

Construction Industry Scheme



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Domestic Reverse Charge

Overview

The Construction Industry Scheme (CIS) is a scheme designed by HMRC to minimise tax evasion within the construction industry. Tax is deducted at source from the subcontractor by the contractor and then paid over to HMRC on their behalf. CIS rules apply to all payments made by a contractor to a subcontractor for **construction work** as defined by HMRC.

A contractor is:

A contractor is a business (limited company, partnership or self-employed individual) that pays subcontractors for construction work. Private householders are not counted as contractors so are not covered by the scheme.

How to register:

You must register as an employer, before any payments to subcontractors. Please be aware it can take up to 20 working days to receive an employer PAYE reference number. To register online, please click **here**.

Construction work includes:

- Construction
- Alteration
- Repair
- Extension
- Dismantling & demolition
- Work forming part of the land
- Installation of systems
- Internal & external cleaning
- Painting & decorating
- Integral works
- Preparatory works
- Finishing activities

An explanation of each type of construction work is given in more detail within this guide.

A subcontractor is:

A subcontractor is a business (limited company, partnership or self-employed individual) that carries out construction work for a contractor.

How to register:

Subcontractors who are self-employed, a limited company or a partner in a partnership or trust and work for a contractor should also register with the scheme.

To register online please click **here**.

You can also ring the HMRC CIS helpline to register or receive help with the online application: **0300 200 3210**.

Contact Us

For the latest news and advice please visit our Facebook, LinkedIn and website pages. If you have any immediate questions or if you would like to discuss anything further please contact us via email or give us a call on:

01483 898 400



What Type of Construction Work Falls Under the CIS?

Most construction work is carried out on buildings and structures. The main types of work are construction, alteration, repair, extension, demolition and dismantling. Please find below a detailed summary of the different types of construction work that falls under the CIS.

Construction

Construction is a broad term that covers all of the following:

- build
- make
- put together
- assemble

Construction does include the assembly of prefabricated units and site facilities.

Alteration

An alteration is where a building or structure has been made different in any way. Alterations can be major or can be as simple as an adjustment or modification.

Examples:

- an alteration to the fabric of a building to accommodate equipment such as an item of plant or machinery, lifts, hoists or heavy-duty conveyors
- removal of asbestos
- installation of partitioning or shop fittings to allow the building to be used in a different way.

Repair

Repair includes 'making good' and replacement of defective or damaged parts of a building or structure. Repairs also include repair of a building or structure that is necessary following a repair to any systems in the building or structure, even though a repair to the system itself is not construction work for the purposes of the scheme.

Extension

Extension means adding to or enlarging an existing building or structure.

Dismantling & demolition

Dismantling means taking a building or structure apart. This is usually where the materials are expected to be used again.

Demolition means pulling down a building or structure.

Work forming part of the land

All types of construction work that do not involve buildings or structures are called works forming, or to form, part of the land.

Examples:

- minor works, such as a wooden fence with concrete posts
- major works such as roads, railways, bridges, harbours and power lines
- industrial plant such as petrochemical plant, a silo, tank or water treatment plant.

Plant that is located in a building will not form part of the land and so will not fall within the scheme under this section. However, in some circumstances the installation of plant may require that the building be altered to accommodate or remove the plant so this will still be construction work.

Alteration, repair, extension, and demolition of works forming part of the land is also construction work.

Installation of systems

A system is something that is made up of connected parts to perform a particular function such as systems of heating or lighting. The scheme includes the installation of 'systems'. As such, it includes the installation of complete systems rather than parts of a system. Complete systems will be installed in new builds or existing buildings and structures undergoing re-development. Repairs to a system, such as new taps on a sink or an extension to a system such as adding an extra radiator are not installations of systems and are therefore not included within the scheme.

Internal & external cleaning

Internal cleaning is regarded as construction work if it's undertaken whilst the construction contract is ongoing.

External cleaning or routine cleaning of existing commercial or industrial premises that are not undergoing any type of construction work is not regarded as construction work unless it's preparatory to painting and decorating.

Painting & decorating

Painting and decorating is regarded as construction work.

Integral works

Integral works are works that must be carried out for a construction operation to be completed.

Example:

Erection of scaffolding might not be considered to be the construction of a structure in its own right, but it's construction work because it would not be possible to carry out other work that is deemed construction work without it.

Preparatory works

Preparatory works are works that must be carried out before a construction operation can be started.

Example:

Clearing a site or draining land in a flood plain before building houses.

Finishing activities

Finishing activities are work that 'renders complete' or 'finishes off' any of the construction operations.

Examples:

- In most modern commercial buildings much of the internal fixtures and fittings will be included in the design specifications and a building will not be considered complete without them.

Finishing operations are not regarded as construction work in their own right. They must be considered as part of the overall work that is being carried out as well as part of the contract as a whole. Often, the same work will not be construction work when it's carried out as an independent activity.

- tree planting and landscaping in the course of forestry or estate management is not construction work
- tree planting and landscaping as part of a new housing development is construction work.

The only exception to finishing activities is carpet fitting. Carpet fitting (but no other floor covering) is regarded as excluded from the scheme. However, if carpet fitting is part of a mixed contract, then all the contract comes within the scheme.

If the work carried out by a subcontractor does not reflect any of the different types of construction work explained above, then the work does not fall under the CIS and no deductions need to be made.

If you are still unsure whether your activities fall under the CIS rules, then please do get in contact with us!



Contractor

What is a contractor?

A contractor is a business (limited company, partnership or self-employed individual) that pays subcontractors for **construction work**. Private householders are not counted as contractors so are not covered by the scheme.

How do I register as a contractor?

You must register as an employer, before you make any payments to subcontractors. To register online, please click **here**. However, please be aware it can take up to 20 working days to receive an employer PAYE reference number.

What are my responsibilities as a contractor?

Verify subcontractors

Verifying a subcontractor confirms the tax rate that you must deduct at, verifies their details with HMRC and will also allow you to submit deductions you have made on a CIS return for the verified subcontractor.

Your subcontractor must be CIS registered to be verified, if they are not, you will need to ask them to ring the HMRC helpline on **0300 200 3210** to register. If the subcontractor still does not register then you will need to deduct tax at a different rate than the standard (see below).

You can verify a subcontractor via the HMRC portal which you will be asked to set up when you first register as a contractor. Alternatively, accounting software like Xero will allow you to verify subcontractors directly. You will need the following details from your subcontractor to verify them:

- CIS Registered Name
- Unique Tax Reference (UTR)
- Company Number (if applicable)

You only have to verify a subcontractor once.

Make deductions

Once your subcontractor is verified you must deduct tax from all invoices received from your subcontractors at the rate confirmed on verification. The possible tax rates are as follows:

30%

(Excluding VAT and cost of materials or plant hire) from any subcontractor who is not registered under CIS.

20%

(Excluding VAT and cost of materials or plant hire) from any subcontractor who is registered but who is not eligible to receive gross payments.

0%

No deductions are made on any payment if the subcontractor is eligible to receive gross payments.

It is your responsibility as a contractor to ensure that a deduction is made. Many subcontractors deduct CIS from their own invoices, but if they haven't, the contractor must take this into consideration and deduct accordingly. CIS is only deducted from the labour part of the invoice (excl. VAT), not from the cost of materials. The example to the right deducts 20% from the cost of labour.

Subtotal	1,000.00
Total VAT 20.00%	200.00
TOTAL	1,200.00
Less CIS Deduction 20%	200.00
includes Adjustments to Tax	0.00
AMOUNT DUE	1,000.00

Submit CIS returns

You must notify HMRC about the deductions and payments you've made to subcontractors within each tax month (e.g. 6th March to 5th April) via your monthly CIS return.

You can file returns by using:

- the HMRC CIS online service, or
- Accounting software/commercial CIS software

If you do not make any payments to subcontractors in the tax month then a nil return will still need to be filed. However, If you do not expect to make any payments to subcontractors in the next 6 months, you can notify HMRC so you do not have to file any returns at all.

CIS returns will need to be submitted to HMRC by the 19th of every month following the last tax month (e.g. 19th April for the tax month ending 5th April).

You will receive a penalty if you miss the deadline for filing returns. These can range from £100 to £3,000 in extreme cases.

Make payments

Now you have submitted a CIS return you will need to pay over the amount deducted from your subcontractors in the tax month (the same amount declared on the submitted return) to HMRC.

You pay CIS deductions to HMRC in the same way as PAYE and National Insurance payments. For further details on payment methods, click [here](#).

If you already have employees on a PAYE scheme, HMRC will change your existing PAYE Scheme to a PAYE/CIS scheme. You should make one payment each month to cover your PAYE tax, National Insurance and CIS deductions.

You must pay HMRC every month by 22nd. You may be charged interest and penalties if you pay late.

Send deduction statements

If you make deductions, you must give the subcontractor a payment and deduction statement within 14 days of the end of each tax month (e.g. 19th April for the tax month ending 5th April).

If you are using accounting software to file your CIS returns e.g. Xero, it will have the functionality to send deduction statements directly to your subcontractor. If you are not using accounting software, you can find a template which you can fill out manually every month for each of your subcontractors [here](#).

The Process

Verification

You only need to verify a subcontractor once



Deduction

Deduct tax from your subcontractor using the applicable tax rate



Submission

Submit one return for each tax month by 19th



Payment

Payment to HMRC for each tax month is due by 22nd



Send Deduction Statements

Each subcontractor must be given a deduction statement each month

Subcontractor

What is a subcontractor?

A subcontractor is a business (limited company, partnership or self-employed) that carries out **construction work** for a contractor.

How do I register as a subcontractor?

To register online please click **here**. You can also ring the HMRC CIS helpline to get help with the online registration process or register directly on **0300 200 3210**.

What are my responsibilities as a subcontractor?

Before working for your first contractor you must be CIS registered with HMRC. Once registered, there a number of responsibilities as a subcontractor that you must ensure are fulfilled:

Verify with the contractor

To be paid correctly by a contractor, make sure you give them the same legal business name or trading name you gave when you registered for the Construction Industry Scheme (CIS). You should also give them your Unique Taxpayer Reference (UTR) so they can verify you.

If you do not, this could affect how much you get paid.

Contractors will make deductions at a higher rate of 30% if:

- you are not registered for CIS
- they cannot verify you
- you give the wrong name for your business.

Invoice your contractor

Once your contractor has verified you, you will be able to start sending them invoices, or, to make the process quicker you can invoice your contractor with your CIS registered name and UTR on there for them to process at the same time.

You should make the relevant deductions on your invoices before sending to your contractors.

Claim your deductions

When you're registered with the Construction Industry Scheme (CIS), you're still responsible for paying the correct tax and National Insurance for your business, even if deductions have been made by contractors throughout the year.

Contractors will give you a monthly statement of what they've paid you and deductions they've made to help with your accounting.

Sole traders

At the end of the tax year, send in your Self Assessment tax return as usual. You should record:

- the full amounts on your invoices as income
- any deductions contractors have made in the 'CIS deductions' field

HMRC will work out your tax and National Insurance bill and take off any deductions made by contractors.

If you still owe tax after this, you'll need to pay it by 31 January following the end of the tax year.

If you're due a tax refund, HMRC will pay the money back.

Limited companies

If you pay CIS deductions, you must claim these back through your company's monthly payroll scheme. Do not try to claim back through your Corporation Tax return - you may get a penalty if you do.

Send your monthly Full Payment Submission (FPS) as usual to HMRC.

Also send an Employer Payment Summary (EPS) and enter the total CIS deductions for the year to date.

HMRC will take your CIS deductions off what you owe in PAYE tax and National Insurance. Pay the balance by 22nd of each month.

If your company's PAYE bill for the period is reduced to zero and you still have some CIS deductions you have not been able to claim back, carry these forward to the next month or quarter (in the same tax year). Tell HMRC in the EPS that you have nothing to pay.

If you have gross payment status, declare all your income on your Corporation Tax return as usual.

Gross Status

You can apply for gross payment status when you register for CIS. This means the contractor will not make deductions from your payments and you'll pay all your tax and National Insurance at the end of the tax year.

You will still need to give your contractor your CIS details so that they can verify you and you should state on your invoice the deduction rate of 0%.

You can apply for gross status by signing in to your government gateway, then from 'Your tax account', got to 'Other services' and choose 'Construction Industry Scheme – Subcontractors'.

To qualify you must show HMRC that your business passes the following tests. You'll need to show that:

- you've paid your tax and National Insurance on time in the past
- your business does construction work (or provides labour for it) in the UK
- your business is run through a bank account

HMRC will look at your turnover for the last 12 months. Ignoring VAT and the cost of materials, your turnover must be at least:

- £30,000 if you're a sole trader
- £30,000 for each partner in a partnership, or at least £100,000 for the whole partnership
- £30,000 for each director of a company, or at least £100,000 for the whole company.

Domestic Reverse Charge

The Domestic Reverse Charge (DRC) will come into effect from 1 March 2021. You may need to apply the DRC if you are VAT registered within the UK and supply or buy building and construction services which fall under the CIS.

The aim of the DRC is to reduce fraud within the construction industry; VAT will no longer be paid to the business/individual undertaking the construction service (e.g. subcontractor) and instead it will become the responsibility of the contractor to account for the VAT.

If you would like more information then please download our DRC guide [**here**](#).

