

INTRODUCTION TO THE CONSTRUCTION INDUSTRY SCHEME



Whitepaper

The Construction Industry Scheme (CIS) applies to both individuals and companies operating as subcontractors and contractors out work that falls under the term "construction". CIS covers most "construction" work to buildings although there are exceptions detailed in:

<https://www.gov.uk/government/publications/construction-industry-scheme-cis-340>

As you are required to register for the scheme in advance of commencing any construction works it is important that you have a full understanding of your own obligations (particularly whether you should be employing the subcontractor instead of subcontracting the work) as the penalty regime can be highly punitive for non compliance.



Given the extensive nuances of the scheme what follows is not an attempt to summarise the scheme into a digestible format but more a guide on how to account for CIS in the eyes of a contractor. If there are any specific areas you require clarification on please do not hesitate to contact us.

CIS SOFTWARE

There are a number of software products available to help you manage your CIS filings and calculations. You will need to have a separate piece of software to ensure you can verify subcontractors and make monthly submissions to HMRC. You can do this directly on HMRC's online service but you are not able to generate subcontractor statements so we would recommend you use a separate piece of software such as:



✓ <http://moneysoft.co.uk/cis/>

✓ <http://www.payroo.com/>

CHECKING A NEW SUBCONTRACTOR'S STATUS

Before you engage a new subcontractor that you are going to be paying for labour that falls under CIS you need to check with HMRC whether you should be paying them:



Without any CIS deductions (the subcontractor would have had to have received a special dispensation from HMRC for this to be the case)



With 20% CIS deductions (usually if the subcontractor is registered under the CIS scheme and so has a valid CIS number)



With 30% CIS deductions (usually if the subcontractor has not registered under the CIS scheme and so does not have a valid CIS number)

The subcontractor will often present their invoice with CIS deductions already calculated but it is still your responsibility as the contractor to ensure these have been made at the correct rate.

You can check the status of a new subcontractor by:

- ✓ Calling the HMRC CIS helpline on 0845 366 7899
- ✓ Using the HMRC website
- ✓ Using software (such as detailed above)

To verify a subcontractor you will need:

- ✓ Legal business name (or the trading name they gave when they registered with CIS)
- ✓ Unique Taxpayer Reference (UTR)
- ✓ National Insurance number if they're a sole trader
- ✓ Company registration number if they're a limited company

WORKING OUT HOW MUCH TO PAY THE SUBCONTRACTOR

Subcontractor CIS deductions should only be made from the labour cost of the payment. They should not be deducted from material costs or from VAT. For example, if a subcontractor's invoice reads:



Labour:	£100
Materials:	£100
VAT @ 20% on above:	£40
Total:	£240



and when you had checked with HMRC they had told you to make 20% CIS deductions you should pay the subcontractor:

Labour:	£100
Materials:	£100
VAT @ 20% on above:	£40
Less CIS deductions @ 20% of labour cost:	(£20)
Total:	£220

END OF MONTH PROCESSES

End of Month Processes 1 - Recording Subcontractor Payments

At the end of each calendar month you will need to total up the following for each sub-contractor payment:



1. The gross value before subcontractor deductions and VAT (if applicable)
2. The amount that you have deducted from this value when calculating your CIS deduction
3. The amount of CIS you have deducted



As an illustration, using the example above you would declare:

1. Gross value of payment - £200
2. Amount deducted when calculating CIS - £100
3. Amount of CIS deducted - £20



End of Month Process 2 - Submitting Your Monthly CIS Return to HMRC

Once you have run the subcontractor details for the month you then need to file your return with HMRC. This needs to be done by 19th of the month following the month for which you are filing details.

End of Month Process 3 - Paying the CIS Deductions to HMRC

CIS deductions should be paid with the PAYE / NI deductions that you have made from your employee's salary payments. Payments need to be received by 22nd of the month following the month for which you are filing details.

End of Month Process 4 - Issuing Your Subcontractors with Monthly Statements

Once you have submitted your CIS return to HMRC you need to issue each of your subcontractors with a statement that declares the amount of CIS tax that you have deducted from their payments in that period so that they can then claim these deductions against their income tax or corporation tax liability.

You must issue these statements to your subcontractors by the same deadline as the submission of the CIS monthly return to HMRC (i.e. the 19th of the month following that to which the statement relates).

Contact Chaddesley Sanford to arrange a call if you have any questions. You can call us on 0207 183 6088 or email us at enquiries@chadsan.com.