HUDSON CONTRACT

AUG 2025 ISSUE

HUDSON

New right-to-work checks for self-employed tradespeople

The Home Office is cracking down on what it calls illegal working across the economy and plans to widen the scope of the right-to-work scheme to include self-employed tradespeople in construction for the first time. The new rules could see thousands of foreign-born workers who are currently perfectly legal suddenly classified as working illegally.

Under the proposals, construction companies or their labour providers will be legally required to carry out checks confirming that anyone working in their name is eligible to work in the UK using the same principles applied to PAYE employees. The government estimates the move will impact millions of working arrangements across the wider economy.

The Home Office is targeting construction, food delivery, beauty salons and courier services, and other sectors that use self-employed people, warning that businesses failing to carry out these checks will face penalties including fines of up to £60,000 per worker, company closures, director disqualifications and potential prison sentences of up to five years.

The changes will create new legal obligations for working relationships that currently require no documentation checks, meaning construction companies could face substantial fines for administrative failures even when using workers with full right-to-work status.

Commenting on the news, Hudson Contract managing director Ian Anfield (pictured) said: "We use best practice to help eliminate abuses of immigration rules and stamp out modern slavery in supply chains, but employment-based right-to-work checks have never been a legal requirement for self-employed tradespeople in construction who at the moment are free to work in the UK as long as they are properly registered with HMRC as self-employed.

"The government is effectively creating a new class of illegal worker by telling self-employed people who have been here for years, building homes and infrastructure, paying taxes and contributing to GDP, that they're no longer welcome. Along with recent tax and employment changes, this policy risks further damaging the economy."

The Home Office has warned that small and medium-sized businesses will not be exempt from the new legislation, meaning that even one-man bands must comply. It plans to carry out a consultation before introducing the new rules.

Hudson will be monitoring the legislation as it passes through consultation and into force, and will make sure any new requirements are built into its processes for onboarding new operatives.

'Single worker status' threat looms over construction firms

The government's flagship Employment Rights Bill is set to hit the statute books in the coming months with Labour calling for a separate review of worker status that could reshape the construction industry.

Businesses expect the Bill to increase employment costs and limit their plans to hire permanent staff. Four in ten firms surveyed by the ICAEW professional membership organisation said they would increase outsourcing because of the Bill.

Labour has promised to consult on a simpler framework that differentiates between workers and the genuinely self-employed to ensure that all workers "know their rights and have the comfort of protection at work".

Margaret Beels, director of labour market enforcement at the Department for Business and Trade, has called for the issue of employment status to be reviewed and described construction as "a high risk" sector.

The focus on construction reflects the industry's reliance on self-employment, with 674,000 freelancers – the highest proportion in the UK economy at 16.7 per cent.

Senior Labour MP Liam Byrne, who chairs the influential Business and Trade Committee, has urged the government to prioritise its review of employee, worker and self-employed status immediately, and address false self-employment, so these reforms are rolled out alongside commencement of the Employment Rights Bill.

In the House of Lords, peers warned that single worker status could damage flexibility for the self-employed and "kill the spirit of enterprise," benefiting only employment lawyers and HR practitioners.

The Bill, which includes more power for trade unions, day one rights for sick pay, protection from unfair dismissal and parental leave, as well as the right to request flexible working, will gain Royal Assent later this year. There will be a phased implementation running into 2027 with enhanced union powers and protections being the top priority.

H

Introducing your regional account managers...

ANDY SIMPSON
The North
07720 636 730

DAN DAVIES
North Wales & North West
07764 963 956

DAVID HARRIS
South East & South London
07739 349 155

DAVID SMITH
South Wales, West Midlands, South West
07753 227 498

LEE MONK
East Anglia, East Midlands & North London
07707 164 624

INSIDE SCOOP: PAY TRENDS, RIGHT TO WORK, UMBRELLA COMPANIES

'Commercial Contractor' payroll model vulnerable to VAT law

Construction firms using the so-called 'Commercial Contractor' payroll model to avoid paying VAT on their labour face a new threat as HMRC deploys the Kittel principle in VAT cases. Kittel is an obscure tax law that allows investigators to transfer VAT debts to companies that 'should have known' about problems further down their supply chains.

In a recent case witnessed by Hudson, HMRC pursued a Yorkshire construction firm for £900,000 because one of its subcontractors had used a payroll firm that failed to pay its VAT and went out of business. With the payroll company gone and the subcontractor unable to pay, HMRC chased the main contractor for the lost tax, alleging it should have known what was happening downstream.

With an explosion in the number of commercial contractors entering the CIS compliance market, hundreds of construction companies – mostly specialist firms such as brickwork contractors, scaffolders, ground-workers and roofers – are now at risk.

Commercial contractors use an off-the-shelf generic business model that has until now has been all too easy. On paper they claim to supply construction services as bona fide subcontractors so under the reverse charge their clients can avoid paying VAT. However any close scrutiny would prove they are payroll firms.

Any construction firm using commercial contractors to avoid VAT on labour and lump different worker types into a single CIS payroll is taking huge risks. These providers often insert clauses allowing them to charge VAT 'retrospectively' if it is later proved they got their tax treatment wrong.

Hudson Contract managing director Ian Anfield said: "The Kittel principle is used to tackle deliberate VAT fraud, and let's face it, saying a company provides 'construction services' when all they do is payroll is fraud. If the aim of that fraud is to avoid paying VAT, companies shouldn't be too surprised when they get clobbered by the VAT-man.

"The advice is simple: if a payroll provider claims they can save you the VAT on labour costs because they are 'a commercial contractor', or because they 'provide construction services', walk away. If they employ payroll staff and offer to pay people for you, they are an employment business and must charge VAT. If they employ project management staff and offer to build something for you, they would be a construction firm and should apply the VAT reverse charge. If you are in any doubt, contact Hudson"

Tradespeople break £1,000-a-week barrier as skills shortage drives pay

Self-employed contractors have broken the £1,000-a-week barrier for the first time, averaging £1,023 per week during the last tax year, according to the construction industry's largest payroll.

Tradespeople finished the year ending March 2025 on £1,068 a week and rising, even accounting for time lost to bad weather and holidays.

The analysis is based on the 1.8 million payments to self-employed tradespeople made by Hudson Contract. Hudson is a leading provider of business services to the industry and has a base of 2,600 construction clients across England and Wales.

Hudson supplies real-time labour market insights to Bank of England policymakers, providing accurate data on actual earnings rather than survey estimates. With the ONS facing ongoing criticism over data quality and response rate problems, Hudson's transaction-based figures offer a reliable indicator of economic conditions in the construction sector.

Managing director Ian Anfield said: "We continue to see growth in earnings across multiple regions and trades driven by continued competition for skilled labour. Whilst workload has slowed recently, the industry is still feeling the lagging effects of EU workers leaving post-Brexit, thousands of experienced workers being barred from sites due to CSCS card rule changes, increased employment taxes and red tape introduced by the government, and the ongoing failure of training bodies and the apprenticeship levy to provide sufficient new entrants.

"All these factors are creating strong demand for experienced, skilled, self-employed tradespeople. Looking ahead, the government's £113bn infrastructure spending plans and planning reforms should get more spades in the ground, keeping labour rates rising."

Slow-paying housebuilders risk choking off construction growth

Major housebuilders must speed up payments to their supply chain if the construction sector is to avoid a serious cash flow crisis, industry experts have warned.

The warning comes as the government brings in sweeping planning reforms to increase the number of new homes built every year.

Hudson Contract managing director Ian Anfield explained the problem: "Subcontractors and the supply chain have been expected to fund house-building. If there is a major increase in output, specialist subcontractors, material suppliers and plant providers will be expected to provide even more credit to housebuilders.

"The issue stems from housebuilders using extended payment cycles, often stretching over months, to improve their cash flow as they face mounting pressures from planning rules around social and affordable housing, resulting in empty units that tie up capital.

"Additional costs from section 106 payments, infrastructure levies, and the removal of help-to-buy schemes have further squeezed margins. We are now hearing that a shortage of building inspectors to sign off high-rise buildings is forcing developers to use cash reserves to finance empty units rather than to start the next development."

One leading civil engineering contractor told Hudson that invoice payments have slowed dramatically. Last year a £9 million invoice for a month's work brought payment within four weeks, a similar invoice now will be drip-fed taking months to claw in, and sometimes never paid in full.

Biggest shake-up to self-assessment in a generation

Skilled freelancers who earn more than £50,000 a year should get ready for a significant change in the way they report their earnings to HMRC.

From next April, sole traders with a £50,000 turnover will be required to use Making Tax Digital (MTD) for Income Tax. The threshold drops to £30,000 in April 2027 and £20,000 by 2028, meaning it will apply across the board.

The move is billed as the biggest shake-up to the self-assessment regime since its introduction nearly 30 years ago.

MTD means keeping digital records and using MTD-compatible software to submit quarterly summaries of income and expenses to HMRC.

A penalty system will hit taxpayers who make late filings and payments with punitive fines based on points thresholds and outstanding sums owed.

HMRC said the quarterly updates will spread the workload more evenly, bring the tax system closer to real-time reporting and help businesses stay on top of their finances and avoid the last-minute rush. The Treasury added: "By modernising how people manage their tax, we're helping businesses work more efficiently and productively while ensuring everyone pays their fair share."

HMRC estimates that 780,000 self-employed individuals and landlords will be required to use MTD for Income Tax from April 2026, with a further 970,000 joining from April 2027. Hudson Contract senior accountant Marc Chapman said: "The change will inevitably lead to a significant increase in workload for subbies, their spouses and their accountants who currently submit their self-assessments for them.

"We are working with accountancy firms and assessing various software providers to recommend trustworthy, legitimate and efficient services. Without a doubt, there will be some accountancy firms and bookkeepers which will see this as an opportunity to overcharge their clients, but we will advise on the most efficient and compliant services to limit the cost, risk and workload for subbies.

"We will be sending further information to our clients in due course, but the message for operatives right now is sit tight, the changes do not bite until April 2026."

Council cash crisis: No parking on the bridge to nowhere

Two high-profile transport schemes highlight what happens when local authority budgets run dry, leaving millions of pounds of infrastructure unusable.

In Lincolnshire, the £110m Spalding Western Relief Road remains half-finished after funding dried up. Taylor Woodrow completed the £50m northern section, including a railway overbridge, in October, but the crucial southern section – costing another £50-60m – won't be built until 2030 at the earliest due to budget shortfalls.

Not to be outdone, Oxfordshire's £51m Eynsham Park and Ride has been sitting empty for months after the council built an 850-space car park but couldn't afford the access road. The site, completed in January, became a national embarrassment with headlines like "You can't park there!"

Funding has finally been secured for the Oxfordshire scheme, with construction expected to start next year. Both cases demonstrate how inflation and stretched public sector budgets are leaving expensive infrastructure projects stranded.

Hudson Contract's Lee Monk, regional account manager for East Anglia, East Midlands and North London, said: "You couldn't make it up – when councils run out of money, you get roads that lead nowhere and car parks you can't reach. These funding crises are creating expensive white elephants across the country.

"None of course are as bad as HS2, where the infamous £100m bat tunnel is being built in Buckinghamshire because someone thought 'they might have seen a bat'. Let's hope the government's new strategic infrastructure plan brings an end to the madness, providing a secure pipeline of work and investing our money where it is needed most."

CSCS celebrates 30 years by making workforce restrictions worse

CSCS is celebrating its 30th anniversary this year, issuing more than six million cards since 1995 to help verify qualifications and improve safety standards across the construction industry. But while the government promises to "clear out regulatory weeds" and embrace a pro-growth mindset to boost the economy, CSCS appears to be heading in the opposite direction.

Hudson Contract managing director Ian Anfield said: "CSCS has been a huge success but is in danger of heading down the same route as the CITB, with recent changes suiting those charging for certificates and cards without any genuine benefit to the competence or safety of the workforce.

"The ending of grandfather rights for CSCS cards removed industry accreditation for some of the most highly skilled and experienced people in the sector. CSCS itself said more than 60,000 workers held these cards.

"A Hudson survey last summer found nearly half of card-carrying respondents would refuse to sit an NVQ to renew their accreditation.

"Further changes to the CSCS scheme took effect earlier this year with the labourer card's validity cut from five to two years.

"This removal of experienced operatives' grandfather rights is ironic, given the government's new initiative to roll out NHBC training hubs. These hubs plan to hand out blue cards to people who have never set foot on a building site after just five weeks of training."

H

Free 'perks' and holidays for credit card points – what you need to know

Short-term credit providers such as American Express and Capital on Tap have targeted the construction industry with promises of free credit and personal perks such as flights and holidays. Those tempted need to be aware of the potential costs and understand they could face serious tax risks.

Firms are increasingly being encouraged to use business credit cards for large payments to suppliers. On the face of it there is free credit and a huge number of reward points on offer. As cash flow seems to be drying up in construction and other countries have clamped down on credit card providers, they have seen the opportunity to broaden their customer base in the UK construction sector.

However, to accept payments from credit card schemes, suppliers must register as 'Vendors'. They are forced to pay for the privilege of being paid at 1-2% of the invoice value, and they wait longer for payments to clear. This is probably why for years many retailers refused to accept expensive cards such as Amex. For those who do, the upshot is cost and delay, with the true cost eventually being passed back to the customer in higher pricing.

Then there is the astronomical cost should you default on your card payments, rarely advertised before you sign up and easy to sink into. And finally there is the tax trouble piling up should you be tempted to use the reward points for personal gain.

Using a business or corporate card is not the same as using your own personal card and claiming back expenses. If you own the personal card, you own the points. A business card is owned by the business and therefore so are the points. Ask the credit card company if this is true and they will say "We cannot give tax advice".

The simple fact is that HMRC would view the cost of buying the points as the taxable value to you. So if the cost of sending you and the family to Phuket is £50,000 generated in credit card charges paid by your suppliers, then that's your benefit in kind.

Hudson Contract compliance director Dan Davies said: "Credit cards are the most expensive way to borrow money. Gimmicks such as card points are taxed as benefits in kind, and ultimately it's worth remembering there is no such thing as a free lunch – or trip to Phuket as the case may be."

Umbrella loophole shuts in new anti-avoidance rules

The taxman is shifting tax liabilities from umbrella companies to recruitment agencies and end clients in new anti-avoidance measures that will come into effect from April 2026.

HMRC suggests that as many as 40 per cent of umbrella companies are disguised tax avoidance schemes, costing taxpayers £500 million every year. It defines umbrella companies as employment intermediaries that employ workers on behalf of agencies and end clients, with the word 'employ' being the key.

To close the loophole, HMRC is moving the legal responsibility to account for PAYE and National Insurance contributions from the umbrella company that employs the operative to the recruitment agency that supplies the operative to the end client. If there is no agency, the responsibility will sit with the end client. The government estimates that the new measure will raise £2.8 billion for the exchequer by 2029-30.

Hudson Contract managing director Ian Anfield said: "This is a major change that as well as shaking up the agency market, could directly impact how large contractors engage freelancers such as quantity surveyors, cost consultants, project managers, site engineers and architectural technicians.

"Many of these firms depend on skilled professionals who do not appear on their payroll. The freelancers were limited company contractors until IR35 changes in 2021 made this too risky for their clients. The easy answer at the time was to lump them into umbrella schemes. In the long term this move has backfired because firms forcing the use of umbrellas have struggled to attract the best freelancers, and now HMRC is circling with new legislation."

Launched in 2016, Hudson Freelance helps professional freelancers and the firms using them to navigate an increasingly complex regulatory environment. It is a sister company to Hudson Contract, which has nearly three decades of experience and expertise in HMRC compliance in construction. To help firms prepare for the new measure, Hudson Freelance is offering a free, no-obligation assessment of their current arrangements.

Firms seek support as HMRC steps up compliance checks

HMRC is stepping up compliance checks on construction firms and using its powers to investigate payments for off-payroll labour and plant and materials.

Hudson Contract has seen a noticeable increase in HMRC activity and the deployment of more aggressive tactics.

The companies concerned are specialist contractors, including groundworks, joinery, scaffolding, bricklaying, surfacing and M&E, located across England and Wales. Their turnovers range from £2m to £35m. Some are existing clients, while others approached Hudson for its support.

HMRC has demanded detailed information including schedule of payments to 'all workers on a self-employed or off-payroll basis', description of work undertaken by each worker, sample contracts and company handbooks, information used to determine employment status, details and costs of materials supplied, evidence of third-party plant hire costs and supply chain compliance.

In many cases, HMRC is also sending in-depth questionnaires, probing employment status and the categories of off-payroll workers engaged directly, through limited companies or via agencies, umbrella companies and managed service companies.

Company directors often find the level of questioning to be invasive, ambiguous and a cause for concern, even when their books are in order. The costs of getting it wrong can be significant. In one recent case involving a roofing company that engaged between 15 and 20 labour-only subcontractors, HMRC hit the firm with a statutory income tax notice for more than £330,000 for just one financial year, another was handed a VAT assessment totalling £900,000 because of tax loss in its supply chain.

These cases show that HMRC is stepping up the enforcement of off-payroll working rules known as IR35, VAT compliance and general CIS and PAYE compliance issues such as paying net paid subcontractors gross amounts for plant and materials.

Commenting on the increased activity, Dan Davies, compliance director at Hudson Contract, said: "Fortunately for our clients, Hudson steps in to manage the process from start to finish and provides peace of mind with our indemnity against tax liabilities for subcontractors engaged by us. We're seeing more non-clients turn to Hudson for professional advice and assistance when they find themselves facing a compliance check."

"For existing clients, as always please get in touch if you receive compliance correspondence from HMRC. For construction firms looking to assess and mitigate potential risk, or those needing professional support to navigate a current enquiry, please get in touch. We are just a telephone call away on 0800 054 1127"