



Contractors Responsibilities

Contractors who operate within the Construction Industry Scheme (CIS) often find themselves on the end of HMRC enquiries for failing, usually inadvertently, to comply with the complexities of the scheme.

If HMRC spot CIS errors, it could result in the contractor being liable for the failure to deduct CIS tax which in turn, can result in interest and penalties.

The common areas a contractor should always consider are:

❖ **Does the particular construction operation fall within CIS or outside of it? If in doubt operate CIS.**

❖ **Is the sole trader sub-contractor genuinely self-employed and is that supported by the contractual arrangement and the work carried out? If deemed to be an employee then Pay As You Earn should be operated.**

❖ **Have the sub-contractor's details been verified with HMRC to establish the correct CIS tax deduction rate before making the initial payment?**

❖ **Reverification should occur if there is a gap of more than 2 years since the contractor has used them or if the sub-contractor business structure has changed (for example moved from being self-employed to a limited company).**

❖ **Do the monthly CIS returns include all the relevant sub-contractors payments, including those where gross payments to subbies are allowed?**

❖ **Has the contractor got systems in place to establish whether the direct cost of materials incurred by the sub-contractors are genuine and reasonable before allowing those costs to be excluded before applying the CIS deductions?**

❖ The actual plant within plant hire (with operative) will only qualify as allowable material costs where the subcontractor can show that the plant has been hired from a third party. Plant owned by the subcontractor does not qualify as deductible material costs for the purposes of the CIS tax calculation.

It is important for a contractor to understand the responsibilities surrounding CIS as the financial implications for getting it wrong can be quite painful, to say the least.



TIP...

If you would like help navigating CIS as well as getting your head around the VAT implications of the Construction Scheme Reverse Charge please do not hesitate to contact us.

Is NEET an option?

The Office for National Statistics state that more than 1 million 16 to 24 year olds now fall within the NEET category – “not in education, employment or training”. That is around 13.5% of that age group.

What might encourage an employer to consider taking on board these NEETs?

a) Employers National Insurance (ENI)

With ENI rates presently set at 15%, starting from an earnings threshold of £5,000, it is nice to know that employers are exempt from paying ENI on earnings up to £50,270 for employees under the age of 21. It equally does not impact upon that employee's entitlements such as state pension accruals.

There is a similar ENI exemption for apprentices under the age of 25. For example an apprentice on £25,000 a year could result in an ENI saving of £3,000.



b) Apprenticeship Subsidies

Dependent upon which part of the UK an employer is based, there are a range of significant apprenticeship subsidies to help fund the training and development of the business' younger workforce. This is especially the case for small and medium businesses who are not negatively affected by the apprenticeship levy rules.

c) Benefits/incentive Options

For younger employees, especially those transitioning from NEET, the standard benefit packages such as pensions, cars and private medical insurance for example, may have limited perceived value and therefore on the reward front they may not be the most cost effective option for an employer.

The trivial benefits exemption allows employers to provide small perks up to £50 per item with no tax, no NI and annual cap for most employees. These small rewards such as coffee cards, small retail vouchers. Seasonal gifts may, for this younger demographic, carry greater perceived value than the standard benefits whilst saving the employer costs.

Unlike many traditional benefits, training costs are generally deductible for the employer, and often non-taxable for the employee when linked to employment. For NEET entrants, funding for professional qualifications, short courses, and even degree-level or masters-level training, can be far more attractive than long-term benefits such as pensions, subject of course to not falling foul of the pension auto-enrolment rules.

d) Changes to Education Curriculum

The Government is intending to introduce into schools subjects like manufacturing and AI in addition to core academic learning from 2028 onwards. This may save businesses training time resulting in these youngsters hitting the ground earlier on the productivity front for employers.



If you need help evaluating the cost effectiveness of taking on board a NEET, please do not hesitate to contact us.

Remote Working Overseas Pitfalls

The Covid pandemic accelerated the move to remote working. Although many employers have retreated back to a more hybrid model, where employees split their time between working at home and the business premises, there is still a sizeable number of people who are fully remote working.

With this opportunity available, some people have moved home further away from their employer. If that is from Scotland to another part of the UK or vice-a-versa then the employer and employee may only have to contend with the different tax rates when PAYE is being operated.

Some employees have moved abroad and remote work from there. **The employer may be happy with that as it helps with key staff retention but it can come with some potential pitfalls which the employer should consider.**

✚ **An employer may need to set up a payroll over there** and deduct tax and be liable to meet social security contributions relevant to that jurisdiction.

✚ **This could create a “permanent establishment” for tax purposes in that country** even if the employer has no fixed place of business there. If that proves to be the case, the employer may have to pay tax on their profits in that country which may be at a higher tax rate than here. Although double taxation relief may be available, subject to there being a tax treaty between the UK and that jurisdiction, any difference between the UK tax and overseas tax will be an additional cost for the employer.

✚ **Depending on the country, there may be local requirements for the employer to register as a business with the local tax authorities.** This could include the local equivalent to VAT, and the registration thresholds will vary between countries.

✚ **The local employment law may have rules on working practices that the employer must follow, which may be different to the UK.** This could include restrictions on working hours, different minimum wage levels and the need to take out public liability insurance and employer's liability insurance.

✚ **The employee may also have their own tax registration needs,** especially if they become tax resident in the other country.

✚ **Somebody going overseas can no longer pay the lower voluntary Class 2 national insurance contributions (NI) to top up their records. For state pension purposes they would have to pay the higher Class 3 NI** and that is assuming they previously lived in the UK for 10 tax years in a row and had already paid 10 years of qualifying NI payments in total.



TIP...

If you have an employee who is looking at remote working abroad or you are that employee consider what might possibly be the pitfalls of doing so in advance of making that jump.

The Incentive Just Got Bigger

The Government approved Enterprise Management Incentive Scheme (EMI), enables a company to grant share options to key employees.

The option agreement between the employer and employee sets out the terms in which the employee can exercise their right to purchase the shares at a later date and at what price. Usually, but not always, the individual can buy the shares based upon their market value as at the date of the grant.

The company may state that certain conditions have to be met before the employee can exercise the option. For example it might be:

- Performance related.
- Time specific. For example just prior to the sale of the company.
- Employment related – for example, the individual must remain an employee throughout.

If all conditions are met there are great tax and national insurance (NI) benefits for both the employer and employee such as:

- a) No tax and NI due at the date of the grant.
- b) No tax and NI due when the employee exercises the right to buy the shares.
- c) The company can claim a corporation tax deduction on the difference in the share value between the date of grant and the date of exercise.
- d) The first £1 million of gain made by the employee on the sale of those shares will be liable to capital gains tax at 18%.

Until recently EMI was primarily a useful incentivisation option for companies in the early stages of growth due to the threshold limits set by the legislation. That has all changed since 6th April 2026.

For EMI contracts granted on or after 6th April 2026:

- a) The total value of shares, regarding the business, over which EMI options are held, cannot exceed £6m. It used to be £3m.
- b) The gross assets of the company must not exceed £120m at the time of the grant. Pre April 2026 the limit was £30 million.
- c) The company must have fewer than 500 fulltime equivalent employees. Pre April 2026 the figure was 250.

d) The options must be capable of being exercised within 15 years of the grant as opposed to 10 years pre-April 2026. Options agreements in place pre-April 2026 can, in some cases, be amended by written agreement between the grantor and the option holder to take advantage of the new 15-year limit.

However, broadly, for a company whose registered office is in Northern Ireland and carries on a trade in goods or a cross border supply of electricity the pre-6th April 2026 limits still remain in place.

Certain conditions still remain the same:

- **The maximum value of shares, valued at the date of the grant, over which an employee can hold share options is £250,000.**
- **Employees with a material interest of more than 30% of the share capital before the options are granted are excluded from participation.**
- This includes associates such as spouse, civil partner, parent, grandparent, child or grandchild. However, it does not include brothers and sisters.
- **The company must be independent with no arrangements in place for a future change of control and have a UK permanent establishment.**
- **It must carry on a qualifying trade.** Financial services, legal, accountancy, property development and farming are excluded.

The changes in the EMI rules now opens this up for far more companies to avail themselves of a great incentive.



If you would like to look at implementing an EMI please do not hesitate to contact us

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We are here to help

We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

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