



Waveney Tax Solutions

Construction Industry Scheme Guide for Contractors

Registering under the scheme

If you are a contractor within the CIS, you must register with HMRC before taking on your first subcontractor.

You will need to register as a contractor on the Government Gateway and as a new employer with HMRC. If you need to register to set up a PAYE scheme for any employees as well, this can be done through the single registration process. You can complete the registrations online and links to both areas can be found here.

A contractor scheme will be set up for your business and HMRC will send you a contractor's pack, containing all the information and forms you need to start working as a CIS contractor.

Checking subcontractors' employment status

Anyone engaged to work for you must have their employment status checked before you make any payment to them. The CIS only covers self-employed workers, so you need to make sure that they are not working for you under a contract of employment. An individual's employment status is determined by general law and depends on the terms of your agreement with that person, but the general guidelines are:

Common indicators of employment

- The contractor has the right to control what the worker has to do - where, when and how it is done – even if the contractor rarely uses that control.
- The worker supplies only his or her own small tools.
- The worker does not risk his or her own money and there is no possibility that he or she will suffer a financial loss.
- The worker has no business organisation, for example, a yard, stock, materials, or workers.
- The worker is paid by the hour, day, week or month.

Common indicators of self-employment

- Within an overall deadline, the worker has the right to decide how and when the work will be done.
- The worker supplies the materials, plant or heavy equipment needed for the job.
- The worker bids for a job and will bear the additional cost if the job ends up costing more than the worker's original estimate.
- The worker has a right to hire other people who answer to him or her and are paid by him or her to do the job.
- The worker is paid an agreed amount for the job regardless of how long it takes.

Verifying subcontractors

If you establish that someone working for you is a subcontractor and not an employee, you will need to formally verify them with HMRC before you start paying them. The verification process can be done over the telephone, online via the HMRC website or through commercial payroll software.



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When you verify your subcontractors, you will need to confirm that you have an agreed contract in place and HMRC will then need the following details about your business:

- the name of your business or organisation
- your unique taxpayer reference (UTR)
- your Accounts Office reference
- your employer reference

You will need the following information about the subcontractor:

- sole traders – full name, UTR and National Insurance number
- partners - as above, but also the partnership name and UTR
- companies – the name, UTR and company registration number

HMRC will check their records, confirm whether the subcontractor's registered, tell you how to pay them and give you a verification reference number.

Paying subcontractors

Once you have verified a subcontractor, HMRC will tell you whether you need to pay them:

- gross – ie no deductions taken off their payment (subcontractor must have registered with HMRC to receive gross payments)
- net – standard deduction of 20% (subcontractor is registered with HMRC but not eligible for gross payments)
- net – higher rate deduction of 30% (subcontractor is not registered or could not be verified for some other reason)

Once a subcontractor has been verified, you should continue to pay them in the same way unless HMRC advise you of a change to their payment status. To make a deduction from a subcontractor's payment, you should start with the gross amount of the subcontractor's invoice and then take away:

- any VAT they've charged
- the amount of any Construction Industry Training Board (CITB) levy they've paid
- any amounts the subcontractor paid for materials, consumable stores, fuel used (except for travel), plant hire and manufacturing or prefabricating materials (including VAT if the subcontractor is not VAT registered)

The net amount is then charged at the rate advised by HMRC and this is the CIS deduction.

Payment and deduction statements

You must give a statement to every subcontractor you make a deduction from. There is no such requirement to give statements to subcontractors you pay gross, however it is still good practice to do so. You can give a subcontractor a statement for each tax month (a tax month runs from 6th of one month to 5th of the next) or, if you pay them more often, one for each payment. Statements relating to each period ending on the 5th of a month must be issued by the 19th of that month.



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Every statement you issue must include:

- the name of your business and your employer reference
- the date of the end of tax month in which you made the payment, or the date when you actually made the payment
- the subcontractor's name and UTR
- the subcontractor's verification reference number if the deduction was at the higher rate
- the gross payment amount before you made the CIS deduction, but after any other deductions (eg VAT, CITB levy, materials etc)
- the cost of any materials you deducted before making the deduction
- the amount of the CIS deduction

If a subcontractor needs a replacement statement you can give them one, but you must clearly mark it as being a duplicate.

Monthly returns to HMRC

CIS contractors have to submit monthly returns to HMRC. These returns must include details of all subcontractors paid in the month, including those who are registered to receive payments gross. You must show the gross amount paid and the amount of any CIS deductions you withheld. If no payments have been made in a month, you must file a nil return – failure to do so will result in a penalty.

The return also includes a declaration that you have satisfied yourself that your subcontractors are self-employed and not employed and that all the subcontractors have been verified.

The deadline for filing your returns is 19th after the end of each tax month. It is important that you file your returns on time as automatic penalties are issued for all late returns.

The CIS deductions you withhold must be paid over to reach HMRC by the 22nd after the end of each tax month. It is important that your payments reach HMRC on time as interest and penalties are charged on late payments.

Need help?

The regulations of the Construction Industry Scheme can seem daunting, especially with the penalties for getting things wrong. Waveney Tax Solutions can help you to determine if the CIS rules apply to your business and assist you with the necessary registration and filing requirements. For further details, please call us on 01502 370620 or 07919 924273, or alternatively you can email us at nina@waveneytaxsolutions.co.uk.