



HM Revenue  
& Customs

# Fraud on provision of labour in construction sector: consultation on VAT and other policy options

## **Consultation document**

Publication date: 20 March 2017

Closing date for comments: 9 June 2017

<b>Subject of this consultation:</b>	This is a consultation on options for combatting fraud on labour provision in the construction sector.
<b>Scope of this consultation:</b>	The consultation will consider a range of policy options to prevent supply chain fraud in the sector, including a VAT reverse charge and changes to the qualifying criteria for gross payment status within the Construction Industry Scheme.
<b>Who should read this:</b>	We want to hear from construction businesses and those that supply predominantly labour services to those in the construction sector.
<b>Duration:</b>	12 weeks starting on 20 March 2017 and closing on 9 June 2017.
<b>Lead official:</b>	Nick Chambers: HMRC, VAT Serious Non-Compliance and Fraud Team.
<b>How to respond or enquire about this consultation:</b>	<p>Please send responses to: <a href="mailto:indirecttax.vatsncfteam@hmrc.gsi.gov.uk">indirecttax.vatsncfteam@hmrc.gsi.gov.uk</a></p> <p>Alternatively you can write to:  Nick Chambers  Customs and Indirect Taxes  HM Revenue &amp; Customs  Room 3/36  100 Parliament Street  SW1A 2BQ</p> <p>Please send enquiries about the content or scope of the consultation, or requests for a hard copy to the above address.</p>
<b>Additional ways to be involved:</b>	<p>Respondents can submit written responses in the normal way. HMRC will be arranging stakeholder meetings to discuss the consultation and will be engaging with trade associations and groups.</p> <p>If you would like to arrange a meeting please use the email or postal addresses above.</p>
<b>After the consultation:</b>	Responses to the consultation will be summarised and published. The results of the consultation will be considered and the government will announce next steps later in the year.
<b>Getting to this stage:</b>	HMRC has carried out extensive compliance work in the sector. This includes a range of civil compliance activity to tackle and disrupt the supply chains and criminal investigations on the controlling minds behind the fraud.
<b>Previous engagement:</b>	There have been informal discussions and meetings with some large businesses and members of the Joint Tax Committee in the construction sector. These have helped inform the content of this consultation.

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# 1. Introduction

- 1.1 This consultation, announced at Spring Budget 2017, seeks views from stakeholders and individuals on policy options to prevent supply chain fraud in supplies of labour provision within the construction sector.
- 1.2 We recognise that the vast majority of businesses in the construction sector meet their obligations in full and on time. It is precisely to protect honest taxpayers that we are consulting on key proposals for disrupting and closing down the operations of those cheating the system.
- 1.3 In particular, we would welcome your views on a VAT domestic reverse charge, a tightening of the rules around gross payment status (GPS) within the Construction Industry Scheme (CIS) and any other options, whether for VAT or for other regimes including CIS.
- 1.4 Organised fraud in labour provision within the construction sector presents a risk to the public revenue. Cases seen to date have largely involved large civil engineering projects (both public and private procurement). However, these arrangements could be found in any large construction project.
- 1.5 Historically fraud in labour supply chains in large construction projects mainly concerned the evasion of direct taxes which the CIS is designed to address. However, we know organised crime groups are setting up businesses with the intention of fraudulently failing to pay the VAT and making incorrect income tax deductions.
- 1.6 There are principally two ways the fraudsters organise their criminal attacks on HMRC systems:
  - In the first the fraudsters will take over, or take control of an existing business with GPS and then start misdeclaring its CIS remissions and VAT liabilities. They will also artificially lengthen the supply chain with the intention of making it difficult to reconcile the main contractor's CIS declaration to all sub-contractors below it. It can therefore take several months for HMRC to spot mismatches in the data. Once HMRC identifies any mismatches and intervenes, the businesses concerned will go missing or are collapsed. The workforce will be moved to another entity which will carry on the fraud – this is often referred to as 'phoenix trading' where any debts are highly unlikely to be recoverable.

- In the second type of attack the fraudsters obtain a new ‘off the shelf’ company fronted by a ‘puppet’ director with a clean compliance record, enabling the company to pass the test for GPS and register for VAT. The fraud will then follow a similar pattern of the established company above, with artificially longer supply chains to make HMRC checks more difficult.
- 1.7 The effect of these arrangements is that these companies, and the labour force they provide, are deliberately not paying tax (VAT and income tax). In addition, as well as tax not being properly accounted for, there are related failures to make National Insurance Contributions (NICs), creating risk for further losses to the Exchequer from benefits fraud and illegal working. We are currently investigating cases where our estimates of the revenue losses are in the tens of millions of pounds. Overall, the losses from this type of fraud are significant.
  - 1.8 HMRC is increasing its compliance response to the fraud with emphasis on increasing the awareness of the larger businesses at the top of supply chains where fraud has been discovered. This is already proving helpful in changing behaviour further down the supply chain. However, the number of contractors involved means this is an onerous task for both business and HMRC to carry out effective real time checks.
  - 1.9 In other sectors where the Exchequer has suffered VAT losses from missing trader supply chain fraud the government has introduced domestic reverse charges. These have been very effective at removing VAT fraud in the telecoms (airtime and mobile telephone) and energy sectors (see [VAT Notice 735](#) for further details). We want to explore the option of a reverse charge for construction.
  - 1.10 The construction sector is larger in terms of participants than other sectors where this option has been deployed. We estimate that there could be approximately 250,000 VAT registered businesses working in construction and the vast majority will be small or micro-sized and not connected with this fraud. We want to use this consultation to see how we might best exclude the honest majority of smaller businesses from any potential VAT change, including how that would interact with the Flat Rate Scheme.
  - 1.11 We will also want to use the consultation to look at what services should be covered by a reverse charge, and whether it should apply to supplies to final customers.

- 1.12 For direct tax we know that the fraudsters use off the shelf limited companies with no previous history to obtain GPS status under current rules, as well as to register for VAT. We are interested in suggestions as to how these rules could be tightened to make sure 'clean' companies cannot easily obtain GPS but without stopping legitimate smaller companies from benefiting from GPS.
- 1.13 The consultation is in five chapters with a summary of questions at chapter 6.

## 2. A VAT domestic reverse charge

### How it works

- 2.1 Where a domestic reverse charge applies, the effect is to take VAT payment out of the transaction so the provider of the goods or services cannot disappear or fail to pay the VAT due.
- 2.2 Instead the purchaser of the goods or services accounts for the VAT (output tax) due to HMRC rather than the provider of the goods or services. The purchaser does this by declaring the VAT due as output tax on its VAT return. This can also be reclaimed as input tax subject to the normal rules – for most transactions the VAT is simply netted off.
- 2.3 Although no longer accounting for VAT, the provider of the goods or services still has the legal status as before and is still required to be registered for VAT. It is also still entitled to deduct the VAT it incurs on trade costs and overheads as input tax as before, subject to the normal rules.
- 2.4 A domestic reverse charge only applies where both the provider and the purchaser of the transaction in question are registered for VAT. A provider needs to be reasonably sure the purchaser is registered before applying the reverse charge.
- 2.5 Other UK domestic reverse charges have excluded the smallest transactions by means of a de minimis limit or threshold based on the value of the sale (mobile telephones and computer chips supplies less than £5000), or by restricting it to intermediary wholesale supplies in the case of gas, electricity and electronic communications services (airtime).
- 2.6 Under a reverse charge, other than the accounting change, normal VAT rules apply on the timing of the supply for accounting purposes (tax points) and the entitlement to recover the VAT on trade costs and overheads.
- 2.7 There are requirements for invoices to show that the reverse charge applies and that the purchaser must account for the VAT. Where electronic invoicing is in operation the VAT amount does not need to be shown on the invoice.
- 2.8 For sales of mobile telephones and computer chips there are also reverse charge sales lists where providers of these goods need to

report their monthly sales by customer along with their VAT return. Our initial view is that sales lists will not be required for labour provision services if we implement a reverse charge in this area.

- 2.9 The increase in output tax for the customer can have implications for those on Payment on Account. With other reverse charges HMRC has a process whereby reverse charge sales can be disregarded for Payment on Account purposes and we envisage the same arrangements would apply to a construction reverse charge.

### **Potential scope of a construction services reverse charge**

- 2.10 For the purposes of a reverse charge both parties need to be VAT registered for it to apply. However, in construction this could mean a large number, size and variety of providers and customers are affected.
- 2.11 The construction sector is further complicated by the different rates of VAT that can apply. There are also different impacts depending on the type of customer, for example, a public authority, private developer or voluntary organisation.
- 2.12 Unlike other reverse charges, this means we are not looking at services which will always be supplied at the VAT standard rate to customers who will always be in business and VAT registered. For example, the supply of a mixed residential, commercial and non-business community project funded by public authority and voluntary agencies could involve several rates of VAT.
- 2.13 Therefore there are a number of situations where a reverse charge would create additional risks and complications for both providers and customers.
- 2.14 We think applying the reverse charge to the final customer who takes ownership of the construction project could be an added complication that may be unnecessary to prevent the fraud. There may also be commercial confidentiality issues if invoices have to be split. One option is to make the main or principal contractor the final recipient of any reverse charge supply, i.e. they will be required to account for the VAT on their provider's sale.

### **Q1: Do you think the scope of a reverse charge for construction services should exclude supplies to final customer?**

- 2.15 An alternative option is to keep to the principle that the reverse charge applies all the way through the supply chain to the final customer, but to apply a rule whereby the reverse charge ceases to apply if the amount of non-labour provision (for example, materials) exceeds a certain amount of the overall value. In some other countries with a reverse charge, it does not apply if the non-labour value in the contract exceeds two thirds of the total charge for the supply.

**Q2: Do you think a labour/non-labour threshold for the application of the reverse charge should apply throughout the supply chain? If so, at what level should it be set?**

- 2.16 In most instances the final supply of the project will be by a main contractor. However, there could be projects where there are a series of different contractors with no designated main or principal contractor.

**Q3: Are there any implications we should consider if there is no designated main or principal contractor?**

- 2.17 In some situations the final supply could be made by a professional services business such as an architect or an engineer. For reverse charge purposes we think that in such a situation the architect or engineer would become the main contractor, and any labour provision services supplied to them would be subject to the reverse charge.

**Q4: Can you think of reasons why architects, engineers or other similar types of businesses should not be treated as main contractors for reverse charge purposes? Are there other similar recipients of such supplies who should have the same treatment?**

**What type of services should a reverse charge apply to?**

- 2.18 Unlike other domestic reverse charge measures introduced in the UK, the services affected by this fraud are capable of being supplied by the smallest to the largest businesses with considerable variations in invoice values.

- 2.19 Construction or labour provision services also cover a far wider range of services than other reverse charge measures. One option is to use the CIS definition since it is already well understood and in everyday use. Under CIS the following would be included as construction services for the purpose of the reverse charge:

- Site preparation
- Alterations

Dismantling  
Construction  
Repairs  
Decorating  
Demolition

**Q5: What are your views on using the CIS definition as the reverse charge definition? Are there other options that should be considered?**

**Should there be a threshold?**

2.20 As the scope of any reverse charge needs to be comprehensive to achieve the anti-fraud effect, this means potentially there will be a large number of small businesses that are not a fraud risk that will need to apply the reverse charge to their sales.

2.21 We are considering options for excluding small businesses. One option is to do this by applying a sales based threshold. Other options could be to have a narrower CIS definition of the services affected, or have some other qualifying criteria.

**Q6: Do you have any views on whether a narrower CIS definition or alternative qualifying criteria could be used to exclude small businesses instead of a sales based threshold?**

2.22 In terms of a threshold we've identified two possible ways it could apply – by invoice or by contract, but we are open to other suggestions.

**Invoices**

2.23 This has the benefits of simplicity but it might be difficult to set it at the right level given the disparity between the costs of some types of services. There are also variations in contracts which lead to significant fluctuations in invoice values between counterparties.

**Q7: Would setting a threshold by invoice value create uncertainty and lead to a confusing application of the reverse charge?**

**Contracts**

- 2.24 The other option is to have a single threshold applied to the value of the contract. This might be simpler because it avoids fluctuations in invoice values and many contract values are known in advance.
- 2.25 A contract based threshold could be based on all sites or projects between the contractor and sub-contractor, either by month or annually.
- 2.26 In terms of values for thresholds, based on the values we've seen in fraudulent supply chains a monthly threshold of £50,000 and or an annual threshold of £250,000 would be appropriate. However, some construction projects are made up of a number of separate contracts involving different but connected companies. We would be keen to ensure that contracts are not split up to avoid the reverse charge threshold level.

**Q8: Are there contracts that do not lend themselves to the application of a threshold in this way and if so can you provide details please?**

**Q9: If you think a threshold based on contract value would work, do you think it should be based on sales made monthly, annually or a combination?**

- 2.27 The risk with any threshold is that fraudsters will re-arrange their transaction chains to try and get around it – this is called disaggregation. In order to avoid this risk we could simply make all provision of labour only services subject to the reverse charge.

### **Self-billing and applications for payment**

- 2.28 We are aware that self-billing and applications for payment are common features in construction. We don't anticipate that a reverse charge would interfere with these arrangements as it does not change existing time of supply rules, nor does it change the value of the supply.

**Q10: If you disagree please can you explain why a reverse charge might affect self-billing or applications for payment arrangements?**

### **The VAT Flat Rate Scheme**

- 2.29 The Flat Rate Scheme (FRS) is a simplification scheme available to businesses with a turnover of up to £230,000. It is unlikely that many businesses using the scheme would be affected by a reverse charge if

there was a threshold similar to the options proposed above. However, if there was no threshold we would need to consider the FRS implications.

- 2.30 In order to maintain its anti-fraud effectiveness, our initial view is that the reverse charge would have to apply to services supplied by FRS users if there was no exclusion for small businesses.

**Q11: Can you see problems with requiring the reverse charge to apply to services supplied by FRS users?**

### **Implementation timetable**

- 2.31 Historically the government has introduced reverse charges quite quickly and with very little notice, sometimes less than a month, in order to close down the particular fraud.

- 2.32 As this type of fraud relies on actual labour supplies, it means there is less scope for the fraudsters to escalate their activities during a longer lead-in time. However, the government will clearly want to introduce any changes as quickly as possible, and will work with those genuine businesses that are struggling to make the changes in time – in the past there have been light touch periods lasting up to six months.

**Q12: If a reverse charge was to be introduced, how long would you need to make the necessary IT and billings changes after any announcement? Does having a threshold significantly alter this?**

## 3. The Construction Industry Scheme

### How It Works

- 3.1 Construction is an industry that traditionally attracts a large highly mobile workforce which leads to particular difficulties in securing appropriate payments of tax and national insurance contributions (NICs). The Construction Industry Scheme (CIS) was introduced to address potential non-compliance in this sector and has operated since the 1970s.
- 3.2 Subcontractors that are not registered with CIS have 30% of the payments made to them by contractors withheld. Subcontractors that register with the scheme can receive payments from their contractors either gross or under deduction at 20%. The contractor verifies the payment status of the subcontractor with HMRC prior to making payment and applies the appropriate percentage deduction as advised by HMRC.
- 3.3 The contractor records the payment and any deduction on their monthly CIS return and pays the deduction over to HMRC each month. The deducted amounts are held on account of the subcontractor's end of year tax liability. Once the subcontractor sends in their self-assessment tax return they pay any additional balance due, or if appropriate, receive a repayment where deductions exceed the final tax liability and Class 4 NICs contributions.
- 3.4 Subcontractors can receive their payments gross under CIS – gross payment status (GPS) – that is without any deductions being made. To do so they must meet three qualifying tests of business, turnover and compliance (see sections 63-68 and Schedule 11 of the Finance Act 2004).
- 3.5 The turnover test is slightly different for individuals, partnerships and companies. To gain GPS an existing company must show a turnover of at least £100,000. A new company must either satisfy HMRC that:
  - It has entered into contracts with an aggregate value exceeding £100,000 and at least £30,000 of which has been received; or
  - All the shareholders are companies which have GPS.
- 3.6 Subcontractors are required to demonstrate a 'good' rather than a 'perfect' compliance record within the legal tolerances. Each year this is reviewed by HMRC with those that fail having GPS removed.

- 3.7 Criminal attacks involve a bogus supply chain being set up and controlled by a criminal gang. Each entity under this control within the chain obtains GPS, which allows each one to receive payments without suffering a deduction and pass payments on down the chain to the next entity. The entity at the bottom of the chain goes 'missing' after either not making CIS or real time information (RTI) returns, or filing returns and not making any remittances to HMRC. The bogus chain has the effect of masking payments to individual subcontractors, with the statutory deductions or remittances not being paid to HMRC. As well as obtaining GPS, the entities acquire VAT registration and pass the VAT liability down the chain to the 'missing trader' at the bottom of the chain.
- 3.8 HMRC is improving its compliance responses by breaking up fraudulent supply chains through civil and criminal interventions. Although effective and reducing the fraud, such interventions are responses to the fraud and do not prevent it.
- 3.9 As well as addressing the VAT problem, we therefore think some way of preventing the abuse of GPS is also appropriate.
- 3.10 As the misuse of the CIS scheme is concentrated in the company sector alongside associated VAT fraud it may be appropriate to look to changes to CIS for this segment rather than across the wider population. Just as important is that smaller sole traders or partnerships that are not involved in this type of fraud are likely to suffer disproportionately from an untargeted response.

**Q13: Do you agree that any changes to the CIS should be restricted to companies?**

- 3.11 Two areas give rise to particular concerns: the incorporation of new companies to facilitate fraud and the acquiring by criminal gangs of control of existing companies with GPS.
- 3.12 One option would be to consider changes to the turnover test for new companies only. This wouldn't impact on companies with an established trading history but would make it more difficult for fraudsters to show that they are a legitimate business. We could increase the GPS turnover threshold for new companies. They would need to show that they have entered into contracts with an increased aggregate value of (say) £250,000 of which, for example, at least £75,000 has been received.
- 3.13 Currently the turnover test does not apply where all the shareholders in a new company are companies which are themselves registered for

GPS. To facilitate the formation of joint ventures, the compliance tests for firms/partnerships and companies were changed with effect from 6 April 2015 (see SI/2015/789). From that date, a firm or company was exempted from the full compliance test. This includes individual partners and shareholders if at least 50% of the share capital or voting rights (in the case of companies) was held by a person with GPS. If we increased the required level of turnover to satisfy the turnover test for new companies, then it might be appropriate to exclude new companies here from the turnover test if a similar condition is fulfilled.

**Q14: We are interested in views on whether changes to the turnover test should only be applied to companies that have not traded before?**

**Q15: If the threshold was to be increased, at what level do you think it should be set in order for it to be effective against fraud whilst not excluding too many legitimate businesses? Should the increased threshold apply if an applicant's controlling company already has GPS?**

- 3.14 As well as new companies the fraudsters take over established businesses which already have GPS. We think that contractors might be aware of such changes and might be able to ensure that HMRC becomes aware of changes to shareholding or control of existing companies. Existing legislation (section 65 of the Finance Act 2004) enables HMRC to require further information to reconsider the compliance tests where there is a change in control of a company which has GPS. This information can include that to determine whether the directors and, in the case of a close company, the beneficial share owners satisfy the compliance tests for individuals.
- 3.15 An option is to require contractors or customers to inform HMRC when they become aware of changes to shareholding or ownership of labour provider business.

**Q16: What are your views on requiring customers to notify HMRC of changes of ownership or control of businesses supplying labour?**

- 3.16 It may not be possible for contractors to determine whether there has been a change in control of their existing subcontractors. So a further option may be that contractors are required to confirm whether ownership has changed by reference to certain triggers. One may be where an existing supplier is able to significantly increase the amount of work it contracts for, particularly where the work is predominantly labour supply.

**Q17: Would it be feasible to define certain triggers after which contractors are required to determine whether control of subcontractors has changed? How much burden would that place on contractors?**

3.17 Currently new entrants to the construction industry and the CIS may not have a record of compliance with their tax obligations. For example, an employee of a construction company may want to take the opportunities of self-employment and begin his own business. As an employee, it is unlikely that he will have been required to make self-assessment returns. As a result the employee would pass the individual tests which apply to directors and shareholders of close companies. This gives an opportunity to manipulate the compliance tests and present individuals as directors and shareholders who have no record of failing to comply and thus pass the tests. For new companies, one way around this is to require that the directors and shareholders have fulfilled all their obligations before GPS can be given. If the directors or shareholders have shown that they have fulfilled their obligations under the Taxes Acts then this requirement will not have to be met.

**Q18: Should a different compliance test be set for those directors or shareholders who have not been previously required to fulfil obligations under the Taxes Acts?**

## 4. Other policy options

- 4.1 In chapters 2 and 3 we outline options for a VAT reverse charge and possible changes to CIS. However, we are not limited to these options and we would welcome any alternative proposals that would address the fraud in supply chains within the construction sector.

**Q19: Are there other options that we should consider for combatting this fraud?**

## 5. Assessment of Impacts

- 5.1 The government acknowledges that these proposals would impose some new requirements upon businesses, including the majority of businesses who are compliant with their tax obligations. HMRC will seek to understand the impacts and mitigate as far as possible any adverse costs and impacts.
- 5.2 Separate impacts assessments for the VAT and CIS options are on the next two pages. The following questions should be considered in relation to both impact assessments.

**Q20: What impact are the proposed changes likely to have on your business?**

**Q21: Are there any specific impacts on small and micro businesses that are not covered in this chapter and chapters 2 and 3? If so, please provide details of the anticipated one-off and on-going costs and burdens.**

## The VAT reverse charge options

### Summary of Impacts

Exchequer impact (£m)	2015 -16	2016 -17	2017 -18	2018 -19	2019 - 2020
	+/-	+/-	+/-	+/-	+/-
<b>Economic impact</b>	The options are not expected to have any significant economic impacts. Any measures taken forward are expected to contribute to a reduction in the tax gap.				
<b>Impact on individuals, households and families</b>	The options are not expected to have an impact on individuals and households.				
<b>Equalities impacts</b>	There are no impacts on any group which shares a protected characteristic.				
<b>Impact on businesses and Civil Society Organisations</b>	The number of businesses affected by the options will depend on their final scope and design. However, we believe the number of affected businesses could be in the tens of thousands. These businesses will incur one-off costs of familiarisation with the new rules, and may need to modify their IT systems in order to account for the reverse charge. On-going costs could include calculating and accounting for the reverse charge, and providing additional information to HMRC in respect of the CIS. The number of businesses affected and the impacts on them will be explored as part of the consultation.				
<b>Impact on HMRC or other public sector delivery organisations</b>	The impact of the options on HMRC depends on their final scope but should save compliance resources. The proposals are not expected to have an impact on other public sector delivery organisations.				
<b>Other impacts</b>	Small and micro business assessment is that they will have the same implementation issues as other businesses (unless they fall beneath any threshold set).				

Any Exchequer impact will be estimated following consultation, final scope and design, and will be subject to scrutiny by the Office for Budget Responsibility.

## Construction Industry Scheme options

### Summary of Impacts

Exchequer impact (£m)	2015 -16	2016 -17	2017 -18	2018 -19	2019 - 2020
	+/-	+/-	+/-	+/-	+/-
<b>Economic impact</b>	The options are not expected to have any significant economic impacts. Any measures taken forward are expected to contribute to a reduction in the tax gap.				
<b>Impact on individuals, households and families</b>	The options could impact on family run businesses but the extent is unknown at present.				
<b>Equalities impacts</b>	There are no impacts on any group which shares a protected characteristic.				
<b>Impact on businesses and Civil Society Organisations</b>	The number of businesses affected by the options will depend on what is chosen and its scope and design. However, they will affect new businesses or business that have changed ownership, which want to be paid gross under CIS rather than suffer deductions. The number of businesses affected and the impacts on them will be explored as part of the consultation.				
<b>Impact on HMRC or other public sector delivery organisations</b>	The impact of the proposals on HMRC depends on their final scope but should save compliance resources. The proposals are not expected to have an impact on other public sector delivery organisations.				
<b>Other impacts</b>	The options will impact on small and micro businesses but the extent is not currently known.				

Any Exchequer impact will be estimated following consultation, final scope and design, and will be subject to scrutiny by the Office for Budget Responsibility.

## 6. Summary of Consultation Questions

The consultation asks for your opinion on the following questions:

**Q1: Do you think the scope of a reverse charge for construction services should exclude supplies to final customer?**

**Q2: Do you think a labour/non-labour threshold for the application of the reverse charge should apply throughout the supply chain? If so, at what level should it be set?**

**Q3: Are there any implications we should consider if there is no designated main or principal contractor?**

**Q4: Can you think of reasons why architects or engineers should not be treated as main contractors for reverse charge purposes? Are there other similar recipients of such supplies who should have the same treatment?**

**Q5: What are your views on using the CIS definition as the reverse charge definition? Are there other options that should be considered?**

**Q6: Do you have any views on whether a narrower CIS definition or alternative qualifying criteria could be used to exclude small businesses instead of a sales based threshold?**

**Q7: Would setting a threshold by invoice value create uncertainty and lead to a confusing application of the reverse charge?**

**Q8: Are there contracts that do not lend themselves to the application of a threshold in this way and if so can you provide details please?**

**Q9: If you think a threshold based on contract value would work, do you think it should be based on sales made monthly, annually or a combination?**

**Q10: If you disagree please can you explain why a reverse charge might affect self-billing or applications for payment arrangements?**

**Q11: Can you see problems with requiring the reverse charge to apply to services supplied by FRS users?**

**Q12: If a reverse charge was to be introduced, how long would you need to make the necessary IT and billings changes after any announcement? Does having a threshold significantly alter this?**

**Q13: Do you agree that any changes to the CIS should be restricted to companies?**

**Q14: We are interested in views on whether changes to the turnover test should only be applied to companies that have not traded before?**

**Q15: If the threshold was to be increased, at what level do you think it should be set in order for it to be effective against fraud whilst not excluding too many legitimate businesses? Should the increased threshold apply if an applicant's controlling company already has GPS?**

**Q16: What are your views on requiring customers to notify HMRC of changes of ownership or control of businesses supplying labour?**

**Q17: Would it be feasible to define certain triggers after which contractors are required to determine whether control of subcontractors has changed? How much burden would that place on contractors?**

**Q18: Should a different compliance test be set for those directors or shareholders who have not been previously required to fulfil obligations under the Taxes Acts?**

**Q19: Are there other options that we should consider for combatting this fraud?**

**Q20: What impact are the proposed changes likely to have on your business?**

**Q21: Are there any specific impacts on small and micro businesses that are not covered in this chapter and chapters 2 and 3? If so, please provide details of the anticipated one-off and on-going costs and burdens.**

## 7. The Consultation Process

This consultation is being conducted in line with the Tax Consultation Framework. There are 5 stages to tax policy development:

- Stage 1 Setting out objectives and identifying options.
- Stage 2 Determining the best option and developing a framework for implementation including detailed policy design.
- Stage 3 Drafting legislation to effect the proposed change.
- Stage 4 Implementing and monitoring the change.
- Stage 5 Reviewing and evaluating the change.

This consultation is taking place during stages 1 and 2 of the process. The purpose of the consultation is to outline the problem we are looking to solve and to seek views on the specific policy options and any suitable possible alternatives.

### How to respond

A summary of the questions in this consultation is included at chapter 6.

Responses should be sent by 9 June 2017, by e-mail to [indirecttax.vatsncfteam@hmrc.gsi.gov.uk](mailto:indirecttax.vatsncfteam@hmrc.gsi.gov.uk) or by post to: Nick Chambers, Customs & Indirect Taxes, HM Revenue & Customs, Room 3/36, 100 Parliament Street, London SW1A 2BQ.

Telephone enquiries 03000 585747 (from a text phone prefix this number with 18001)

**Please do not send consultation responses to the Consultation Coordinator.**

Paper copies of this document or copies in Welsh and alternative formats (large print, audio and Braille) may be obtained free of charge from the above address. This document can also be accessed from [HMRC's GOV.UK pages](#). All responses will be acknowledged, but it will not be possible to give substantive replies to individual representations.

When responding please say if you are a business, individual or representative body. In the case of representative bodies please provide information on the number and nature of people you represent.

### Confidentiality

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Revenue and Customs (HMRC).

HMRC will process your personal data in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

### Consultation Principles

This consultation is being run in accordance with the government's Consultation Principles.

The Consultation Principles are available on the Cabinet Office website:  
<http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance>

If you have any comments or complaints about the consultation process please contact:

John Pay, Consultation Coordinator, Budget Team, HM Revenue & Customs, 100 Parliament Street, London, SW1A 2BQ.

Email: [hmrc-consultation.co-ordinator@hmrc.gsi.gov.uk](mailto:hmrc-consultation.co-ordinator@hmrc.gsi.gov.uk)

**Please do not send responses to the consultation to this address.**

# Annex A: Relevant (current) Government Legislation

For VAT:

UK:

- section 55A of VAT Act 1994

EU:

- Article 199 of Principal VAT Directive EC/2006/112

For CIS:

- sections 63-68 and Schedule 11 of the Finance Act 2004