

# CIS Status Reviews Threaten Subcontractors

Reviews made under the new Construction Industry Scheme (CIS) rules have led to a large number of subcontractors losing their gross payment status. The knock-on effect to this change may be to limit the ability of businesses to compete effectively in the marketplace and possibly threaten their very existence.

## The Background

The CIS was modified in 2007 in an attempt to reduce non-compliance and to enable end-clients to more accurately classify the status of their workers. Under the changes, end-clients were to verify with HM Revenue & Customs (HMRC) the status of their subcontractors and the amounts that were to be deducted from payments made to them. HMRC were to conduct reviews of the tax compliance of all subcontractors over the course of a twelve month period starting in October 2007.

## The Issues

Where a subcontractor was considered to have made unacceptable breaches in tax compliance in the preceding twelve month their status was changed so that they would in future receive payments from an end-client net of tax rather than gross as before. It is estimated that 30% of contractors reviewed each month lose their gross payment status.

The change in status will have a significant impact on the cash flow for an affected business, perhaps causing them to close down altogether. Furthermore, it is suggested that once a business loses its gross status it will have little incentive to improve its system and compliance in order to regain gross status.

A further complication arises where a subcontractor is also a contractor. Where a business is receiving net payments but is required to make gross payments to its subcontractors there is a very real possibility of that business no longer being a viable concern.

Lastly, there are some bodies, such as government departments, that are required to engage gross registered subcontractors. As the number of such contractors is continually reduced following HMRC review so some major building projects, particularly those which are state funded, may be threatened or experience significant delays.

## The Solution

It is essential subcontractors and end-clients are aware of their obligations under the current regulations and have the appropriate systems in place to meet them. HMRC rarely accept ignorance by way of an excuse and have little scope for exercising some element of discretion.

HMRC have initiated a practice whereby non-payment of amounts less than £100 will not be considered a significant breach of compliance but it remains unclear whether further measures will be introduced.

## Summary

- The new CIS system involves the regular review of registered subcontractors to establish their compliance.
- Failure to correctly comply with the tax requirements will see subcontractors lose their gross payment status.

- The imposition of net status may significantly restrict the cash flow of a business, perhaps to the point of forcing that business to cease trading.
- Having lost their gross status subcontractors may be unwilling, or indeed unable, to devote the necessary time to improve their tax compliance.
- Subcontractors should acquaint themselves fully with their CIS obligations and ensure continued and complete compliance.
- End-Clients should check the status of their subcontractors on each engagement to ensure they are applying the correct status.

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