

# Guide to the Construction Industry Scheme

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An overview of what to consider and how to get started



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## Background

The Construction Industry Scheme (CIS) was introduced by HMRC as a measure to counteract tax evasion within the construction industry, given the high number of mobile, self-employed individuals within this area. Under the CIS, contractors in the construction industry must deduct money from subcontractors' payments and pass it to HMRC directly. The deductions then count as advance payments towards the subcontractor's tax and National Insurance.

Whether a sole trader or company, the CIS applies to all contractors and subcontractors in the UK construction industry. Other businesses like LAs and developers with a yearly budget of £1m or more also fall into the requirements for CIS. The type of work identified within the scheme includes general building (including skills such as roofing and plastering), groundwork, demolition and repair work.

No prizes for guessing that the contractor is the business or person who directly deals with and supplies material and/or labour to the client and the subcontractor is anyone who carries out construction work on behalf of the contractor.

However, it is important to clearly differentiate between the two in relation to the CIS, as this dictates individual responsibilities on each side.

### Within the CIS, HMRC classifies contractors as:

- Those who pay subcontractors for construction work
- A business, individual or organisation that spends an average of £1 million or more p.a. on construction in any 3-year period

### A subcontractor is classed as:

- Any individual, body or organisation that is paid to undertake construction work by a contractor
- Any type of business can be classified as a subcontractor, be it a sole trader, partnership, or limited company. It is important to recognise that a subcontractor is not necessarily a self-employed individual working on different construction projects. Equally, a large corporation could classify as a subcontractor within the CIS.
- More confusion may arise when the work is subcontracted through a third party. Although the agency or business may not be carrying out the work themselves, they would still class as the subcontractor as they are being paid directly by the contractor. Even local authorities and some other public bodies that organise construction work can be classed as subcontractors.
- An organisation/individual can be both a contractor and subcontractor at the same time. For example, a local building firm could be contracted by a local authority to carry out some work, and would therefore register as a subcontractor. However, if they then subcontracted out some elements of the work then they must also register as a contractor.

## CIS requirements

In advance of a construction project, all contractors and their subcontractors must register with the CIS.

### Registration for Contractors

Contractors must register as an Employer with HMRC. This can be done at <https://www.gov.uk/register-employer> You must register before the first payday and the process can take up to 6 weeks. You can't register more than 2 months before you start paying people.

Once registered, you'll receive a letter from HMRC that gives you all the information you need to start working as a CIS contractor.

### Registration for Subcontractors

Sole traders can register for the CIS online by logging in with their Government Gateway ID. HMRC will need to know the name of the business or the individual's name plus UTR and NI number.

For limited companies and partnerships there is an online CIS305 form <https://www.gov.uk/government/publications/construction-industry-scheme-company-registration-cis305> ;and for partnerships there is the CIS304 form\* <https://www.gov.uk/government/publications/construction-industry-scheme-partnership-registration-cis304>

If you are registering as a subcontractor, make sure you use the same name and business address for your contractor as you did when registering with CIS, otherwise they will not be able to verify your CIS status.

\*Please be aware that HMRC will register the partnership separately to the sole trader registration and will need the partnership UTR and trading name.

### Subcontractor Verification

A contractor must verify a subcontractor with HMRC before they can be paid. This can be done online and will confirm:

- Whether the subcontractor is registered for the CIS
- What rate of deduction to use or if the contractor can be paid gross

If a contractor hasn't included the subcontractor on a CIS return in the current or last two tax years then they will need to reverify them.

### Deduction and payment of subcontractor tax

Once everyone is registered and verified then it is the responsibility of the contractor to calculate the correct tax deduction for any payments that have been issued to the subcontractor. This will be at one of three rates:

- 30% for unregistered sub-contractors
- 20% for registered sub-contractors that are registered but can't receive gross payments\*
- 0% in the instance of gross payment status for the subcontractor
- You must provide the following certificate to the subcontractor for each payment period - <https://www.gov.uk/government/publications/construction-industry-scheme-payment-and-deduction-certificate>

\*This excludes the cost of any fuel, equipment hire, materials and VAT

In the instance where a sub-contractor qualifies for “gross payment” status, there are 3 qualifying tests that they have to take:

**1) Business test**

The subcontractor must carry out their work in the UK and monies must mainly be routed via a bank account

**2) Turnover test**

A sole trader sub-contractor’s annual turnover from construction must be £30k or more. For a partnership or company this threshold is £30k **per** partner/director, Annual turnover is £30,000 or more (excluding VAT and cost of materials) for individuals or sole traders. For partnerships or companies then there is a lower limit of £200k turnover from construction or (if lower) then £30k per partner/director.

**3) Compliance test**

Gross payment status will not be permitted if any outstanding tax returns or other HMRC payments are due.

In this instance the subcontractor is responsible for paying all tax at the end of the year and HMRC will check each year for ongoing qualification of this status.

It is important to note that HMRC will not provide details of tax deducted for any future Construction Industry Scheme refund claims and the subcontractor must ensure that they retain their CIS tax payment vouchers and certificates.

For confirmation of proof that gross payments can be made see attached link:

<https://www.taxfile.co.uk/2008/04/types-of-cis-cards-in-the-construction-industry-scheme/>

### Monthly Payments and Reporting

Each month, the contractor must provide the subcontractor with a CIS voucher or certificates, which outlines any deductions made. At the same time they must submit their CIS returns to HMRC and ensure that the CIS deductions are paid.

### Penalties

The financial consequences of late filing within CIS are strict and linked to how many days over the filing deadline you submit. Starting at £100 when a day late this can rise to £300 or 5% of CIS deductions (whichever higher) from 6 months late. After this point the financial penalties can rise as high as £3,000 Or 100% of the CIS deductions. False or inaccurate submissions are also heavily penalised.

Feel free to  
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