



Waveney Tax Solutions

Construction Industry Scheme Guide for Subcontractors

Subcontractors working in the construction industry must register with HM Revenue & Customs (HMRC) as soon as possible. Failure to register will result in contractors having to deduct tax at 30% from any earnings under the rules of the Construction Industry Scheme (CIS).

When you register with HMRC, they will decide whether you have a business that qualifies to receive gross payments, or should have the standard rate of CIS tax deduction which is 20%.

Registering with HMRC

If you work as a self-employed subcontractor you will need to register with HMRC for self assessment for both tax and National Insurance and the registration under CIS will be dealt with at the same time.

You must have a National Insurance number to register, so if you do not have one you will need to apply to JobCentre Plus who will be able to deal with an application for a National Insurance number.

If you are already registered for self assessment, you can call the HMRC CIS Helpline team on 0300 200 3210 to update your records and set you up under CIS. The helpline is available from 8am to 8pm Monday to Friday and 8am to 4pm on Saturday.

Once you have registered, HMRC will set you up to receive payments under deduction, which means that contractors will withhold (and pay over to HMRC) 20% of the value of your invoices. Deductions will not be made in respect of any amounts you charge on your invoice for:

- VAT
- materials and fuel used (except for travelling)
- Equipment which is now unusable
- plant hire
- manufacturing or prefabricating materials

CIS deductions and claiming relief

Most subcontractors will suffer deductions from payments made to them by contractors. Providing that you have registered under CIS and the contractor has successfully verified the deduction will be at the standard rate of 20%.

If you have not registered for CIS, or the contractor was not able to verify you, a deduction at the higher rate of 30% will be made.

The deductions are based on the gross amount of your invoice, including any subsistence and travelling expenses, but after the exclusions listed in the section above. Make sure that the contractor gives you monthly statements showing the payments and deductions as you will need these for your tax return.



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Sole traders

When you file your self assessment return you will need to complete self-employment pages showing all of the income and expenses for your business.

Your tax and Class IV National Insurance liability will be based on the figures on your return and the CIS deductions already suffered will be deducted against that liability.

If you have underpaid tax for the year, any amount still owing must be paid to reach HMRC by 31st January after the tax year end. If you are due a refund this will be repaid to you and you will chose how to have this repaid on your return, ie credit straight to a bank account (preferred) or cheque.

Partners in a partnership business

The self assessment partnership return will include trade pages showing all of the income and expenses for your business.

Each partner must then include partnership income pages with their personal self assessment return and their tax and Class IV National Insurance liability will be based on their share of the profit. Their share of CIS deductions already suffered will then be deducted against that liability.

As with a sole trader, if there is any tax still owing, this must be paid to reach HMRC by 31st January after the tax year end. If a refund is due, the individual's return should include details of how the tax should be refunded.

Limited companies

For limited companies, relief for CIS tax suffered is first given through the PAYE system. CIS deductions that the company has suffered are offset against any PAYE and Class 1 NICs due, or against CIS deductions the company has made from its own subcontractors.

Where CIS deductions exceed the other liabilities and a refund is due, the company must apply in writing to HMRC for that refund. HMRC will then review the position once the employer year end returns have been filed.

Applying to be paid gross

If you apply to receive payments under CIS gross instead of tax deducted, your business will need to satisfy a number of conditions. You can only apply if your business carries out work in the UK and your business must pass three tests – the business test, the turnover test and the compliance test.

The business test

Your business must carry out construction work or provide labour for construction work in the UK and must be run largely through a bank account

The turnover test

HMRC will review your business turnover for the 12 months before you apply for gross payment status. Ignoring VAT and the cost of materials, your construction turnover must be at least:

- £30,000 if you're a sole-trader
- £30,000 for each partner in a partnership, or at least £200,000 for the whole partnership
- £30,000 for each director of a company, or at least £200,000 for the whole company



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The compliance test

You must be up to date with all of your compliance filing obligations. This means that you, any directors/partners in the business, or beneficial shareholders (where the company is controlled by five or fewer persons), must have submitted all tax returns and paid all tax due on time in the 12 months before your application.

There are some exceptions though as HMRC can ignore the following:

- three late submissions of CIS contractor monthly returns - up to 28 days late
- three late payments of CIS/PAYE deductions - up to 14 days late
- one late payment of self assessment tax - up to 28 days late
- a late filing of an employer's end of year return
- a late payment of corporation tax - up to 28 days late
- a late filing of a self assessment tax return
- any payment not made by the due date, where it is less than £100

Need help?

It is important that you understand your obligations and meet the filing requirements, otherwise you could incur penalties and end up paying too much tax. Waveney Tax Solutions can help you with all aspects from initial registration to your ongoing obligations. For further details, please call us on 01502 370620 or 07919 924273, or you can email us at nina@waveneytaxsolutions.co.uk.