ZAZEN TAX

The Trade's UK Tax Handbook

For sole traders, subcontractors and small contractors. Everything the tax system does to a building business, on 2026/27 rates.

Ten chapters. Written to be read once and kept.

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Read it in order the first time. After that, chapters four to six are the ones you will come back to.

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CHAPTER ONE Employed, self-employed, or something else

The label on the contract counts for very little. What counts is what happens on site, and the bill for getting it wrong lands on whoever did the engaging.

Being registered for the Construction Industry Scheme decides whether a deduction is taken off your payments. It does not decide whether you should have been on somebody's payroll instead. Those are two separate systems and they do not talk to each other.

So a worker can be correctly registered, correctly verified, correctly deducted at 20 per cent, and still be an employee for tax purposes. Correct CIS treatment is no defence at all against a status challenge.

What actually decides it

Three things carry most of the weight. Whether there is a real right to send a substitute. Whether you control how the work is done, not just what and where. And whether the worker carries financial risk, which in practice means putting right defective work at their own cost.

- A genuine right of substitution, actually usable
- Control over method, not just over outcome
- Financial risk, and their own tools and plant
- Freedom to work for others at the same time
- No obligation on either side to offer or accept more work

> **WHERE THE BILL LANDS**
>
> On the engager. If HMRC decides a subcontractor was really an employee, the contractor owes the PAYE and the National Insurance that should have been operated. The CIS already deducted is credited against it, which helps. Employer National Insurance never was, and that is the expensive half.

CHAPTER TWO Sole trader or limited company

There is no turnover at which a company automatically becomes right. There is a profit level at which it usually starts to pay, and a set of complications that arrive with it.

As a sole trader you pay income tax and Class 4 National Insurance on your profit, whether or not you take the money out. As a company you pay corporation tax on the profit, and then tax again personally on whatever you take out as salary or dividends.

That second layer is why a company is not automatically cheaper. It is usually better once profits are comfortably past the point where you are leaving money in the business, and it is usually worse if you need every penny of it to live on.

The construction-specific parts

A company sets the CIS it suffers against its PAYE month by month, which is far better for cash flow than a sole trader waiting until the self assessment return. If you are heavily CIS-deducted and running a payroll, that alone is worth modelling.

Gross payment status is also easier to hold as a company with several directors, because the turnover test is £30,000 for each relevant person or £100,000 in total, whichever is easier to meet.

> **THE ONE THAT CATCHES COMPANY DIRECTORS**
>
> A director's loan account overdrawn nine months and a day after the year end triggers a tax charge on the company. Taking money out as it arrives and calling it drawings, the way a sole trader would, is how that happens.

CHAPTER THREE The Construction Industry Scheme, briefly

The whole scheme in a chapter. There is a longer book on this, and most people only need what is here.

If you pay subcontractors for construction work you are a contractor and you have obligations. If you are paid for construction work you are a subcontractor and you have deductions. Plenty of businesses are both at once.

The rate	When it applies
20 per cent	The subcontractor is registered with HMRC and you verified them
30 per cent	You could not verify them, including the ones who said they were registered and were not
Nil	They hold gross payment status

The deduction is on the labour alone

Materials, VAT, plant the subcontractor hired in, consumable stores, fuel other than for travelling, and manufacturing or prefabrication they paid for directly all come off before the rate is applied. So do any CITB levy deductions you made.

On a £4,000 invoice made up of £2,500 of labour and £1,500 of materials, the deduction for a registered subcontractor is £500. Not £800. Deduct on the invoice total and you have taken £300 too much; deduct on the VAT-inclusive total and it is £460.

> THE LEVY, WHICH IS EASY TO GET BACKWARDS
>
> Where you deduct the CITB levy from a payment, HMRC's guidance is explicit: it is excluded from the gross amount of payment shown on the monthly return. Its own example is a £1,000 contract with a £7 levy, reported as £993. So the levy reduces the figure CIS is calculated on.

Gross payment status, and the test people misread

Three tests: business, turnover and compliance. The turnover one is measured on net construction turnover, which HMRC defines as gross income from construction work excluding VAT and the cost of materials.

In other words it is a labour test wearing the word turnover. A sole trader who invoiced £48,000 with £20,000 of materials has £28,000 of net construction turnover, fails the £30,000 threshold by £2,000, and never sees it coming because the invoice book says £48,000.

CHAPTER FOUR What you can actually deduct

The test is not whether it feels like a business cost. It is whether it was incurred wholly and exclusively for the business.

That word exclusively does a lot of work. A cost with a private element usually has to be split, and some cannot be split at all. Ordinary clothing is the classic example: protective boots and a hard hat are deductible, and the jeans you wear on site are not, because you would have needed clothes anyway.

The ones trades most often miss

- Training that updates existing skills, though not training that gives you a new trade
- Public liability and employers liability insurance
- Trade body fees and card renewals
- The business proportion of a phone used for both
- Bank charges and interest on genuine business borrowing
- Accountancy, and the cost of dealing with an enquiry

The ones that get claimed and should not be

- Fines and penalties, including parking on site
- Entertaining customers, however business-like the reason
- Ordinary clothing, however filthy it gets
- Your own wages as a sole trader, which are drawings

> **WORKING FROM HOME**
>
> If you do your quoting and invoicing at home, the simplified flat rates are £10, £18 or £26 a month depending on hours. They are available to sole traders and partnerships, not to limited companies. Claiming actual costs is possible but brings a capital gains question about the part of the house used exclusively for business.

CHAPTER FIVE The van, and why it matters more than you think

A van and a car are taxed on completely different principles, and in April 2025 a lot of vehicles moved from one to the other.

A van made available for private use is a flat benefit of £4,170 in 2026/27, whatever the van cost. Add £798 if you provide fuel for private use. A zero emission van is nil.

A car is the list price multiplied by an appropriate percentage set by its emissions, and the fuel benefit is £29,200 multiplied by that same percentage. On a high emitting vehicle at 37 per cent, those are very large numbers.

A £40,000 vehicle at 37 per cent	As a van	As a car
Benefit	£4,170	£14,800
Fuel benefit	£798	£10,804
Total benefit	£4,968	£25,604
Tax at 40 per cent	£1,987	£10,242
Employer Class 1A at 15 per cent	£745	£3,841

The difference is about £11,350 a year, or £45,400 over four years, on the same vehicle sitting on the same driveway.

Most double cab pickups moved from the first column to the second on 6 April 2025.

WHAT CHANGED

Most double cab pickups are now treated as cars for the benefit charge, because they are equally suited to carrying people and goods with no predominant suitability. Bought, leased or ordered before that date, van treatment runs to the earlier of the lease expiring or 5 April 2029. Capital allowances changed on the same reasoning.

CHAPTER SIX Travel, sites and the 24 month rule

Travel to a temporary workplace is allowable. Travel to a permanent one is commuting. The whole question is which one a site is.

A workplace is permanent if you have spent, or expect to spend, more than 24 months there, and you spend at least 40 per cent of your working time there. Both tests have to be met. Under 40 per cent and it stays temporary however long it runs.

The part that catches people is that it turns on expectation, not hindsight. A site you expected to last three years is a permanent workplace from your first day even if the job is cancelled at month six. A site you expected to last eighteen months and which ran to thirty is allowable up to the day your expectation changed, and not after it.

Mileage

55p a mile for the first 10,000 business miles in the tax year, then 25p. Those rates rose in April 2026, the first change since 2011.

So a 12,000 mile year is not 12,000 at 55p. It is 10,000 at 55p and 2,000 at 25p, which comes to £6,000 rather than £6,600. The band follows the person rather than the vehicle, and it resets on 6 April.

> **THE RECORD NOBODY KEEPS**
>
> A list of sites with start and end dates. It is the document that answers the 24 month question, and almost nobody has one. Without it you are reconstructing your own expectations from years ago, which is not a strong position.

CHAPTER SEVEN Tools, plant and capital allowances

The allowance is a million pounds a year. The problem is never the allowance.

The Annual Investment Allowance lets you deduct the full cost of most plant and machinery in the year you buy it, up to £1,000,000. No trade of the size this book is written for will get near that, so the question is never whether you can claim.

The question is whether you remembered you bought the thing. Small tools get expensed and forgotten, which is usually fine. Large ones get bought in a busy month, paid for on a card, and never make it onto any list.

Selling something you claimed on

If you claimed the full cost and later sell it, the proceeds are taxable as a balancing charge, capped at what you claimed. That is not a penalty, it is the other half of having had the deduction up front. It is also why the register matters: three years later, nobody remembers what was claimed on the van you just sold.

Cars do not qualify for the Annual Investment Allowance, and since April 2025 most double cab pickups count as cars for this too.

CHAPTER EIGHT VAT, and the reverse charge that changed everything

Registration is compulsory at £90,000 of taxable turnover in any rolling twelve months. What happens next in construction is unlike any other trade.

Since 1 March 2021 the domestic reverse charge has applied to most construction services between VAT-registered businesses within CIS. You do not charge VAT. The customer accounts for it themselves.

Six things all have to be true: the work is construction services within CIS, you are both VAT registered, the customer is CIS registered, the supply is standard or reduced rated, and the customer has not told you in writing that they are an end user or an intermediary supplier.

> **WHAT IT DID TO YOUR WORKING CAPITAL**
>
> Before March 2021 you collected the VAT on every invoice and held it until the return fell due. On quarterly returns the average balance is about 2.7 months of VAT, so a subcontractor turning over £25,000 a month was holding around £13,700 that simply stopped arriving. It was never your money, but while it sat there it did the job of an overdraft for nothing.

If your sales are now mostly reverse charged and you still pay VAT on materials, you are probably owed money every quarter. Monthly returns get it back three times as often, and there is no good reason to lend it to HMRC.

CHAPTER NINE Work in progress, retention and the year end

Construction does not invoice what it does in the month it does it, which is why a general year-end checklist misses most of what matters.

At your year end you will have jobs started and not finished. The costs are in this year. The income may not be. Work done and not yet invoiced is an asset at the year end, and leaving it out understates both your profit and the value of the business.

A builder who finishes a large job three weeks after the year end, with all the cost in one year and all the income in the next, shows a loss this year and a windfall next. Neither figure is true, and both are what a lender reads.

Retention

Retention is money you have earned and not been paid. It is a debtor at the year end, not something that appears when it arrives. It also costs more than people price: on a £120,000 contract at 5 per cent, released half at six months and half at eighteen, financed at 10 per cent with 15 per cent never recovered, the cost is about £1,410. On an eight per cent margin that is a seventh of the profit on the job.

> **CIS SUFFERED IS NOT AN EXPENSE**
>
> It is tax paid on account, in advance, on your behalf. It belongs on the balance sheet until it is set against what you owe. Put it through the profit and loss and your profit is understated by the whole amount, and then you claim the same money again as a credit. On a typical set of figures that turns a £21,600 profit into a £3,960 loss on paper, which is the number a mortgage broker will read.

CHAPTER TEN The mistakes that cost trades the most

Ten years of the same conversations, in order of what they cost.

- Paying a subcontractor before verifying them. The higher rate applies from that payment and cannot be re-rated.
- Deducting CIS on the invoice total rather than the labour. It is not lost, but it is their cash held for a year.
- Missing nil returns in a quiet winter. £100 each, for paying nobody anything.
- Putting CIS suffered through as an expense, then claiming the credit as well.
- Charging VAT that should have been reverse charged, because nobody asked for the end user notification in writing.
- Pricing a day rate by dividing the target by 260 days. You will bill nearer 200.
- Treating a materials markup as a materials margin. Ten per cent added is 9.1 per cent kept.
- Assuming a double cab pickup is still a van.
- Never writing down when you expected a site to finish.
- Leaving work in progress out of the year end entirely.

Where to go next

If one chapter here made you uncomfortable, that is the one to act on. Chapters three and eight have their own books, because CIS and the reverse charge are both larger than a chapter.

Every calculator and workbook mentioned in this book is free on zazentax.com, with no email form. They use the same figures and the same rates as the chapters here.

Zazen Tax

Accountants for people who build things. If you would rather someone else did this, that is what we are for.

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