

# Quick Guide to the New Construction Industry Scheme (CIS)

With thanks to BKL Tax, the tax consultancy  
division of Berg Kaprow Lewis



# Aims of the new scheme

The Government set three broad aims for the new scheme :-

- To reduce the regulatory burden of the scheme on construction businesses.
- To improve the level of compliance by construction businesses with their tax obligations.
- To help construction businesses to get the employment status of their workers right.



# The new CIS

## Summary of main changes

### The current scheme

- Registration cards and certificates
- 2 payment categories
- CIS vouchers and end of year returns
- Periodic renewal of certificates



# The new CIS

## Summary of main changes

### The new scheme

- Verification process
- 3 payment categories
- Monthly returns
- Employment status declaration



# Registering for the new CIS

- Current holders of unexpired cards CIS 4, CIS 5 and CIS 6 transfer automatically to the new CIS
- Others need to register
- Lists of sub-contractors sent to contractors pre April 2007
- HMRC guidance – booklets CIS 340 to 349
- A new registration process



# The new CIS

## What has not changed

### Definitions

- Contractor – “mainstream” and “deemed”
- Subcontractor
- Construction Operations FA 2004 s74
- Construction contracts - wide meaning



# Payment categories

- **Three Payment categories**
  1. Gross Payment
  2. Standard rate tax deducted (20%)
  3. Higher rate tax deducted (30%)
- Deduction made from labour element only
- After VAT and materials



# Verification

- New subcontractor or those not used for two tax years
- Contact HMRC who will instruct on payment status of subcontractor
- Information to be given to HMRC – Unique Tax Ref, NI No, Co Reg No



# Contacting HMRC

- By telephone – 0845 366 7899
- Via Internet - [www.hmrc.gov.uk/new-cis](http://www.hmrc.gov.uk/new-cis)
- Electronically via Electronic Data Interchange (EDI) or other third party software
- Information to be given by contractor
  - Name
  - Unique taxpayer reference (UTR)
  - Accounts Office and Employer reference



# Verification reference number

- Verification reference number – same for all sub-contractors verified at same time

e.g. V0000345678

- Unverified sub-contractors have unique verification reference number e.g. V0000345678/A



# Verification reference number

- Importance of record keeping
- Higher tax payers – must be given unique VRN to claim credit
- Once verified – contractor continues to pay in same way unless HMRC says otherwise



# Changes in payment status

- Change from gross to deduction - 90 days notice to subcontractor, who can appeal
- Contractor receives 30 day notice of change, after which tax must be deducted
- Change to gross status – contractor to pay gross as soon as practical



# Documentary evidence of deductions

- “Payslips” must be provided to subbies with tax deducted by 19<sup>th</sup> of month
- Details to be provided – as for old CIS25, plus unique Verification Number (VRN)
- Good practice to give payslips to all subcontractors
- Duplicates can be given



# Monthly returns

- Submission by 19<sup>th</sup> of each month – all payments (gross or otherwise)
- Pre-printed with sub-contractors' names (used or verified in previous 3 months)
- Nil returns required, but can ask for suspension
- No annual returns but P35 entries needed



# Monthly returns

## Verification declaration:

**“Every sub-contractor included on this return, and any continuation sheets, has either been verified with HMRC or has been included in previous CIS returns in this, or the previous two tax years.”**



# Penalties

- Failure to submit monthly return - £100 +
- Incorrect or incomplete returns – if negligence or intent – penalties of up to £3,000
- Reasonable care to be taken
- Contractor could lose Gross Payment Status
- New CIS is “real time” – failures will be apparent much sooner



# Non-UK businesses

- All construction operations carried on in UK are within the CIS, regardless of country of residence of contractor or sub-contractor
- Non-resident contractors/sub-contractors must register with Centre for Non Residents (CNR), Nottingham



# Qualifying for Gross Payment Status

- Holders of CIS 5 or 6 unexpired at 6 April 2007 do not need to reapply for gross payment status
- Three tests to be satisfied (as with old CIS)
  - The business test
  - The turnover test
  - The compliance test



# Gross Payment Status Tests

## The business test

- Business in the UK
- Construction work or providing labour for such work
- Substantially through a bank account



# Gross Payment Status Tests

## The turnover test

- Likely to have turnover of at least £30,000 in 12 months after application
- “Standard” and “alternative” tests
- Old CIS turnover test – new business considerations – now HMRC can exercise discretion



# Gross Payment Status Tests

## The Compliance Test

- Preceding 12 month testing period
- What must be done –
  - Completed all tax returns
  - Supplied any information requested by HMRC
  - Paid by the due dates all Tax, NIC, PAYE and CIS deductions (VAT not an issue)



# Gross Payment status tests

## The Compliance Test

Failures that are disregarded :

- Monthly returns – 3 late submissions (up to 28 days)
- CIS/PAYE/NI deductions – 3 late submissions (up to 14 days)
- CT/IT payments late (up to 28 days)
- Any “minor and technical” failures in 12 months transition period



# Gross status withdrawn

- Can be withdrawn by HMRC at any time if any of the three tests are failed.
- No three year lag any longer
- 90 days notice must be given and can be appealed
- If serious breach HMRC can cancel gross status with immediate effect
- No re-applying for 12 months



# Online communication

- HMRC recommends use of online services
- Free software ([www.hmrc.gov.uk/new-cis](http://www.hmrc.gov.uk/new-cis))
- PAYE/CIS Online for Agents service
- Advantages of using on-line filing



# Employment status

- Key feature of new CIS – getting employment status of sub-contractors right
- Monthly return – status declaration
- Major burden on contractors – penalty charge
- Contractors must educate themselves on the issues.



# Employment status

**Employment status declaration:**

**“The employment status of each individual included in this return, and any continuation sheets, has been considered and payments have not been made under contracts of employment.”**

