

New Construction Industry Scheme (CIS)

April 2007 sees the launch of the new CIS scheme which will mean no more CIS cards and certificates but more emphasis on the employment status of sub-contractors.

The basic outline of the new scheme is as follows:

- New **subcontractors** will have to register with HMRC when they apply to be paid gross by contractors for whom they work, (like those who had tax certificates under the previous CIS, or they can register to be paid under deduction (like those who had registration cards under the previous CIS).
- To qualify for gross payment, subcontractors must pass the business, turnover and compliance tests.
- **Contractors** must check or verify subcontractors with HMRC. They will then be told at what rate to deduct tax, if any, and will be given the subcontractors 'verification' number. This is only applicable to new subcontractors; existing subcontractors or any who have been paid in the previous 2 years will receive form CIS336 which will advise them of their verification number.
- **Contractors** must pay subcontractors in accordance with what HMRC has told them. Subcontractors who were unable to be 'verified' should have higher rate deductions made from their payments; again this rate will be advised by HMRC.
- **Contractors** must give a statement to each subcontractor from whom they have made a deduction, whether at the standard rate or at a higher rate and these statements must be issued within 14 days of the end of the tax month. The statements should show the contractor's details and details of the payment made and the deduction from that payment. This is similar to the current voucher system, however there is no standard form for this, but it must be in writing. No statements are required for subcontractors from whom no deductions have been made.
- Monthly returns must be made by contractors to HMRC showing the payments made to **all** subcontractors, whether paid gross or under deduction. This will be supplied by HMRC and will include any subcontractors details paid previously. These returns must be sent back with 14 days of the end of the tax month to which they relate with any deduction being paid over by the 19th following the month in which the deductions were made. **An automatic penalty of £100** will be imposed if the return is not received by HMRC by the 19th for contractors with 10 or less subcontractors rising to £1,300 for those with 620 or more. **Nil returns must also be made by the 19th and are subject to the same late filing penalties.**

Perhaps the most important change to the CIS legislation is the contractor's responsibility to correctly work out the employment status of their subcontractors. The new scheme places the emphasis very firmly on considering employment status for each subcontractor, as evidenced by the statement on the monthly return. This statement confirms that none of the payments shown on the return as payments made through CIS relates to a contract of employment. Thus the contractor makes a positive statement

about employment status every month and in respect of every subcontractor who has been paid in that month.

There are a number of factors which would indicate whether or not a worker is self-employed. Too many to go into on these pages. Please contact us for advice and additional information on this very important aspect of the new scheme.

The above is just a brief summary of the new system. There will undoubtedly be difficulties and teething problems when the scheme is implemented –telephone contact centres will be specially set up – let’s hope they are staffed by knowledgeable staff.

These notes are for guidance only please feel free to contact us for more in-depth information on this new CIS system.