeds up the process of repayments or offsets of tax suffered is welcome, having real time information and visibility in relation to payment and deduction statements would immediately identify gaps and errors in this information and enhance the scheme.
28. The proposals on the nil return process seem sensible and we endorse them.
29. One important matter that we would be grateful that HMRC would confirm, is whether agents will be able to access a client's online account. We assume that this will be the case, in line with other processes such as PAYE, but would welcome specific confirmation on the point.

Q7: 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.

30. The online verification system needs a major upgrade in order to verify more than one subcontractor at a time and make the process smoother. The ability to search with a previous verification number linked to a subcontractor is key to this improvement process.

Q8: 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.

31. In our view, a telephone system should still be available as a last resort for those awkward cases that the online verification system fails. Again, as noted above, in order to minimise the number of phone calls, it is crucial that the online system is sufficiently sophisticated to continue to track subcontractors.

Q9: Would a Smartphone verification 'app' be a useful enhancement to the service and likely to be used by your business.

32. A Smartphone verification 'app' would be a useful enhancement to the service, as it would facilitate being able to undertake the process on site.

Q10: Would allowing extra time to verify workers be helpful if online verification was mandatory.

33. There is no doubt that allowing extra time to verify workers before a payment is issued rather than after agreeing a contract would be helpful if online verification was mandatory.

Q11: Do you have any views on how the existing verification process could be improved.

34. One improvement that could be made is that when an individual or business registers as self employed that they are also eligible to register to use CIS, if they choose. A more streamline registration process would

simplify the verification process.

Q12: Would it be feasible to remove the obligation to verify from certain categories of subcontractor.

35. We assume under these proposals all contractors other than those on gross payment status will have tax deducted at the rate of 20%. This needs to be explained in further detail.
36. The main concern is by restricting the verification process to only those with gross payment status, is that this removes some certainty for contractors about who they are engaging to do the work. We need to understand further any adverse impact to contractors where payments have been made to subcontractors who have not been verified and may then subsequently opt out of the tax system. We believe some form of verification process is needed for all contractors to safeguard all parties.

Q13: Do you have any comments on the assessment of equality and other impacts in the summary of impacts table on page 17.

37. We have no particular comments on the assessment of equality and other impacts in the summary of impacts table on page 17.

Should you wish to discuss our responses further, please contact AdamL@ifa.org.uk in the first instance.