

## Introduction to the Construction Industry Scheme

The Construction Industry Scheme (CIS) covers most construction operations carried out in the UK including site preparation, decorating and refurbishment. The regulations set out special rules for processing payments for construction work that contractors make to subcontractors.

There is extensive guidance on all types of work setting out what does and does not fall under CIS and you may need to seek professional guidance if you are unsure whether any of your work does not fall within CIS. As a general rule, most work carried out on a permanent or temporary building or structure, or to a civil engineering work or installation, is covered by CIS. Some common exclusions from the scheme are:

- architecture and surveying
- scaffolding hire (with no labour)
- carpet fitting
- delivery of materials

It is also important to establish if you will be classed as a contractor, a subcontractor, or both. Your status will determine what records you must keep and your filing responsibilities with HM Revenue & Customs (HMRC).

### What is a contractor under CIS?

There are two types of contractor under CIS, 'mainstream' and 'deemed'. Any type of business entity can be a CIS contractor, but an individual having work done to their home is never classed as a contractor.

*Mainstream contractor* - this applies if you run a business that engages subcontractors for construction operations. It is not just applied to building firms though, as it also applies to:

- builders and property developers who build or alter properties to make a profit
- gang leaders who organise labour for construction work (gang leaders are subcontractors as well as contractors)
- foreign businesses that carry out construction work in the UK, or in UK territorial waters

*Deemed contractor* – this applies if you run a business that spends an average of £1 million or more per year over a three year period on construction operations. Examples include:

- businesses like manufacturers or retailers
- local authorities & government departments
- housing associations and 'arm's length' management organisations (ALMOs)

If your business is classified as a deemed contractor, that classification will remain in place until spending on construction work has fallen below £1 million a year for three years in a row.

### What is a subcontractor under CIS?

CIS rules for subcontractors only apply to workers who are self-employed, not to employees. Employment status is determined under general law and depends on the terms of each engagement.

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It is therefore possible to work as a self-employed subcontractor on some contracts and as an employee on others.

Although it is important to know whether you are working as a self-employed person or as an employee, when you work for a contractor it is actually their responsibility to decide your employment status for that contract when they take you on.

You may be classed as a subcontractor if you agree to do construction work for a contractor, whether you carry out the work yourself, get your employees to do it, or use your own subcontractors to do the work.

Subcontractors can be any type of business entity, including:

- sole traders, partnerships and companies that do construction work for contractors
- labour agencies that supply (but not just introduce) workers to a contractor
- gang leaders who contract to do work for a contractor and are paid for the work done by their gang
- foreign businesses paid to do construction work in the UK, or in UK territorial waters

### Being classed as both a contractor and subcontractor

It is possible to be classed as both a contractor and a subcontractor at the same time. This happens when a construction business is paid by a contractor for construction work, whilst paying their own subcontractors to do work for them. This means that when you are paid by a contractor you must follow the CIS rules for subcontractors and when you are paying your own subcontractors you must follow the CIS rules for contractors.

### What you need to do

If you are a contractor you will need to register under the scheme as a CIS contractor. You will be responsible for checking if your subcontractors are registered, deducting any tax from their payments and submitting monthly returns to HM Revenue & Customs.

If you are a subcontractor you will need to register with HM Revenue & Customs under the scheme as a subcontractor and you will be responsible for filing your annual self assessment tax return. Correct registration is important, as this will affect the amount of tax the contractor withholds from any payments made to you.

### Need help?

In order to avoid potential penalties, it is important to identify correctly if any of your work falls under CIS and if so, whether you are a contractor or a subcontractor. For further guidance see our detailed guides for contractors and subcontractors. We can help with all of your registration and filing requirements – for further details, please call us on 01502 370620 or 07919 92427.

Alternatively you can email us at [nina@waveneytaxsolutions.co.uk](mailto:nina@waveneytaxsolutions.co.uk).