

## Guide to Construction Industry Scheme

### 1. What is the Construction Industry Scheme?

The Construction Industry Scheme is a scheme run by the HMRC. In a nutshell, anyone using a subcontractor within the construction industry must verify them with the HMRC. Then, each time they pay them, they must deduct:

- 20% of costs invoiced, less VAT and materials, if they are verified as “Net”
- 30% of costs invoiced, less VAT and materials, if they are verified as “Unverified”

If they are shown as “Gross” when verified, no deduction needs to be made.



The contractor then pays the subcontractor the reduced amount, provides them with a CIS statement showing any tax deducted, submits a return to the HMRC and then pays the tax over directly to the HMRC.

The whole system is based on when the subcontractor is paid, rather than the date on invoices etc. Contractors and subcontractors both need to register for the scheme.

## 2. Who Must Register Under CIS??

Generally, any sole trader, partnership or company involved in work on permanent buildings, temporary structures or civil engineering work or installation may have to register if they use sub-contractors.

Typical work under the scheme includes site preparation, general construction - bricklaying, roofing, plastering etc, alterations and extensions, repairs and refurbishment, decorating, dismantling work & demolition.

There are some grey areas however. For example, soft landscaping is not included in the scheme unless working on a new build, or for a developer as part of a property development project. To ensure you comply with the guidelines it is recommended that you ask for advice or contact the HMRC.

## 3. Deadlines and Penalties

For CIS the monthly periods are 6th to 5th of next month - i.e. 6th January - 5th February. Returns and payments are due monthly, within 14 days from the end of the tax month. For example, if you're making a return to cover payments you made in the tax month from 6 May to 5 June, it must reach HMRC by 19 June.

It is a legal requirement that if you use subcontractors, you provide them with a CIS statement by the 19<sup>th</sup> of the following month. Failure to do so can lead to fines.

Late returns to the HMRC will be penalised £100 each month for companies with less than 50 sub-contractors.

If you are registered but have not used sub-contractors for a specific month, you must submit a nil return.

By law all members of the scheme must keep records of all payments made, tax collected, materials costs deducted etc.

If you are found to be paying people in the Construction Industry but you have not registered you can be fined up to £3,000. You can then be asked to pay over the tax you should have been deducting from your subcontractors out of your own pocket - so it is really important to register if this applies to your business.

## 4. How to Reclaim CIS – Sole Traders/ Partnerships

If you are a Sole Trader or Partnership you can keep all of your CIS statements for your accounting period (usually the tax year). When you submit your tax return you can then add all of the CIS deducted to your return, to reduce your tax bill. If you have suffered more CIS than tax due, you will receive a refund from the HMRC.

If the HMRC check you return against the CIS records of your customers, they can query a refund if, for example, one of your contractors did not put through a return for the CIS they deducted from you. In this case, they can request to see the CIS statements. This is why it is so key that you get copies of all of your statements from your customers. If you cannot provide a statement to the HMRC, they can refuse to credit you with the tax deducted.

## **5. How to Reclaim CIS – Limited Companies**

If you suffer CIS as a Limited company, there are strict rules as to when and how you can reclaim it. An RTI return needs to be sent to the HMRC every month that you suffer a deduction. This will then be offset against any other PAYE or NI that you owe the HMRC.

At the end of the tax year, if there is any surplus money in your PAYE account you can apply to the HMRC to either offset another tax with it, move it forward to the new year's PAYE, or apply to have it refunded to you. This is a complex and lengthy process that can take up to 3 months, so it is important to start the claim as early as possible after the end of the tax year.

As per the Sole Trader section, when you apply for the transfer or refund your records will be checked to that of your customers. If they have not processed your CIS deductions correctly the HMRC can again ask to see the CIS statements you have received. This is why it is so key that you get copies of all of your statements from your customers. If you cannot provide a statement to the HMRC, they can refuse to credit you with the tax deducted.

## **6. Gross Payment Status**

You may be eligible as a business for 'gross payment' status, which means that deductions won't be made from your payments, but in order to qualify, your business must pass several qualifying tests. For more information please contact us.

## **7. Why Get Clear Cut Accounts Involved?**

Sometime the amount of paperwork and tasks you need to complete can be overwhelming... but once registered and set up, it is a very straightforward process.

## **8. What Services Do We Offer?**

- If you have sub-contractors, we can register you with the HMRC.
- After setup we can submit your CIS returns, as well as calculating your sub-contractor's payments and tax, and sending them CIS statements by email. We can then let you know what to pay, how and to whom.
- If you are a Limited Company who suffer CIS, we can submit monthly reclaim returns for you, and arrange to claim back or offset the CIS for you at the end of each tax year.

- We are specialists in dealing with CIS and can sort out past CIS payments, and restate previous month returns if errors have been made, as well as liaising with the HMRC. We can also backdate and complete returns for those who have registered for the scheme late.
- We can also contact your customers for old CIS statements that may be missing, and help deal with any conflicts with customers or subcontractors that the scheme can cause.

For clients using any of our CIS services - we will be happy to explain the CIS process to you, and answer any CIS queries at any time during the service term.

We can liaise with the HMRC on your behalf if assigned as your agent. We can also advise you on other CIS and employment issues, such as moving from sub-contractors to employees.

Our rates are shown on our website [www.clearcutaccounts.co.uk](http://www.clearcutaccounts.co.uk).

A new CIS VAT Domestic Reverse Charge which will take effect from 1st October 2020. For more information see our Reverse Charge guide.

## 9. Other Services We Can Provide

We realise every business is different, and have a wide variety of requirements. In addition to the above core services, we can also provide the following services:

- Company Registration for Start-ups
- VAT Registration and Returns
- CIS Registration and Returns
- Employing People / Payroll
- Company Directors Dividend Payments
- Providing regular Business Information - P&L, Balance Sheet, Credit Control, Profitability.

Please get in touch for a no obligation chat.

