



## Construction Industry Scheme (CIS)

The Construction Industry Scheme (CIS) sets out special rules for tax and national insurance (NI) for those working in the construction industry. Businesses in the construction industry are known as 'contractors' and 'subcontractors'. They may be companies, partnerships or self employed individuals.

The CIS applies to construction work and also jobs such as alterations, repairs and decorating.

Contractors include construction companies, building firms, government departments and local authorities. Any other business spending more than £1 million a year on construction is classed as a contractor for the purposes of the CIS. Subcontractors are those businesses that carry out work for contractors. Some businesses are both contractors and subcontractors.

Contractors make monthly returns to HMRC which detail all payments to subcontractors and deductions of tax from payments. Each subcontractor must be verified with HMRC with the employment status taken into consideration.

Subcontractors must give contractors their name, unique taxpayer reference (UTR) and national insurance number when they enter into a contract. So long as the contractor is satisfied that the subcontractor is genuinely self-employed the 'verification' procedure must be followed.

HMRC can impose a penalty of up to £3,000 if contractors negligently or deliberately provide incorrect information.

HMRC have been making substantial efforts to re-classify as many subcontractors as possible as employees. Many cases have been to court over the last few years and take into account a variety of different factors in deciding whether or not a worker is employed or self-employed.

- the right of control over how, what, where and when the work is done; the more control that a contractor can exercise, the more likely it is that the worker is an employee.
- whether any equipment is necessary to do the job, and if so, who provides it.
- the basis of payment - whether an hourly/weekly rate is paid, whether there is any overtime, sick or holiday pay and whether or not invoices are raised for the work done.
- whether the workers have any financial risk
- whether there is an ongoing understanding that the contractor will offer work and the worker accept it

If a contractor can be verified tax at 20% is deducted.

If a contractor cannot provide the necessary details then tax at 30% must be deducted.



If a contractor is paying a subcontractor they will not have to verify them if:

- they have already included them on any monthly return in that tax year; or in the two previous tax years.

Contractors have to provide a monthly 'payslip' to all subcontractors paid, showing the total amount of the payments and how much tax, if any, has been deducted from those payments. The contractor has to provide this for each tax month as a minimum but must include:

- contractor's name
- contractor's employers' tax reference
- tax month to which the payment relates
- subcontractor's name, unique tax reference or specific
- subcontractor reference
- the gross amount of the payment (Should exclude VAT)
- cost of any materials which have reduced the gross payment
- amount of any tax deductions made
- verification number where deduction has been made at the higher rate of 30%.
- (Materials and training board levy should also be excluded from gross when calculating the tax.

A contractor must make a nil return if no sub contractors have been paid in any month. The return by the contractor is due by the 19<sup>th</sup> of the month.

A £100.00 penalty will be levied by HMRC for a late return.

Contractors have to pay over all deductions made from subcontractors in any given tax month by the 19<sup>th</sup> following the end of the tax month to which the deductions relate.

---

This fact sheet is published for the information of clients. It is intended as an overview of the regulations in force at the date of publication. Users should consult with detailed legislation or seek professional advice.

Therefore no responsibility for loss by any person acting or refraining from action as a result of the material can be accepted by the authors or the company.