JTC NEWSLINE

Changes proposed to the CIS Scheme - what do readers of Newsline think.....

August has been a quiet month in the world of tax so there is little to report. I thought I would use the opportunity to detail the results of the CIS questionnaire so far. The consultation on changing CIS runs until 22nd September so please send me (Liz Bridge) a completed questionnaire if you haven't already sent one in. If the results do not represent your views or if you think I am misrepresenting them in a way that is serious please let me know.

Firms paid net who could be gross but don't apply – readers like it

There were very few replies from firms who did not have gross status and those that did come were in the most part from businesses specialising in housebuilding or commercial development. They did not need a CIS identity to receive their money gross because they were selling buildings rather than building work. They seemed to think applying for gross status (and maintaining it in the face of the ongoing burden of tip top compliance) was an unnecessary burden and they were quite content to set off any CIS tax deducted on occasional transactions against their PAYE liabilities.

Easing the compliance tests - yes

Other respondents commented about the compliance tests, and there was total unanimity of view that late payment of taxes were now so severely penalised that it was reasonable to remove them from the tests for gross CIS status as long as returns and PAYE submissions were made on time.

The result may be that it will be easier to maintain a gross status through cash flow crisis as long as returns are always submitted. In practice I suspect that the firms that can't pay PAYE at the end of a month often don't put RTI submissions in on time either. However, a change will ease the burden for some.

Online accounts to show the tax deducted from net paid subcontractors – yes please

There was total enthusiasm for an online account for every net paid subcontractor on which he could view the tax deducted from him and paid on his behalf by his contractors. It was thought this would be useful to prevent contractor fraud where contractors say that workers have been paid net but do not pay over the deduction to HMRC. It was also thought to be useful in claiming repayment where net paid subcontractors kept poor records of the tax deducted from their receipts.

Paper returns – computer illiteracy rules

Few people owned up to still making paper returns. Those that did said it was because they had very few entries to make and that they or their bookkeepers were over 50 and were not skilled in using a computer. One man was nervous about his poor internet reception. If online returns become compulsory, as I think they will, I will ask for an exception to be made for those who can offer a reasonable excuse of age or infirmity – as is now the case for VAT.

No one offered much in the way of suggestions about how to make online returning easier. Replies indicated everyone thought they were pretty easy as it is.

Online Appeals – yes please

There was considerable support for the idea of an online appeal system as long as it was easy and clear to use. Many people commented that mail to HMRC seemed to go unanswered and that there were problems finding the right address with which to correspond.

Online Verification only – no thanks

Online verification only was the hottest topic in the consultation. Everyone had used the telephone system to verify occasionally. No one was at all confident that HMRC could create an online system that would work 100% perfectly.

The difficulties foreseen were that details supplied by subcontractors were wrong and that verification would fail without explanation. This in itself creates substantial work, and costs, in a contractors office where staff have to contact the subcontractor and try to establish what part of the information supplied is wrong and/or whether they have 'registered for CIS' or simply supplied their name and UTR from a tax return. Many replies talked about the problems of handling angry subcontractors whose payments were delayed, and the potential for claims for commercial interest. Contractor's staff get put under considerable pressure when this happens.

What would help – a phone service!!!!

The only way that HMRC could overcome the difficulties of an online only system was to have some sort of emergency phone line, or to offer an email system which guaranteed a reply within 24 hours.

What is needed if the online verification is to be efficient?

Verification could be improved if the contractor was told what piece of information had failed the verification. At present it can be difficult and time consuming to check all elements of verification once it has failed which is why the phone service is so useful.

If online verification were to go ahead, HMRC would need to resolve the problems which arise for the verification of partnerships.

Similarly there should be some function to register and verify business names which are commonly referred to as 'trading as' names. The verification of companies registered in the Isle of Man was also raised.

What if contractors only had to verify subcontractors who claimed to be gross? Would hell break loose?

This question caused very many respondents considerable anxiety because they do not ask subcontractors whether they are gross or net and simply verify everyone. They did not want to rely on the subcontractor for such potentially important information. They did not believe that they could keep their system running easily if they only verified those who claimed to be gross. They believed some subcontractors would claim to be gross and would then not pass verification. Some gross subcontractors would not initially claim to be gross, triggering work to establish a labour/material split. This would delay the payment of the subcontractor.

There would always be subcontractors paid net by default who would have been paid gross had they been verified. This group would want refunds or supplementary payments once they had received a first payment net.

All these respondents thought that whatever the relaxation of rules they would always verify everyone as they processed the first contractual payment simply to establish a clean database and avoid mistakes. There was also a lot of concern about the rate of deduction that would be used. The suggested change seemed to imply that the 30% rate for unverified subcontractors would be removed from the legislation and that all deductions could be made at 20% by default. Some replies indicated that firms were worried that the industry was returning to a world where a subcontractor could give his name as Wayne Rooney and his UTR as 12345 67891. He would not need verification and could be paid less 20%. This would advantage the 'white van man' over compliant contractors. It would also build compliance problems into the system of good contractors where workers gave false details which were accepted in good faith but which might result in investigation some time later. The view was that verification was a sound way of keeping a contractor's records clean and was not as time consuming as correcting errors discovered at a later date.

An app?

As well as having a respondent who was too old for computers I had two respondents who thought they might use a verification app. More thought it might be useful to someone but they themselves wouldn't use one. The overwhelming majority did not think an app would be useful. Verification is generally done in an office within a payment process and it was not envisaged that an app would help.

Search facilities - yes please

Everyone wanted the new online system to have as much in the way of search facilities as could be achieved, both to search more than one subcontractor at a time and to search previously used subcontractors or to search partial details where verification was failing.

Large Contractors only paying gross – opt out? Perhaps not

When large contractors were asked if they would withdraw from CIS where they had a company which only paid gross subcontractors they were divided. Some were keen to simplify and remove the responsibility. Others could not be certain that they would not use a one-off net paid subcontractor for a specialist job, and thought that they would always need to verify. This meant that their existing software would be running. Most software automatically produced returns. It was easier to keep going with returns than to switch them off and then have to switch them on if a net subcontractor was paid.

Consultation Response

So now you know the direction of the JTC response to HMRC. Please contact me (Liz Bridge) and offer more input if you think we have said something we should not say, or have not said something we should have said..... .

Changes afoot for the CITB Levy - Keep concentrating. What should you do to prepare for the changes? The CITB are contacting everyone who currently pays levy now to give advance notice of the changes. The changes will affect Levy payments made in 2017 (under the 2016 Levy Assessment, based on figures you will provide on your 2016 Levy Return). Please take time to consider the impact on your business and any actions or changes you might wish to make to get ready. ■