



Self Assessment for CIS - Quick Guide

This is our quick guide to self assessment for those that work in the construction industry and need to claim CIS.

What is CIS?

Special tax rules apply to the construction industry and workers which are detailed in The Construction Industry Scheme (CIS). CIS uses a verification system for contractors to confirm whether a subcontractor should be paid gross or net.

Construction Activities

The definition of construction activities is widely drawn and so most businesses working in construction will be caught by CIS. It applies to sole traders, partnerships and Limited Companies but not to private householders who are paying contractors.

Contractors are businesses that carry out "construction operations" as part of their business and subcontractors are those who carry out such work for the contractor, but it does not include employees of the contractor. Some businesses will be both a contractor and a subcontractor.

Registration

New subcontractors have to register with HMRC but as well as calling into the local office it can also be done by phone or online if HMRC already know about you.

The subcontractor will be informed whether they can receive payments gross or net. To qualify to be paid gross a subcontractor must pass the Business Turnover and Compliance Tests. In summary these are...

- It is run in the UK with a bank account
- It has a construction turnover, excluding VAT and the cost of materials, of at least £30,000 each year (more for partnerships and companies);
- It has complied with all its tax obligations to date.

Verification

When a contractor engages a subcontractor who has not worked for them in the current or previous two tax years, they must get the name, unique taxpayer reference and national insurance number of the subcontractor in the case of an individual and contact HMRC to ascertain if the subcontractor should be paid gross or net, this is called verification. The contractor must also decide the contract proposed is one of self-employment, or whether the worker should be treated as an employee.

It is important to ensure that the status of the worker in terms of self-employment or employment is correctly established. This is a question of fact and not what the parties want it to be. The CIS scheme only applies to self-employment situations, but because a subcontractor is registered under the CIS it does not mean that he should be treated as self-employed for every job he does.

If the subcontractor is registered with HMRC the contractor will be told to pay the subcontractor gross or to apply the standard rate of deduction (20%) to all payments to the subcontractor. If the subcontractor has not registered with HMRC, a higher rate of tax deduction of 30% will be required.

The deductions count as payments on account of the eventual tax and Class 4 NI liability of the subcontractor. If the subcontractor has an accounting period ending early in the tax year, for example 31 Dec they can apply for an in-year repayment where the deductions already taken will exceed the total tax and Class 4 NI bill for the year. Arrangements exist for subcontractors that are companies to be able to set-off deductions against any PAYE, NIC and CIS deductions that they owe.

Contractors will be given a verification number for the subcontractor, or group of subcontractors, that is matched to the HMRC records in one query or phone call. This number is for the contractor's reference only.

For each subcontractor that cannot be matched either because they are not registered or the wrong details have been given, a special verification number will be given for each unmatched subcontractor and this number must be recorded on the subcontractor's payment statement. This will be needed to get refunds later.

Records

Payment Statement - Contractors must give a statement to each subcontractor that a deduction has been made from his payments, either done once a month to cover all payments or for each payment, and this must be issued within 14 days of the end of the month in which the payment was made. Statements can be in any format as long as they contain the necessary information. They are not required for subcontractors who are paid gross.

Monthly Return - The contractor will submit a monthly return to HMRC that shows all subcontractors that payments have been made to, the amount paid and where net payments are made, the amount of materials and deductions. The return must be filed with HMRC within 14 days of the month end, with nil returns made if there were no payments in the month. There are penalties for filing returns late.

There is no annual return required under the new CIS.

Real Time Information (RTI)

Under the rules of RTI you cannot process subcontractors through PAYE. RTI does not change how CIS is reported. Employers will still file monthly returns (CIS300). But for Limited Companies acting as a subcontractor, on the Employer Payment Summary (EPS) each month you are required to declare 'CIS deductions suffered', to offset any liability due to HMRC.

How We Can Help You

We can assist you with all aspects of CIS including...

- Assistance with applications for registration.
- Advice on employment status and disputes with HMRC.
- Completion of contractor's returns.