

Income Tax Refunds for Construction Workers

Briefing prepared for the Committee for Finance and Personnel by Dr. Robert Barry, Research & Library Services, 15 January 2009.

Introduction

Construction workers working in the UK can pay their income taxes in three different ways:

1) PAYE - For most employees (i.e. workers with a contract of employment), tax is deducted in the normal way through the PAYE (Pay As You Earn) system and passed on by the employer to HM Revenue & Customs (HMRC). PAYE is the HMRC system for collecting income tax from the pay of employees, including directors, as they earn it. All employers are required by law to collect taxes due from their employees through the PAYE system.

2) Construction Industry Scheme - For subcontractors registered under the Construction Industry Scheme (CIS), tax is deducted by the contractor at the time of payment and passed on to HMRC. The CIS sets out the rules for how payments to subcontractors for construction work must be handled by contractors in the construction industry. Under the CIS subcontractors must register with HMRC before they start working. If they do not register, then contractors have to make a deduction from their payments at the higher rate (30% instead of the standard 20% rate). These tax deductions are held on account of the subcontractor's eventual tax and National Insurance contributions liability, but contractors should not make deductions from amounts charged on the subcontractor's invoice for the following:¹

- VAT
- Construction Industry Training Board levy
- materials
- consumable stores
- plant hire
- manufacturing or prefabricating materials

3) Self Assessment - All self-employed workers (including subcontractors) have to complete a Self Assessment tax return each year and, based on this information, will receive a tax bill from HMRC (taking account of any tax already paid for the relevant tax year through PAYE or CIS).

Tax Allowances and Reliefs

Construction workers are treated no differently to any other workers when it comes to tax allowances and reliefs.

Under existing UK tax laws, if you have paid too much tax (e.g. by not claiming tax relief that you were entitled to), you can get a tax rebate as long as you claim it no later than

¹ HM Revenue & Customs - <http://www.hmrc.gov.uk/cis/index.htm>

five years after 31 January following the year for which you are making the claim (i.e. you would have until 31 January 2009 to claim back any overpayments for the tax year 2002-03). This effectively means that you can backdate claims for up to six years.

There are a number of 'tax-free' and 'tax-deductible' allowances and reliefs to which all workers are entitled. These include the Personal Allowance, Married Couple's Allowance, capital allowances if you are self-employed, and certain business expenses e.g. the cost of professional fees or subscriptions, business travel and subsistence, tools and specialist clothing (provided these costs have not already been reimbursed by a contractor or employer).²

HMRC provides more details on its website as follows:³

- *Travel and subsistence costs* - relief for the cost of business travel (e.g. if you need to visit a client or go to a temporary workplace) or for fuel bought when using a company car. You cannot claim, though, for normal commuting costs. Relief is also available for subsistence (i.e. the cost of meals and overnight expenses).
- *Administrative costs, including professional fees and subscriptions* - if self-employed, you can deduct the administrative costs of running your business, including advertising, stationery, postage, telephone and fax. You may also be able to deduct the cost of trade or professional journals or subscriptions.
- *Tools and specialist clothing* - if you have to provide small tools or buy specialist clothing for your work (e.g. a uniform or protective clothing), you may be able to get tax relief for the cost of them.
- *Capital allowances* - expenditure on buying, creating or improving a business asset that you keep to earn the profits of your business is capital expenditure. So, the cost of buying a van for your business is capital expenditure but the cost of hiring it is not. You can get capital allowances on the cost of:
 - plant and machinery - including cars, vans, computers, equipment, tools
 - fixtures and fittings - including shelves, furniture, electrical and plumbing fittings
 - some buildings - including industrial and agricultural buildingsYou can't get tax relief for the full cost of an asset when you buy it. Instead, you get capital allowances to reduce your taxable profits. You might be able to claim:
 - first year allowance - a percentage of the cost in the year you buy it
 - writing down allowance - a lower percentage of what's left after the first year allowance and any earlier writing down allowances have been claimed
- *Household expenses when working at home* - you may be able to get relief for some household expenses and some travelling costs if you work from home. You might also be able to get capital allowances for capital expenditure as above.

² HM Revenue & Customs - <http://www.hmrc.gov.uk/incometax/intro-tax-allow.htm>

³ See <http://www.hmrc.gov.uk/incometax/tax-allow-ees.htm> for employees and directors on PAYE, and <http://www.hmrc.gov.uk/incometax/relief-self-emp.htm> for self-employed.

- *Expenses related to premises* - you can deduct the costs of maintaining your business premises - including rent, rates, heat, light, repairs and insurance. You can also deduct the business part of these costs if you run your business from home.

Tax Agents

To obtain a tax refund, HMRC will ask you to complete a form P87 if any of the following apply:

- you claim expenses over £1,000
- it's the first time you've claimed
- you're claiming expenses for a year before the previous tax year

The form asks for details about your expenses and how you worked out the amount you want to claim.

Alternatively, there are many tax agents and advisers in the UK and Ireland who offer their services in this area. All of them charge fees for helping people to claim tax refunds (usually a percentage of the refund plus VAT). Some examples are as follows:

- RIFT (a company that specialises in taxation services to construction workers) – 28% fee (minimum charge £95)
- Payecheck – 22% fee (£25 minimum)
- Tax Fix - 9.8% fee
- Global Choices – 8% fee (£30 minimum)
- Tax Rebate Services – (30% fee, including VAT)
- Taxback.com – 15% fee (£50 minimum)

With a fee of 28% plus VAT, RIFT appears to be one of the most expensive tax agents. The tax refund advertised by RIFT is aimed at construction workers and makes specific reference to any unclaimed tax relief for traveling to a temporary workplace, or for meals and accommodation whilst living away from home.

The six year rule for claiming back any overpayments applies to all taxpayers, not just the redundant construction employees on PAYE targeted by RIFT. However, construction employees on PAYE will be more likely than some other workers to have made overpayments arising from unclaimed relief for travelling to a temporary workplace (e.g. a building site where an employee has spent less than 24 months) and that (combined with the fact that RIFT specialises in the construction sector) presumably is why RIFT is targeting them.