REGULATORY IMPACT ASSESSMENT (RIA)

Reform of Construction Industry Scheme (CIS)

1. This Regulatory Impact Assessment updates that published in November 2002 along with the consultation document “The Inland Revenue and the Construction Industry – Working Together for a New Scheme”. The draft legislation for the new Construction Industry Scheme (CIS) was published on the Inland Revenue website on 4 February 2004, and has been the subject of further discussion with the Industry since that date. Consultation is ongoing and feedback is welcomed on both the legislation and the Impact Assessment.

Purpose and intended effects of the measure

The policy objectives

2. The new CIS seeks to address the concerns the industry has about the current scheme and to fulfil three major Government objectives:

   • To reduce the regulatory burden of the scheme on construction businesses
   • To improve the level of compliance by construction businesses with their tax obligations
   • To help construction businesses to get the employment status of their workers right.

Background and Introduction

3. A special deduction scheme for the construction industry has existed since 1972 and was designed to deal with the industry’s poor record of complying with tax obligations. The current CIS was introduced in 1999 and has suffered from a number of problems, including cumbersome processes and high compliance costs. A number of these problems are associated with the cards and certificates issued to those registering for the current scheme, and with the vouchers used to document payments between contractors and subcontractors. The Government asked the Inland Revenue to develop proposals to modernise the scheme. The options considered focussed on the major problem areas with the current scheme, on making compliance for construction businesses cheaper and simpler, and on improving our ability to police the scheme effectively.
4. The proposals outlined in the original consultation document were designed to improve the scheme by reducing both its operating costs and unfair competition from those who do not fully comply with their obligations. Those proposals have been refined during the ongoing consultation process, and the broad shape of the new scheme is evident in the draft legislation and accompanying explanatory notes.

The risks being addressed

5. The current CIS is unpopular and burdensome. If changes are not made these problems will continue and will adversely affect competition within the construction industry.

Options

6. Before publishing the consultation document in November 2002 a number of options for reform were considered.

No change
7. The general discontent within the industry with the current scheme, and the feeling that it encourages less compliant businesses to ignore their responsibilities to consider properly the employment status of their workers meant that this was not a viable long term option.

Adapting the current scheme to enable electronic communication
8. We looked at ways information can be transmitted electronically, including by telephone and over the Internet. Although modern technology could improve the processing of vouchers, it would not resolve many of the underlying problems that concern the industry. This option was therefore rejected.

Implementing an automatic deduction regime
9. This option would track all payments from contractors to subcontractors through the electronic banking process and take deductions direct from the contractor’s bank account. On further investigation it emerged that the BACS process was too limited and considerable changes to it would be needed before this option could work. This option also would have removed choice from business as to how they ran their affairs and would increase their costs, as well as losing the interest benefits of paying by cheque, and was ultimately rejected too.

Complete abolition of the scheme
10. This would clearly reduce the regulation on the industry, but would involve unacceptable risks of tax loss. There continue to be large numbers of itinerant workers often paid in cash as well as a number of less scrupulous businesses working in the construction sector who set out to avoid their tax obligations. Abolishing the scheme would not meet the Government’s objective of improving compliance by construction businesses and so helping to make the tax system fairer overall. This option was therefore rejected.
A reformed Scheme

11. This is the approach favoured by the Government and for which draft legislation has been prepared. It has been developed from that proposed in the consultation document in the light of Industry feedback. Both the consultation document and Summary of Responses can be found on our website at www.inlandrevenue.gov.uk/cis/reform.htm. The main changes remain as published therein and are:

- To replace the Registration Cards (CIS4) and Gross Payment Certificates (CIS6 and CIS5) with a verification service;
- To introduce a new employment status declaration;
- To replace the vouchers in the current scheme with periodic returns;
- To replace our current computer system with a new one capable of supporting the use of ‘e’ services, such as communication over the Internet, and which will better support our compliance activities.

12. These changes have been discussed extensively with the industry and the new scheme as outlined in the draft legislation has benefited from their input.

13. The main issue arising from the consultation process was that the proposal for a verification service that applied to each contract would be unworkable. As a result of input from the industry the new scheme instead will require that verification be linked to payments made rather than contracts entered into. The new scheme will also remove the current constraint that a business can be paid for work done only if it is registered with the Inland Revenue. There will instead be a higher deduction rate applied to payments for those not registered in the scheme, so ensuring that everyone can be paid for work done.

14. Everyone registered for the current scheme will transfer automatically to the new scheme with their existing payment status intact (gross or net). All those already receiving gross payments will retain this status in the new scheme as long as they continue to pass the turnover, business and compliance tests. The new scheme, by removing certificates with expiry dates, removes the need to periodically reapply for gross payment status. New and net businesses may apply for gross payment status when they are able to satisfy the turnover, business and compliance tests. The compliance and turnover tests will be run periodically by Inland Revenue on all those with gross status to ensure the relevant criteria continue to be met.

15. The draft legislation spells out the penalty regime associated with the new scheme. These penalties include one for making an incorrect monthly return. This particular penalty could be triggered by entering incorrect figures on the return, falsely completing the verification declaration or falsely completing the status declaration. These declarations require that the contractor declares that all persons entered on the return have been verified with Inland Revenue (if required) and that the contractor has considered the employment status of
all those listed thereon. An independent appeal system will be in place (as for all statutory penalties).

16. All current channels of communication will still be available to the industry, ie paper, face to face, telephone and electronic communication, as will the facility to make quarterly payments provided the qualifying criteria are met.

Business sectors affected

17. CIS reform affects large, medium and small businesses (corporates and partnerships), and individuals (sole traders) working within the construction industry, as well as those contractors whose main business is not construction but who spend significant sums on construction operations in any particular year. In order that those affected by the changes can assess the impact on themselves, we have split our analyses of costs and savings into three groupings – large and medium businesses, small businesses and individuals - rather than the conventional large, medium and small business sectors. This is because many individuals working in construction do not necessarily consider themselves to be a small business.

Issues of equity and fairness

18. The reformed scheme is based on a flow of up to date information, which the new computer system will process in a way that will allow interrogation in a more meaningful way than at present, so improving the quality of Inland Revenue compliance activities. As such, this should make the tax system overall more equitable.

Costs and benefits to the construction industry

19. The costs and benefits of both the current and new schemes have been calculated by looking separately at the tasks that need to be undertaken by anyone in the role as either a subcontractor or contractor. Each task was then costed by reference to the time it was estimated to take. The costs were then multiplied up taking account of the number of payments and other transactions likely to occur under both the old and new scheme and the numbers of contractors and subcontractors currently operating in the industry. A breakdown of the time assumptions used in arriving at the costs and savings can be found in Appendix 1.

Policy Costs

20. CIS reform does not involve any direct ‘policy costs’. The aim of the new scheme is to raise tax revenues more efficiently and fairly, by combating the culture of non-compliance which pervades some sectors of the industry,
rather than change behaviour per se. As such, the costs and savings detailed herein are the indirect costs associated with that aim or ‘compliance costs’.

**Compliance costs**

21. Reform of the CIS is expected to lead to significant compliance cost savings to the construction industry. However, there will be one-off costs at the introduction of the new scheme and some new recurring costs for the industry. (Recurring costs are the everyday costs of running the scheme). Over time these costs will be exceeded by the recurring (or ongoing) savings derived from the simpler procedures and processes of the new scheme.

22. The **one-off costs to the industry** will be between £52 and £60 million and are mainly due to:

- Staff training costs (30 per cent);
- Setting up new processes (spreadsheets, filing systems, planning new working procedures, etc) to operate new system (30 per cent);
- Contacting the Inland Revenue, agents or Industry bodies for free help where necessary (20 per cent);
- Cost of time spent obtaining, reading and digesting Inland Revenue guidance (15 per cent);
- Buying new software specifically to help with operating the new scheme (5 per cent).

23. The annual recurring costs of the current scheme are around £52 million, of which £38 million should be saved under the new scheme. The net annual recurring saving is expected to be **£22 million per year** after taking into account **new recurring costs to the industry** of £16 million per year. These will be made up of:

- Costs of completing and submitting the periodic returns (55 per cent);
- Costs to contractors of checking employment status and gross or net payment status prior to the first payment to a sub-contractor (35 per cent of new recurring costs). Previously contractors would have to carry this out before each engagement. The new scheme intends for this to be carried out only for the first payment to a new subcontractor;
- Costs of subcontractors sending their ID numbers to contractors prior to first ever relationship (8 per cent);
- Costs of sending evidence of deductions to net subcontractors where these would not otherwise be sent (2 per cent).
Savings

24. The Industry is expected to save £22 million per year, or 40 per cent of the estimated £52 million recurring costs of the existing scheme, as a result of the changes.

These savings are mainly due to:

- Neither contractors nor subcontractors having to chase up and check vouchers (35 per cent);
- Neither contractors nor subcontractors having to complete vouchers (35 per cent);
- Savings from contractors not having to complete end of year returns (10 per cent);
- Savings from no longer having to send in vouchers (10 per cent);
- Savings from no longer having to present cards and certificates in person (5 per cent);
- Other voucher administration costs (5 per cent).

Cumulative present values of compliance cost savings to the construction industry (£ million)

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<tbody>
<tr>
<td>Cumulative total compliance cost saving</td>
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<td></td>
<td></td>
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<tr>
<td>Best case</td>
<td>-29</td>
<td>-8</td>
<td>13</td>
<td>33</td>
<td>52</td>
<td>71</td>
<td>89</td>
</tr>
<tr>
<td>Worst case</td>
<td>-37</td>
<td>-16</td>
<td>5</td>
<td>25</td>
<td>44</td>
<td>63</td>
<td>81</td>
</tr>
</tbody>
</table>

25. The table above shows the likely range of cumulative compliance cost savings\(^1\) to the construction industry over future years, expressed in present value terms using a 3.5%\(^2\) real discount rate to discount the future. The savings are negative in the early years as a result of the one-off implementation costs, but the benefits to the industry as a whole from the proposed reforms are expected to turn positive by 2008/9.

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\(^1\) The range in this and later tables reflects the assumption that between 0% and 20% of contractors develop their own IT software to deal with new CIS and there are between 15 and 25 subcontractors per agent employed to deal with CIS.

Impacts on different sectors

26. The numbers affected by the CIS reforms in each sector are estimated to be:  
   - Large and Medium Sized Businesses – 4,000  
   - Individuals (Sole Traders) – 770,000  
   - Small Companies and Partnerships – 200,000

Large and Medium sized Businesses

27. The one-off costs for large and medium sized businesses are expected to be around £0.5 million. The reforms are expected to lead to a saving of £0.3 million of the costs incurred under the existing scheme and new recurring costs of around £0.2 million per year, giving a net annual recurring saving of £0.1 million. The cumulative net savings to large and mediumsized businesses are predicted to turn positive by 2015/16.

Individuals (sole traders)

28. The one-off costs for individuals are predicted to be between £29 million and £34 million. The new recurring costs are expected to be around £8 million per year, offset by recurring savings of £21 million per year giving a net annual recurring saving of around £13 million. The cumulative net savings to individuals are predicted to be positive by 2008/9.

Small companies and partnerships

29. The new scheme should significantly reduce the compliance costs of other small businesses as it will remove many of the elements of the existing scheme that are most onerous for them. The one-off costs of the reforms for small companies and partnerships are likely to be between £22 million and £25 million. The new recurring costs are expected to be around £8 million per year, offset by recurring savings of around £16 million per year resulting in a net annual saving of £8 million.

Small Business Impact

30. To estimate the costs and savings to the small business sector as a whole the figures detailed in paragraphs 28 and 29 need to be added together. There are 970,000 small businesses in the construction sector and we estimate that the costs to these businesses in implementing the new scheme will be between £51 million and £59 million. They will also incur around £16 million annually in new costs to run the scheme. However, they will save

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3 Source: Inland Revenue, Construction Industry Scheme data, 2002/03.  
4 Small businesses are defined as having CIS turnover less than £4.4 million.
around £37 million of the costs incurred running the current scheme. The net annual recurring saving will be around £21 million. For these businesses the benefits begin to overtake the costs in 2008/9.

### Cumulative present value of compliance cost savings to all small businesses in the Construction Industry Scheme (£ million)

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<tr>
<td><strong>Cumulative total compliance cost saving</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>Best case</strong></td>
<td>-29</td>
<td>-7</td>
<td>13</td>
<td>33</td>
<td>53</td>
<td>71</td>
</tr>
<tr>
<td><strong>Worst case</strong></td>
<td>-37</td>
<td>-15</td>
<td>5</td>
<td>25</td>
<td>45</td>
<td>63</td>
</tr>
</tbody>
</table>

31. The savings are once again negative in the early years as a result of the one-off implementation costs, but the benefits to the small business sector as a whole from the proposed reforms are expected to turn positive by 2008/9.

32. The Small Business Service (SBS) welcomes the extent of consultation that has taken place to identify a means of reforming the CIS scheme. The comments and concerns of this sector have been fed into the proposals for the reformed scheme. Although a specific small firm impact test which goes beyond the estimates of potential cost impacts on the industry, the majority of which comprises small firms, has not been undertaken, most elements are likely to have been covered at the Inland Revenue’s consultation panels.

33. While, over time, there appear to be compliance cost savings to the industry, SBS are concerned at the extent of the one-off costs to implement the reformed scheme. These mean that compliance costs increase for the first two years of the new scheme, as shown in the Table above. Although these costs account for software upgrades, they do not include start-up hardware costs.

34. All aspects of the new scheme will be able to undertaken across all contact channels - in person, over the telephone, by post or electronically. The requirement to complete and file a monthly return is similar to the current requirement to complete and send in vouchers on a monthly basis.

### Costs and Benefits to the Inland Revenue

**Costs**

35. The annual cost to the Inland Revenue of administering the existing CIS is around £27 million per year. We currently estimate that one-off implementation costs of the new scheme for the Inland Revenue will total
around £70 million over the period 2004/5 to 2006/7. The main one off costs are:

- Staff costs (30 per cent);
- IT costs (25 per cent);
- Running costs (25 per cent);
- Capital costs (15 per cent);
- Consultancy (5 per cent).

36. The recurring implementation costs to the Inland Revenue are expected to be around £40 million initially, falling to £32 million by 2009/10. The main elements of new recurring costs are:

- Staff costs (80 per cent);
- IT costs (10 per cent);
- Running costs (10 per cent).

Benefits

37. In 2004/5 – in advance of the introduction of the new Scheme in April 2006 – the Inland Revenue will launch a publicity campaign aimed at highlighting employment status issues in the construction industry. This campaign, in conjunction with improved targeting of compliance activity, is expected to yield an extra £20 million in tax in 2004/5 and £40 million in 2005/6 and will pave the way for the introduction of the new scheme in April 2006. From that date a combination of streamlined procedures, improved data for compliance targeting (especially of gross status abuse) and the contractors’ Employment Status Declaration are expected to generate additional revenue yield compared to the current scheme of £80 million in 2006/7, £110 million in 2007/8 and £130 million in 2008/9.

Other costs and benefits (public & private sector)

38. The removal from the scheme of local authority schools who operate delegated budgeting will release resource from both the local authorities and the schools themselves and allow them to concentrate on their core tasks.

39. The removal of those caught by the “reverse premium” arrangements between landlord and tenant for refitting premises will allow those fitting out premises on these terms to simply be clients rather than contractors.
Unintended consequences

40. The new scheme, by making clear contractors’ obligations to deal correctly with the employment status of its workers, may encourage incorporation. The compliance campaign planned for 2004/05 will target those incorporating to disguise employment.

41. Retention of a turnover test may lead to a rise in the formation of composite companies in order to meet the test and gain gross status. The Inland Revenue intends to take action to ensure that the turnover test cannot be subverted by the artificial pooling of subcontractors’ revenues in this way.

Other impacts

Devolution

42. No impact – the reformed scheme simply refines an existing regime which applied equally across the United Kingdom.

Human Rights

43. The introduction of a higher deduction rate for those not registered in the scheme will allow them to be paid for work done. Under the current scheme if a worker cannot produce a card or certificate the contractor cannot legally pay him for any work undertaken.

E-policy

44. The new scheme will be fully e-enabled and so will contribute towards the Government achieving its published targets on the availability of electronic services and information.

Environmental impacts

45. The new scheme encourages a move away from paper to electronic communication and removes the need to make special journeys simply to present cards and vouchers. Both of these effects should be environmentally beneficial.

Rural proofing

46. As the new scheme updates an existing scheme there are no specific rural impacts.
Competition assessment

47. The CIS applies to construction work undertaken in the UK, including site preparation, alteration, dismantling, construction, repair and demolition. All contractors commissioning such construction work and subcontractors undertaking it must comply with the rules of the scheme. Non-construction businesses that spend less than £1 million per year on construction work and private householders are not covered by the scheme.

48. The Competition Filter was applied and no specific impacts were identified. The scheme covers many different economic markets in the area of construction. Most geographic markets are likely to be fairly broad in scope due to a combination of the widespread use of competitive tendering by contractors and the ability of contractors to sub-contract to workers that live relatively close to the site. Some markets may be more local where transport costs are higher (for example in the fields of demolition, concrete-pouring, etc). There will be differences in the degree of intensity of competition in different markets determined by the relevant factors present in that market, for example whether the market is more capital-intensive, or where there is a (possibly local) shortage of the specific skills required for the job. Markets whose participants rely predominantly on unskilled labour are likely to be the most competitive.

49. The main way in which the new scheme might affect the form and outcome of competition in these markets is by changing the relative compliance costs faced by different types or size of business. Under CIS, compliance costs form a higher proportion of total costs for small businesses because many of them are fixed with respect to size. The new scheme leads to a higher proportionate reduction in compliance costs for small businesses (see Figure 1 below), thereby levelling the playing field vis-à-vis larger businesses. It is possible that this may result in small businesses gaining market share. This may have benefits in terms of productive efficiency, as market share should relate more closely to true underlying costs. Consumer benefits may also arise if competition leads to the lower costs being passed on as lower prices.

50. All businesses in the construction sector will face initial one-off costs when the new scheme begins in 2006. However, it is unlikely that these costs will be sufficient to result in any firms exiting the construction sector, or if they do, it is unlikely that sufficient numbers will leave to affect the degree of competition in any market. It is unlikely the one-off costs will create a barrier to entry for new entrants or have a negative impact on the structure of any market.
Securing compliance

51. The new scheme is simpler to understand and operate than the old one so the Inland Revenue’s compliance resource can concentrate on core compliance activities rather than spending time ensuring vouchers are completed and used properly. The new computer system will allow risk assessment and trend analysis of incoming data so that the Inland Revenue can specifically target the non-compliant. The Inland Revenue will also publicise the new scheme throughout the Industry at their events and conferences and also at Inland Revenue-organised events. We will revise our guidance on the website, leaflets, etc, as well as providing helpline support for all aspects of the new scheme. The Employment Status Indicator (ESI) computerised package will also be accessible from the website, and can be used by contractors to check the status of their workers.

Consultation

52. This final Regulatory Impact Assessment follows publication of the draft legislation and explanatory notes on the Inland Revenue website. The legislation has been drawn up after extensive consultation with the Industry following on from the publication of the original consultation document in November 2002. (See Appendix 2 for details of those who have contributed to the consultation process).

53. The Government invited comments and feedback on the draft legislation, and also discussed it with the formal consultation panels and at regional forums ahead of publication of the primary legislation in Finance Bill 2004. The Government will continue to consult on the detail of the scheme contained in the Regulations until they are laid before Parliament later this year. The Government also plans to continue to involve the industry in the development of the processes and forms underpinning the new scheme, and
in training and publicity campaigns up to and beyond implementation in April 2006.

Implementation

54. The ongoing consultation process is one way of ensuring that those individuals and businesses operating in the construction industry are aware of the fact that there is to be a new scheme. The Government plans to ensure that they know well in advance of the changes they will need to make ahead of its introduction, and exactly what they will need to do at 6 April 2006 and beyond to comply with the rules of the new scheme. Legislating for the new scheme in Finance Bill 2004 will ensure that the industry has certainty about the requirements of the new scheme early, and that they can begin to plan for it well ahead of the April 2006 start date. A publicity campaign is currently being planned and this will run from spring 2005 up to and beyond implementation of the new scheme.

Monitoring and evaluation

55. The Inland Revenue will maintain links with those who have contributed to the consultation so far, and to keep them involved in the ongoing evaluation and refinement of the new scheme once it is in place. This is a compliance regime and it will be monitored internally. For example, the Inland Revenue will be closely monitoring the receipt of returns and payments, and looking at the numbers and types of businesses who are moving from gross to net pay to ensure the scheme is not unnecessarily rigid. The Inland Revenue have also agreed to hold further discussions with the Industry regarding the scope of “construction operations” once the new scheme is embedded. There will be a system put in place to evaluate the costs of the scheme over time.

Summary and recommendation

56. The table below summarises the costs and benefits of the reform of the CIS for the industry. While the new scheme will involve some transitional costs, it is also expected to deliver substantial savings, and the benefits to the industry as a whole from the proposed reforms are expected to turn positive by 2008/9.

Summary of costs and benefits for the construction industry

<table>
<thead>
<tr>
<th></th>
<th>Small Business sector</th>
<th>Large and Medium sized Business</th>
<th>Whole industry</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small Companies and Partnerships</td>
<td>Individuals (Sole Traders)</td>
<td>Total</td>
</tr>
<tr>
<td>(£ Millions)</td>
<td>Annual cost of current scheme</td>
<td>22</td>
<td>29</td>
</tr>
</tbody>
</table>

13
57. The costs and benefits of reform for the Inland Revenue are summarised below. The additional costs of administering the new scheme in the medium term are expected to be outweighed by the higher tax revenues that should result from improved administrative systems and compliance.

58. It is important to note that the net benefit to the Inland Revenue is not the same as the net benefit to the UK as a whole, since tax is largely a transfer between one group of individuals and another and does not increase the overall amount of resources available to society. However, because higher tax revenues through CIS imply either higher public expenditure or lower taxes elsewhere in the economy, some of the higher tax revenues should be classed as a benefit to society as well.

<table>
<thead>
<tr>
<th>Summary of costs and benefits for the Inland Revenue</th>
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<tbody>
<tr>
<td>£ Million</td>
</tr>
<tr>
<td>Annual costs of current scheme saved</td>
</tr>
<tr>
<td>One off implementation cost</td>
</tr>
<tr>
<td>Recurring implementation costs</td>
</tr>
<tr>
<td>Extra yield</td>
</tr>
<tr>
<td>Net Benefit</td>
</tr>
</tbody>
</table>

59. The reform of the CIS as detailed in the draft legislation addresses the industry’s concerns with the current scheme, fulfils the Government’s objectives set out at paragraph 2 above and reduces costs for business. It also addresses a number of the points raised in the formal consultation exercise (see the summary of responses at the website address given in Paragraph 11 above).

60. The Government continues to welcome views on the scheme as set out in the legislation, and any comments on this Impact Assessment, including the
assumptions used in Appendix 1 to calculate the predicted costs and savings to the industry of the reforms.

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REGULATORY IMPACT ASSESSMENT

Reform of Construction Industry Scheme

Statement of Ministerial Approval

I have read the regulatory impact assessment and I am satisfied that the benefits justify the costs.

Signed by the responsible Minister:

Dawn Primarolo
Paymaster General

Date 9 March 2004
### Appendix 1

**Assumptions underlying estimates of Construction Industry Costs and Benefits**

<table>
<thead>
<tr>
<th>Contractors (including any subcontractors in their role as a contractor)</th>
<th>Time allowed</th>
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<tbody>
<tr>
<td><strong>a) CIS tasks no longer required</strong></td>
<td></td>
</tr>
<tr>
<td>• Completing end of year return *</td>
<td>2 hours</td>
</tr>
<tr>
<td>• Checking validity and expiry dates of CIS cards and certificates*</td>
<td>20 mins per new engagement</td>
</tr>
<tr>
<td>• Sending vouchers to the revenue²</td>
<td>6-7 mins per occasion</td>
</tr>
<tr>
<td>• Chasing up and checking vouchers³</td>
<td>20 mins per CIS24</td>
</tr>
<tr>
<td>• Completing vouchers⁴</td>
<td>5 mins per CIS25</td>
</tr>
<tr>
<td>• Requesting vouchers from the Inland revenue on an adhoc basis*</td>
<td>7 mins per voucher</td>
</tr>
<tr>
<td></td>
<td>5 mins per occasion</td>
</tr>
<tr>
<td><strong>b) Tasks required during transition (one off costs)</strong></td>
<td>1 hour</td>
</tr>
<tr>
<td>• Obtaining and reading IR guidance</td>
<td>10 hours</td>
</tr>
<tr>
<td>• Staff training (where given) (total for trainer and trainee)</td>
<td>4 hours</td>
</tr>
<tr>
<td>• Contacting IR, agents and industry bodies for help</td>
<td>5 hours</td>
</tr>
<tr>
<td>• Setting up new processes for dealing with new scheme</td>
<td>10 hours</td>
</tr>
<tr>
<td>• Time taken to modify existing software to administer CIS (where done)</td>
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<td></td>
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<tr>
<td><strong>c) New ongoing tasks under the new scheme</strong></td>
<td>20 mins per return</td>
</tr>
<tr>
<td>• Completing and submitting periodic returns to IR</td>
<td>20-25 mins per new engagement</td>
</tr>
<tr>
<td>• Getting subcontractor ID and checking employment and gross/net payment status and communicating with IR</td>
<td>5 mins per receipt</td>
</tr>
<tr>
<td>• Sending periodic receipts to each subcontractor</td>
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</tr>
</tbody>
</table>

1. The main cost of each task is the opportunity cost of the time taken. This is found by multiplying time allowed by the hourly labour costs shown later in this Appendix.

*. Source: Inland Revenue, Construction Industry Scheme data, 2002/03


3. Source: Page 17 KPMG Survey, 2000. Average times taken to check information on voucher is correct, deal with incorrect completion and chase up subcontractors for CIS24s.

## Subcontractors (in the role of subcontractors only)

### a) CIS tasks no longer required

- Having to apply for cards and certificates: 45 mins each time they expire
- Providing photos for CIS4s and CIS6s: 10 mins when applying for a new card
- Presenting cards/certificates and certifying documents in person: 1 hour per new engagement
- Requesting vouchers from the Revenue: 5 mins per occasion
- Completing vouchers: 7 mins per voucher
- Chasing up and checking vouchers: 4.5 mins per CIS25
- Sending vouchers to each other: 5 mins per voucher
- Dealing with lost vouchers certificates and cards: 30 mins per lost voucher

### b) Tasks required during transition (one off costs)

- Obtaining and reading IR guidance: 1 hour
- Staff training where given (total for trainer and trainee):
  - CIS4: 5 hours
  - CIS6: 10 hours
  - CIS5: 20 hours
- Contacting IR, agents and industry bodies for help:
  - CIS4: 2 hours
  - CIS6: 4 hours
  - CIS5: 6 hours
- Setting up new processes for dealing with new scheme:
  - CIS4: 1 hour
  - CIS6: 1 hour
  - CIS5: 2 hours

### c) New ongoing tasks under the new scheme

- Subcontractors proving ID and other info to contractor:
  - CIS4: 5 mins
  - CIS6: 5 mins
  - CIS5: 10 mins per new engagement

---

* Source: Inland Revenue, Construction Industry Scheme data, 2002/03
## ADDITIONAL ASSUMPTIONS

### a) Wage Assumptions\(^5\)

<table>
<thead>
<tr>
<th>Subcontractors</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>• CIS4 Holders</td>
<td>£12.72</td>
</tr>
<tr>
<td>• CIS5 Holders</td>
<td>£12.23</td>
</tr>
<tr>
<td>• CIS6 Holders</td>
<td>£12.47</td>
</tr>
<tr>
<td>Contractor schemes</td>
<td></td>
</tr>
<tr>
<td>Software engineers</td>
<td>£12.47</td>
</tr>
<tr>
<td>Agents (Accountants)</td>
<td>£19.80</td>
</tr>
<tr>
<td></td>
<td>£21.89</td>
</tr>
</tbody>
</table>

### b) Travelling to Present\(^*\)

<table>
<thead>
<tr>
<th>Subcontractors</th>
<th>% engagements</th>
</tr>
</thead>
<tbody>
<tr>
<td>• CIS4 Holders</td>
<td>3%</td>
</tr>
<tr>
<td>• CIS5 Holders</td>
<td>2%</td>
</tr>
<tr>
<td>• CIS6 Holders</td>
<td>5%</td>
</tr>
</tbody>
</table>

### c) Subcontractors using an agent to deal with any part of CIS6\(^6\)

- 61%

### d) Subcontractors per agent\(^*\)

- 15/25

### e) Contractors introducing own software to deal with new CIS\(^*\)

- 0%/20%

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5. Source: New Earnings Survey April 2002, grossed up by employer NICs and wage increase of 2.5% p.a. in real terms until 2006/07.

* Source: Inland Revenue, Construction Industry Scheme data, 2002/03

Appendix 2

CIS REFORM CONSULTEES

1. Construction Industry Review Advisory Panel (CIRAP)
IR CIS Reform Team meets monthly with representatives from:

Joint Taxation Committee
Federation of Master Builders
Federation of Small Businesses
Electrical Contractors Association
Construction Confederation
National Specialist Construction Council
Scottish Employers Federation
National Confederation of Demolition Contractors
Construction Employers Federation of Northern Ireland
National Federation of Builders

2. Deemed Contractors Panel
IR CIS Reform Team meets quarterly with representatives from:

Association of British Insurers
British Property Federation
Environment Agency
SCOPE
Local Authorities
Confederation of British Industry
National Trust
Network Rail
Tax in Industry
National Housing Federation

3. Professionals Panel
IR CIS Reform Team meets quarterly with representatives from:

Various accounting bodies
Computer Supply Companies
Software Providers
Surveyors
Engineers

These are the 3 main consultative panels, and the Minutes from all three meetings are circulated to all groups.
4. Regional Update Meetings
There are 5 Regional Groups which have met on a rolling quarterly programme since July 2003. At these meetings attendees are updated on the main points discussed by the Review Panels, advised of current thinking and asked for their input/ideas on resolving outstanding issues. The groups are mainly made up of those who responded to the Consultation Document of November 2002, but have been augmented by other interested parties over time. The attendees range from those running their own construction businesses (small concerns and partnerships) to those running the CIS and Payroll Sections in larger concerns (for example Balfour Beatty, Taylor Woodrow, Transco, Local Authorities, Universities, Utilities) as well a number of accountants and those working for legal firms.