



A Contractors Guide To: Construction Industry Scheme (CIS)

The CIS is a scheme that affects all construction businesses - This guide tells you everything you need to know when it comes to CIS.



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Whats in this guide?

- 3 | What is the Construction Industry Scheme? (CIS)
- 3 | What Is CIS tax?
- 4 | What work falls under CIS?
- 6 | CIS Tax Rates
- 8 | Registering As A Contractor Under CIS
- 9 | What Are Your Contractor Responsibilities Under CIS?
- 10 | Registering As A Subcontractor Under CIS
- 11 | What Information Do I Need To Register for CIS
- 12 | How to Apply for CIS Gross Status (0% Tax Deduction)
- 18 | CIS Verifying Your Subcontractors
- 20 | Example of CIS Calculation
- 22 | CIS Materials
- 23 | CIS Payment & Deduction Statement
- 25 | CIS Monthly Return and Payments
- 27 | CIS Repayments
- 28 | How To Offset CIS Against Taxes or Payment Into Your Account
- 30 | CIS Penalties



What Is The Construction Industry Scheme? (CIS)

The CIS is a scheme that affects businesses in the construction industry, CIS was set up by HMRC to reduce tax fraud within the industry as they believe it was too easy for subcontractors to keep the money and not declare it on their tax returns.

When Contractors are undertaking big building projects they will typically use subcontractors to assist in the project as an alternative to employing staff as this would incur additional amounts of taxes needing to be paid to HMRC.

What Is CIS Tax?

CIS is not an additional tax for contractors or subcontractors, it is simply a way of HMRC ensuring they are receiving their tax money by making contractors deduct CIS tax deductions before paying the subcontractor.

For example, if a subcontractors invoice is £2,000 and the CIS tax deduction is £400 then the contractor will pay £1,600 to the subcontractor and £400 to HMRC.

If you are a subcontractor, don't worry as you haven't just lost £400! The £400 will be used to offset against any tax you may owe to HMRC when you complete your year-end accounts.

In many cases, subcontractors receive a tax refund from HMRC.



What Work Falls Under CIS?

CIS covers most construction projects involving:

- Permanent or temporary building or structure
- Plant hire which comes with an operators
- Erecting scaffolding
- Installation of Solar Panels (unless private)
- Civil engineering work such as roads, bridges, airports, railways etc
- Site preparation and cleaning inside of buildings after construction work
- Demolition and dismantling
- Building work including alterations, repairs, extensions and decorating
- Installing systems for heating, lighting, power, water and ventilation
- Any work forming part of land e.g. walls, roadworks, power lines and waterways etc



Certain jobs you do not have to register for such as:

- Architecture and surveying
- Plant hire which does not come with an operator
- Scaffolding hire (with no labour)
- Carpet fitting (unless involved with a construction project)
- Making materials used in construction including plant and machinery
- Delivery of materials
- Work on construction sites that's not construction, e.g. running a canteen or site facilities.
- Drilling for oil or gas
- Extracting minerals

If the customer is not a contractor then the work is not covered by CIS (residential)

[For specific examples please see here HMRC link.](#)

Where exempt work is being carried out in conjunction with work that is covered by CIS, then often the exemption is lost. All of the work would be covered by CIS.



CIS Tax Rates

There are three different types of CIS tax rates currently:

- 30%
- 20%
- 0%

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- CIS 30% Tax Deduction

If a subcontractor decides not to register for CIS (very rare!) then they will suffer the higher rate of CIS tax deduction at 30%. Most subcontractors will end up registering for CIS as they cannot afford to suffer a CIS tax rate of 30%.

Once they have registered as a subcontractor under CIS then the tax deduction rate reduces to 20%.

- CIS 20% Tax Deduction

Construction businesses which register as a subcontractor will suffer tax deductions at a lower rate of 20%. Once they have registered they are known as net subcontractors.

Smaller subcontractors will choose to accept the 20% CIS tax rate as the deductions suffered will be used to offset their personal liabilities (Individuals or Partnerships) or corporation tax liability (Ltd companies).



This can be particularly useful for businesses that struggle to pay their year-end tax liabilities.

However, if you are looking to grow and would like better cashflow, you should register to become a gross subcontractor as they pay 0% CIS tax (this makes you responsible for your tax liabilities).

- CIS 0% Tax Deduction

Under CIS, businesses have the option to register for 0% tax deduction which is called gross payment status.

If you have registered for gross payment status you will receive the full payment from your contractor. No CIS deductions! This is great for your cashflow however you are now responsible for ensuring your tax liabilities are met, otherwise you can be caught up in penalties and fines very quickly.

If you are worried about paying for your tax liabilities you can either get yourself a good accountant or if you want to go solo, set up a separate deposit account so you can use it to save up to pay your tax liabilities.



Registering As A Contractor Under CIS

When you become a contractor under CIS you have to register as soon as possible! A Contractor is someone who pays subcontractors for construction work or when their average annual spend over a three year period exceeds £1 million on construction work.

To register as a contractor it is quite simple, you use this link to go to HMRC website, where you can register as a CIS contractor.

You will be asked to answer a series of questions, they are quite simple to answer and at the end, you will be asked if you have a HMRC online account. If you don't you will be asked to create one.

Or you can ask your accountant to do it for you (there shouldn't be a charge as it is very straightforward).



What Are Your Contractor Responsibilities Under CIS?

Contractors have to make an online monthly return to HMRC:

1. Confirming that the employment status of subcontractors has been considered
2. Confirming that the verification process has been correctly dealt with
3. Detailing payments made to all subcontractors and
4. Detailing any deductions of tax made from those payments

The contractor must submit the following information to HMRC:

1. Subcontractors name
2. Verification number
3. Gross amount
4. Materials amount
5. Tax Deducted



Registering As A Subcontractor Under CIS

If you are carrying out construction work for a contractor, you are a subcontractor. If you fall under both categories you are required to register as a contractor and as a subcontractor.

The same rules apply with the CIS Tax Deduction rates so it makes sense to register as a CIS subcontractor to take advantage of the 20% tax deduction instead of 30%.

If you have a Government Gateway Account, this is where you can apply to be a subcontractor. Again, your accountant can do this for you.



What Information Do I Need To Register For CIS

To register for CIS you will need a few things:

- Your business name - you can also give your trading name if it is different
- Your National Insurance Number Your Unique Taxpayer Reference Number (UTR) for your business
- Your VAT number if you are VAT registered.
- You will need your Government Gateway ID and password that you used when you registered for Self-Assessment (or other services)

If you're a sole trader and you already have a UTR, you can register for CIS online. You will need your Government Gateway user ID and password you used when you registered for Self Assessment.

If you don't have a UTR, visit [here](#) and choose 'working as a subcontractor' when prompted to register for Self Assessment and CIS. Limited companies and partnerships have their own online forms. If you are a partnership, HMRC will register this separately to your sole trader registration - they'll require your partnership UTR and trading name.

There is also a CIS helpline that you can use if needed - 0300 200 3210

(or you can simply message Saint Financial Group).



How To Apply For CIS Gross Status (0% Tax Deduction)

HMRC see CIS gross payment as a privilege for subcontractors to have and have the power to remove gross status at any time. HMRC would do this if you start making late filings or paying your tax liabilities late, they tend to act very fast on this and are usually quite strict with one warning usually being issued and only a reasonable excuse to stop them from removing your Gross Status. HMRC would take into account all your taxes and filings, not only your CIS... so a late payment for your personal tax liabilities can affect your Gross Status.

CIS Gross Status is where the contractor does not deduct any CIS tax on your behalf so the subcontractor will receive the full payment of their invoice. This will make the subcontractor responsible for paying their taxes at the end of the financial year.

Although the amount of tax paid on profits will be the same if you obtain CIS Gross Payment status, there will be improvements to cashflow and reductions in the cost of credit so it makes the application process worthwhile.

To become Gross Status, you simply log into your government gateway account, on the tax account select other services and then select subcontractors.

There are three tests you need to pass to gain CIS gross payment status:

Business Test:

You need to prove you carry out construction work. You're



unlikely to fail this test alone and any failure must be agreed upon by a Higher Officer within HMRC before you are informed. To pass the business test, HMRC will seek the following information:

- You are carrying on a business in the UK
- The business consists of, or includes carrying out construction operations, or supplying labour for construction operations
- The business is, to a substantial extent, carried on by means of an account with a bank.

Tips:

- Ensure you have a UK bank account
- Be able to support with documents/invoices that you operate in the Construction Industry



Turnover Test

Your turnover must be greater than £30,000 per director/partner or £100,000 for the whole company/partnership. The turnover is in reference to the last 12 months and refers to 'net' construction income. Net construction income is the total amount you have invoiced the customer, for activities within the construction industry, less related materials.

Related materials are costs incurred when carrying out the construction operations and include:

- Land, building materials and consumable items
- Fuel for plant
- The actual cost incurred for plant hire
- Any Construction industry Training Board Levy

The following items are not 'materials'

- Subsistence
- Fuel for Travelling
- Cost of scaffolding purchased by scaffolding subcontractors

If the turnover test is not met, you might be able to meet one of the other turnover tests:



Alternative Test

When multiplying the £30,000 threshold by the number of directors/partners is greater than your net construction income in the last 12 months due to a high number of directors/partners, the alternative test may be applied.

This test is for either a company or a partnership (not sole traders) and can be passed where the total net construction turnover exceeds £100,000 in the previous 12 months.

‘Prospective’ Receipt Test

The turnover test can be passed if the company or partnership (not sole traders) can show evidence relevant payments earned (including work in progress) exceed £30,000 and construction contracts have been entered into where the combined value exceeds £100,000.

‘Subsidiary Company’ Test

The turnover test can be passed if the company or partnership (not sole traders) can show evidence relevant payments earned (including work in progress) exceed £30,000 and construction contracts have been entered into where the combined value exceeds £100,000.



‘Inherited Receipts’ Test

Net contractor turnover in the 12 month period, earned by another business may be included in new applications if:

- Individuals operating as sole traders that form a partnership to succeed in their separate trades
- An individual that incorporates
- A partnership that incorporates, the former partners becoming directors/shareholders
- A company that joins a partnership made up of individuals or companies
- ‘Transferred Receipts’ test

Compliance Test

All of your tax affairs must be up to date and all tax returns and payments must be submitted by the deadlines. This includes:

- Company Tax Returns and Corporation Tax
- PAYE and National Insurance returns and payments for employees
- CIS payments and returns
- Self Assessment Tax Returns for each partner
- Income Tax and National Insurance payments for each director/ payment under self-assessment



Gross payments status can be refused where HMRC have “reasons to expect” you will not continue to comply with future obligations on time.

Most businesses fail for CIS gross status due to the Compliance test, however, you can appeal the decision if you have a ‘reasonable excuse’ or if HMRC has not applied the test correctly. Examples of reasons are:

- Cashflow Difficulties

If you can prove that the late payment of tax was due to an unexpected failure of one of your customers or sudden difficulty of raising finance and where you have general good background compliance, HMRC can in some cases allow the appeal.

- Compliance Torrance

Ensure the refusal has not been made on a compliance breach that occurred before 12 months of the application.

- Reasonable Excuse such as:

- Sudden and serious illness during the 12 month period
- Unavoidable and unexpected absence close to the payment and filing date because of business commitments or domestic emergencies
- Accidental destruction of records through flood or fire
- Exceptional postal delays



CIS Verifying Your Subcontractors

As a contractor, one of your responsibilities under CIS is to verify your subcontractors. Once you have verified a contractor HMRC will tell you the correct amount of tax to deduct.

When you take on a new subcontractor which you have not used before, you will have to verify them before payment is made.

To complete the CIS subcontractor verification process you will request the following information from your subcontractor to give to HMRC:

- Name
- UTR (Unique Tax Reference)
- Companies House Number (if limited company)
- National Insurance Number (if a sole trader or partnership but not essential for verification)

To verify a subcontractor you can use the HMRC website or a commercial software (or Saint).

Once you have logged in to the HMRC website, on the left hand side there should be a link called 'add subcontractor', you will be asked what type of business the subcontractor is (individual, partnership, company) then a new webpage will appear requesting the subcontractor information.



Once completed you will receive the verification results and HMRC will provide you with the tax to be deducted from the subcontractor and a verification number.

The tax you will need to deduct will either be:

- 30% deduction if they are not registered under CIS
- 20% deduction if they are registered (standard/net rate)
- 0% if they have applied for gross payment status.

The verification will usually be a V followed by 10 numbers. This is proof that you have deducted the correct amount of tax.

A subcontractor will not need to be verified again if the contractor has used the subcontractor within the last two years. HMRC will alert you when the verification is out of date and only then will you need to re-verify a subcontractor.

If a subcontractor changes its status (say 20% to 0%), HMRC will notify the contractor (only if they have an up to date verification) and subcontractor of the change.



Example Of CIS Calculation

Calculation If you are using Xero or Quickbooks etc, the CIS calculation can be calculated for you automatically. However, to understand the process of CIS, we are going to run through the essentials of a CIS calculation.

Firstly let's understand what CIS is calculated upon:

1. Gross Amount The gross amount is the total invoice amount. If a subcontractor is VAT registered you would exclude VAT from the total.
2. Qualifying Materials The qualifying materials are the costs, which the subcontractor has incurred. Qualifying CIS materials do not suffer any CIS tax deduction.
3. CIS Tax to Deduct The contractor will deduct the qualifying materials from the gross amount, which gives a labour amount. The contractor will then calculate the tax to deduct by applying the CIS tax rate to the labour amount.

Example:

The contractor has verified the subcontractor and has been given a tax rate of 20%.

The contractor has been given an invoice from the subcontractor:

Materials £400 + £80 VAT

Labour £1000 + £200 vat

Total Invoice amount = £1400 + £280 VAT



The contractor will be required to report the following numbers to HMRC:

Gross Amount £1400 - total amount invoiced not including VAT

Qualifying Materials £400 - not including VAT

CIS Tax To Deduct - £200 - This is calculated from the gross amount £1400 less the materials of £400 = £1000 x 20% CIS Tax Deduction Rate = £200 CIS to deduct.

The contractor will now pay HMRC £200 and the subcontractor £1,480.



CIS Materials

Where you are required to take CIS deductions for a subcontractor, the CIS tax rate is applied from the VAT-exclusive costs of:

- Labour Element
- Travelling expenses/subsistence (including fuel and accommodation costs)
- Profit element only on materials

Qualifying CIS materials include:

- Material costs
- Plant hire if costs are incurred to a 3rd party (if the subcontractor owns the plant it is not deducted)
- Fuel for the plant and machinery

Example:

A contractor has received an invoice from a subcontractor. The verification process has been completed and has been instructed to deduct 20% as the CIS tax rate.

Labour £4,000
Materials £600
Plant Hire £300





CIS Payment & Deduction Statement

When a contractor makes a CIS deduction they must provide the subcontractor with a CIS payment and deduction statement. This is evidence to show the subcontractor what deductions have been made and which they can use as evidence to provide any tax deductions to HMRC.

The CIS payment and deduction statement must be provided within 14 days of the end of the tax month in which the payment was made. The tax month ends on the 5th of each month so the reporting deadline will be the 19th.

If you pay a subcontractor multiple times in one month, all relating payments to that month can be included in one CIS payment and deduction statement. You can issue individual statements for each payment if you wish.

Xero (and others) produce the CIS Payment and Deduction Statement for you. The CIS payment and deduction statement must show the following information:

- The contractor's name
- The contractor's employer tax reference number
- The month to which the payment relates, for example, the month-end August 2021
- The subcontractor's unique tax reference number
- The verification number provided by HMRC during the verification process (only required for higher rate deductions at 30%)
- The gross amount



- The CIS qualifying materials amount
- The CIS tax amount

Where subcontractors have gross payment status there is no requirement to issue a CIS Payment and Deduction Statement.



CIS Monthly Return And Payments

As a contractor, you are required to file a CIS monthly return with HMRC. This must be filed within 14 days of the tax month end (all tax months end on the 5th) so the return must be filed by the 19th of the month.

In the CIS monthly return HMRC request all payments made to subcontractors in that month. The CIS monthly return will include all CIS subcontractors including 0%, 20% and 30% subcontractors.

HMRC will ask for the following information:

- Subcontractor name
- Verification number
- Gross amount
- Materials amount
- Tax deducted

If you have a month where you don't use any subcontractors so no payments have been made, a return still has to be filed to HMRC.

If needed you are allowed to amend previously filed CIS monthly returns without any consequences however if they believe the return was filed intentionally incorrect they may investigate further.

When making CIS payments to HMRC they are either paid monthly or quarterly.

1. Monthly Payments They must be paid within 14 days of the tax



month-end or 17 days if paying electronically. Typically if the contractor also has PAYE and NIC due, this will be paid over at the same time.

2. Quarterly Payments They must be paid within 14 days of the quarter-end or 17 days if paying electronically. The quarter ends are on 5th July, 5th October, 5th January and 5th April. Quarterly payments can only be made if the average monthly liability for CIS, PAYE and NIC is less than £1,500 per month.

When paying HMRC it is best to pay with a Business Debit Card (they charge a fee if you use a credit card so it would depend on your circumstances) as this will be the easiest option.

To pay using this method you will need your 13 digit Accounts Office Reference number, it will look something like this 123PA01234567. To pay HMRC by card, follow this link.



CIS Repayments

CIS Repayments are very common under CIS for subcontractors that are not in gross payment status. This is why it is essential to have a good understanding of your books and to keep appropriate records because if you have messy books you could be paying more in tax than you should be.

Subcontractors often have unused CIS deductions when contractors deduct 20%/30% from their invoices. These amounts can be used to:

- Offset against PAYE or National Insurance
- Offset against Corporation Tax (if Ltd company)
- Offset against VAT
- Paid straight into your bank account
- Or against any other taxes you might have.

If you are having large repayments every year, it is very advisable to apply for gross payment status.

HMRC wait until after the year-end to make any CIS repayments if they have had more deducted than necessary. HMRC do check and match all CIS repayments to check if the figures reclaimed are correct. Businesses are required to keep supporting evidence in case HMRC have any queries over your figures. This would include keeping all CIS payment and deduction statements they receive from their contractors as HMRC may request them.



How To Offset CIS Against Taxes Or Payment Into Your Account

If you log into your HMRC Online Account, you will be able to complete the form to claim any CIS deductions.

If you prefer you can send HMRC a letter (sometimes better results - use recorded delivery) for CIS repayment. You don't have to include any calculations (it would help for clarification) however if the claim does not match HMRC records they will request further information. This can cause weeks of delay for your tax refund so ensure the figures are correct.

The letter to HMRC will have to include:

- The company name
- The PAYE reference number
- The amount reclaimed.

If the claim is for a refund into your bank account:

- Bank account number
- Sort Code
- Bank account holders name
- Write 'repay CIS into the bank account above'



If you would like to offset against your VAT:

- VAT registration number:
- VAT return period
- Write 'offset CIS repayment against VAT'

If you would like to offset against your Corporation Tax:

- The company UTR (Unique Reference Number)
- The accounting period to offset the CIS against
- Write 'offset CIS repayment against corporation tax'



CIS Penalties

CIS have quite strict penalties that easily end up in the £000's if you are not careful plus HMRC can remove your gross payment status at any time which will massively impact your cashflow.

Penalties for Late Filing

If a contractor fails to submit the monthly return on time the following penalties will be applied unless you have a reasonable excuse:

- 1 day late = £100
- 2 months late = £200
- 6 months late = £300 or 5% of the CIS deductions (whichever is higher)
- 12 months late = £300 or 5% of the CIS deductions (whichever is higher)
- Over 12 months late = potentially an additional £3,000 or 100% of the CIS deductions (whichever is higher)...

In addition, the CIS penalties are cumulative and they are for each monthly CIS return not filed on time.

If no contractors are paid in that month, you are still required to file a Nil return and if you miss the deadline an automatic penalty will still be applied however HMRC have confirmed



they will cancel the CIS penalties when the contractor confirms the monthly return was Nil.

If you take a subcontractor on and treat them as an employee (quite common...) and continue to pay them as a subcontractor, you would now be avoiding paying the employment taxes due which would have been paid if they were employees. Declaring the wrong employment status can incur penalties of up to £3,000.

If you have an HMRC investigation, they are going to be asking for your CIS records showing information paid to subcontractors and the amount deducted. If these records are poor or non-existence, HMRC can issue a penalty of up to £3,000.



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