

# BUILDING UP TO A PROBLEM?

**Howard Royse** considers whether the Construction Industry Scheme is a vital tax backstop or an expensive anachronism

**T**he Construction Industry Scheme (CIS) has been in existence, in one form or another, since 1972. At its heart has been the deduction of tax at source from subcontractors whose businesses are too small, or insufficiently compliant, to warrant being paid gross. The loss of that gross payment status is an additional incentive (or threat) for larger businesses to keep all their submissions and payments up to date.

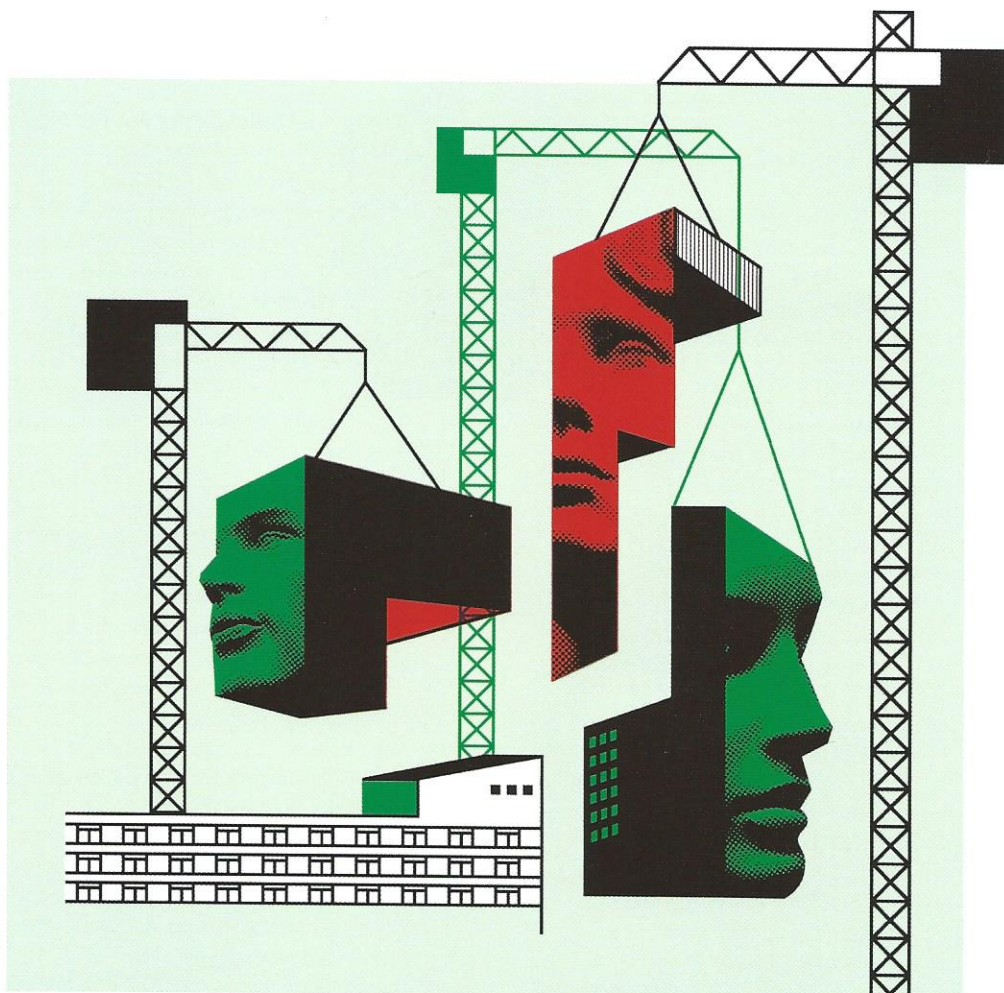
The reason for that deduction of tax is to guard against the subcontractor deciding not to declare those earnings; at least the Treasury receives something, and more quickly than the January and July self assessment (SA) payments.

## SOURCE AND YIELD

The yield to the Treasury from CIS is precisely nil. The total tax deducted through the scheme, used to offset SA liabilities for individuals and PAYE/NI/CIS liabilities for companies, is close to £4bn annually.

Let us consider how that figure may be comprised. There are about 160,000 active registered contractors at present, of which about 100,000 have gross payment status. Therefore 60,000 contractors will be paid net (ie after the deduction of tax under CIS). If we assume £40,000 is deducted on average, that gives us £2.4bn.

In the past, the statistic of two million workers in construction has been cited, of which 1.2 million are employed and 800,000 self-employed. Without entering into the debate about employment status and also without adjusting those figures for the downturn in the industry, an average of £2,000 per self-employed worker gives us another £1.6bn. Not all of those registered workers will be engaged full-time in 'the industry' - a significant



proportion will undertake domestic work as well.

Now we can consider where the risk might lie if the scheme were abolished completely.

## RISKS

The 60,000 net-paid contractors range from small husband-and-wife businesses to £1m-plus turnover operations. It is possible - let us say no more than that - that some of the income of those businesses will not be declared for tax. However, there is a strong likelihood that such income will be derived from larger, audited

businesses. The payments made by those businesses are also very likely to be traceable, being too large for cash.

Traceability is also a factor in payments to our 800,000 individual subcontractors. In the bad old days of the 'lump', cash payments were much more prevalent. Increasingly, payments are made by direct transfer, being more secure and taking less time than filling envelopes with cash. Those payments are also much more traceable, going to identifiable bank accounts. The money used to make those payments also has to enter the banking system, being traceable back to the payer.