

Title: Construction Industry Training Board (CITB) Levy Order simplification IA No: Lead department or agency: CITB / BIS Other departments or agencies:	Impact Assessment (IA)		
	Date: 12/01/2015		
	Stage: Development/Options		
	Source of intervention: Domestic		
	Type of measure: Secondary legislation		
	Contact for enquiries: BIS: Bruce Barclay CITB: Anne MacDonald/Robert Dale		

Summary: Intervention and Options **RPC Opinion:** N/A

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Two-Out?	Measure qualifies as
£57.1m	£57.1m	n/a	No	N/A

What is the problem under consideration? Why is government intervention necessary?
CITB have statutory powers to raise a levy on all employers in the construction industry. Employers are required by law to complete levy returns (based on emoluments). Many employers find it hard to identify which sub-contract payments are labour only, and the labour element of payments. Employers can also declare labour only payments received to offset their levy liability. Collecting and holding this information is time-consuming and costly. Levy Orders, which give effect to levy proposals submitted by CITB, are made by affirmative resolution and are due to be renewed early in 2015. CITB have proposed a new method of assessing 'indirect employment' to simplify levy returns and reduce the burden on employers.

What are the policy objectives and the intended effects?
The objective of the levy is to raise funds to train the workforce across the industry in order to secure an adequate supply of skilled labour. Simplifying the way the assessment of levy is defined will reduce the burden of compliance and give greater certainty to employers on their levy liability, without significantly changing the overall value of levy raised, or materially altering the source of levy income (employers required to pay). The effects will be to reduce the time and cost of completing levy returns and verifying liability; and scope for errors in determining which payments are leviable. The number of contributing employers (above the small business exemption level) will increase.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)
Levy Orders must be made by affirmative resolution in Parliament, and are renewed every three years. The Levy Order defines the way that levy liability will be assessed. Without a Levy Order in place the CITB would not be able to raise a statutory levy.
Option 1 – Do nothing – do not amend the way in which 'indirect employment' is assessed in the levy Order.
Option 2 – amend the levy Order to simplify the way levy is assessed and reduce burden on business.
Option 2 is the preferred option. An employer led working party has reviewed options to simplify levy assessment whilst retaining an employment based levy system. The option to move to assessing levy on the labour element of payments to Net paid (taxable) sub-contractors has been investigated to determine the impact on employers and levy income, before choosing the best alternative to the current system. Analysis has shown that the majority of employers will be positively impacted by the change.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: Jan-2018

Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro Yes	< 20 Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: N/A	Non-traded: N/A	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible SELECT SIGNATORY: _____ Nick Boles _____ Date: 19th January 2015

Summary: Analysis & Evidence Policy Option 1

Description: Do nothing – do not amend the way in which ‘indirect employment’ is assessed in the levy Order

FULL ECONOMIC ASSESSMENT

Price Base Year 2015	PV Base Year 2015	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: n/a

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	n/a	n/a	n/a

Description and scale of key monetised costs by ‘main affected groups’

None. This is the baseline against which the policy option is appraised.

This option would retain the complexity of the labour-only sub-contractor (LOSC) and labour-only payments received (LOPR) offset mechanism. This restricts the number of employers who pay the levy, c2,500 employers reduce their levy to zero as a result of LOPR. In levy terms this equates to c£20m that is not currently assessed.

Other key non-monetised costs by ‘main affected groups’

None. This is the baseline against which the policy option is appraised.

This option would not reduce the amount of time and administrative burden for employers collecting and maintaining information for levy returns. Doing nothing would also restrict the ability to consider automated processes in future, as taxable payments can be identified and extracted directly from CIS300 whereas LOSC cannot.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	n/a	n/a	n/a

Description and scale of key monetised benefits by ‘main affected groups’

None. This is the baseline against which the policy option is appraised.

Other key non-monetised benefits by ‘main affected groups’

None. This is the baseline against which the policy option is appraised.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

This option assumes no changes to the current levy system.

There is a risk of not achieving consensus support for levy proposals if the system remains unchanged, as employers have expressed a desire for the assessment of ‘indirect employment’ to be changed and simplified.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs:	n/a	Benefits:	n/a	Net:
			n/a	No
				N/A

Summary: Analysis & Evidence Policy Option 2

Description: Amend the levy Order to simplify the way levy is assessed and reduce burden on business.

FULL ECONOMIC ASSESSMENT

Price Base Year 2015	PV Base Year 2015	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: £69.2m

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	2017 only	Optional	Optional
High	Optional		Optional	Optional
Best Estimate	£1m		£0	£1m

Description and scale of key monetised costs by 'main affected groups'

Simplifying levy returns will reduce admin costs for many employers and CITB (see Evidence Base, section 8.10 for impact by employer size). This option will not result in an increase in the overall amount of levy paid by the industry. Analysis of 2014 levy returns shows that 28% of employers will see a decrease, 16% an increase and 56% unaffected. It is estimated that one-off costs to deliver the changes including staff time, updating the CITB IT systems, communicating with industry and staff training will cost c.£1m overall.

Other key non-monetised costs by 'main affected groups'

The change will not result in additional admin. Identifying sub-contractor figures for levy returns will be easier and remove the need for separate records (required currently). Sums are already declared to HMRC on monthly Construction Industry Scheme (CIS) returns, so employers will just take one figure from each of their 12 HMRC returns and include the total on the levy return. Firms that don't use sub-contractors (c37%) will not be impacted other than potentially benefitting from the wider small business levy reduction band.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional		Optional	Optional
High	Optional		Optional	Optional
Best Estimate	£0		£8.2m (from 2017)	£58.1m

Description and scale of key monetised benefits by 'main affected groups'

Employers will no longer be required to identify and record LOSC payments and LOPR values which will result in significant cost savings when collating information to complete levy returns (c.£6m p.a. – see evidence base, section 8.20) and in accountant fees (c.£2.2m - section 8.18). Changes will also bring efficiency savings for CITB in processing and verification. The small business levy reduction band will be increased to £80k-£400k to reduce the impact on small employers (section 8.15).

Other key non-monetised benefits by 'main affected groups'

Greater compliance from a simplified system and accuracy of levy return declarations, resulting in a more level playing field. There will be greater clarity of figures required to be declared on the levy returns. As well as reducing the amount of time, and administrative burden for employers completing levy returns (in terms of staff time or using third parties (e.g. Accountants) it will also reduce CITB processing returns.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
Assumptions: proposed levy rates and thresholds have been applied to maintain levy income at current forecast levels, with a 2.5% swing from Net to Gross paid sub-contractors based on employers' feedback.		
Sensitivities/risks: Reputational damage to CITB due to extreme impacts on employers; greater than forecast swing from Net to Gross paid sub-contractors reduces levy income. Risk of successful judicial review is not negligible.		

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: n/a	Benefits n/a	Net: n/a	No	N/A

BIS Impact Assessment – CITB Evidence Base

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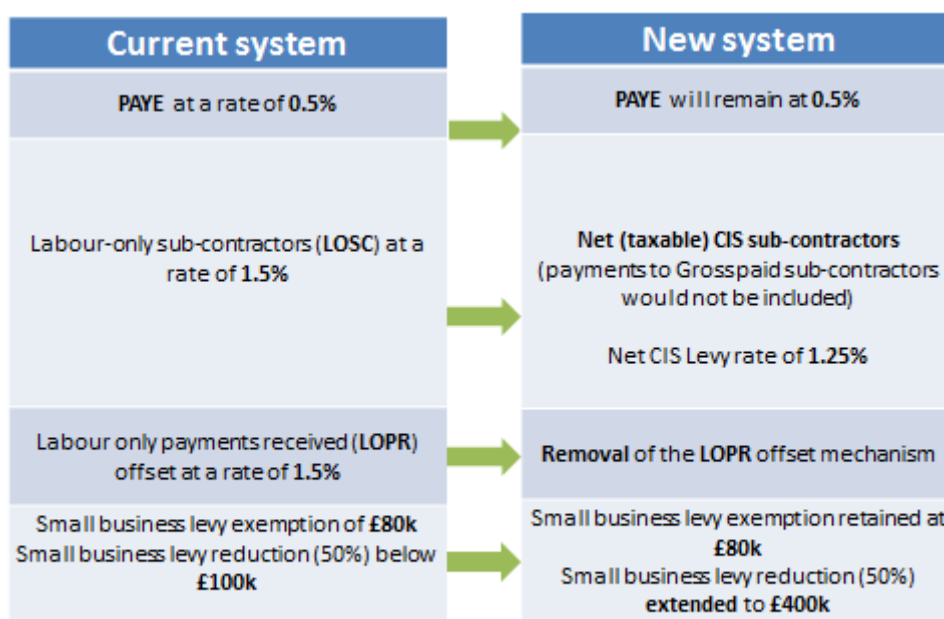
1. Problem under consideration

Background

1.1 The Construction Industry Training Board – CITB – is the non-departmental public body authorised by Parliament (by way of the Industrial Training Act 1982) to collect the training levy for the construction industry and then distribute training grants and other support on behalf of the industry. CITB’s role is to ensure that the construction sector can access suitable training and funding to allow it to prosper. The industry asks CITB to collect an annual levy from all liable employers. This then funds advice, support and grants that are available to employers who train. Only employers registered with CITB can benefit from advice, support and grants.

1.2 Employers wholly or mainly engaged in construction industry activities throughout England, Scotland and Wales are expected to pay the levy, but there are exclusions and reductions for some employers. Around 70,000 employers are currently registered with CITB and all are required to complete an annual Levy Return, however only those with a wage bill that is £80,000 or more per annum are required to pay a levy. Employers with a wage bill of £80,000 or more, but below £100,000, receive a 50% reduction in their levy bill.

1.3 Levy is currently charged on the wage bill made up of payments employers make to directly paid employees (PAYE) and labour-only sub-contractors (LOSC) at the rates shown in the table below. The current system also allows employers that have been paid for labour-only work by another employer in the construction industry to offset the payments received against their levy liability. This is designed to prevent levy being paid twice on the same work.



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1.4 The new system, also outlined in the table above, retains the levy on PAYE, but replaces the levy on LOSC with a levy on payments made through the HMRC Construction Industry Scheme (CIS) to taxable (Net paid) sub-contractors. It also removes the offset mechanism, retains the levy exemption of £80,000 and extends the levy reduction to £400,000.

The problem

1.5 Work carried out by the CITB Levy Working Party (a small committee of employers and federation representatives) included a holistic review of the levy system and considered the different bases on which levies could be raised. They decided that maintaining CITB's employment based levy was the best way forward but established that more could be done to simplify the current Levy system. Accordingly, small changes were made in the 2012 Levy Order, but research and feedback suggested the system could be further simplified and improved for many employers by changing the basis on which the sub-contract element of the industry's workforce is levied.

1.6 The preferred solution, referred to as Net CIS, addresses this by recommending that Levy is no longer generated on payments employers make to labour-only sub-contractors (LOSC), but instead on the labour element of payments made to sub-contractors taxed (Net paid) by way of her Majesty's Revenue & Customs (HMRC) Construction Industry Scheme (CIS).

1.7 This would significantly reduce the paperwork and administration time and costs that many employers incur whilst completing their statutory annual Levy Return as well as significantly improving the accuracy of the Returns and therefore compliance. Statistics from a CITB survey suggest that nearly half of Levy Returns completed by employers and subsequently verified by CITB staff have been completed incorrectly and of these around 90% are as a result of the LOSC/LOPR figures being incorrectly declared. The proposed changes directly address these issues.

1.8 Removal of the long established labour-only payments received (LOPR) offset mechanism is also recommended, which would result in a slightly larger number of employers starting to pay Levy, some possibly for the first time. However it is felt by the Levy Working Party that this is justified as it makes the new system far simpler, the majority of Levy paying employers would benefit from a lower Levy rate as a result and it would increase the feeling of 'fairness' and 'spreading the load' as more employers would be contributing to the Levy "pot"

1.9 At the same time, CITB would like to take the opportunity to increase the small business levy reduction band to benefit all employers with total payments of less than £400k per year. This will benefit many more micro and small businesses in the sector.

1.10 The main problem identified with the current system is the difficulty employers experience in achieving quick and accurate identification of the payments they make to LOSC. As a result, many employers find completing the labour-only sections of the Levy Return complex and time consuming.

1.11 During industry consultation, employers have fed back to CITB that:

- The levy system should be simpler
- They disagree with CITB's interpretation of LOSC (or find it hard to determine what LOSC is based on this interpretation)
- They lack confidence in other employers declaring the correct amount of LOSC (and therefore there is a suspicion by employers that others are paying less levy than they should be)
- Many have to maintain a separate set of records purely to ensure they can complete the return accurately.
- They are concerned that, despite their best efforts, they may not be completing their Returns correctly

1.12 In addition, the LOPR offset mechanism described above creates issues for some employers and CITB because:

- It adds complexity and time to completing the Levy Return
- Is a very time consuming exercise for CITB to check and process LOPR declarations
- It results in approx. 2,300 employers annually reducing their liability to zero and therefore paying no Levy despite being above the Small Business exemption level outlined previously.

1.13 This mechanism primarily (but not exclusively) benefits three sectors; Brickwork contractors, Carpentry contractors and Construction Labour Agencies, many of whom currently pay no Levy, but are still able to access the Grants Scheme and other funding support. Members of the National Federation of Demolition Contractors also appear to be more impacted due to the removal of this mechanism.

2. Rationale for intervention

2.1 A number of benefits of this proposal have been identified. .

- **A simpler system for employers** – identifying the figure to declare on the Levy Return is far more straightforward as it comes straight off the 12 monthly CIS300s returns*. Identifying the total tax figure keeps it as simple as possible; individual Net paid sub-contractors do not need to be identified. CITB will then gross up this total tax figure to give the labour element on which levy will be charged.
- **No Additional Record Keeping** – All the required information is on the CIS300, the work has already been completed for HMRC
- **Removes LOSC confusion** – Does away with the time consuming and sometimes contentious issue of determining who the Labour-only sub-contractors are.
- **Cost savings for employers** – As a result of a quicker and easier process to complete the Levy Return for many and no increase in admin for the remainder of employers. Potentially cheaper accountant fees and freeing up of staff time to carry out more productive activities
- **Greater compliance** – A simpler system should make it harder to get the Return wrong, resulting in greater compliance and more employers being assessed correctly first time. The CITB verification process will also, as a result, be easier and quicker allowing greater coverage of the population.
- **Removes LOPR offset**– Resulting in the Levy Return being easier to complete and process as well as more employers contributing to Levy funds. As the proposal is to generate the same amount of Levy without an offset as would be generated with one, this will also mean most levy paying employers benefiting from a lower Levy rate on sub-contracted labour.
- **Potential automation of Levy Return data submission** – The vast majority of CIS300s are submitted electronically to HMRC (as well as PAYE documentation). The next step if Net CIS were to be adopted could be submission of the CIS (and PAYE) data to CITB in real time electronically as it is submitted to HMRC. Early soundings of private software providers have suggested this could be a realistic proposal, at a later stage, if supported by the industry.

* The CIS300 return is the form that employers complete and submit on a monthly basis to HMRC with details of payments made to all their subcontractors in the previous month.

Employer feedback

2.2 A range of qualitative and quantitative methods has been deployed to obtain employer feedback on the levy simplification proposals including:

- Independent market research
- A survey sent out to all employers with their 2014 Levy Return
- Employer consultation events

2.3 This has been in addition to consultation on the changes through CITB's formal governance structures, which in this case have included the industry led Levy Working Party, the CITB Board and CITB's consensus federations. See Appendix A for further details of the industry consultation.

3. Policy objective

3.1 Whilst considering options to simplify the system, the Levy Working Party (LWP) has applied the following objectives, which have also been endorsed by the CITB Board:

- Simpler system – quicker, less costly and easier for employers to understand and complete Levy Returns
- Maintain current forecast Levy income – not increase it
- Majority of employers paying roughly the same amount of Levy as currently
- Maintain existing PAYE rate
- Proposal is endorsed by industry
- Proposal is legally sound

3.2 In addition to easing the administration burden of Levy Return completion on many employers, the changes will also increase the accuracy of completion and therefore increase compliance.

4. Description of options considered (including do nothing)

4.1 The various options considered as part of the Levy Simplification process are summarised below. These were all considered by the Levy Working Party at various times.

Option	Detail	Reason(s) for rejection/ adoption
A, Profit/ Turnover/ Contracts/ Materials based	<ul style="list-style-type: none"> • Move away from employment based levy • Base on business profit, turnover, contract value or cost of materials purchased. 	<ul style="list-style-type: none"> • Potentially contravenes the ITA as no longer an employment based levy • Loses the direct relationship between Levy paid and people trained • Wholesale change that would require substantial research and education • Employment based levy for training purposes more widely used in construction in GB and globally than any other basis. <p>For these reasons this option has been rejected.</p>
B. PAYE Only	Only raise Levy on PAYE payments and ignore all other payments to “workers”	<ul style="list-style-type: none"> • Would exclude a significant element of industry workforce from Levy and grant • Could encourage greater use of sub-contractors – contrary to government policy • To retain Levy income would mean at least doubling existing PAYE Levy rate • Unlikely to gain the support of Industry - a tax on the directly employed. <p>For these reasons this option has been rejected.</p>
C. PAYE & Unregistered LOSC	<ul style="list-style-type: none"> • Levy on PAYE employees • Labour-only sub-contractors not registered as employers in the Construction Industry with CITB <p>Similar to system used by CITB-Northern Ireland</p>	<ul style="list-style-type: none"> • Retains the complexity and subjectivity of current system – Determining LOSC • Added complexity of determining who is and is not registered with CITB • Data protection issues – Can’t disclose register to employers. <p>For these reasons this option has been rejected.</p>
D. PAYE & Unregistered	<ul style="list-style-type: none"> • Levy on PAYE employees 	<ul style="list-style-type: none"> • Does away with the complexity of LOSC, but adds complexity of how to determine who is

<p>CIS sub-contractors</p>	<ul style="list-style-type: none"> Levy on payments to all CIS sub-contractors not registered as employers in the Construction Industry with CITB 	<p>and is not registered</p> <ul style="list-style-type: none"> Only likely to work if all CIS data is electronically submitted to CITB by all employers – System would compare CIS300s to CITB register Significant costs, 3rd party agreement and employer compliance Uncertainty from some employers about not knowing which payments would attract Levy at the time of submission <p>For these reasons this option has been rejected.</p>
<p>E. PAYE and all CIS payments</p>	<ul style="list-style-type: none"> Levy on PAYE employees Levy on all payments to all sub-contractors paid through CIS 	<ul style="list-style-type: none"> All payments would include significant sums in respect of Plant and Materials – Contrary to intention of raising a Levy on “Employment” costs Contravention of ITA? To retain Levy income levels would mean a much lower sub-contractor rate possibly lower than PAYE rate, which would be unacceptable to most of the industry <p>Research has highlighted that this is likely to bring about some major swings in who pays how much Levy.</p> <p>For these reasons this option has been rejected.</p>
<p>F. No Change</p>	<ul style="list-style-type: none"> Levy on PAYE and LOSC With labour-only payments received offset 	<ul style="list-style-type: none"> Retains the complexity of LOSC and LOPR Restricts the number of employers paying levy as a result of the offset mechanism Retains time consuming administration and verification processes for employers and CITB Restricts the ability to consider automated processes in the future. <p>For these reasons this option has been rejected.</p>
<p>G. PAYE and Net CIS (taxable) payments</p>	<ul style="list-style-type: none"> Levy on PAYE Levy on the taxable element of all payments made to taxable sub-contractors paid through CIS No offset mechanism Increased small business levy reduction band to £400k 	<p>Adopted because:</p> <ul style="list-style-type: none"> Supported by Levy Working Party Supported by majority of industry Supported by CITB Board Does away with the complexity of Labour –only Many Labour-only sub-contractors are also Net paid (taxable) so not a massive move away from the current basis of levy for many employers. Use of the monthly CIS300: <ul style="list-style-type: none"> enables the levy to be based on records already completed by employers Asking employers to declare the tax deducted on their Levy Return means levy will only be generated on the labour element of the payment made Should mean that significantly more employers provide an accurate declaration first time Will make the process of completing the Levy Return much quicker for many employers System can be adopted with minimal impact on the majority of employers

Implementation options

4.2 Having agreed on the option to generate levy on payments to taxable (net paid) sub-contractors the Levy Working Party considered the implementation options. The option finally chosen (delayed implementation until 2017) was based on a consideration of interests of employers negatively impacted by the change and affordability to CITB.

4.3 The options considered were as follows:

a. Immediate implementation with no concessions.

This was rejected very early on simply because it provided no support for employers that would see an increase in levy as a result of the changes. Whilst in the minority, there are some employers that will see significant increases in levy and it was felt it would be unreasonable not to provide them with some form of notice period or support.

b. A short term cap on the extent of an increase (by % or value) as a result of the proposal

4.4 A reducing cap on levy increases potentially over 2 – 3 years. Employers suffering an increase in levy as a result of the changes would see the increase restricted by a set value or % until the end of the capping period at which time full levy would become payable.

This was rejected for various reasons.

- a. It would have been complex and difficult to communicate to employers
- b. It would have been costly to CITB in terms of levy lost
- c. It would have needed to be written into legislation; adding complexity to the Levy Order
- d. It would have been very difficult to identify if the increase was due to the levy changes or some other reason
- e. Adapting CITB computer systems in time would have been difficult

c. A short term discount on increases as a result of the proposal

4.5 A reducing discount potentially over 2 – 3 years. Employers suffering an increase as a result of the changes would receive a % discount on the increase experienced with the discount applied reducing each year until the discount period ended at which time full levy would become due.

This was rejected for various reasons:

- a. It would have been complex and difficult to communicate to employers
- b. It would have been costly to CITB in terms of levy lost (estimated at £30m over 2 years)
- c. It would have needed to be written into legislation; adding complexity to the Levy Order
- d. It would have been very difficult to identify if the increase was due to the levy changes or some other reason
- e. Adapting CITB computer systems in time would have been difficult

d. Delayed implementation until 2017 assessment

4.6 Rather than implement the changes in the first year of the 2015 Levy Order, delay it until the third year.

This was favoured for the following reasons:

- a. It provides impacted employers with a 2 year notice period to consider the changes and how they might prepare for them
- b. No employer will see an increase in their levy as a result of the changes until 2017; all the other options would see employers paying increased levies from 2015 even if mechanisms to mitigate the impact were applied
- c. There is no levy loss to CITB. The rates and thresholds for 2017 are set to try and generate approximately the same amount of levy under the new system as would have been under the old.
- d. It keeps implementation simple; no mitigation mechanism to build into CITB computer systems, no complexity to communicate to industry and no additional complexity in the Levy Order.

- e. It allows CITB time to communicate extensively with employers to help ensure they are all aware of the pending changes and the impact they may have as well as communicating directly with those potentially most negatively impacted
- f. If, despite all the research and consultation, the rates and thresholds applied to 2017 prove to not generate the forecast amount of levy (either too much or too little) this situation can potentially be addressed for the following year by amending the levy rates in the 2018 Levy Order.

5. Monetised and non-monetised costs and benefits

5.1 The changes deliver the following benefits:

- no increase in overall value of levy paid by construction industry
- reduced time/cost of employers completing levy returns
- reduced administration costs for CITB (increased efficiency)
- increased compliance
- minority of employers negatively impacted by the proposed changes (these include those who currently benefit from LOPR offset and have greater use of net paid sub-contractors).

5.2 Alignment with HMRC means no need for employers to keep separate records and also creates a more level playing field due to greater accuracy of Returns and more employers contributing to the levy system. This proposal also increases the number of small employers (4% to 26%) benefitting from the 50% small business levy reduction band as this will be increased to £400k.

5.3 The cost savings for employers is explored in the Direct Costs section later.

Support for employers in calculating and understanding the financial impact

5.4 In response to employer suggestions from the market research, CITB has developed the facility to enable them to work out what the financial impact could be of the changes on their levy bills by inputting their own payment data. The on-line calculator has been widely promoted to employers through federation contacts and employer mailings and features on CITB's website. This facility has received a very positive response from employers.

How it will work?

- Employer declares total CIS tax for the year on Levy Return
- When processed, the system will gross this up to the original taxable figure
- Levy then calculated on the original taxable figure
- Link to levy calculator – <http://www.citb.co.uk/levy-grant/levy-simplification-proposal-consultation/>

Current Levy System				Rate	Calc	Net CIS System @ 1.25%				Rate	Calc	
Paye	1	£ 500,000	0.5%	£ 2,500	Paye	£ 500,000	0.5%	£ 2,500				
LOSC	2	£ 100,000	1.5%	£ 1,500	Total Net CIS Tax	4	£ 15,000					
LOPR	3		1.5%	£ -	Grossed up CIS Tax	£ 75,000	1.25%	£ 938				
Levy Liability				£ 4,000	Proposed Levy Liability			£ 3,438				
Impact of Net CIS Proposal												
Reduction in levy liability of -£ 562												
© CITB 2013												

The CITB Levy Calculator

6. Rationale and evidence that justify the level of analysis used in the IA (proportionality approach)

6.1 There are several aspects arising from these changes that mean the research and analysis needs to be of a high quality and robust in nature. These aspects include:

- The changes mean the way levy will be generated represents a fundamental move away from a system that has been in place for many years.
- The amount of levy generated each year (and therefore the amount of support CITB is able to provide to employers as a result) is substantial and needs to be preserved.
- The number and diversity of employers in the industry requires the impacts to be considered from numerous angles
- The changes need to be defensible against possible challenge especially from a very small minority of employers that potentially face significant increases in levy as a result.

6.2 These aspects need to be clearly addressed and demonstrated within the IA, which the following evidence bases achieve:

a. HPI independent qualitative research

6.3 This was predominantly face to face research carried out with a cross section of employers around Great Britain. It was independent research, so employers could feel confident to speak their minds and comment freely and it enabled in depth discussions on the current system; the need for simplification and the proposed new basis specifically. Further results of the market research are shown in Appendix A.

6.4 The market research established that:

- Responses to proposed changes were positive overall
- Positivity was strongest amongst those for whom levy is more complicated, and where good will towards CITB is strongest (as far as it goes)
- Amongst smaller businesses, and where CITB relationship is more fragmented, desire for change is less pronounced
- There was overall agreement that the current system has issues and simplification is good
- There was a positive response to change in principle...so long as it doesn't cost more!

b. Employer Consultation

6.5 CITB attended approximately 40 different employer events in the consultation period, speaking to around 900 employers about the proposal. This enabled the changes to be discussed across a wide range of employers, for them to ask questions and understand the potential implications. It also enabled CITB to informally gauge initial reactions; most of which was positive. Further details on the employer consultation are also provided in Appendix A.

6.6 The evidence demonstrates that CITB have consulted widely with industry with the primary purpose being making employers aware of the proposed changes and encouraging feedback on them.

c. 2014 Levy Return Survey

6.7 Every employer that was sent a 2014 Levy Return in April 2014 was also sent a survey on the proposed changes. Employers were given until the end of May 2014 to submit the survey. By the end of May around 2,000 employers had completed the survey. This represented around 10% of employers that had submitted their levy Return by that stage. This equates to approximately 3% of employers that were sent the survey.

A copy of the survey and the survey results are shown in Appendix A

6.8 The findings, which were collated and analysed by the CITB research team, found that only a minority of employers were opposed to simplifying the levy process and to the specific proposal. These results support the findings of the independent market research.

d. Impact Analysis Model

6.9 CITB has used an Excel based analysis model for the last 3 years to help understand the impacts of the changes. The model has been built by Whole Life Consultants Ltd (WLC) who are linked to Dundee University and specialise in construction labour research and forecasting.

6.10 The model uses Levy Return and CIS data supplied by employers for a specific year and analyses the impact of the changes on levy payments made by individual employers. It also projects the impacts across the whole employer population and then by sub-sectors looking at employer size, trade, location and federation membership.

6.11 On top of this WLC use proven tests to assess the representivity of the sample against the whole Levy population. Again this is reported for each sub-sector. Please see appendix B for further details of the model and impact analysis.

e. Counsel's opinion

6.12 One of the objectives from the start has been to ensure that the proposal is legally sound. This is why Counsel's opinion and recommendations were sought fairly early on (mid 2013).

6.13 Counsel concluded that the proposal was not irrational and that the SoS would not be acting outside of his authority in adopting these changes. Counsel went on to say "I consider that it would be an uphill battle for any applicant to challenge successfully the proposal in its existing form." However he also went on to say "I would not, however, describe the chances of a successful challenge as being negligible"

6.14 Counsel highlighted four areas where he recommended CITB should keep evidence to aid in any legal challenge to the changes. These are described in Appendix C together with evidence which addresses each issue.

f. Formal Governance

6.15 The significance of the potential changes has meant that there has been a formal structure in place throughout to review and make decisions. This structure has consisted of the Levy Working Party carrying out the bulk of the reviewing and determining recommendations; the Consensus federations reviewing and ratifying recommendations made and finally the CITB Board reviewing and acting upon the recommendations.

7. Risks and assumptions

7.1 In developing the levy simplification changes, the following risks and assumptions have been identified:

7.2 Assumptions:

- Levy income maintained at current forecast levels
- Limited financial impact on majority of employers
- Minimal swing in employment patterns from net to gross paid subcontractors
- A successful judicial review is unlikely

7.3 Risks:

- Greater employment swing from employing net-paid to gross-paid sub-contractors than assumed which reduces levy income
- A successful judicial review – loss of levy raising powers
- Reputational impact due to negative publicity caused by unhappy vocal minority of employers who are required to pay more levy

7.4 These are further articulated below:

- **Non-compliant Gross paid sub-contractors** – risk losing their Gross status and becoming taxable resulting in a main contractor having to start paying Levy on them when not previously accounted for.
- **Will Employers stop using Net paid Sub-contractors to avoid paying Levy?** – A possibility but the feedback so far is that this is unlikely to happen in most cases, but the greater the financial impact the higher the chance an employer may consider this (if their levy payments increase significantly as a result of the new system).
- **What about payments with 30% tax deductions?** – These will be dealt with on an individual basis as if grossed up by 20% would result in an inflated figure being assessed. However this only relates to 2% of sub-contractors and only for a short period of time whilst the sub-contractor is verified by HMRC. Feedback so far says the simplicity of the system outweighs the slight inaccuracy of the calculation.
- **Payments being levied twice** – Removal of the offset mechanism does mean that some work will be levied twice; on the main contractor and the receiving sub-contractor. However CITB is collecting the same amount of levy with or without the offset and no employer is being levied twice for the same work (see counsel's opinion in Appendix C page 33).
- **Potential for work to attract no levy at all** – If a payment is made to a gross paid sub-contractor it does not attract levy. If the receiving sub-contractor is not an employer or does not use PAYE or Net paid workers then it is likely that this work will not attract levy at all. However the same applies in the current system where a Supply and Fix chain of work does not attract levy. Equally there is no overall levy loss as CITB is looking to generate the same amount of Levy as under the current system (see counsel's opinion in Appendix c page 33).

7.5 To help mitigate some of these risks, CITB has put detailed communications plans in place. The objectives of this are to make employers aware of the changes, why they are happening and the potential impacts on their Levy payments before the changes come into force so they have time to prepare. This includes a range of methods to:

- deliver clear communications in a variety of ways to ensure employers are aware of the changes and have opportunities to understand them before these are implemented (this includes signposting to information on the CITB website, the levy calculator and providing contact details for further queries)
- provide segmented information on the likely impact of the changes to all employers where known
- tailor CITB's support offering to employers depending on the level of impact on their levy payments – from offers of face to face visits for those most impacted, to provision of customer services number for queries and signposting to the website for further information for the least impacted.
- communicate with employers at regular intervals in the run up to the changes to reduce the risk of employers being unaware of the likely impact on their business when they are implemented in 2017.
- make it clear why these changes are being implemented and the positive impacts Levy Simplification will bring

8. Direct costs and benefits to business calculations

One In Two Out (OITO) methodology

8.1 Industrial Training Board Levy Orders are not within scope of OITO. Under existing legislation (the Industrial Training Act 1982) Levy Orders are required to be renewed periodically by affirmative resolution in Parliament. Levy orders enable the CITB to continue to collect a levy from all employers, except those that are formally exempted by the small firms' exemption threshold. These funds are used to support training and apprenticeships in the construction industry. The Levy Order does not introduce new legislation or regulation on business. As this Impact Assessment is out of scope, OITO methodology has not been used in the assessment of the costs and benefits of the changes proposed to the Levy Order.

Transition Arrangements

8.2 The main objective of the levy changes is to simplify completion of Levy Returns for employers and to increase the accuracy of returns, hence increasing compliance. CITB's Board has decided to provide employers with ample time to prepare for the changes, hence CITB will not implement them until 2017 – further explanation about this decision is provided below.

8.3 Provision of this additional notice period does have the effect of complicating the 2015 Levy Order, and it will contain in effect two different sets of rules for assessing sub-contractor levy, and in the short term, does not comply with the 'one in two out methodology'. However, the 2015 Order is a 'stepping stone' that will take us to a significantly simpler 2018 Levy Order, which contains one far simpler set of rules for assessing sub-contractor levy, no longer contains a complex LOPR offsetting mechanism and has the added benefit of increasing the small business levy reduction threshold to benefit significantly more employers.

Comparison Scenario

The costs and benefits outlined in paragraphs 8.16-8.27 compare the costs and benefits of a new levy simplification being implemented in 2017 to the current system. When designing the policy a number of scenarios were considered:

- Option 1: Do nothing
- Option 2: bringing the changes in immediately
- Option 3: Bringing in the changes in immediately with a discount or capping mechanism
- Option 4: Bringing in the changes in 2017

It was felt, for the reasons outlined in 4.3 – 4.5, that options 2 and 3 would not be implementable and so detailed costs and benefits have not been calculated.

8.4 When considering the best time to implement the changes to the Levy system CITB and the Levy Working Party felt they had to balance several factors in their decision. Leaving the change until 2018 would have meant three years plus of knowing what the new system would be and the benefits it would bring many employers, but with the current complex and time-consuming system remaining in place for a significant period of time. This could lead to frustration from employers that would benefit (especially from the many that would see a tangible reduction in the time it takes to complete their Levy Return) as well as accusations of CITB being slow to respond to employer demands.

8.5 Delaying would also reduce the time and cost savings that levy simplification will bring to CITB in administering the levy system. There are also concerns that leaving it so long to implement might mean it never happens (for whatever reason) and the opportunity to improve the levy process will have been

lost. Delaying until 2018 could also delay further potential improvements to the system such as automated submission of levy return data that can only be considered if the changes are implemented.

8.6 However implementation from the first year, or even the second year, of the 2015 Levy Order was felt by many to be too soon as this would be based on data employers would provide on their 2014 and 2015 Levy Returns (covering the periods from 6th April 2013 to 5th April 2014 and 6th April 2014 to 5th April 2015 respectively) . This would in essence be basing the levy due on retrospective periods and would give employers no opportunity to make changes to their business models to address the impact of these changes if they so wished.

8.7 There are a small number of employers that do potentially see significant increases in their liability and it was felt these employers need to be given sufficient time to prepare. It would also be difficult for CITB to implement the significant internal system development in order to deliver the new levy process in time for spring 2015. The option of immediate implementation was considered with a built in discount or capping mechanism to ease impacted employers in, but this was rejected on the grounds of the considerable cost of lost Levy to CITB (possibly £30m over 2 years), complication of the Levy Order as the mechanisms would need to be written into the legislation to authorise it, potential confusion for employers as we are further complicating the levy system and employers still being impacted immediately without warning.

8.8 The compromise between these two extremes (2015 and 2018) is implementation in 2017. The assessment for this year will be based on the 2016 Levy Return (which includes payments from April 2015 to April 2016), after the changes have been approved and communicated to employers. It provides employers time to make changes to their business models if they so wish and take any other appropriate action before the information is required on the Levy Return. This avoids the need for complex transitional arrangements, and is embedded in the 2015 Levy Order so employers are aware that it's coming.

8.9 Finally CITB has conducted considerable research and analysis into the impact of the changes and determining what the Net CIS levy rate should be (including making a number of assumptions e.g. the level of movement from employing Net to Gross sub-contractors and forward projections based on 2014 data). However, if CITB's levy income varies significantly from forecast levels, based on the aforementioned analysis and assumptions, the impact is limited to one year and CITB could consider reviewing levy rates and or thresholds to be included in the 2018 Levy Order.

Impact by employer size

8.10 The impact of the changes, based on data extracted from the levy impact analysis model, can be examined in various ways. The impact on the four employer size groups are summarised in the following tables; these take into account a potential swing in payments from net paid sub-contractors to gross paid of 2.5%:

Micro employers (up to 9 employees) Impact based on sample of 2014 Levy Returns	Number	% of sub-segment	Projected across whole Micro population based on 55,000 employers (81% of total population)	% of the overall population (68,000)	Additional Levy payable/ Reduced levy payable (sample)	Additional Levy payable/ Reduced levy payable (projected across population)	Average additional levy increase/ decrease
Number of employers with levy increase	2872	10%	5,500	8.1%	£6.9m	£13.2m	£2,400
Number of employers with levy decrease	6224	21%	11,550	17%	-£7.6m	-£14.1m	-£1,221
Number of employers with no change	20584	69%	37,950	55.9%			
Number of employers with Levy decrease, no change or an increase of no more than a £500	27912	94%	51,700	76%			

Small employers (10 to 49 employees) Impact based on sample of 2014 Levy Returns	Number	% of sub-segment	Projected across whole Small population based on 10,500 employers (15.4% of total population)	% of the overall population (68,000)	Additional Levy payable (sample)	Additional Levy payable/ Reduced levy payable (projected across population)	Average additional levy increase/ decrease
Number of employers with levy increase	1861	33%	3,465	5.1%	£6.3m	£11.7m	£3,377
Number of employers with levy decrease	3403	61%	6,405	9.4%	-£6.7m	-£12.6m	-£1,967
Number of employers with no change	347	6%	630	0.9%			
Number of employers with Levy decrease, no change or an increase of no more than a £500	4249	76%	7,980	11.7%			

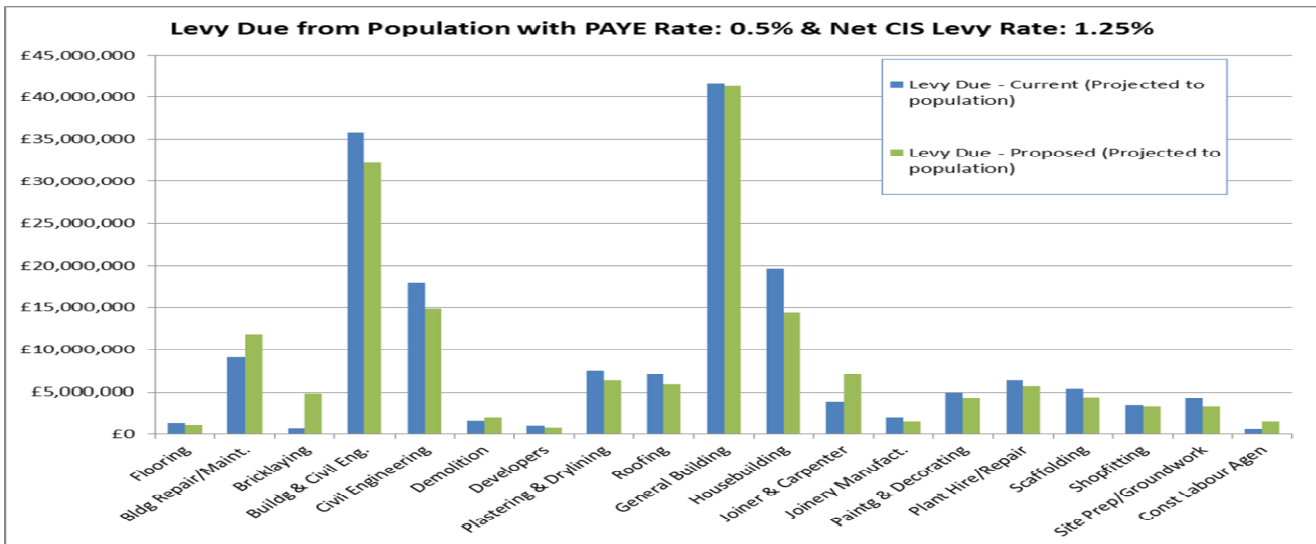
Medium employers (50 to 249 employees) Impact based on sample of 2014 Levy Returns Medium employers	Number	% of sub-segment	Projected across whole Medium population based on 2,000 employers (3% of total population)	% of the overall population (68,000)	Additional Levy payable (sample)	Additional Levy payable/ Reduced levy payable (projected across population)	Average additional levy increase/ decrease
Number of employers with levy increase	408	40%	800	1.2%	£3.4m	£6.7m	£8,375
Number of employers with levy decrease	538	53%	1,060	1.6%	-£7.1m	-£14m	-£13,207
Number of employers with no change	70	7%	140	0.2%			
Number of employers with Levy decrease, no change or an increase of no more than a £500	667	66%	1,320	1.9%			

Large employers (250 employees plus) Impact based on sample of 2014 Levy Returns	Number	% of sub-segment	Projected across whole Large population based on 340 employers (0.5% of total population)	% of the overall population (68,000)	Additional Levy payable (sample)	Additional Levy payable/ Reduced levy payable (projected across population)	Average additional levy increase/ decrease
Number of employers with levy increase	67	42%	143	0.2%	£3.7m	£7.9m	£55,244
Number of employers with levy decrease	88	55%	187	0.3%	-£8.4m	-£18m	-£96,257
Number of employers with no change	4	3%	10	0.01%			
Number of employers with Levy decrease, no change or an increase of no more than a £500	93	58%	197	0.3%			

Note: The levy analysis model compares the levy due under the current and new system using data from the 2014 levy returns from a large sample of employers (36,500 employers). It then extrapolates this across the whole population. The model does not take into account external influences such as inflation and wage growth that are factored into CITB forecasts of future levy income. As a result, the values of levy income indicated by the model and CITB forecasts do not necessarily match.

Impact on trades

8.11 The model also enables the impact on trades to be analysed. The following graph demonstrates this:



8.12 The activities with the most significant increases can be split into two groups. Firstly Building Repair and Maintenance where there seems to be a high use of small (and therefore generally taxable) supply and fix sub-contractors. These payments are not currently liable to levy, but will be under the new system.

8.13 Secondly Bricklaying, Carpentry and Construction Labour Agencies all see significant increases in liability as a result of the removal of the Offset mechanism.

8.14 Housebuilding is projected to see a significant reduction in levy. This is put down to the use of large brickwork sub-contractors, carpentry sub-contractors and labour agencies who are likely to be Labour-only and Gross paid, so currently liable but not so under the new scheme.

Impact of extending the Small Business Reduction Band from £100k to £400k

8.15 Based on analysis of the Levy impact models for 2013 and 2014 and the Levy assessments raised in early 2014 (2013 Levy Returns) the number of employers estimated to benefit from the extended reduction band is in the range of **10,000 – 12,000**. The estimated levy saved by these employers as a result is estimated to be in the range of **£8m - £10m**. This represents a significant increase in the number of employers benefiting from the 50% reduction, resulting in a sizeable decrease in levy payable when compared to the current calculation. A better indication of this impact will be available once the 2014 assessments are raised in the first quarter of 2015. The levy saved by extending the reduction band will be offset by the increase in the number of employers paying the levy due to the removal of the labour-only payments received (LOPR) offset mechanism. This currently restricts the number of employers who pay the levy. Around 2,500 employers currently reduce their levy liability to zero as a result of LOPR. Therefore Increasing the Small Business Levy Reduction to £400k has no impact on the NPV.

Cost savings for employers

8.16 CITB has not been able to calculate the exact cost saving to the construction industry as a whole that would result from the levy changes. However, work has been done to ascertain what the scale of savings may be by asking individual employers to make estimates of their time and cost savings. This data has been used to estimate the value of savings for employers (see below).

8.17 During the industry consultation, it emerged anecdotally that some employers were charged between £200 and £2,000 by accountants to complete their annual Levy Returns. Whilst it is not possible for CITB to identify how much the industry spends as a whole on accountants fees for this activity, the simpler levy system should not only make Levy Return completion quicker and therefore less costly in terms of accountants' fees to employers, but arguably means that employers can complete the

return without the need to employ and accountant for this process –as the data required is simpler, quicker and easier to collate.

8.18 However, based on the employer sample in the research model, a potential saving in accountant costs has been estimated at **£2.2m**. This is based on the assumptions that 10% of the c29,000 levy paying employers in the whole population will save £500 a year and 10% of the c39,000 non-levy paying employers in the whole population will save £200 a year - see calculation below. (This also includes an assumption that 10% may stop using an accountant’s services as a result of the changes).

- 29,000 x £500 x 10% = £1,450,000
- 39,000 x £200 x 10% = £ 780,000
- Potential overall saving £2.23m

Average cost savings to complete a Levy Return

8.19 CITB has conducted a small scale survey of employers to determine an indication of time and cost savings that may be experienced by employers as a result of the levy simplification changes. The sample size of 111 employers is not necessarily representative of all CITB’s customers but does contain a mix of micro, small, medium and large employers. Some caution is required when considering these results due to the size of the sample especially with regards the impact of large employers being added to the sample; however the results indicate that 68% of respondents think they will make cost savings under the new system. The scale of the savings varies, from a few pounds in some cases to many thousands in others.

8.20 The scale of cost savings do vary by employer size with savings increasing as the size of employer increases. This is not surprising given the complexity and number of LOSC arrangements that larger employers employ. However it is positive to see that even the smallest employers are indicating expected savings.

Employer size	Estimated average cost saving in £s	% of employers indicating a saving	Projected cost savings
Micro	£51	64%	£1.8m
Small	£124	62%	£804k
Medium	£635	68%	£816k
Large	£8,640	100%	£2.65m
		Total	c£6m

8.21 Feedback from one large employer indicates even bigger savings of over £80k, see below as an example:

How long the current Levy Return takes to complete (hours)	1,912 Hours
How much this costs –time multiplied by (£) bookkeeping and accountancy rates	£ 83,080.44
How long you estimate the Levy Return will take to complete under the Net CIS process (hours)	20 Hours
How much you estimate this will cost to complete	£ 762.55
How many subcontractors (net and gross) do you have on your subcontractor ledger-this is just to give us a grasp of the approximate size of your business.	Net Subbies 565 Gross Subbies 2,040 Total 2,605

8.22 The quote from this employer is ‘I think the differences are – New scheme is less hours work & less senior management review’.

Compliance and admin savings

8.23 CITB is unable at this stage to put a value on savings as a result of compliance improvements, but it is anticipated that the changes will make the Levy Return easier to complete accurately first time. The required sub-contractor figure (total CIS tax deducted) will be lifted directly from 12 month returns (CIS300) which are submitted to HMRC. It will not therefore require any manipulation or interpretation, both of which are necessary under the current system.

8.24 For CITB, this should result in reduced re-working, reduced telephone and written queries (after the initial bedding in period), a quicker levy verification process with fewer errors identified, reduced appeals against assessments and, due to the removal of the offset mechanism, significant reduction in the time to fully process the Levy Return.

8.25 It is felt however that these benefits are more likely to be efficiencies that free up resources to work in other areas as opposed to actual cost savings i.e. Levy Grant Verification time being freed up to verify a greater number of Levy Returns.

Additional costs

8.26 CITB does not anticipate any long term additional costs for employers or CITB (excluding actual levy increases), however it is estimated that short term costs to deliver the changes including staff time, updating the CITB computer systems, communicating with industry and staff training will cost around **£1m** overall. However some implementation costs do still need to be quantified fully so this figure could vary.

Benefits and cost summary

Estimated Industry Savings	Amount (p.a)	Industry Costs	Amount
Levy Return completion	£6m	N/A	£0
Potential accountant fees	£2.2m		
	c£8.2m		£0

Estimated CITB Savings	Amount (p.a.)	CITB Costs	Amount
Admin efficiencies	N/K	Computer system, Communications, Staff costs & training	£1m
Compliance efficiencies	N/K		
	£N/K		c£1m

9. Wider impacts of the proposal

9.1 The wider impacts are outlined below:

- More employers contributing to levy system due to removal of the LOPR offset facility
- Potential impact on 'passing on' of levy from main contractors to sub-contractors – is common practice outside the current system, reduced legitimacy for employers to do this if not paying levy on payments to their subcontractors
- Changes in employment practices – a potential move away from employment of net-paid sub-contractors (on which levy will be due) to gross-paid (which won't attract levy) or to PAYE (which has a lower levy rate)
- Potential for greater use of gross paid labour agencies and umbrella companies
- Market forces – may see changes in contract pricing etc. to accommodate for levy increases
- Could change training patterns in the sector – as the Grants Scheme is likely to be realigned to support Net paid CIS rather than LOSC subcontractors

9.2 During our consultation with industry we have explored unintended consequences and asked what the likelihood of movement from employing net to gross paid subcontractors may be as a result of the levy changes. The feedback has been that any shift from employing net to gross paid subcontractors is likely to be small scale because there are a number of factors an employer takes into account when engaging a sub-contractor including quality, reliability, experience, availability (however, we have built a small swing into the levy rate calculations to allow for this).

10. Summary and preferred option with description of implementation plan

10.1 The preferred option (new system) to address the concerns industry has with the way levy is currently calculated are demonstrated in the table below:

Current system	New system
PAYE at a rate of 0.5%	PAYE will remain at 0.5%
Labour-only sub-contractors (LOSC) at a rate of 1.5%	Net (taxable) CIS sub-contractors (payments to Grosspaid sub-contractors would not be included) Net CIS Levy rate of 1.25%
Labour only payments received (LOPR) offset at a rate of 1.5%	Removal of the LOPR offset mechanism
Small business levy exemption of £80k Small business levy reduction (50%) below £100k	Small business levy exemption retained at £80k Small business levy reduction (50%) extended to £400k

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10.2 In detail the changes and new basis are as follows:

- The levy on direct employers (PAYE) will continue and at a rate of 0.5%
- The levy on labour-only sub-contractors (LOSC) will be discontinued
- This will be replaced by a levy on payments made through the HMRC Construction Industry Scheme (CIS) to Taxable (Net paid) sub-contractors. These will be levied at a rate of 1.25%
- The offset mechanism (labour-only payments received) will be discontinued
- The small business levy exemption threshold will be retained at total PAYE and Net CIS payments of less than £80,000

- The small business levy reduction band will be retained, but expanded to benefit all employers with total PAYE and Net CIS payments of £80,000 or more, but below £400,000. These employers will all have their levy assessment reduced by 50%.

10.3 To keep the process of completing the Levy Return as simple as possible employers will not in practice be asked to provide details of the total payments made to taxable sub-contractors, but instead to simply declare the total tax deducted from all sub-contractors in the relevant year. This is easily extracted from the 12 monthly CIS 300 returns that are submitted to HMRC throughout the year (the far right hand side on the copy CIS300 on the next page).

10.4 Once this figure of tax deducted is processed by CITB, the computer system will “gross” this up to the sum subjected to tax in the first place; it is this figure that will be included in the levy assessment. See Monetised and non-monetised costs and benefits section for an example of this in practice.

10.5 The grossing up will be at the standard rate of 20% (or whatever the standard rate is at that time). However a very small number of Net payments are taxed at a higher rate of 30% while HMRC carry out checks on the sub-contractor. By default these payments will also be grossed up by the standard rate; however it is planned that the CITB computer system will be built to facilitate a manually entered Net CIS payment where the higher rate has been used if the employer so chooses.



Online Services

Monthly Return - Print

Monthly return for the period ending 5 October 2011

This monthly return was submitted on 17/10/2011.

Your IRmark is: :

Number of subcontractors: 21

Name	Verification number	Total payments made (does not include VAT)	Cost of materials (paid for by subcontractor)	Total tax deducted
	V1157046075	3,330.00	0.00	666.00
	V1151758364	10,000.00	0.00	2,000.00
	V1151758364	4,500.00	0.00	900.00
	V1153096492	4,400.00	0.00	880.00
	V1153671437	1,355.00	0.00	270.00
	V1158075797	300.00	0.00	60.00
	V1151758364	7,034.00	1,892.00	1,028.50
	V1153734004	840.00	820.00	0.00
	V1153671437	1,162.00	0.00	232.00
	V1155442058	750.00	0.00	150.00
	V1155815291	2,160.00	0.00	432.00
	V1154441329A	1,480.00	0.00	296.00
	V1147028746	300.00	0.00	60.00
	V1156864546	994.00	0.00	198.80
	V1148865326	2,230.00	0.00	446.00
	V1155741969	450.00	0.00	90.00
	V1157339815	400.00	0.00	80.00
	V1153096586	116.00	78.00	7.60
	V1137895081	8,465.00	0.00	0.00
	V1155020272	360.00	0.00	72.00
	V1154437594	1,560.00	0.00	312.00
	Totals	52,186.00	2,790.00	8,180.90

10.6 This is an example of a CIS300. There are multiple versions of this, mostly in electronic format. This is the version supplied by HMRC via their own software.

Implementation plan

10.7 Following approval to implement the changes being granted by the CITB Board in July 2014, the new calculation has been part of the Consensus consultations that have taken place with industry during the autumn. The changes will then form part of the 2015 Levy Order placed before Parliament in early 2015.

10.8 Assuming this is approved by Parliament, the 2015 Levy Order will authorise the current levy calculation to continue for assessments raised in 2015 and 2016 and for the new basis to operate for the assessment raised in 2017. (The reasons for the delay in implementation are outlined in the “Description of options” section)

10.9 In preparation for the new basis CITB is aware of its obligation to do all it can to ensure all employers are fully conversant with the changes and the impact on their business ahead of the first assessment being issued in 2017. This is being approached from various angles:

- All employer mailings – Employers were sent a letter about the changes following the Board’s decision in July 2014. A subsequent mailing is planned for early December 2014. Where CITB is able to identify the potential impact of the changes on an employer they will receive a letter specific to their circumstances.
- 2015 Levy assessment – This is being designed so it will show the actual levy due in 2015 and also what the assessment would be if the new basis had been applied
- 2015 Levy Return and guidance notes – The Return will request information about CIS payments made and payment status in the same way the 2014 Levy Return did and the guidance will explain the forthcoming changes
- Frequent updates of the CITB website to raise awareness of the changes amongst employers
- Use of social media to reach a wider audience
- Use of the trade press to publicise the changes
- Continued joint messaging with the consensus federations
- Meetings with employers likely to experience the biggest impacts
- On-going attendance and presentation at employer forums and other employer attended events
- 2016 Levy Return (covering the period 6th April 2015 to 5th April 2016) will be the first to request just the Net CIS information

11. **Key to abbreviations:**

- CIS – Construction Industry Scheme
- LWP – Levy Working Party
- LOSC – Labour-only sub-contractors
- LOPR – Labour-only payments received
- PAYE – Pay As You Earn – directly employed staff
- HMRC – Her Majesty’s Revenue and Customs
- SoS – Secretary of State

Appendix A – Industry Consultation

Levy simplification market research

This was conducted by independent, market research company HPI. The slide below indicates how the research was structured:

Final research approach



What we actually did was



Fieldwork Jan / Feb 2014






7

Feedback on the current system:

- levy appreciated as an enabler for up-skilling the industry but sense it is unfairly policed / managed
- determining which workers to declare levy on is open to misinterpretation and ambiguity
- collating relevant figures can be time consuming and complicated
- offset can be confusing and leads to anticipated unfairness

Employer's responses to proposed changes were positive overall and support the need for change:

- positivity was strongest amongst those for whom levy is more complicated, and where good will towards CITB is strongest (as far as it goes)
- whereas amongst smaller businesses, and where CITB relationship is more fragmented, desire for change is less pronounced
- but overall agreement current system has issues and simplification is good
- so positive response to change *in principle*...so long as it doesn't cost me more!

-   Levy needs to be simpler
-   Levy Return needs to be quicker to complete with no additional record keeping
-  Employers need to feel it is a level playing field

Suggest phrase 'level playing field' could be more directional - i.e. something more along the lines 'employers need to feel levy is better policed / managed'

31

Positively



Removes the ambiguity

- will simplify and clarify process - identifying which staff to pay levy against, how to make levy calculations
- fact based calculation so no assumptions or personal judgements
- will make it easier for CITB to assess, and more reassuring for businesses that they have completed the return correctly
- ...thus create more accurate returns, erase uncertainty, ensure greater compliance

The key benefit as I can see it is the fact that you completely remove the ambiguity
Medium, London

In a way it doesn't matter how you arrive at the CIS figure, whatever is on that form you just pluck and use for the levy calculation - That's brilliant
Micro, Birmingham

40

Positively



Elicits more straightforward completion

- simply lift figures from PAYE and CIS paperwork
- no need to collate additional information
- can be handled centrally
- "it will take be 5 minutes not 5 hours"

Massive reductions in time as it could all be handled centrally
Large, London

From the CIS it would be a 5 minute job. It doesn't take me long now but it would be really quick under the new system!"
Micro, Glasgow


41

Levy Simplification Survey 2014

Important, CITB needs your views to help simplify the Levy process

CITB is exploring ways to simplify the Levy system to make it easier for employers to complete their Levy Return. The proposal to simplify the Levy system comes in response to feedback from employers:

- The data needed to complete the Levy Return needs to be simpler and quicker to compile with no additional record keeping
- Instead of raising a Levy on labour-only sub-contract payments (LOSC), CITB should consider a system based on PAYE and closer alignment with the HMRC Construction Industry Scheme (CIS) and specifically, the monthly CIS300 returns.



Please take a few moments to read this leaflet and tell us your views in the short survey on the back cover

Levy Simplification Survey

Please tear off and return the completed survey with your Levy Return by 19 May 2014.

Please complete your company details below. Responses will not be attributed to individual employers but the following information will help us to ensure a cross section of respondents.

Employer/company name:

CITB Registration Number: Postcode:

Questions

Putting aside your views on paying the Levy itself, how much do you agree or disagree with the following. For each question please indicate your response by ticking the appropriate box.

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
Q1 The changes to the Levy system described in the leaflet are clear and easy to understand	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q2 I am glad that changes are proposed to the current system	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q3 The proposed changes to the system would make it easier to complete our Levy Return	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q4 I think the proposed changes to the Levy system are a good idea	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q5 Do you have any further feedback for CITB on Levy Simplification? Please write your comments in the space below.

Further Information

You can find further details about Levy Simplification, including a calculator to help you estimate how much you would pay under the proposed new system, on our website citb.co.uk/levysimplification

citb.co.uk



CITB registered charity number 264289

Publication code 03/14

Survey results

The levy simplification survey was sent to c70,000 CITB employers with their 2014 Levy Return in April 2014 so everyone had the opportunity to provide feedback on the proposed changes. It constituted a paper based roll/fold information leaflet which described the changes to which a survey form was attached. The leaflet detailed the proposal and gave 2 examples of the impact on different employers whilst signposting further information on CITB's website.

The survey asked 3 classification questions, 4 closed questions and offered space for free text comments. Of the 2000+ responses 1800 submitted information allowing us to ascertain their Size, Fed status, Levy Value, Location, and Main Occupation from the Levy details used for the 2013 employer and stakeholder research. The response rate of 1800 from a population of 70,000 gives us a margin of error of +/- 2.3% at a top line level.

The survey findings are summarised below and again support the need for simplification of the levy:

- Overall the notion that that proposal is a good idea received 47% agreement and only 14% disagreement.

- There is support for the proposal evident regardless of employer size. Small (54%) Medium (51%) and Large (55%) all show majority support with only micro coming in under at 47% however micro employers show a much higher measure of indifference.
- Federated status is unlikely to effect an employer's views on the proposal. Views appear to be based on more personal situations such as size and levy value.
- Indifference towards the proposal is high amongst non-levy payers, however support is still evident as it is across all levy value bands.
- There is no region based rejection of the proposal. Both Scotland (51%) and England (47%) show strong measures of support with Wales coming in at (41%)*
- Much of the rejection based on financial impact appears to be made on assumptions rather than

03: Question 5: I am glad that changes are proposed to the current system.

- This question was asked to gather information on how changes to the levy assessment process would be received regardless of what that change would be.
- Is change seen as necessary in general?

Strongly Agree	221	11.2%
Agree	645	32.7%
Neither agree nor disagree	861	43.6%
Disagree	107	5.4%
Strongly Disagree	140	7.1%

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calculations.

04: Question 6: The proposed changes to the system would make it easier to complete our Levy Return.

- This question was asked to gather information on how successful the proposed method of simplification would be with regards to making the return easier for employers.

Strongly Agree	246	12.5%
Agree	760	38.5%
Neither agree nor disagree	763	38.7%
Disagree	108	5.5%
Strongly Disagree	97	4.9%

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05: Question 7: I think the proposed changes to the Levy system are a good idea.

- This question was asked to gather information on how well the proposal would be received by employers and whether they would welcome its implementation.
- The majority of the analysis to follow has been done on this question.

Strongly Agree	204	10.3%
Agree	716	36.3%
Neither agree nor disagree	770	39.0%
Disagree	108	5.5%
Strongly Disagree	175	8.9%

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Comments from employers included:

- “If the aim is to simplify then I think this has been achieved as we can all easily work out our CIS Payments, although I think the return form could still be better worded.”
- “I think it's a fair system where a large majority can benefit from it.”
- “Anything that would remove the uncertainty that we're completing the return correctly would be welcomed.”
- “Further Feedback - Hurry up & Implement it - It'll save so much time”
- “I agree if it's going to be easier to complete the Levy Return but if it means we will be paying more money/Levy then obviously we wouldn't agree!”

Feedback from employer consultation events

Over the last 18 months, CITB has attended a number of employer meetings and events to outline the levy change proposals and obtain employer feedback on them. The events have included:

- National and regional federation meetings
- CITB's Regional employer forums in England, Scotland and Wales
- Specifically arranged one to ones and group meetings with employers to discuss the changes
- Face to face meetings with employers who are expected to see significant increases in their levy bills

During this time, CITB staff have spoken to over 1,000 employers of range of sizes and main activities. The image below gives an indication of the reach of the consultation.

Consultation Events

Have included:

50+ employer events attended

Over 1,000 employers spoken to across England, Scotland and Wales

Most Consensus federations spoken to individually – many at national and regional level

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One to ones with some of most impacted employers

Additional advice and guidance to most impacted sectors



This is one example of an event CITB attended during the consultation period:

Levy Simplification – Employer consultation Normandy Hotel, Glasgow – 28th January 2014

CITB representatives present:

Colin Chaplin – Levy Development Manager

Douglas Matthew – Head of Levy & Grant

Walter Kerr – Area Development Manager

Ian Wells – Company Development Adviser

Number of employer representatives present: 27

Federation representatives: 2

Ian Rodgers – SDF

Shona Farrell - NFDC

Questions and comments from employers and federation representatives resulting from the presentation of the proposal and potential impacts:

- How Labour Agencies will react to the removal of the Offset is an unknown; will they increase their rates?
- The Levy rate is very important in determining if the proposal will be supported
- Copies of the presentation requested so the proposal and its impacts could be cascaded to colleagues – Summary version to be produced and distributed

Levels of support:

- On a show of hands the vast majority said they supported the principle of the proposal. Full support of implementation could be subject to reviewing the impact on their business.
- On a show of hands no employers opposed the proposal

Feedback on 2015 Levy Order proposals from CITB's consensus process

Federation support

All of the 14 employers' organisations consulted (as listed below) have formally expressed their support for these levy proposals. As reported at the Board meeting, some concerns had been expressed by the NFDC about them because some members will see increased levy bills as a result of the changes although most (64%) will see lower bills or no change. Since the meeting, the federation has confirmed

that it supports the proposals. CITB staff will work with any negatively impacted employer to ensure they are aware of grant support.

Support received

- British Woodworking Federation (BWF)
- Civil Engineering Contractors Association (CECA)
- Construction Plant-hire Association (CPA)
- Federation of Master Builders (FMB)
- Hire Association Europe (HAE)
- Home Builders Federation (HBF)
- National Association of Shopfitters (NAS)
- National Federation of Builders (NFB)
- National Federation of Demolition Contractors (NFDC)
- National Specialist Contractors Council (NSCC)
- Scottish Building Federation (SBF)
- Scottish Decorators Federation (SDF)
- Scottish Plant Owners Association
- UK Contractors Group (UKCG)

Those organisations expressing support for the levy proposals represent 47.3% by number and 63.3% by value of all levy payers. This compares with 50% and 63% (from all 14 federations) respectively in 2012.

Non-federated employer support

A structured sample (the annual Employer and Stakeholder Research (ESR) survey) of 1,900 employer views (levy payers and non-levy payers) was taken by an independent research organisation in August and September 2014. This survey included responses from 400 levy paying employers who did not belong to one of the federations listed above, who were asked specific questions to establish whether or not they supported the levy proposals.

Data from the sample is used to calculate the overall number of non-federated levy paying employers, together with the value of levy payable by this group. It can also be used to gauge overall support for the levy/grant system from all employers (federation members, non-members, levy payers and non-levy payers).

Total support

Overall support for the levy proposals based on the criteria set out in the Levy Order is as summarised below.

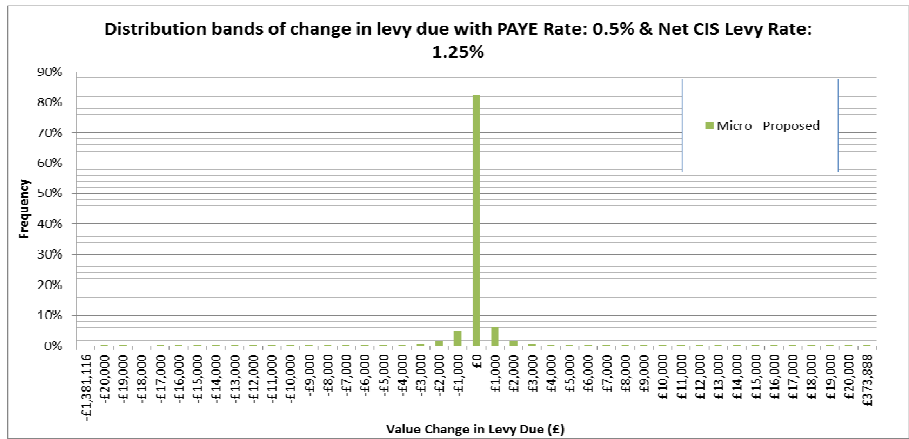
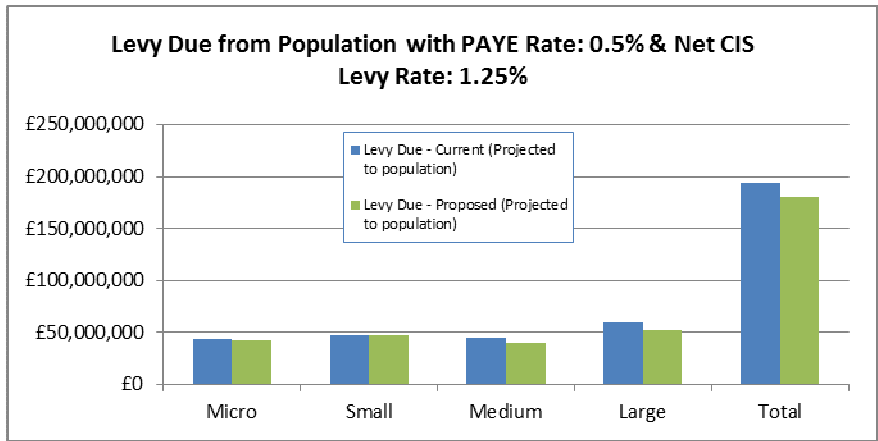
Consensus Support	By Number		By Value	
	2014	2011	2014	2011
Federated	47.3%	50%	63.3%	63%
Non-federated	39.0%	34%	16.1%	20%
Total	86.3%	84%	79.4%	83%

Survey data shows overall support for the levy/grant mechanism standing at 63% (down on 2013 (69%) but similar to 2012 (62%). Support is highest from federated levy payers (71%) and lowest from non-federated levy payers (55%).

Appendix B – Levy impact analysis model

The current model is based on 2014 Levy Returns completed by employers since May 2014. This version of the model now contains 36,500 employers’ datasets (over 50% of the register) and has been used for various reasons:

- To establish the Net CIS levy rate and reduction band threshold to retain levy income at approximately the same level as the current forecasts
- To ensure there is no redistribution of levy contribution between employer size groups
- To analyse the impact on specific sub-sectors, which has then been used to aid the consultation with different employer groups so they can better understand the implications for them.
- Identifying sectors and individual employers most negatively impacted by the changes as well as helping to understand why



This level of evidence has been essential in establishing a clear and full understanding of the impact of the changes on the industry as a whole, enabling the LWP and the CITB Board to come to evidence based decisions. It has also enabled CITB to communicate with industry with assurance and confidence, which in turn has enabled industry to judge the proposal from a knowledgeable and confident position.

Appendix C – Counsel opinion

Counsel's Recommendation	Recommended evidence to be collected	Evidence held
<p>Proposal will Simplify Levy</p>	<ol style="list-style-type: none"> 1. Can CITB demonstrate that industry has issues with the current basis? 2. Can CITB demonstrate that the changes will simplify the process? 3. Can CITB demonstrate cost efficiencies? 4. Can CITB demonstrate compliance efficiencies? 	<ol style="list-style-type: none"> 1. Issues with the current basis: <ol style="list-style-type: none"> 1.1. HPI independent market research 1.2. 2014 Levy Return Survey 1.3. Feedback form LWP 2. Changes with simplify the process: <ol style="list-style-type: none"> 2.1. HPI independent market research 2.2. 2014 Levy Return survey 2.3. Feedback from employer forums and meetings 3. Average cost savings analysis demonstrates that all size of employers will benefit from reductions in the time it takes and the cost incurred in completing the Levy Return. <ol style="list-style-type: none"> 3.1. Micro employers will see on average a time saving of 1.5hrs and a cost saving of £51 3.2. Small employers will see on average a time saving of 3.5hrs and a cost saving of £124 3.3. Medium employers will see on average a time saving of 4.5hrs and a cost saving of £635 3.4. Large employers will see on average a time saving of 213hrs and a cost saving of £8,640 4. Compliance efficiencies <ol style="list-style-type: none"> 4.1. Efficiencies here will become evident once new process is in place. 4.2. The simpler system will make it harder to declare the incorrect figure on the Levy Return 4.3. The simpler system will make the levy verification process easier and quicker, leading to greater coverage of levy Returns and a wider scope for verification activities
<p>The extent of double levying can be demonstrated</p>	<ol style="list-style-type: none"> 1. Can CITB demonstrate that the extent of Net paid, levy paying employers is "comparatively rare"? 	<ol style="list-style-type: none"> 1. 31% of employers in the 2014 model are Net paid <ol style="list-style-type: none"> 1.1. Of these 31.75% are also potential levy payers under Net CIS. 1.2. This equates to 9.85% of the overall sample 1.3. It is worth noting that whilst levy may become due on the same work twice, this is not payable by the same employer; Levy would be paid by the contractor and the sub-contractor 1.4. Opting for a levy on Net CIS payments as opposed to all CIS payments mitigates the impact of double levying, however to mitigate any further would need an offsetting mechanism similar to the current system which would increase complexity and reduce the number of Levy paying employers 1.5. Excluding an offset mechanism

		ensures that the only employers not liable to levy are those exempted by the ITA i.e. the smallest of employers
The extent of zero levying can be demonstrated	1. Can CITB demonstrate that the extent of Gross paid, non-levy paying employers is "comparatively rare"?	<ol style="list-style-type: none"> 1. 69% of employers in the 2014 model are Gross paid or have declared CIS status is N/A (and therefore are being paid Gross by default) <ol style="list-style-type: none"> 1.1. Of these 42.45% will potentially not pay levy under Net CIS. 1.2. This equates to 29.27% of the overall sample 1.3. Of 1.2, 77% have a direct workforce (PAYE) and 23% have a sub-contract workforce only. 1.4. The only reason these employers do not pay levy is because they are below the £80k threshold. For the vast majority with a sub-contract workforce only, if the threshold did not exist they would pay levy on Net paid sub-contractors. 1.5. Worth noting that many of the employers that don't pay levy are likely to be supply and fix and therefore payments to them are not currently subject to levy, so this scenario is no different to the current process. 1.6. These statistics only consider the transaction between 2 businesses at the bottom of a sub-contract chain; levy may have been elsewhere on the chain that can't be accounted for here.
Wide consultation and industry support for change can be demonstrated	<ol style="list-style-type: none"> 1. Can CITB demonstrate that the industry has been widely consulted on the proposed changes? 2. Can CITB demonstrate that there is majority support for the changes from industry? 	<ol style="list-style-type: none"> 1. Consultation: <ol style="list-style-type: none"> 1.1. Approx. 1,000 employers spoken to face to face at approx. 50 events across 3 nations throughout 2014. This is on-going 1.2. 2014 Levy Return survey completed by around 2,000 employers by the closing date of 31st May 2014. 1.3. All employers were asked to provide CIS information on their 2014 Levy Return with explanation notes included in the guidance booklet. 1.4. The CITB website includes a full description of the proposal, numerous FAQs, a calculator to determine the potential impact on a business and an email address to ask questions 1.5. CITB have consulted and worked closely with each of the consensus federations resulting in attendance at various regional meetings and numerous magazine and newsletter articles on the subject. 1.6. Consensus process included the Net CIS changes 2. Level of support: <ol style="list-style-type: none"> 2.1. HPI Market research 2.2. 2014 Levy survey 2.3. Consensus results <ol style="list-style-type: none"> 2.3.1. All Consensus federations

		<p>have confirmed their support for the proposal with the following quotes from FMB and UKCG demonstrating the impact it will have:</p> <p>2.3.2.FMB – “We agree that the principles behind the proposals are right in that the process of completing Levy Returns will be easier and will reduce the administrative burden on employers.”</p> <p>2.3.3.UKCG – “I can confirm that UKCG members support the levy simplification proposals as a sensible way to reduce the time and internal costs involved in gathering the required data to complete levy returns.”</p>
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Considering the amount of Levy generated (and amount of support given to industry as a result) it is essential that CITB does all it can to mitigate the likelihood of a successful legal challenge to the changes. It is therefore also essential that CITB can demonstrate it has taken these steps.