



## What is the Construction Industry Scheme (CIS)?

Construction Industry Scheme (often shortened to CIS) is a scheme put in place by HMRC in 2007 where contractors deduct a percentage of money from a subcontractor's payments which is then passed on to HMRC.

The scheme only requires contractors to register, however subcontractors are advised to register as unregistered subcontractors have a higher rate deducted from their payments.

## Why should a subcontractor register with the scheme?

Subcontractors are advised to register with the scheme to reduce the rate of deduction from their payments. Unregistered subcontractors must have 30% deducted from their payments whereas once registered, this is reduced to 20%.

Please note: the contractor is liable for any errors within the deductions made and ensuring the subcontractor is verified.

## How do I know if I am a contractor or subcontractor?

You are a contractor if you pay subcontractors for construction work and/or your business doesn't do construction work but you spend an average of £1 million or more a year on construction within any 3 month period.

You are a subcontractor if you complete or aid completion of any construction work for a contractor.



## How are the CIS returns submitted?

All contractors must submit a monthly return to HMRC by the 19th of each month. This return can only be submitted online via the HMRC website. If the return is nil this still needs to be submitted, however this can be submitted by phone.

When submitting the monthly return contractors must make sure throughout the month they have deducted the correct rate from their subcontractors. These subcontractors can be verified online – you will need their Unique Tax Reference (UTR), Trading Name, National Insurance Number (if they are a sole trader) **OR** Company Registration Number (if they are a limited company).

## What if I miss the submission date?

If a CIS return is submitted late HMRC will issue a penalty depending on how late it is.

For any returns submitted later than this an additional penalty can be issued of £3000 or 100% of the CIS deductions on the return, whichever is higher.

## When and how does a contractor pay this?

Once the monthly return is submitted by the contractor, the total of the deducted amounts must be paid to HMRC by 22nd of the **SAME** month (by 19th if you're paying by post). This can be paid by any of the below.

- Direct Debit
- CHAPS
- Online or Telephone Banking
- Online Card Payment
- BACS
- Post
- Cheque

## What if subcontractors pay too much?

Contractors throughout the year must provide each subcontractor with a Payment and Deduction Statement. This statement should show a breakdown of what was submitted on the monthly return.



## Sole Trader

If the subcontractor is a sole trader the CIS deductions are recorded on their Self-Assessment Tax Return.

HMRC will then work out your Tax and National Insurance bill for the year taking off any deductions suffered.

If tax is still owed then you must pay this by the 31st. If an overpayment has been made a refund will be issued by HMRC.

## Limited Company

If the subcontractor is a limited company you will need to submit your monthly Full Payment Submission (FPS) as usual.

The subcontractor will then need to send in an Employer Payment Submission (EPS) at the end of the tax year showing all deductions suffered throughout the year.

HMRC will take the deductions off what you owe in PAYE and National Insurance.

*If you have any queries or would like any further information please do feel free to contact us:*

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