Traffic management under CIS: changing lanes

Indirect Tax

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HMRC’s revised CIS treatment of traffic management services creates new compliance, contractor status and VAT domestic reverse charge challenges.

Key Points

What is the issue?
HMRC’s revised interpretation of the Construction Industry Scheme (CIS) means that many traffic management services connected with construction operations now fall within the scope of CIS.

What does it mean to me?
Businesses providing or receiving traffic management services may now need to operate CIS, reconsider gross payment status, monitor deemed contractor

thresholds and review the VAT domestic reverse charge treatment of supplies.

What can I take away?
Businesses involved in traffic management should review contracts, invoicing arrangements and compliance procedures to ensure they align with HMRC's revised approach and minimise the risk of CIS and VAT errors.

HMRC's revised approach to traffic management services under the Construction Industry Scheme (CIS), introduced from 1 March 2025, continues to create practical and compliance challenges for businesses operating in the sector.

Although the legislation itself has not changed, HMRC's revised interpretation has significantly broadened the circumstances in which traffic management services fall within the scope of CIS. More than a year on from the change taking effect, many businesses are still reviewing their position and dealing with the practical implications for CIS compliance, gross payment status (GPS) and the VAT domestic reverse charge.

The changes followed extensive discussions with HMRC's Construction Forum, of which the CIOT is a member, and form part of HMRC's continuing focus on CIS compliance and administration.

Traffic management services and CIS

Finance Act 2004 s 74(2)(f) includes within the scope of CIS 'operations which form an integral part of, or are preparatory to, or are for rendering complete such operations as are previously described'.

HMRC considers that this provision captures activities routinely undertaken as part of construction operations that are not specifically included elsewhere within Finance Act 2004 s 74(2), and are not specifically excluded by s 74(3).

HMRC's revised view is that many traffic management services supporting construction activities fall within this provision and therefore within the scope of CIS.

This represents a significant shift in approach. Historically, certain traffic management activities were generally regarded as outside the scope of CIS, including the placing of traffic cones and temporary traffic lights, as reflected in

HMRC guidance in CIS340 and the Construction Industry Scheme Reform manual.

HMRC confirmed that businesses may continue to rely on previous guidance and rulings for transactions took place before 1 March 2025. HMRC has also indicated that it may update its guidance to make this position clearer. Current guidance is contained in HMRC's Construction Industry Scheme Reform manual at CISR14305.

HMRC's revised approach means that a wide range of traffic management activities are now likely to fall within CIS where they support construction operations. Examples include:

- setting up and managing traffic systems for contractors engaged in roadworks or highway maintenance;
- installing temporary traffic lights or road signage connected with construction work;
- placing barriers or cones to create safe working areas;
- providing ongoing traffic monitoring services during the course of a project;
- pedestrian diversions and temporary crossings associated with construction-related road closures; and
- preparatory works before construction or roadworks commence, such as tree and vegetation removal, temporary white lining and temporary road repairs carried out ahead of permanent works.

Certain activities do, however, remain outside the scope of the scheme. These include traffic management services unrelated to construction operations, such as providing barriers for public events including the Notting Hill Carnival, together with delivery-only services where traffic management equipment is supplied to a construction site without installation or placement services being provided.

Impact on businesses

The revised treatment has implications both for businesses providing traffic management services and those engaging such services as part of wider construction operations. Many businesses should have reassessed existing arrangements, particularly where previous treatment relied on historic HMRC guidance or earlier rulings.

Providers of traffic management services should assess whether the services they supply fall within the scope of CIS and consider the cash flow implications of CIS deductions. Businesses may wish to register as subcontractors and apply for GPS where appropriate. They should also consider whether they need to register as contractors where traffic management work is subcontracted to third parties.

Recipients of traffic management services should consider whether they are regarded as mainstream or deemed contractors for CIS purposes and monitor when the deemed contractor expenditure threshold of £3 million is reached. Where businesses are required to operate CIS, they should ensure that the rules are correctly applied to relevant payments and that monthly returns and payments are completed on time.

Businesses should also document the basis of their treatment both before and after 1 March 2025 in case of future HMRC review.

Given the time that has now passed since the change took effect, businesses may also wish to review whether their systems, invoicing processes and internal procedures remain aligned with HMRC’s revised approach. In some cases, businesses may identify historic errors or inconsistencies in treatment that require correction.

Mainstream and deemed contractors

The term ‘contractor’ for CIS purposes is defined in Finance Act 2004 ss 57 and 59.

HMRC accepts that traffic management businesses will not automatically be treated as mainstream contractors. Where a traffic management business subcontracts work to third parties, whether it is acting as a mainstream contractor or deemed contractor will depend on the facts of the particular case; i.e. whether s 59(1)(a) (mainstream contractor) or s 59(1)(l) (deemed contractor) applies.

Where a business regularly supplies services connected with construction work, HMRC’s view is that Finance Act 2004 s 59(1)(a) applies. In these circumstances, the business would be regarded as a mainstream contractor and required to operate CIS on payments made to subcontractors in relation to construction operations.

Where the business does not regularly supply services connected with construction work, HMRC considers that Finance Act 2004 s 59(1)(l) applies instead. In these circumstances, the business would only need to begin operating CIS once the deemed contractor expenditure threshold of £3 million is exceeded.

HMRC also confirmed its approach to calculating the deemed contractor threshold following the change in practice. When determining whether the threshold has first been met, businesses should consider expenditure on construction operations during the previous 12 months from 1 March 2025 onwards.

However, HMRC has indicated that expenditure relating to operations previously identified in HMRC guidance as outside the scope of CIS, including temporary traffic lights and the laying of cones, should only be included from 1 March 2025.

Compliance and practical difficulties

The revised treatment was announced in HMRC Agent Update 125 and through amendments to HMRC's Construction Industry Scheme Reform manual in November 2024. The revised approach has nevertheless created practical and compliance challenges for businesses, particularly where systems and processes had historically been built around HMRC's earlier guidance. The CIOT has continued discussions with HMRC to seek further clarification on a number of issues arising from the revised treatment.

HMRC's policy team has confirmed that, in the short term, it would not generally expect compliance activity to penalise businesses that can demonstrate they were genuinely unaware of the change or had relied on earlier HMRC guidance or rulings.

However, where HMRC considers that a contractor should reasonably have been aware of the revised treatment and failed to comply with its obligations under the scheme, penalties may still arise in the normal way. Depending on the circumstances, CIS failures may also affect applications for, or retention of, GPS.

Interaction with the VAT domestic reverse charge

One of the main practical concerns that arises from the change is its interaction with the VAT domestic reverse charge.

The domestic reverse charge for building and construction services has applied since 1 March 2021 to supplies of construction services reported within CIS. Under the domestic reverse charge, the customer receiving the services accounts for the VAT due, rather than the supplier. The rules apply to standard-rated and reduced-rated construction services supplied by UK VAT-registered businesses.

The difficulty is that CIS applies by reference to payments, whereas the domestic reverse charge applies by reference to the tax point and invoice date. As a result, mismatches in treatment may have arisen around the transition to the revised CIS treatment from March 2025. Businesses may therefore find that invoices, payments and CIS treatment do not align neatly during the transitional period. Businesses should clearly document the approach they adopt and retain evidence supporting their treatment decisions.

Further guidance on the domestic reverse charge can be found in HMRC guidance: ‘Check when you must use the VAT domestic reverse charge for building and construction services’.

In conclusion

HMRC’s revised treatment of traffic management services has introduced additional obligations and risks for both contractors and subcontractors operating in the sector. Many businesses are still working through the practical implications of the change.

Businesses involved in traffic management should review their contracts, invoicing arrangements, CIS procedures and VAT treatment to ensure that they align with HMRC’s revised interpretation, if they haven't already. Clear documentation, robust systems and an understanding of the interaction between CIS and the VAT domestic reverse charge will be important in minimising compliance risks and avoiding disputes with HMRC.

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