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Construction Industry Scheme - Q&A

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Construction Industry Scheme (CIS) Q&A

What is the Construction Industry Scheme and what is its aim?

CIS is a scheme to withhold tax from payments made to individuals, partnerships and companies working in the construction industry. The aim of the scheme is to prevent evasion of tax by subcontractors working in the industry who are unknown to HMRC.

The scheme was first introduced in 1970 and the current scheme has been operating since 6 April 2007 following the introduction of legislation in 2004. The basic features of the scheme date back to 1970 and remain broadly unchanged.

What are the basic processes behind the CIS scheme?

There are a few basic processes as follows:

The contractor is obliged to check whether a subcontractor (who is a natural person) is really self employed. If not, they must put the individual on their payroll. Subcontractor then performs the work he is contracted for and requests payment.

The contractor asks HMRC whether payments made to the subcontractor should be made either without the deduction of CIS tax or with a deduction of tax at either 20% or 30% ("verification"). This verification is done electronically either through commercial software or via the Government Gateway. The subcontractor is then either paid with deduction of CIS tax or not.

CIS Return (CIS100) for the tax month outlining payments made to all subcontractors is filed electronically (or on paper) to HMRC by 19th of the following the tax month

CIS tax withheld needs to be paid to HMRC by 22nd following the tax month (19th if payment not electronically made).

The contractor must give the subcontractor a statement outlining payment details and deduction of tax for the tax month.

What is a contractor?

Any subcontractor to a contract for construction operations who engages subcontractors to carry out any of that work.

Any person carrying on a business which includes construction operations (mainstream contractors).

Any person carrying on a business (or certain bodies) whose expenditure on construction operations exceeds certain limits (deemed contractors).

Householders having work done to their own homes are NOT contractors. So work done by builders for a householder directly is not within the CIS scheme.

Contractors can have separate divisional/site CIS registrations for a company (effectively a group scheme) where one company in the group undertakes CIS obligations.

Who are subcontractors?

Businesses that carry out construction operations within the UK or UK territorial waters.

Businesses include individuals, partnerships or companies (can be UK or non-UK resident businesses). Channel Island and Isle of Mann not within definition of UK for CIS purposes.

Businesses can be both subcontractor and contractor.

Must verify subcontractors (except if worked for contractor in current or previous 2 tax years or been verified by another company in contractor's group) to determine CIS deduction before payment.

Subcontractors should register with HMRC as a 'subcontractor' so that they can benefit from being paid without the deduction of CIS tax or at a deduction at the reduced rate of 20%.

What items on a subcontractors' bill is liable to CIS tax deduction at source?

Labour, profit element on materials, travel, subsistence and plant hire with operator.

What are the penalties for late submission of CIS returns?

How late the return is	Penalty
1 day late	£100
2 months late	£200
6 months late	£300 or 5% of the CIS deductions on the return, whichever is higher
12 months late	£300 or 5% of the CIS deductions on the return, whichever is higher

Are there any other points that contractors or subcontractors in the construction industry should consider to ensure they are operating in a way that is fully compliant?

If you believe that your company or any mixed partnerships that you may be part of could be affected by the changes to ATED, ATED payments and the filing of ATED returns please speak to a professional adviser.

VAT - any contractor or subcontractor should consider whether the supply liable for VAT at 20%, a reduced rate (5%) and possibly zero-rate (0%). Furthermore, the VAT flat rate scheme has a category for general building or construction services with the flat rate percentage of 9.5%. Labour only building and construction services have a flat rate percentage of 14.5%. It is important that you ensure you are not a "Limited cost business"

Keep in mind your potential liability to Stamp Duty Land Tax (SDLT)

Is your construction activity a trade or investment?

CITB Levy (this is not a tax!)

It is important that you seek professional advice before acting, or failing to act upon any of the content in this whitepaper. Please contact our team on 020 7330 0000 if you wish to speak to us.



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