

Navigating CIS (Construction Industry Scheme)

A basic guide for SME's in Construction



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INTRODUCTION

This presentation is a basic guide on CIS
(Construction Industry Scheme)

This Guide sets out the basics however you should
always seek independent advice.

The UK tax code is 10 million words and 21,000 pages
long. Every case is different, some being basic and
other highly technical, each case should be reviewed
on its own merits.

Meet THE TEAM



Iain Campbell
Director



Ben Brierley
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About us

Cogency are specialist construction accountants who's main aim to remove any finance and administration burden away from owner managers so they can do what they do best... work on the business.

We help other construction companies with the following:

- Set out a growth strategy
- Structure your business commercially and tax efficient
- Structure your personal income in a tax efficient manner
- Educate and act as a soundboard not just for tax and compliance issues but for other business issues that arise. Given the nature of your issues, these may not be issues you can easily discuss with your family and friends.
- We can provide our clients with more real time data, allowing them to understand how much profit they are making, providing insights to cash flow and getting them to understand estimated tax liabilities periodically rather than a last minute tax bill.
- Our clients are busy people running their business, they need to focus time and energy on what they do best, not to deal with their accounting, we tailor our services to solve our clients pain points.
- We have dedicated account managers that are constantly in communication with our clients, we're not a once-a-year accountant and we certainly don't pass clients around the office.
- We keep up to date with latest trends from legislation to technology.
- We understand its difficult running and building a business, sometimes business owners have 5 different roles, from operation to sales to cleaning. We aim to take at least one of them away and that's accounting/finance allowing you to focus on your business.

1 - What is CIS (Construction Industry Scheme)?

The Construction Industry Scheme (CIS) is a tax deduction scheme in the United Kingdom that applies to construction work. It was designed to ensure that subcontractors in the construction industry pay the correct amount of tax and National Insurance contributions.

In adherence to the Construction Industry Scheme (CIS), contractors withhold funds from subcontractor payments, forwarding them to HM Revenue and Customs (HMRC). These deductions serve as prepayments for the subcontractor's tax and National Insurance obligations.

Registration in the scheme is mandatory for contractors, while subcontractors, although not obliged to register, face higher deduction rates if unregistered.

The classification of a subcontractor or contractor is contingent on their position within the supply chain. It is possible for a subcontractor to also be a subcontractor.

2 - Construction Work

CIS covers most construction work to:

- a permanent or temporary building or structure
- civil engineering work like roads and bridges
- building work
- alterations, repairs and decorating
- installing systems for heating, lighting, power, water and ventilation
- cleaning the inside of buildings after construction work

For the purpose of CIS, construction work includes:

- preparing the site - for example, laying foundations and providing access works
- demolition and dismantling

You do not have to register if you only do certain jobs, including:

- architecture and surveying
- scaffolding hire (with no labour)
- carpet fitting
- making materials used in construction including plant and machinery
- delivering materials
- work on construction sites that's clearly not construction - for example, running a canteen or site facilities

3 - Contractor/Subcontractor

Contractor

A contractor, defined as a business or entity engaging subcontractors for construction projects, encompasses a spectrum of entities. While this includes construction companies and building firms, it also extends to government departments, local authorities, and various enterprises commonly identified as "clients" in the industry.

Certain businesses fall under the category of contractors if their construction expenditures have exceeded £3 million in the preceding 12 months. Compliance with the rules necessitates regular monitoring of construction expenses by such businesses.

It's important to note that private householders are exempt from being classified as contractors, and consequently, they are not subject to the regulations outlined in the scheme.

Subcontractor

A subcontractor is a business that carries out construction work for a contractor.

Businesses that are both

Numerous businesses engage in transactions where they pay for construction services from one entity and receive payment for their own construction services from another. When operating as a contractor, they are required to adhere to the regulations applicable to contractors, and when functioning as a subcontractor, they must comply with the rules governing subcontractors.

4 - CIS Rates & Deductions

A deduction is the amount that a contractor has to withhold on account of tax and Class 4 National Insurance contributions from a payment made to a subcontractor. There are 2 rates of deduction:

CIS Rates	Application
Standard 20%	Currently 20% which must be applied to payments made to those subcontractors that are registered with HMRC.
Higher Rate 30%	Currently 30% which must be applied to payments made to subcontractors where HMRC are unable to identify the subcontractor.
0%	If the subcontractor has 'gross payment' status - for example they do not have deductions made.

The deduction does apply to any part of a payment that is for subsistence or travelling expenses. The deduction does not apply to any part of a payment that is for the cost of:

- materials
- VAT

Gross payment status

You must show HM Revenue and Customs (HMRC) that your business passes some 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

If your company's controlled by 5 people or fewer, you must have an annual turnover of £30,000 for each of them.

5 - CIS Verification

Before you can pay a new subcontractor, you'll need to 'verify' them with HM Revenue and Customs (HMRC). HMRC will tell you:

- whether they're registered for the Construction Industry Scheme (CIS)
- what rate of deduction to use or if you can pay them without making deductions

What you'll need

Make sure you have:

- your Unique Taxpayer Reference (UTR)
- the reference number for your HMRC accounts office
- your HMRC employer reference

You'll also need your subcontractor's:

- UTR
- National Insurance number if they're a sole trader - you cannot verify temporary numbers, which start with 'TN' or 2 digits
- company name, company UTR and registration number if they're a limited company
- nominated partner details, trading name and partnership UTR if they're a partnership

The details you provide to verify the subcontractor must exactly match the details the subcontractor used to register with HMRC.

6 - CIS Monthly Returns

Before you can pay a new subcontractor, you'll need to 'verify' them with HM Revenue and Customs (HMRC). HMRC will tell you:

Each month, contractors must electronically send HMRC a complete return of all the payments they have made within the scheme or tell us that they have made no payments. The return will include:

- details of the subcontractors
- details of the payments made, and any deductions withheld
- a declaration that the employment status of all subcontractors has been considered
- a declaration that all subcontractors that need to be verified have been verified

PAYE Setting Off

Companies that have deductions taken from their income as subcontractors should set-off these deductions against the amounts payable monthly or quarterly for PAYE, National Insurance contributions and Student Loan repayments due from their employees and CIS deductions from their subcontractors. This should be done monthly (or quarterly, as appropriate) and the calculation should be shown on the company's EPS.

Companies should simply reduce the amount of PAYE, National Insurance contributions, Student Loan repayments and any scheme deductions they pay over to our accounts office by the amount of CIS deductions made from their income.

In any month or quarter, if the company's own CIS deductions are greater than the PAYE, National Insurance contributions, Student Loan repayments and CIS liabilities payable, the company should set-off the excess against future payments in the same tax year. At the end of the tax year, when HMRC receive the company's final EPS and full payment submission, any excess CIS deductions that cannot be set-off may be refunded or set against any Corporation Tax due.

7 - Evidence

The contractor must provide a written statement to every subcontractor from whom a deduction has been made within 14 days of the end of each tax month. A tax month runs from the sixth of one month to the fifth of the next month so the statement must be provided by the 19th of the month.

The statement may be issued by electronic means but only where the:

- contractor and subcontractor agree to this method
- statement is in a form that allows the subcontractor to store and print it

The statement can be issued on the basis of one for each tax month or one for each payment if this is more frequent.

Contractors may choose the style of the statements but they must include the:

- contractor's own name and employer tax reference
- end date of the tax month in which the payment was made, such as 'tax month ending 5 May 2023' or the date of payment where the statement relates to a single payment
- subcontractor name & UTR
- personal verification number if the subcontractor could not be verified and a deduction at the higher rate has been made
- gross amount of the payments made to the subcontractor
- cost of any materials that has reduced the amount against which the deduction has been applied
- amount of the deduction

There may be other information that a contractor may want to put on the statement to enable the subcontractor to understand the payment that has been made. For example, this may include the amount of VAT charged by the subcontractor.

If a contractor regularly fails to give a payment and deduction statement where a statement is required to be given, this may be taken into account when considering whether or not the contractor should retain gross payment status as a subcontractor.

It's good practice for a contractor to give a subcontractor a payment statement where the payment has been made gross, but there is no obligation to do so.



8 - Key Dates

Contractors must pay the amount deductible from payments to subcontractors to hmrc monthly. They must pay deductions due to be made in each tax month within 14 days of the end of that month or within 17 days where payment is made electronically, whether or not these deductions have actually been made. This means that where a required deduction has not actually been made from the subcontractor's payment, for whatever reason, the contractor is still responsible for paying that amount over to HMRC.

Example

Deductions made between 6 May and 5 June must be paid by 19 June, or by 22 June where payment is made electronically (or the previous banking day where the 22nd is a weekend or bank holiday).

9 - Penalties

Late Submission

If a contractor fails to submit a monthly return on time, HMRC will charge them the day after the filing date, a fixed penalty of £100.

If the return is still outstanding, HMRC will charge a:

- second fixed penalty of £200 (2 months after the filing date)
- tax-gearred penalty which is the greater of £300 or 5% of any deductions shown on the return (6 months after the filing date)
- second tax-gearred penalty which is the greater of £300 or 5% of any deductions shown on the return, (where HMRC believe information has been deliberately withheld, this penalty will be higher)12 months after the filing date

•
HMRC do not charge contractors a penalty in respect of any months for which a return is not due for the month. However, if a contractor does not tell HMRC that a return is not due for the month, a penalty may be issued. Where this happens, contractors should let HMRC know that they have no return to make for the month in question and they will cancel the penalty.

Missing records

If a contractor fails to produce records relating to payments made under the scheme when asked to do so, HMRC may charge penalties up to £3,000.

HMRC may charge contractors penalties of up to £3,000 if they:

- fail to give statements to subcontractors registered for payment under deduction, recording their payments and deductions
- negligently or deliberately provide incorrect information in such statements



Late Payment Penalty

HMRC charge penalties on late payment of CIS, the same as they do for late PAYE. The first failure to pay on time does not count as a default.

No. of Defaults In A Tax Year	Penalty percentage applied to the amount that is late in the relevant tax month
1 to 3	1%
4 to 6	2%
7 to 9	3%
10 or more	4%

Daily interest will continue to build up on all unpaid amounts from the due and payable date to the date of payment.

Additional penalties

You'll be charged a late payment penalty if you pay less than is actually due.

If you've still not paid a monthly or quarterly payment in full after 6 months, you'll be charged an additional penalty of 5% of the amounts unpaid.

A further penalty of 5% will be charged if you've not paid after 12 months.

These additional penalties apply even where only one payment in the tax year is late.

10 - How to pay CIS

Typically at Cogency we advise clients to pay their CIS two ways:

Payment Method	How to pay
Card payment	<p>If you wish to pay by card then you can follow this link https://www.gov.uk/pay-vat</p> <p>You'll need to use your 13-character accounts office reference number as the payment reference.</p>
Bank Transfer	<p>If you wish to pay by bank transfer then use the following details:</p> <ul style="list-style-type: none"> • Sort code - 08 32 10 • Account number - 12001039 • Account name - HMRC Cumbernauld • You should use your accounts office reference number as the reference.

11 - Struggling to Pay CIS

If you cannot pay your tax bill in full, you may be able to set up a payment plan to pay it in instalments. This is called a 'Time to Pay' arrangement.

At Cogency we have helped numerous clients obtain a formal time to pay avoiding any penalties for late payment.

Make sure you always check what your options are before the payment due date to arrange in time otherwise we can't guarantee that you will not receive a penalty.



12. Common CIS Misconceptions

01

Misconception: CIS Registration is Optional for Subcontractors

Reality: CIS registration is mandatory for subcontractors in the construction industry. Failure to register can result in contractors deducting a higher rate of tax (30%) from payments.

02

Misconception: CIS Only Applies to Larger Construction Firms

Reality: CIS applies to all construction businesses, regardless of their size. Both contractors and subcontractors must comply with CIS regulations.

03

Misconception: CIS Deductions are Lost Income

Reality: CIS deductions are not lost income but rather a prepayment of tax. Subcontractors can reclaim the deducted amount when filing their annual tax return.

04

Misconception: CIS is Applicable Only to UK Residents

Reality: CIS applies to both UK and non-UK residents working in the UK construction industry. However, different tax rules may apply to non-resident subcontractors.

05

Misconception: CIS Deductions Are All Profit for HMRC

Reality: CIS deductions are a form of advanced tax payment. Subcontractors can offset these deductions against their overall tax liability when submitting their annual tax return.

06

Misconception: Self-Employed Workers Are Exempt from CIS

Reality: -Self-employed subcontractors are subject to CIS rules just like any other subcontractor. They need to register and comply with CIS requirements.

07

Misconception: Contractors Can Choose Not to Verify Subcontractors

Reality: Contractors are required to verify the status of subcontractors with HMRC before making payments to them. Failing to do so can result in penalties.

08

Misconception: CIS deductions are calculated on the gross invoice amount.

Reality: CIS is deducted from the labour element only excluding VAT unless the contract value includes materials and other costs that can not be split and is provided for under one contract.

THANK YOU

Navigating the CIS landscape in the UK requires a proactive and informed approach. Keeping abreast of changes in legislation, understanding your obligations, and implementing efficient accounting practices will not only ensure compliance but also contribute to the financial health and success of your.

Disclaimer

This guide shall not be construed as a formal opinion by Cogency on any aspect covered herein. Businesses and individuals dealing with CIS should seek professional advice and stay informed about CIS Legislation to ensure compliance and avoid costly mistakes. Every case should be taken on its own merits.