CIS: are conversions within the scheme?

If you are a property investor who converts houses into HMOs (Houses of Multiple Occupancy), care should be taken when establishing whether you need to register as a Construction Industry Scheme (CIS) contractor.

Background

In ' Are you a Property Investor or Developer?' we explained the differences between property investors and property developers. For CIS purposes, property developers are considered to be 'mainstream contractors', whereas property investors are only considered 'deemed contractors' if certain conditions are met.

What are the conditions for 'deemed contractors'?

Firstly, a property investor (or any non-construction business) will fall within the definition of 'deemed contractor' if 'in any rolling one-year period, the person's expenditure on construction operations exceeds £3million.

Secondly, HMRC's guidance (CISR 12080) states:

"If its activities include the construction of an entirely new property or a redevelopment of a property, leading to change in its nature of use, for instance redeveloping an old hotel or offices into a block of flats, then that part of its activities will amount to property development, and it will be immediately within the scope of CIS as a mainstream contractor."

Why does this matter

A common question is whether converting residential properties into HMOs would bring a property investor under 'deemed contractor' status. Deemed contractor status brings a raft of CIS compliance obligations.

Things to consider

The first step is to consider whether your business is a property investor or a developer.

- A property developer's activity is the creation of new buildings, or the renovation or conversion of existing buildings, or other civil engineering works.
- A property investment business acquires and disposes of buildings for capital gain or uses the buildings for rental.

Then:

If the business is a property investor and its annual expenditure on construction works exceed £3million, it is a deemed contractor.

Then:

If expenditure is below £3million, consider if there has been a change of use of the property.

Has there been a change of use?

The key is to look at the property's use both before and after the construction works have taken place. In the case of houses being converted into HMOs, the use does not change – it is 'residential' both before and after the conversion. It would be a different story if, say, a factory was converted into flats.

What if an investor undertakes multiple/substantial development contracts?

In this case, it will be necessary to decide if the nature of that business has now changed from "property investor" to "property developer".

Further information

For more detailed guidance, see: https://www.gov.uk/hmrc-internal-manuals/construction-industry-scheme-reform/cisr12080

This document has been prepared for information purposes and does not constitute advice. All information deemed correct as at 20 October 2025