There is, of course, some cash used, just as there will be bartering of services, but clearly such transactions must represent a very small minority of the whole. Far more cash transactions will be undertaken in the unregulated domestic market, compounded by HMRC's repeated confirmation that buy-to-let landlords should not be regarded as contractors for CIS.

### COSTS OF CIS

If the scheme existed merely to ensure the collection of the £1.6bn of tax from individuals, surely that would be worthwhile?

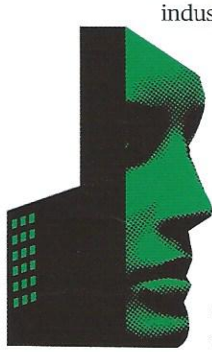
Those in industry tend not to agree. KPMG reported in 2006 that the old scheme cost the industry £321m annually to operate (compared with the Treasury estimate of £52m). More recently, HMRC has accepted that the current scheme costs industry more than £100m annually to run, though still some way short of the ICAEW estimate in 2007 of £250m. That same KPMG report stated a figure of just over £1bn annually for VAT. That was all VAT, for all industries.

So, an annual cost of £250m to ensure that none of £1.6bn is lost in tax yield seems especially burdensome on one industry. But the burden of CIS does not stop there.

The recent downturn in the industry has given rise to a significant increase in the number of claims by CIS-registered companies for the repayment of excess deductions, once all PAYE/NI/CIS liabilities have been offset. A typical scenario would be a plant hire company owning all its own equipment, suffering 20% deduction on everything but with comparatively fewer labour costs.

These repayments are only made once a year, following the submission of the P35 and the validation of the deductions. That process means that such companies are effectively providing the Treasury with interest-free loans for as long as from April in one year to June the next. Not large sums, but more than such companies can afford given the further deceleration of payments down through the industry chain.

Not one contractor since 2007 has been penalised for the failure to issue deduction certificates. This suggests that the HMRC inspectors are taking CIS less seriously than they should



### SCHEME OPERATIONS

The rate of compliance for submission of CIS monthly returns, across the 160,000 contractors, has stabilised at 83%. This could be interpreted either as a good level of compliance, or that one in six construction businesses do not take their responsibilities seriously. Unfortunately, a lack of resources prevents any detailed analysis by HMRC of the reasons for this, though it is suspected that nil returns may be the principal reason.

In reviewing repayment procedures, it emerged that in all the PAYE inspections of contractors - which should incorporate a review of CIS - not one since 2007 has been penalised for the failure to issue deduction certificates. This suggests that the HMRC inspectors are taking CIS less seriously than they should.

No figures are available for the costs to HMRC of administering CIS. So, it is necessary to guess at the cost of the call centres, the registration databases, the processing departments, the repayment teams, the processing of the pre-populated monthly returns (one in three are still using paper) and those in charge of administering the scheme, plus the cost of training people in this niche area of tax.

### ALTERNATIVES

How might HMRC act differently if there were no scheme in place?

Recently, HMRC's investigation department has yielded increased levels of tax from construction contractors and subcontractors. It seems sensible to focus more resources on such investigations and on initiatives such as 'amnesties' for electricians.

PAYE inspections of construction businesses could be extended to a serious review of payments to subcontractors, with samples followed through to those subcontractors' records, and income could be traced through to the final tax declaration. Contractors would be happy simply to record UTRs in their purchase ledger.

There would be a deceleration in tax paid to the Treasury from individuals, due to the change from monthly-paid CIS to twice-yearly SA for individuals and partnerships. But the CIS tax deducted from companies is netted off against their PAYE liabilities in the same monthly timeframe; the Treasury would lose its interest-free loans, but that seems a reasonable investment in helping those companies stay in business.

Traders and companies in every other business sector are paid gross. The substantial domestic construction market operates similarly without restriction; excluding supermarket transactions, more cash is paid by private individuals for home improvements than for any other outgoing.

In a recent report by the Institute of Economic Affairs, the UK's black economy was estimated to be in excess of £150bn per year. Home improvements must account for a significant part of that, which suggests that there is a lot more than a part of £4bn to be chased.

To conclude, it is time that HMRC, the Treasury and government considered the abolition of CIS. No action is risk-free, but for a long time it was thought vital that all limited companies should be audited, to prevent abuse of limited liability. Far fewer companies now require an audit, which has not brought about economic collapse. The construction industry needs a break, and removing unnecessary compliance would be a helpful move for business - as well as allowing HMRC to redeploy resources to areas likely to provide a greater yield.

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