

Construction Industry Scheme

Guide for contractors and subcontractors

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This booklet is available in large print. If you would like a copy please contact your HM Revenue & Customs office.

CIS Helpline minicom **0845 366 7894**

Yr Iaith Gymraeg/Welsh language. Ffoniwch **0845 302 1489** i dderbyn fersiynau Cymraeg o ffurflenni a chanllawiau.

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1 Introduction to the Construction Industry Scheme (CIS)

This chapter gives a brief introduction to the scheme and tells you where you can find more detailed information later in the guide.

What is the Construction Industry Scheme?

- 1.1 The scheme sets out the rules for how payments to subcontractors for construction work must be handled by contractors in the construction industry and certain other businesses.

Under the scheme, all payments made from contractors to subcontractors must take account of the subcontractor's tax status as determined by HM Revenue & Customs. This may require the contractor to make a deduction, which they then pay to us, from that part of the payment that does not represent the cost of materials incurred by the subcontractor.

What types of work are covered by the scheme?

- 1.2 The scheme covers all construction work carried out in the United Kingdom (UK), including jobs such as:

- site preparation
- alterations
- dismantling
- construction
- repairs
- decorating
- demolition.

The UK includes United Kingdom territorial waters up to the 12-mile limit.

The scheme does not apply to construction work carried on outside the UK. However, a business based outside the UK and carrying out construction work within the UK is within the scheme and must register accordingly.

More information

There is more information on the scope of the scheme in paragraphs 2.41 to 2.45 and in Appendix A. There is more information on businesses not resident in the UK at Chapter 5.

What types of businesses are covered by the scheme?

1.3 The scheme covers all types of businesses and other concerns that work in the construction industry, including:

- companies
- partnerships
- self-employed individuals.

These businesses can be:

- contractors
- subcontractors
- contractors **and** subcontractors.

Under the scheme, the terms 'contractor' and 'subcontractor' have special meanings that cover more than is generally referred to as 'Construction'.

1.4 Contractor

A contractor is a business or other concern that pays subcontractors for construction work.

Contractors may be construction companies and building firms, but may also be government departments, local authorities and many other businesses that are normally known in the industry as 'clients'.

Some businesses or other concerns are counted as contractors if their average annual expenditure on construction operations over a period of three years is £1m or more.

Private householders are **not** counted as contractors so are not covered by the scheme.

1.5 Subcontractor

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

1.6 Businesses that are contractors *and* subcontractors

Many businesses pay other businesses for construction work, but are themselves paid by other businesses too. When they are working as a contractor, they must follow the rules for contractors and when they are working as a subcontractor, they must follow the rules for subcontractors.

More information

For a more detailed explanation of what is a contractor and what is a subcontractor, see Chapter 2.

How the scheme operates

1.7 Registering for the scheme

All contractors must register with us for the Construction Industry Scheme. Subcontractors who do not wish to have deductions made from their payments at the higher rate of deduction should also register with us. We will provide registration details that contractors and subcontractors will need to use when they deal with payments.

More information

For information on when and how to register, see paragraphs 1.16 to 1.21.

1.8 Verifying subcontractors

Before a contractor can make a payment to a subcontractor for construction work, they may need to verify with us that the subcontractor is registered. We will check whether the subcontractor is registered with us and then tell the contractor the rate of deduction they must apply to the payment, or whether the payment can be made without any deductions.

More information

For more information on the verification process, see paragraphs 3.2 to 3.16.

1.9 Making deductions from payments

Under the scheme, all payments made from contractors to subcontractors, must take account of the subcontractors' tax status. This may require the contractor to make a deduction, which they then pay to us from that part of the payment that does not represent the cost of materials incurred by the subcontractor.

If no deduction is required, the contractor can make the payment to the subcontractor in full.

If a deduction is required, the contractor must:

- calculate the deduction
- make the deduction
- record details of the payment, materials and deduction
- make the net payment to the subcontractor
- complete and give the appropriate statement of deduction to the subcontractor.

More information

For more information on making a payment, see paragraphs 3.20 to 3.30

1.10 Returns

Each month, contractors must send us a complete return of **all** the payments they have made within the scheme or report 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.

More information

For more information on completing a return, see paragraphs 4.2 to 4.29.

1.11 Payments to HM Revenue & Customs

Each month, or quarter in some cases, contractors must send us a payment for the deductions they have made from subcontractors.

More information

For more information on payments to us, see paragraphs 4.30 to 4.36.

Does the scheme apply to employees?

1.12

For a contract to be within the scheme, it must not be 'a contract of employment'. This means that the scheme applies to workers who are self-employed under the terms of the contract, and who are not employees subject to Pay As You Earn (PAYE).

Employment status depends on general law and it is for the contractor to decide on the individual's employment status when the subcontractor is first engaged. The fact that the subcontractor has worked in a self-employed capacity before is irrelevant in deciding on their employment status - **it is the terms of the particular engagement that matter.**

More information

More detailed advice for contractors is given in Factsheet ES/FS2 *Are your workers employed or self-employed for tax and National Insurance contributions.*

You can also get advice from the internet at www.hmrc.gov.uk/employment-status

Can a subcontractor apply to be paid gross?

More information

1.13 Subcontractors can apply to be paid gross - with no deductions taken from their payments. To do this, subcontractors will need to show us that they meet certain qualifying conditions.

Further information on how to apply to be registered for gross payment is available from the internet, go to www.hmrc.gov.uk/cis

How do subcontractors pay tax?

1.14 Subcontractors have to make a return of their profits each year, and their tax liability is based on that return.
A subcontractor may already have paid tax by payments on account or had deductions made, as shown on the payment and deduction statements given to them by their contractors. If the amount already paid or deducted is greater than the amount due, we will repay the excess. If there is a shortfall, then the subcontractor must make a balancing payment.

Can subcontractors set off deductions?

1.15 Subcontractors that are limited companies can set off deductions they bear on their receipts against the following sums payable to us.

- Pay As You Earn (PAYE) tax due from the company's employees.
- Employers' and employees' National Insurance contributions (NICs) due.
- Student Loan repayments due from the company's employees.
- Construction Industry Scheme (CIS) deductions made from the company's subcontractors.

The company will need to reduce the amount of PAYE, NICs, Student Loan repayments and any CIS deductions that the company pays by the amount of CIS deductions made from the company's income.

If, for any month or quarter, the company's own CIS deductions are greater than the PAYE, NICs, 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, once we have received the company's P35 annual return, any excess CIS deductions that cannot be set off may be refunded or set against Corporation Tax due. No repayments or set-offs against other liabilities can be made in-year. Companies must keep a record of the amounts set off so they can complete their annual employer returns. Companies may keep their own records for this purpose or they may use form CIS132 *Record of amounts set-off*. You can download this form at www.hmrc.gov.uk/cis

Registering for the scheme – contractors

1.16 When to register

When you are about to take on and pay your first subcontractor, regardless of whether that subcontractor is likely to be paid gross or under deduction.

1.17 How to register and more information

To register, or request more information, please contact us.

Phone: New Employer Helpline on **0845 60 70 143**.

Internet: www.hmrc.gov.uk/employers

1.18 What happens next

We will set up a Contractor Scheme (and a PAYE Scheme if you have asked us to) and send you all the information you need.

Registering for the scheme – subcontractors

1.19 When to register

When you, your firm, or your company is about to start work within the construction industry.

1.20 How to register and more information

To register, or request more information, please phone the CIS Helpline on **0845 366 7899**.

1.21 What happens next

We will write and confirm your registration and tell you what information you will need to give to your contractors before they pay you.

If you are not already known to us, we may also ask you to satisfy an identity check.

2 The terms used under the scheme

Introduction to the key terms

2.1 Under the scheme, a contractor has to make a deduction in certain situations when making a payment to a subcontractor under a contract that covers construction operations.

2.2 The rest of this chapter gives more information on the terms used under the scheme.

Contractors	2.3 to 2.22 and 2.29 to 2.33
Subcontractors	2.23 to 2.30
Payments	2.34 to 2.35
Deductions	2.36 to 2.39
Contracts	2.40
Construction operations	2.41 to 2.45 and Appendix A.

Contractor

2.3 Under the scheme, the term 'contractor' has a special meaning that is much wider than it normally has in the construction industry.

2.4 A contractor is a business or other concern that pays subcontractors for construction work. Under the scheme, there are two groups of contractors:

- 'mainstream' contractors
- 'deemed' contractors.

2.5 **'Mainstream' contractors**

'Mainstream' contractors include the following.

- Any businesses that include construction operations and pay others for work carried out under the scheme.
There is more information on construction operations in paragraphs 2.41 to 2.45 and Appendix A.
- Any property developers or speculative builders, erecting and altering buildings in order to make a profit.
- Gang-leaders organising labour for construction work.
A gang-leader will also be a subcontractor. There is more information on gang-leaders in paragraphs 2.32 and 2.33.
- Foreign businesses that carry out construction operations in the UK or within UK territorial waters (up to the 12-mile limit).

2.6 'Deemed' contractors

Under the scheme, some businesses, public bodies and other concerns outside the mainstream construction industry but who regularly carry out or commission construction work on their own premises or investment properties are deemed to be contractors.

2.7 These concerns are deemed to be contractors if their average annual expenditure on construction operations in the period of three years ending with their last accounting date exceeds £1 m.

2.8 If these concerns have not been trading for the whole of the last three years, they are contractors if their total expenditure on construction operations for the part of that period of three years during which they were trading exceeds £3m.

2.9 Any concern that is deemed to be a contractor because one of the above conditions is met will continue to be deemed a contractor until it can satisfy us that its expenditure on construction operations has been less than £1m in each of three successive years.

2.10 The following bodies or businesses are examples of those that are 'deemed' to be contractors if they spend an average of more than £1m a year on construction operations.

- Non-construction businesses such as large manufacturing concerns, departmental stores, breweries, banks, oil companies and property investment companies.
- Local authorities.
- Development corporations or new town commissions.
- The Commission for the New Towns.
- The Housing Corporation, housing associations, housing trusts, Scottish Homes and the Northern Ireland Housing Executive.
- Any public bodies named in the regulations, such as National Health Trusts or Health and Social Services Trusts.
- Public offices or Departments of the Crown (including any Northern Ireland department and any part of the Scottish Administration).
- The Corporate Officer of the House of Lords, the Corporate Officer of the House of Commons and the Scottish Parliamentary Body.

More information

For more information on deemed contractors, see Appendices A, B and C.

2.11 Businesses and individuals that are NOT contractors under the scheme

Under the scheme, the following businesses and individuals are **not** contractors.

- Ordinary householders that are having work done on their own premises, such as new house building, decoration, repairs or an extension.
- Businesses which do not include construction operations whose average annual expenditure on construction work over the last three years has been less than £1m.

More information

If you are unsure whether you are a contractor under the scheme, phone the CIS Helpline on **0845 366 7899**.

Exceptions to the scheme for contractors

2.12 Under the scheme, businesses and other concerns that are otherwise mainstream or deemed contractors may not need to apply the scheme for certain types of work. Some typical cases are explained in paragraphs 2.13 to 2.22.

2.13 Expenditure incurred by certain businesses on their own property

Businesses that are not mainstream contractors but are brought into the scheme because they spend an average of more than £1m on construction operations each year do not need to apply the scheme to expenditure that relates to property used for the purposes of the business itself, or, if the business is a company:

- other companies within the same group
- any company of which 50% or more of the shares are owned by the company.

The types of properties covered by this exemption include:

- offices
- warehouses
- nursing homes
- leased property used by the business's group, including property leased by one company to another within the same group
- any other facilities used for the business.

- 2.14 Any incidental use of the property by third parties such as auditors, project team members who are not employees and security staff, will not affect the exemption.
- 2.15 The scheme must be applied to expenditure for construction work on any of the following types of property:
- property that is not used for the purposes of the business, such as where it is let for commercial purposes to a third party
 - property that is for sale or to let (except where the sale or letting of that property is purely incidental to the business)
 - property that is held as an investment.

2.16 **Work carried out on land owned by a subcontractor receiving payment**

In the following cases, we can authorise mainstream contractors not to apply the scheme to small contracts or payments for construction operations amounting to less than £1,000 (excluding the cost of materials):

- where the contractor is paying a subcontractor to undertake work that falls within the scheme on the subcontractor's own property, or
- where the contractor is paying a subcontractor to undertake work on any agricultural property of which the subcontractor is a tenant.

2.17 An example of this type of payment is where a utility company lays a pipeline across some land and pays the land owner or tenant to fill in the hole after the pipeline has been laid.

2.18 To request authorisation not to apply the scheme to such payments, please phone us on **0845 366 7899**.

We will need the following details:

- the construction work to be done
- who will be doing the work
- where the work will be done
- the cost of the work.

2.19 Small payments

We can authorise deemed contractors not to apply the scheme to small contracts for construction operations amounting to less than £1,000, excluding the cost of materials. (This arrangement does not apply to mainstream contractors.)

2.20 Contractors who were granted authorisation not to apply the scheme to small payments of this nature prior to 6 April 2007 do not have to reapply if their circumstances remain the same under the current scheme.

To request authorisation not to apply the scheme to small payments, please phone us on **0845 366 7899**.

2.21 Local education authority maintained schools

The scheme should not be operated for payments made for construction operations by the governing body or head teacher of a maintained school on behalf of the local education authority.

2.22 Charities

The scheme should not be operated for payments made for construction operations by any body of persons or trust established for charitable purposes only. However, trading subsidiaries of such charitable bodies or trusts will need to apply the scheme to such payments where appropriate. Generally, that will mean where the trading subsidiaries are brought into the scheme because they spend at least £1m on average on construction operations each year as described at paragraph 2.6 onwards.

Subcontractors

2.23 Under the scheme, the term 'subcontractor' has a special meaning that is much wider than it normally has in the construction industry.

2.24 A subcontractor is a person or body that has agreed to carry out construction operations for a contractor. The subcontractor may be carrying out the operations in any way, including:

- carrying out the operations themselves
- having the operations done by their own employees or subcontractors.

- 2.25** Subcontractors include:
- companies, corporate bodies or public bodies, as well as any self-employed individual running a business or partnership
 - labour agencies or staff bureaux that contract to get work done with their own workforce, or to supply workers to a contractor
 - foreign businesses being paid for construction operations that take place in the UK or its territorial waters (up to the 12-mile limit)
 - gang-leaders who agree with a contractor on the work to be done and receive payment for the work of their gang
 - local authorities and public bodies who carry out construction operations for someone else (see paragraphs 2.26 to 2.28).

2.26 **Local authorities and public bodies as subcontractors**

Local authorities (and their Direct Services or Labour Organisations) and public bodies (or subsidiaries) are subcontractors if they carry out construction operations for someone else.

- 2.27** Although they do not need to apply for registration, they must be regarded as registered for gross payment.

- 2.28** When making payments to local authorities and public bodies, contractors **should not**:
- verify them
 - apply deductions to any payments
 - include the payments on their monthly returns.

More information

For the full list of local authorities and public bodies that are subcontractors when carrying out construction operations, please see our internal CIS Manual. Go to www.hmrc.gov.uk/manuals/cisrmanual/cisr13040.htm

2.29 **Agencies as subcontractors**

Where a worker is supplied to a contractor by or through an agency and the worker carries out construction operations under the terms of a contract they have with the agency, the agency supplying the worker will be a subcontractor as far as the contractor is concerned. The contractor must always apply the scheme when making payment to the agency.

2.30 Where a worker is merely introduced to the contractor by an agency and subsequently carries out construction operations under the terms of a contract they have with the contractor, the agency is not a subcontractor in this case.

2.31 **Rules for agency workers**
Special rules apply to agency workers who normally treat the worker as an employee for tax and National Insurance contribution (NICs) purposes. The business paying the worker should normally deduct tax under PAYE and account for Class 1 NICs. Very exceptionally, the special rules for agency workers do not apply and any payments for construction work will fall within the scheme. The agency will then be a contractor and will need to fulfil its obligations in that role.

2.32 **Gangs**
The contractor must meet their obligations under the scheme for payment to the gang-leader. The contractor does not need to be concerned with the transactions between the gang-leader and the other members of the gang. Any deductions from payments to the members of the gang are the responsibility of the gang-leader.

2.33 If the contractor makes a separate agreement with any other member of the gang, then that member will be a subcontractor or employee of the contractor. A contractor who pays each member of the gang separately must treat each as a separate subcontractor or employee and apply the deduction scheme or PAYE in each case.

More information

For more information about payments to gang members, please phone the CIS Helpline on **0845 366 7899**.

Payments

2.34 A payment is anything paid out by the contractor to the subcontractor under a contract for construction operations. This applies whether or not the payment is made directly to the subcontractor.

2.35 Payments include cash, cheques and credit. An advance, a sub or a loan is a credit and must be treated as a payment.

More information

For more information on payments that are made to someone other than the subcontractor, see paragraphs 6.9 to 6.12.

Deductions

2.36 A deduction is the amount that a contractor has to withhold on account of tax and Class 4 NICs from a payment made to a subcontractor. There are two rates of deduction:

- standard rate - which must be applied to payments made to those subcontractors that are registered with us to be paid under deduction
- higher rate - which must be applied to payments made to subcontractors where we are unable to identify the subcontractor.

2.37 The deduction rates may change from time to time and we will publicise any changes. You can find out the current rates by contacting us.

Phone: **0845 366 7899**

Internet: **www.hmrc.gov.uk/cis**

2.38 The deduction **does** apply to any part of a payment that is for subsistence or travelling expenses.

2.39 The deduction **does not** apply to any part of a payment that is for the cost of the following:

- materials
- Value Added Tax (VAT)
- any amount equal to the CITB-ConstructionSkills levy that the subcontractor has agreed may be deducted from their payment.

Contracts

2.40 A contract means any legally binding agreement or arrangement under which one individual or business does work or provides services for another individual or business. A contract includes an agreement made by word of mouth as well as a written document.

Construction operations

2.41 Construction operations are defined in law in Section 74, Finance Act 2004, which is shown at Appendix B.

2.42 As a general guide, construction operations cover almost any work that is done to:

- a permanent or temporary building or structure
- a civil engineering work or installation.

The work might include:

- site preparation
- alterations
- dismantling
- construction
- repairs
- decorating
- demolition.

2.43 Any work in connection with construction done on a construction site in the UK or within its territorial waters (up to the 12-mile limit) and under contract to the owner, client, main contractor or a subcontractor is likely to be a construction operation.

2.44 Activities that are not construction operations

Some activities on construction sites are not regarded as construction operations under the scheme. This includes any activity that is clearly not construction work, such as:

- the running of a canteen
- the running of a hostel
- provision of medical or safety services
- provision of security services
- provision of site facilities.

More information

Paragraphs 2.41 to 2.44 give only a general guide to construction operations. Appendix A gives more detailed guidance and Appendix B shows the definition of construction operations from Section 74, Finance Act 2004.

2.45 Contracts that relate to construction and non-construction operations

Where a single contract relates to a mixture of construction and non-construction operations, all payments due under the contract are within the scheme. This is the case even if only one of the jobs is regarded as a construction operation.

More information

If you are in any doubt whether a contract should be handled under the scheme, please phone the CIS Helpline on **0845 366 7899**.

3 How payments are made to subcontractors

- 3.1 This chapter explains what must happen before payments can be made to subcontractors and how payments are made.

The verification process

- 3.2 Verification is the process we use to make sure that subcontractors have the correct rate of deduction applied to their payments under the scheme.

There are three main steps to the process.

1 The contractor contacts us with details of the subcontractor.

2 We check that the subcontractor is registered with us.

3 We tell the contractor what rate of deduction to apply, if any.

Before a contractor can make a payment for construction work to a subcontractor, they must decide **whether they need to verify** the subcontractor.

When does a contractor need to verify a subcontractor?

- 3.3 The rule is that a contractor does not have to verify a subcontractor if they last included that subcontractor on a return in the current or two previous tax years. See the following paragraph for details of how this works in practice.
- 3.4 If you are paying a subcontractor in the tax year that runs from 6 April 2013 to 5 April 2014, **you do not have to verify them if** you have already included them on **any** monthly return since 6 April 2011. Otherwise, you must verify the subcontractor.

3.5

Example 1

Date contractor engages subcontractor A: September 2013

Date contractor last paid subcontractor A: Never

Details of last payment return: None

Verification details

The contractor **must** verify this subcontractor before they can pay them under the scheme. We will tell the contractor whether a deduction should be made from this and all future payments to the subcontractor.

3.6

Example 2

Date contractor re-engages subcontractor B: December 2013

Date contractor last paid subcontractor B: August 2011

Details of last payment return:

Contractor made last payment return for the subcontractor in August 2011. This was within the previous two tax years.

When this subcontractor was last paid in August 2011 they were entitled to be paid gross.

Verification details

The contractor **does not** have to verify this subcontractor and should pay them gross, without any deduction.

3.7

Example 3

Date contractor re-engages subcontractor C: December 2013

Date contractor last paid subcontractor C: August 2009

Details of last payment return:

Contractor made last payment return for the subcontractor under the previous scheme, on their CIS36 annual return for 2006–07.

This was earlier than the previous two tax years.

Verification details

The contractor **must** verify this subcontractor before they can pay them as they have not included them on a return in the current or previous two tax years.

3.8

Example now obsolete

3.9 Paying the subcontractor gross or under deduction

If a contractor does not have to verify a subcontractor, for the reasons given in paragraphs 3.3 and 3.4, they must pay the subcontractor on the same basis as the last payment made to them - unless we have previously told the contractor otherwise.

This means that:

- if the subcontractor was last paid under the standard rate of deduction, the current payment must also be made under the standard rate of deduction
- if the last payment was made gross, because a deduction was not required, the current payment must also be made gross.

3.10 Companies within a group

A contractor that is a company within a group does not have to verify a subcontractor if:

- that subcontractor has already been verified, within the current or previous two tax years, by one of the other companies within the same group, or
- paragraphs 3.3 or 3.4 apply.

3.11 How to verify a subcontractor

Phone: **0845 366 7899**

Internet: **www.hmrc.gov.uk/cis**

Electronically: Using either Electronic Data Interchange (EDI) or other third party software.

3.12 The information we will need

First of all, the contractor should have their own identifying details to hand, such as name, address, phone number and so on. We will ask for this information so that we can be satisfied that the contractor is who they say they are. Then, for the verification itself, please have the following information ready.

About the contractor

- name
- Unique Taxpayer Reference (UTR)
- accounts office reference
- employer reference.

About the subcontractor

Type of subcontractor	Information we need
Sole-trader	<ul style="list-style-type: none"> • name • Unique Taxpayer Reference (UTR) • National Insurance number
Partner in a firm	<ul style="list-style-type: none"> • firm's name • partner's name • firm's Unique Taxpayer Reference (UTR) <p>if the partner is an individual</p> <ul style="list-style-type: none"> • partner's Unique Taxpayer Reference (UTR) or partner's National Insurance number <p>if the partner is a company</p> <ul style="list-style-type: none"> • company's Unique Taxpayer Reference (UTR) or company registration number
Company	<ul style="list-style-type: none"> • name of company • company's Unique Taxpayer Reference (UTR) • company registration number

About the contract

Confirmation that a contract has been agreed with the subcontractor or that you have formally accepted a tender for work under a contract.

3.13 What we will do when we verify the subcontractor

We will check our records to see if the subcontractor is registered with us and then tell the contractor to pay the subcontractor in one of the following ways:

- gross – that is without any deductions taken from the payment
- net of a deduction at the standard rate
- net of a deduction at the higher rate because
 - we have no record of that subcontractor's registration, or
 - we are unable to verify the details for any other reason.

3.14 Verification reference number

When we verify a subcontractor, we will give the contractor a *verification reference number*. The verification reference number will be the same for each subcontractor that we have verified at the same time. If it is not possible to verify a subcontractor, we will add one or two letters to the end of the number so that it is unique to that subcontractor.

Example 1

A contractor phones us to verify five subcontractors. We verify all five subcontractors and give the contractor the single verification reference V0004528765 to cover all of them.

Example 2

A contractor phones us to verify five subcontractors. We verify four successfully, but we are not able to verify the fifth. We give the contractor the single verification reference V0004528765 for the four subcontractors who we could verify. We give the same verification number to the subcontractor who could not be verified but add a letter to the end so the number is V0004528765/A.

- 3.15** The verification reference number is **very** important if the contractor has been told to make deductions from the subcontractor's payments at the higher rate. Contractors must make a note of the reference numbers given and must enter them on their monthly return alongside the entries for each subcontractor from whom deductions at the higher rate have been made. It is also essential that the contractor shows the verification reference number, complete with any letters on the

end, on the subcontractor's payment and deduction statement in each case where deductions have been made at the higher rate (see paragraphs 3.25 to 3.27).

The subcontractor will need this reference number later when seeking credit for any of the deductions made.

Contractors do **not** need to show this reference on monthly returns or subcontractors' payment statements where deductions have been made at the standard rate or where the subcontractor has been paid gross.

Future verification

3.16 When a contractor has verified a subcontractor, or made a payment to the subcontractor if verification was not necessary, the contractor should continue to pay the subcontractor in the same way until we tell them about any change.

If a subcontractor is to change from gross payment to payment under deduction, or the other way round, we will tell the subcontractor and the contractor.

Changing a subcontractor's payment status

3.17 When we need to change a subcontractor's payment status from gross payment to payment under deduction, we will write to tell them, giving 90 days' notice of any change to allow them to appeal, if required.

3.18 We will also contact all contractors who have verified or used the subcontractor in the current or previous two tax years. We will give contractors 35 days' notice of the change. Payments they make to the subcontractor after the notified date of change must be made under deduction. If the subcontractor's recent invoice has already been processed in the contractor's accounting system we would not expect the contractor to reprocess it if it is difficult or time-consuming to do so, but would expect the change to be applied to the next payment.

3.19 Sometimes a subcontractor's payment status will change from payment under deduction to gross payment. If this happens, we will tell the subcontractor and any contractors who have verified or used the subcontractor in the current or previous two tax years. The revised payment status should then be applied to all subsequent payments to the subcontractor as soon as it is practical for the contractor to do so.

Making a payment under deduction

3.20 Deductions must only be made from that part of the payment that does not represent the cost of materials incurred by the subcontractor.

3.21 Any travelling expenses (including fuel costs) and subsistence paid to or **on behalf of** the subcontractor must be **included** in the gross amount of payment **and** the amount from which the deduction is made.

3.22 How to calculate the amount to deduct

There are two steps that contractors must follow.

1 Work out the gross amount from which a deduction will be made by **excluding**:

- Value Added Tax (VAT) charged by the subcontractor if the subcontractor is registered for VAT, see the examples in Appendix D
- any amount equal to the CITB-ConstructionSkills levy that the subcontractor has agreed may be deducted from their payment.

The contractor will need to keep a record of the gross payment amounts so that they can enter these on their monthly returns.

2 Deduct from the gross payment the amount the subcontractor actually paid for the following items used in the construction operations, including VAT paid if the subcontractor is not registered for VAT:

- materials (see paragraph 3.23 below)
- consumable stores
- fuel (except fuel for travelling)
- plant hire (see paragraph 3.24)
- the cost of manufacture or prefabrication of materials.

3.23 Materials

The contractor can ask the subcontractor for evidence of the direct cost of materials.

If the subcontractor fails to give this information, the contractor must make a fair estimate of the actual cost of materials. The contractor must always check, as far as possible, that the part of the payment for materials supplied is not overstated. If the materials element looks to be excessive, we may ask the contractor to explain why.

More information

Examples of how to calculate the deduction are shown in Appendix D.

3.24 Plant hire claimed as materials

'Plant' includes, for example, scaffolding, cranes, cement mixers, concrete pumps, earth moving equipment and compressors.

Where the subcontractor hires plant in order to carry out construction work, the cost of the plant hire and any consumable items such as fuel needed for its operation may be treated as materials for the purposes of calculating any deduction.

This treatment only extends to plant and equipment actually hired by the subcontractor from a third party. If the subcontractor owns the plant used in executing the work no notional deduction for plant hire may be made, although consumable items such as fuel used by the plant may still be treated as materials.

3.25 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 6th of one month to the 5th 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, and
- the 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 following information:

- the contractor's own name and employer tax reference
- the end date of the tax month in which the payment was made, such as 'tax month ending 5 May 2013' or the date of payment where the statement relates to a single payment
- the following details of the subcontractor
 - name
 - Unique Taxpayer Reference number (UTR)
 - the personal verification number if the subcontractor could not be verified and a deduction at the higher rate has been made
- the gross amount of the payments made to the subcontractor, as calculated above in paragraph 3.22
- the cost of any materials that has reduced the amount against which the deduction has been applied

Providing documentary evidence of a deduction

- the 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 Value Added Tax (VAT) charged by the subcontractor.

3.26 It is 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.

3.27 Duplicate statements

If a statement does not reach a subcontractor or it is otherwise lost, the subcontractor may ask the contractor for another copy. Contractors may issue duplicates in such cases but the duplicate must be clearly marked 'Duplicate' to avoid any confusion with the missing statement if it is later found.

More information

We have given an example of a typical statement of deduction in Appendix E.

To whom should payments under deduction be made?

3.28 The contractor should normally make payments under deduction to the subcontractor, but the subcontractor may authorise payment to be made out to another person, such as a **debt factor**. The statement must still be made out in the name of the subcontractor and issued to the subcontractor so they receive credit for any deduction.

More information

See paragraphs 6.9 to 6.12 for more information about making gross payments to someone other than the subcontractor.

Keeping records of payments

3.29 On or before making any payment to a subcontractor, the contractor must make a record of:

- the gross amount of the payment, excluding VAT
- the cost of any materials excluding VAT (if the subcontractor is registered for VAT), for those subcontractors who are liable for a deduction
- the amount of the deduction.

Summary of procedures for making payment to a subcontractor

3.30 Contractors should:

- consider whether or not they need to verify the subcontractor with us (see paragraphs 3.3 and 3.4)
- verify the subcontractor if necessary (see paragraphs 3.11 to 3.16)
- make payment to the subcontractor where a deduction is not required.

Where a deduction must be made from the payment, contractors should:

- calculate and make the deduction from the payment to the subcontractor
- record details of payment, materials and deduction
- make the net payment to the subcontractor
- complete either a statement of deduction for all payments made in that tax month or one statement for each payment, as the contractor prefers, to show date of tax month, gross payment, amount liable to deduction and amount deducted – take care to exclude any amounts shown on any earlier statements
- give the statement to the subcontractor.

4 What we require from contractors

4.1 This chapter explains what we require from contractors under the scheme. It covers the contractor's monthly return, payment of any deductions due to us, and explains what might happen if contractors do not apply the scheme properly.

Monthly returns

4.2 Each month, contractors must send us a complete return of all payments made to all subcontractors within the scheme in the preceding tax month. This is regardless of whether the subcontractors were:

- paid gross
- paid net of the standard deduction
- paid net of the higher deduction.

4.3 Monthly returns must reach us within 14 days of the end of the tax month they are for.

Example

A return of all payments made to subcontractors between 6 May and 5 June must be sent in sufficient time to reach us by 19 June.

4.4 How to make a monthly return

There are three ways contractors can make their monthly returns.

Internet:

www.hmrc.gov.uk/cis

Electronically:

using either Electronic Data Interchange (EDI) or other third party software

Post:

Construction Industry Scheme
Comben House
Farriers Way
Liverpool
L75 1HL

4.5 Paper returns

If contractors choose to use paper returns, we will send out the return forms partially completed to arrive by the last day (the 5th) of the tax month they are for.

The names and taxpayer references of all subcontractors that the contractor has previously returned, or newly verified, within the last three months will be preprinted on the forms. **Please do not amend any preprinted items on the returns.**

4.6 Guidance on completing the return is contained in the Monthly Return Guidance Notes that we will send out in the Contractor Pack.

4.7 The returns must be sent to us **unfolded** using the envelope we provide. Please ensure that you pay the correct postage for the returns.

4.8 **Completing a monthly return**

Contractors must do all of the following.

- Check the preprinted names and Unique Taxpayer Reference (UTR) numbers of all the subcontractors they have paid in the month.
- Leave blank any preprinted entries for subcontractors they have not paid in the month.
- Add the names and Unique Taxpayer References (UTRs) of any additional subcontractors to whom they have made payments in the month, including the verification numbers against those subcontractors from whom a deduction at the higher rate has been made.
- Enter details of the amounts paid to each subcontractor (that is before any deduction), details of any materials allowed and deductions made from those subcontractors not entitled to receive gross payments.
- Sign (or confirm, if submitting electronically) the declarations about verification and the subcontractors' employment status.
- If using post, send the original return to us at the address shown on page 31 using the preprinted-addressed envelopes we provide.

4.9 **Reporting non-scheme payments to a subcontractor**

Sometimes, contractors may include on the monthly return payments to subcontractors that are not within the scheme. Where this happens, we will not normally regard such action as giving rise to an incorrect return.

4.10 However, when paying subcontractors under deduction, contractors should ensure that deductions are not made from payments to subcontractors for contracts that are wholly outside the scope of the scheme.

4.11 Nil returns

Contractors who have not paid any subcontractors in a particular month must submit a 'Nil return'. There are four ways to do this.

Internet: **www.hmrc.gov.uk/cis**

Phone: **0845 366 7899**

Electronically: using Electronic Data Interchange (EDI) or third party software

Monthly return: by completing the appropriate section on the monthly return and posting this back to us.

4.12 Contractors who know they will not be paying any subcontractors for several months should let us know and we will suspend the issue of the monthly return for six months. If the situation changes during that time, the contractor must let us know so that we can start sending out the monthly return again.

Correcting errors on monthly returns

4.13 The principle for the monthly return is that it should reflect what the contractor has actually paid and deducted in the month it covers.

4.14 We recognise, however, that contractors will sometimes make mistakes on their monthly returns. Where this happens we will not automatically look for penalties or take away the contractor's own gross status as a subcontractor. We will usually only take these actions in the more serious cases where we believe the error or omission has been caused by the contractor's negligence or intent.

4.15 The following paragraphs, explaining how and when a return needs to be corrected, assume that the relevant monthly return has already been submitted to us.

4.16 Incorrect entry of details on return

A contractor might omit details of a payment to a subcontractor or might make a mistake in entering details of the payment or deduction onto the return. For example, the contractor may transpose the payment figures and record a payment of £560 as £650 on the return.

4.17 In these cases, the entries on the return will clearly not reflect the actual payments and/or deductions made in the month. To correct these types of error, contractors should phone us giving full details of the errors and the correct figures.

More information

If you need to inform us about an incorrect return, please phone the CIS Helpline on **0845 366 7899**.

4.18 Subcontractor is underpaid in error

There will be cases where the error has been made in the payment itself and copied onto the CIS monthly return, for example, where a subcontractor has been paid £2,000 instead of £3,000.

4.19 Underpayments of this type can usually be put right by a further, balancing payment. That further payment, and any deductions made from it, should be entered onto the return for the month in which it is paid. The total of payments made and any deductions should then be correct, overall.

4.20 Subcontractor is overpaid in error

If the contractor overpays the subcontractor, for example, by making a payment of £3,000 instead of the £2,000 due, then the monthly return should reflect the amount of the payment made, that is, £3,000.

4.21 How that is then corrected for CIS will depend on the approach that the contractor adopts. If the subcontractor's engagement continues into the following month, the contractor may agree with the subcontractor to pay £1,000, instead of the £2,000 due. This will balance out the payments and the contractor simply needs to enter the £1,000 paid in the second month on the return for that month.

- 4.22** If the subcontractor is paid under deduction, the same principle will apply. For the first month in this example, assuming a deduction rate of 20 per cent, there would be a net payment of £2,400 and a deduction of £600 and, in the second, a net payment of £800 and a deduction of £200. The payment statements provided to the subcontractor each month would also reflect those figures.
- 4.23** Where the subcontractor's contract has ended and no further payments are due, from which to take a previous month's overpayment, the steps to be taken by the contractor depend on what action is taken to recover the overpayment.
- 4.24** If the contractor stops the cheque or the subcontractor returns it without cashing it, the contractor should reissue the payment in the correct amount, retrieve and reissue the subcontractor's payment statement and contact us to report the error on the earlier return. The revised payment and any deductions should be recorded on the next monthly return.
- 4.25** Where the cheque has been cashed and any deductions have been paid over to us, the contractor will be seeking the excess payment from the subcontractor. Although the monthly return in this case will be correct, as it reflects what was actually paid in the month, the contractor should phone us to report the error and to advise us of the correct payments due to the subcontractor.

More information

If you need to inform us about an incorrect return, please phone the CIS Helpline on **0845 366 7899**.

4.26

How does a contractor correct a return?

Contractors who need to report corrections to returns, as described in the previous paragraphs, should phone us with full details of which monthly return(s) they need to correct and, if the correction is appropriate, we will record it. 'Appropriate' here means that the change is a correction of the type described above, rather than, say, for a change in contractor name or address, which is not related to the content of the monthly return.

- 4.27 If possible we will also take this opportunity to deal with any other points that may have prevented the return from being processed fully, such as unreadable fields.
- 4.28 We will then generate a new version of the return and reprocess it.
- 4.29 When making corrections over the phone, the contractor should make a note of the date and time of the call and nature of the changes. This is in case the contractor needs to make any subsequent enquiries about the changes.

More information

If you need to inform us about an incorrect return, please phone the CIS Helpline on **0845 366 7899**. Also to find more details about correcting errors on returns, go to www.hmrc.gov.uk/cis

Making payments to us

- 4.30 Contractors must pay the amount deductible from payments to subcontractors to our accounts office 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 us. From May 2010, contractors may have to pay penalties if they do not pay the amounts due on time and in full.

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).

Please ensure you use the correct payslip for the month in question.

- 4.31 If the contractor also has PAYE employees, the contractor must make a payment to our accounts office that includes both the subcontractors' deductions and the PAYE/NICs deducted.

4.32 A contractor whose average monthly payments to the accounts office (including, where applicable, PAYE and NICs deductions from employees) are below a certain limit, may choose to pay quarterly. The limit is shown in the Employer Helpbook E13, *Day-to-day payroll*. This is included in the Employer Pack, but is also available on the internet, go to www.hmrc.gov.uk/helpsheets/e13.pdf

The quarters end on 5 July, 5 October, 5 January and 5 April and payments are due within 14 days of the end of each quarter or 17 days if the contractor pays electronically.

4.33 Even where payments are made on a quarterly basis, contractors must still send returns **monthly** (see paragraph 4.2 above).

Companies setting off deductions

4.34 Companies that have deductions taken from their income as subcontractors should set off these deductions against the amounts payable monthly or quarterly for PAYE, NICs and Student Loan repayments due from their employees and scheme deductions from their subcontractors.

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

4.35 In any month or quarter, if the company's own scheme deductions are greater than the PAYE, NICs, Student Loan repayments and scheme 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 we have received the company's P35 *Employer Annual Return*, any excess scheme deductions that cannot be set off may be refunded or set against Corporation Tax due.

4.36 Contractors must keep a record of the amounts set off so they can complete their end-of-year returns. They can keep their own records for this purpose or they can use form CIS132 *Record of amounts set-off* which can be downloaded from www.hmrc.gov.uk/cis

Employer Annual Return – form P35

4.37 There are no annual returns within the Construction Industry Scheme.

Contractors that are required to submit an Employer Annual Return on form P35 should remember to include on that form the total amount of scheme deductions they are due to pay so they can reconcile the total payments made during the year.

Inspection of records

4.38 From time to time, we will inspect the records of contractors in the same way as we inspect an employer's PAYE records.

4.39 **Records archived using optical imaging systems**

If records are created in paper form, we are content for them to be archived using optical imaging systems, as long as what is retained is a complete and unaltered image of the original paper document.

Contractors must, at their own cost:

- keep records for at least three years after the end of the tax year to which they relate
- make records available on request
- provide viewing facilities for the records
- provide full-scale copies of the records if required.

Action we will take if contractors do not operate the scheme properly

4.40 If a contractor fails to operate the scheme properly, we may cancel the contractor's own gross payment status if the contractor also operates as a subcontractor.

4.41 **Penalties for late monthly returns**

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

If the return is still outstanding, we will charge:

- two months after the filing date - a second fixed penalty of £200
- six months after the filing date - a tax-geared penalty which is the greater of £300 or 5 per cent of any deductions shown on the return
- twelve months after the filing date - a second tax-geared penalty which is the greater of £300 or 5 per cent of any deductions shown on the return. Where, however, we believe information has been deliberately withheld, this penalty will be higher.

4.42 Penalties for incomplete or incorrect monthly returns

If a contractor submits a monthly return that is incomplete or incorrect, we may charge penalties where we believe the error or omission has been caused by negligence or intent on the part of the contractor.

Incomplete or incorrect returns include:

- persons or payments omitted from the return
- persons or payments incorrectly entered onto the return
- failing to make a declaration in respect of verification or employment status
- incorrectly making a declaration in respect of verification or employment status.

4.43 Missing records

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

4.44 We 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, or
- negligently or deliberately provide incorrect information in such statements.

4.45 Problems with deductions

If things go wrong when a contractor applies deductions, the contractor may need to satisfy us that every reasonable care was taken to follow the rules of the scheme and that either:

- the failure to make all or some of the deduction was due to an innocent error, or
- in spite of reasonable care, the contractor did not believe that the payment came within the rules of the scheme.

4.46 If we refuse to waive payment of the deductions that should have been made, the contractor has the right of appeal against that decision.

More information

For more information, see our factsheet HMRC1 - *HM Revenue & Customs decisions - what to do if you disagree* which is available from www.hmrc.gov.uk/factsheets/hmrc1.pdf

4.47 Where we cannot agree whether or not a deduction should have been made, we may make an assessment of the amount we believe should have been deducted. The contractor has a right of appeal against our assessment.

4.48 We will waive the contractor's liability if we are satisfied that the individual or business the contractor made the payments to:

- was not chargeable to Income Tax or Corporation Tax for these payments, or
- has made a return of income or profits that includes the payments and has paid the Income Tax and Class 4 National Insurance contributions or Corporation Tax for the income or profits.

5 Businesses not resident in the UK

Non-resident businesses

- 5.1 The scheme applies to:
- **any** non-resident contractor who pays subcontractors for construction work carried out in the UK
 - **any** non-resident subcontractor who is being paid for construction work carried out in the UK.

It does not matter where payment is actually made - if the construction work is carried out in the UK then the scheme applies to that payment.

There is no difference between the treatment of UK contractors and subcontractors and non-resident contractors and subcontractors.

- 5.2 If you are applying to be registered as a subcontractor you will need to do this before you start work in the UK. Otherwise, your contractor will have to make deductions at the higher rate from your payments.

Non-resident individuals and partnerships registering for CIS

- 5.3 Non-resident individuals and partnerships who need to register as:
- contractors should see paragraph 1.16 in this guide
 - subcontractors should see paragraph 1.19 in this guide.

Non-resident companies registering for CIS

- 5.4 Companies taking on subcontractors for construction work in the UK and companies that are intending to act as subcontractors in the UK need to register with our Charities Assets and Residency Office. There are three ways to contact us about this.

Post: HMRC CAR Residency
Non-Resident Business CIS
St John's House
Merton Road
Liverpool
L75 1BB
England

Fax: **+44 151 472 6148**

Phone: **+44 151 472 6208** or **+44 151 472 6209**
for information about Double Taxation Agreements or about how the Construction

Industry Scheme applies to non-residents or to discuss registration or other matters about the scheme. We can give you advice and send you the forms and leaflets you need.

Repayment of deductions where there is a Double Taxation Agreement

5.5 If you, or your company, are resident in a country that has a Double Taxation Agreement (DTA) with the UK it is possible that you may be entitled to claim exemption from UK tax. This will be the case where your UK business profits are not attributable to a permanent establishment in this country through which you are carrying on business. Claims for exemption under the terms of a DTA should be sent to HMRC CAR Residency. You can find a list of the UK's DTAs in booklet HMRC6 - *Residence, Domicile and the Remittance Basis* available on the internet at www.hmrc.gov.uk/cnr/hmrc6.pdf

5.6 Permanent establishment

The term permanent establishment includes:

- place of management
- a branch
- an office
- a factory
- a workshop
- an installation or structure for the exploration of natural resources
- a mine, an oil or gas well, a quarry or any other place of extraction of natural resources
- a building site or construction or installation project.

5.7 A building site or construction or installation project is a permanent establishment. However, under many Double Taxation Agreements it is not treated as one if it does not last longer than a stated period - usually between 3 and 24 months. Check the agreement for your country of residence to see what, if any, the period is.

- 5.8 The existence of a Double Taxation Agreement does not mean that you do not have to operate the Construction Industry Scheme. You must still register and operate the scheme as normal.
- 5.9 If we agree that you are exempt from UK tax under a DTA, we will repay any deductions made under the scheme as follows.
- 5.10 Company subcontractors should set off any deductions made from payments they receive from contractors against their own liability for PAYE/NICs and subcontractors' deductions, where they have such liabilities. Any balance of deductions that cannot be set off in this way may be repaid on submission of the company's annual return on form P35.
- 5.11 Individuals and partnership subcontractors wanting to claim a refund should contact us at the office where they registered for the scheme.

Repayment of deductions where there is no Double Taxation Agreement

- 5.12 Generally, if you are an individual or partner in a firm, any deductions made by contractors from the amounts they pay you are allowable against your UK tax liability. However, there may be times when you make little or no profit in the tax year, and the deductions exceed your liability. When this happens, you can claim a repayment of the excess deductions from us. If we are satisfied that you have paid too much, we will send you a repayment.
- 5.13 Companies must claim a repayment of excess deductions on submission of their annual return on form P35.
- 5.14 **Non-resident subcontractors who do not register**
If you do not register as a subcontractor when you should do, your contractor is obliged to make deductions at a higher rate from any payments made to you.

6 Miscellaneous

False declarations

- 6.1 It is an offence for a subcontractor knowingly to:
- make a false declaration, or
 - submit any false documentation
- in order to register for gross payment or payment under deduction.

This offence may result in a penalty of up to £3,000.

Disputes about deductions

- 6.2 If a contractor and a subcontractor cannot agree about a deduction, either of them may ask us for a ruling. If they still cannot reach an agreement after the ruling, either the contractor or the subcontractor may ask us to bring the matter before the independent tax tribunal for a decision.

- 6.3 If agreement cannot be reached quickly because of the dispute, the contractor must make the appropriate deduction and pay it over to our accounts office. If it is later found that some or all of the deduction was not necessary, we will repay the excess to the subcontractor.

- 6.4 The same rules apply in any disagreement with us.

Use of trading names

- 6.5 Many businesses, whether sole traders, partnerships or companies, conduct all, or part, of their business using one, or sometimes more, trading names. However, a trading name has no legal status of its own and is simply a brand name for the underlying legal entity.

- 6.6 When registering for CIS, subcontractors will need to provide us with their legal name but they can also give us one trading name, if they wish.

- 6.7 When the subcontractor subsequently enters into a contract with a contractor, they should give the contractor details of their legal name, as registered on our computer system, together with their Unique Taxpayer Reference (UTR), and National Insurance number, or company registration number when they are a company. Without this information, we may be unable to identify the subcontractor when the contractor attempts to verify them. When this happens, we will tell the contractor to make deductions at the higher rate from any payments to the subcontractor.

Payments to third parties

6.8 Contractors should enter the subcontractor's name, as it is recorded on our computer system, onto the monthly return.

6.9 Nominees

If payment is to be made to a subcontractor's nominee, for example, a gang member, workmate or the subcontractor's relative, the contractor must verify both the subcontractor and the nominee. For payment to be made gross to the nominee, both the subcontractor **and** the nominee must be registered for gross payment.

6.10 If the subcontractor is not registered for gross payment, payment under deduction must be made to the nominee using the rate applicable to the subcontractor.

This means that if the subcontractor is registered for payment under deduction, the standard rate of deduction must be applied to the payment being made to the nominee. If the subcontractor is not registered, or cannot be verified for any other reason, the payment to the nominee must be made under deduction at the higher rate - regardless of the nominee's own payment status. The contractor must still make out a payment and deduction statement in the name of the subcontractor and issue it to the subcontractor.

6.11 Debt factors

If a subcontractor assigns their right to receive payment to a debt factor, then, the contractor can make the payment as if it were being made direct to the subcontractor.

If we have told the contractor to pay the subcontractor gross, the payment to the debt factor must also be made gross.

If we have told the contractor to make a deduction from the payment to the subcontractor, the contractor must make the deduction from the payment to the debt factor.

The contractor must still make out a payment and deduction statement in the name of the subcontractor and issue it to the subcontractor.

Personal representatives, liquidators and receivers

- 6.12** Where a subcontractor has died, any payments to their personal representatives should be made on the same basis as payments were made to the deceased immediately before their death.
- Where a liquidator, receiver or administrator has been appointed to conduct the affairs of a company, payments should continue to be made in accordance with the company's tax status.

Death of a contractor

- 6.13** If a contractor dies, the responsibility for the running of the scheme falls to their personal representatives. The responsibilities include paying over deductions and sending in the monthly returns.

Takeover of a business

- 6.14** If a business previously run by an individual is taken over by a partnership or company, the old scheme registration cannot be used for the new business. The new business must register for the scheme and get gross payment status before it can be paid without deductions being made. Similarly, if an individual takes over as sole proprietor of a business having previously been a partner or director of that business, they must apply again for gross payment status as the previous status of the partner or director will no longer be valid.

When a contractor takes over another business as a going concern, the contractor may request authorisation to treat certain subcontractor verifications made by the previous business as if they had been made by the new business. Normally, this will apply in respect of any subcontractors who are working on ongoing contracts at the time of the transfer of the business. This will avoid the need for the contractor to have to verify several subcontractors after the acquisition of the business.

- 6.15** To request authorisation in these circumstances, please phone us on **0845 366 7899**.

We will need the following details for **both** the new contractor and the former contractor business:

- name
- Unique Taxpayer Reference (UTR)
- accounts office reference
- employer reference.

We will also need to know which subcontractors' contracts are being transferred to the new business.

Change of control of a close company

6.16 A close company is basically a company that is under the control of five or fewer persons. If a close company holds gross payment status and there is a change of control - through a transfer or issue of shares in the company - the company must notify us of the names and addresses of the new shareholders within 30 days. Companies that fail to do this may have their gross payment status withdrawn.

Change of address

6.17 Subcontractors must notify us of any change to:

- the business address
- registered office address
- private address.

Contras and set-offs

6.18 The terms contra and set-off have special meanings in the construction industry.

6.19 **Contras**

A contra is a charge for goods or services supplied by one party to another.

6.20 Under the scheme, a contra does not reduce the payment from which the deduction may have to be made and is a payment by the contractor to the subcontractor.

Example

On a contract worth £200, a contractor gives the subcontractor some surplus materials and restricts payment by £50.

The contractor must calculate the deduction on the full contract value of £200.

When completing the monthly return, the contractor must show the gross payment to the subcontractor, or the amount before deduction where appropriate, in the amount of £200.

6.21 **Set-off**

A set-off is money not paid to a subcontractor by a contractor who believes there has been a breach of contract.

6.22 Under the scheme, a set-off **does** reduce the payment from which the deduction may have to be made and so is not a payment by the contractor to the subcontractor.

Example

On a contract worth £2,000, a contractor withholds £400 because work was below standard.

The contractor must calculate the deduction on £1,600.

When completing the monthly return, the contractor must show the gross payment to the subcontractor, or the amount before deduction where appropriate, in the amount of £1,600.

Paying subcontractors by credit or payment cards

- 6.23** Subcontractors may invite contractors to pay them by debit, credit or other type of purchase card in order to effect payment under the contract. Usually, there will then be a difference in the timing between the subcontractor receiving payment from the card company and the contractor receiving and paying against a statement on which that particular charge appears.
- 6.24** The contractor's arrangements for paying and accounting for these charges will affect the timing of when such payments must be entered onto the monthly return. If the contractor's accounting system will not treat the subcontractor's invoice as having been paid until payment is made to the card company, then that will be the point at which the payment should be included on the monthly return.
- 6.25** Although there is no particular reason why cards cannot be used to make payments to subcontractors paid under deduction, doing so would lead to a number of problems. These include the timing of the payment of the amount deducted, the recording of the payment and deduction on the relevant monthly return and the issue of the deduction statement to the subcontractor. We therefore recommend that contractors should restrict the use of payment cards to those subcontractors paid without deduction or to cover only the cost of materials.

Retention payments

- 6.26** Some contracts allow the contractor to retain a percentage of the contract price for a period after the construction work has been completed. This is done so that if deficiencies in the work become apparent during the 'retention period', the final payment can be withheld until the subcontractor has made good the faults.

- 6.27** There are no special rules for retention payments and they are treated the same way as any other payments. Whether the retention payment is made gross or under deduction depends on the subcontractor's tax status at the date of payment and not when the work was actually done.
- 6.28** At the time of payment of the retention, the contractor must decide whether they must verify the subcontractor (in accordance with paragraphs 3.2 to 3.16) and then make the deduction required under the scheme.

Reverse premiums

- 6.29** Reverse premium is the term commonly used to describe when a landlord or developer offers inducements to prospective tenants to take up an interest in land. An example of an inducement is payment of all or part of the costs of fitting out the property. Such inducements are excluded from the scheme.

Payments made under a Private Finance Initiative arrangement

- 6.30** The Private Finance Initiative (PFI) is a form of Public Private Partnership, aimed at enabling the public and private sectors to work more closely together by making use of private capital and expertise in the provision of public sector infrastructure and services. PFI contracts are often for long periods, typically 20 to 30 years. Common types of PFI include:
- services sold to the public sector – the private sector provides the capital assets and the public purchaser pays only on delivery of the specified services
 - financially free-standing projects – the private sector designs, builds, finances and operates an asset, recovering the costs through direct charges on the private users of the asset
 - joint ventures – the costs of a project are not met entirely by the charges on end users but are subsidised from public funds.
- 6.31** Payments made by a public body under a PFI arrangement are specifically excluded from the Construction Industry Scheme and the scheme must not be applied to such payments.

More information

If you have any doubt about whether an arrangement is outside the scope of the scheme because it should qualify as a PFI arrangement you should phone us on **0845 366 7899**.

Group companies

- 6.32** The definition of group companies for the purposes of certain aspects of the scheme, is contained at Section 413(3)(a), Income and Corporation Taxes Act (ICTA) 1988. Basically, two companies are deemed to be members of a group if one is at least a 75 per cent subsidiary of the other, or both companies are at least 75 per cent subsidiaries of a third company and so on.

Managing agents

- 6.33** When a managing agent is acting for a principal or client in letting contracts that include construction operations, the managing agent will not generally be a contractor as defined within the scheme. This is because the contract for construction operations will more likely be between the principal and the subcontractor. The managing agent's role would be to see that the work is carried out in accordance with the principal's contract with the subcontractor and may include making payments to the subcontractor.

- 6.34** Where the contract between the principal and the managing agent includes the maintenance of the property and the agent enters into a contract on their own behalf, even though this is done under the terms of the service contract between the agent and the principal, the agent will be acting as a contractor within the scheme.

- 6.35** Payments made under a contract between the managing agent and the subcontractor may also fall within the scheme where it is a mixed contract, for example, where it includes elements of security, cleaning, minor repairs and maintenance.

Scheme representatives

- 6.36** A contractor that is a company within a group may be authorised to appoint another of the companies within the same group to undertake its obligations under the scheme. For example, a group of several companies required to operate the scheme could choose a single company within the group to operate CIS on their behalf.

- 6.37** The scheme representative must continue to make returns and payments to us under the name of the company or companies for which it is acting.

- 6.38** Each company that has chosen to have its scheme obligations handled by another company within its group will always remain liable for any obligations it has under the scheme even though it has chosen another company to operate the scheme on its behalf.
- 6.39** To request authorisation in these circumstances, please phone us on **0845 366 7899**.

Unofficial forms

- 6.40** No substitute forms may be used. If a form has been lost or mislaid, please ask us for another.
- However, contractors will need to create their own statements of tax deduction for those subcontractors from whom deductions have been made. Paragraphs 3.25 to 3.27 and Appendix E give more information on this.

Appendix A

The scope of construction operations

- A.1** This Appendix gives information on the scope of construction operations as we have interpreted it from the legislation in Section 74, Finance Act 2004.

We have reproduced Section 74, Finance Act 2004 in Appendix B for your reference.

Contracts relating to construction operations

- A.2** **What is a contract?**

A contract may be:

- written, or
- agreed by word of mouth.

Regardless of the form of the contract, the common characteristic will be that there will be a payment by a contractor to a subcontractor and the contract will relate to construction operations.

- A.3** Many contracts in the construction industry are agreed by word of mouth. This will not normally stop them from being legally binding on both parties and means they will come within the scheme.

- A.4** Written contracts can vary in size and complexity.

- A.5** When you have decided that a contractor and a subcontractor are parties to a contract and that the contract is not one of employment, you need to decide whether it is a contract that 'relates to construction operations'.

- A.6** **When does a contract relate to construction operations?** 'Relates to' is very broad in its meaning. Any contract that has construction operations included in it, however small a part that may be, will fall within the scheme.

A.7 Mixed contracts

If a contract includes some work that is within the scheme and some that is nothing to do with construction at all then **all payments made under that contract will come within the scheme – even if shown on separate invoices**. These types of contracts are often referred to as mixed contracts.

A.8 Contracts that relate to construction operations because the work contributes to the overall delivery of a construction project

Some contracts will 'relate to construction operations' because they include work that contributes to the overall delivery of a construction project. For example, a tree surgeon may have many contracts in a year for tree felling. Tree felling is not normally a construction operation in itself, but if the trees are cut down as part of work to clear a site ready to build a housing estate or a road, payments for the tree felling **will** be within the scheme.

This means that it is not possible simply to look at the types of work carried out by a business to decide whether the business is a contractor or subcontractor. Contracts for the work will sometimes be covered by the scheme and sometimes will not.

A.9 Contracts that do not specifically provide for construction operations

'Construction operations' refers not only to particular works, but also to the work that people need to do in order to carry out those operations. This means that **a contract relating to construction operations** could include a contract that did not specifically provide for operations, but which did provide for the provision of labour to carry out those operations.

A.10 An example of this would be where a subcontractor was under a duty to provide the labour of scaffolders to a contractor. The work of scaffolders is within the scheme when it is preparatory or integral to construction operations taking place.

Construction operations

A.11 The rest of Appendix A gives guidance on operations that are regarded as construction operations within the scheme and operations that are regarded as non-construction operations. Please read these paragraphs in conjunction with the table in Appendix C.

More information

It is not possible for us to give exhaustive information in this guidance booklet. If you are unsure whether any work is within the scope of the scheme, please contact us for advice.

Phone: **0845 366 7899**

Internet: **www.hmrc.gov.uk/cis**

Construction operations included within the scheme

Description	Legislation (See Appendix B)	Paragraph
Buildings and structures	S74 (2)(a)	A.12
Construction	" "	A.13
Alteration	" "	A.14
Repair	" "	A.15
Extension	" "	A.16
Demolition	" "	A.17
Dismantling	" "	A.18 and 19
Works forming part of the land	" (2)(b)	A.20 to 22
Installation of systems	" (2)(c)	A.23
Internal and external cleaning	" (2)(d)	A.24 and 25
Painting and decorating	" (2)(e)	A.26
Integral works	" (2)(f)	A.27
Preparatory works	" "	A.28
Finishing operations	" "	A.29

A.12 Buildings and structures

Most construction operations are carried out as work on buildings and structures. The operations can be:

- permanent
- temporary
- offshore.

The six main areas of work are:

- construction
- alteration
- repair
- extension
- demolition
- dismantling.

Each of these is explained below in more detail.

A.13 Construction

Construction is a broad term that covers all of the following:

- to build
- to make
- to put together
- to assemble.

Construction **does** include the assembly of prefabricated units and site facilities.

Example

The onshore construction of wind turbine towers and modular elements of wind turbine towers that are later towed to their final location at sea is an example of how broad we regard the definition of construction.

A.14 Alteration

An alteration is where a building or structure has been made different in any way.

Alterations can be major or can be as simple as an adjustment or modification.

Examples

- An alteration to the fabric of a building to accommodate equipment such as an item of plant or machinery, lifts, hoists or heavy-duty conveyors.
- An alteration to accommodate a building service system (see paragraph A.23 Installation of systems).
- Removal of asbestos.
- Installation of partitioning or shop fittings to allow the building to be used in a different way.

More information

Our Notice 708 *VAT: Buildings and construction* explains the meaning of alterations for VAT purposes.

A.15**Repair**

Repair includes 'making good' and replacement of defective or damaged parts of a building or structure.

Repairs also include repair of a building or structure that is necessary following a repair to any systems in the building or structure, even though a repair to the system itself is not a construction operation for the purposes of the scheme (see paragraph A.23 Installation of systems).

A.16**Extension**

Extension means adding to or enlarging an existing building or structure.

A.17**Demolition**

Demolition means pulling down a building or structure.

A.18**Dismantling**

Dismantling means taking a building or structure apart. This is usually where the materials are expected to be used again.

A.19

Sometimes part of a building may be destroyed or dismantled prior to a refurbishment or to its use being changed. Often this type of work will be an alteration to the building or structure as well and the legislation is broad enough to include any work that involves any of the following:

- taking a building or structure apart
- totally destroying a building or structure

- rebuilding a building or structure
- altering a building or structure.

The resulting building or structure may be permanent or temporary.

A.20 Works forming part of the land

All types of construction work that do not involve buildings or structures are called *works forming*, or *to form*, *part of the land*.

Examples

- Minor works, such as a wooden fence with concrete posts.
- Major works such as roads, railways, bridges, harbours and power lines.
- Industrial plant such as petrochemical plant, a silo, tank or water treatment plant.

A.21 Plant that is located in a building will not form part of the land and so will not fall within the scheme under this section. However, in some circumstances the installation of plant may require that the building be altered to accommodate or remove the plant so this will still be a construction operation.

A.22 Alteration, repair, extension, and demolition of works forming part of the land are also construction operations.

A.23 Installation of systems

A system is something that is made up of connected parts to perform a particular function such as systems of heating or lighting. The scheme includes the installation of 'systems'. As such, it includes the installation of complete systems rather than parts of a system. Complete systems will be installed in new builds or existing buildings and structures undergoing reapply-development. Repairs to a system, such as new taps on a sink or an extension to a system such as adding an extra radiator are not installations of systems and are therefore not included within the scheme.

A.24 Internal and external cleaning

Internal cleaning is regarded as a construction operation if it is undertaken whilst the construction contract is ongoing.

A.25 External cleaning or routine cleaning of existing commercial or industrial premises that are not undergoing any types of construction operations is not regarded as a construction operation unless it is preparatory to painting and decorating.

A.26 Painting and decorating

Painting and decorating is regarded as a construction operation.

A.27 Integral works

Integral works are works that must be carried out for a construction operation to be completed.

Example

Erection of scaffolding might not be considered to be the construction of a structure in its own right, but it is a construction operation because it would not be possible to carry out other works that are construction operations without it.

A.28 Preparatory works

Preparatory works are works that must be carried out before a construction operation can be started.

Example

Clearing a site or draining land in a flood plain before building houses.

A.29 Finishing operations

Finishing operations are work that 'renders complete' or 'finishes off' any of the construction operations in the previous paragraphs.

Example

In most modern commercial buildings much of the internal fixtures and fittings will be included in the design specifications and a building will not be considered complete without them.

- A.30** Finishing operations are not regarded as construction operations in their own right. They must be considered as part of the overall work that is being carried out as well as part of the contract as a whole. Often, the same work will not be a construction operation when it is carried out as an independent activity.

Examples

- Tree planting and landscaping in the course of forestry or estate management are **not** construction operations.
- Tree planting and landscaping as part of a new housing development **are** construction operations.

- A.31** The only exception to finishing operations is carpet fitting. Our Statement of Practice (SP12/81) provides that carpet fitting (but no other floor covering) is regarded as excluded from the scheme. However, if carpet fitting is part of a mixed contract, then all the contract comes within the scheme. See paragraph A.7.

Non-construction operations

- A.32** Some operations are specifically excluded from the scheme and these are explained in paragraphs A.34 to A.45 below.
- A.33** Where a contract includes operations that **are** construction operations, and operations that are **not** construction operations, **all** payments for both types of work will fall within the scheme.

Description	Legislation (See Appendix B)	Paragraph
Drilling	S74 (3)(a)	A.34
Extraction	" (3)(b)	A.35 and 36
Manufacture of building or engineering components and delivery	" (3)(c)	A.37
Manufacture of components for systems	" (3)(d)	A.38

Description	Legislation (See Appendix B)	Paragraph
Professional work	" (3)(e)	A.39 and 40
Artistic works	" (3)(f)	A.41
Signwriting and signboards	" (3)(g)	A.42
Seating, blinds and shutters	" (3)(h)	A.43
Security systems	" (3)(i)	A.44 and 45

A.34 Drilling

Drilling work connected with actual, physical extraction of minerals or natural resources is not a construction operation.

A.35 Extraction

Extraction of minerals or natural resources is not a construction operation. Extraction includes:

- drilling for oil and gas
- pumping of oil and gas
- digging for coal and other minerals from underground deposits
- removal of coal and other minerals from underground deposits
- associated surface workings, such as open cast mine quarrying.

A.36 Work connected with the primary purpose of mineral extraction is not a construction operation. This includes:

- tunnelling, boring and shoring up tunnels in mines
- installing rail systems, conveyor systems and other systems.

This is in contrast to tunnelling done in connection with the construction of a mainline railway for example, which would be a construction operation because it is an integral part of the construction of a work forming part of the land.

A.37 Manufacture of building or engineering components and delivery

Manufacture of the following is not a construction operation:

- building or engineering components
- building or engineering equipment
- building or engineering material
- building or engineering plant
- building or engineering machinery.

Delivery of these is also not a construction operation.

A.38 Manufacture of components for systems

Manufacture of components for systems is not a construction operation. Examples of components for systems include components of:

- heating
- lighting
- air-conditioning
- ventilation.

Delivery of these is also not a construction operation.

A.39 Professional work

Professional work done by architects and surveyors as part of their normal professional discipline, whether on or off site, is not a construction operation.

The only exception is where a professional goes beyond their professional discipline to take on the role of developer or main contractor *in addition to providing professional services*. In this case, the work is not excluded from the scheme.

A.40 The work of other professionals is excluded only if they are acting purely as consultants. Typically, this would include the production of designs, plans, technical assessments and reports relating to construction projects including site testing. Any work that goes beyond a consultative or advisory role and becomes the supervision of labour or the co-ordination of construction work using that labour is not excluded from the scheme.

A.41 Artistic works

All works that are **wholly** artistic are not regarded as construction operations. This means that if the works fulfil a normal functional purpose associated with a building, they are not excluded from the scheme.

Example

- A statue, even if commissioned with a new building, has no function other than to be enjoyed as an artistic work. Its construction and installation would not be regarded as a construction operation.
- A stained glass window has artistic merit, but it is a window that lets in light and is a decorative version of a common feature of a building, so its construction and installation would be regarded as a construction operation.

A.42 Signwriting and signboards

Signwriting and work related to signboards and advertising boards is excluded from the scheme. This exclusion is very specific and does not extend to traffic signs or street furniture.

A.43 Seating, blinds and shutters

Seating in theatres, sports stadiums and other locations, and fixed seating is excluded from the scheme. This exclusion also covers louvered shutters, venetian blinds, other similar internal blinds, and curtain fittings.

Awnings are not excluded.

A.44 Security systems

Installation of security systems that are dedicated to security only is excluded from the scheme. Specific types of systems specifically mentioned in the legislation are burglar alarms, closed circuit television and public address systems.

Example

Installation of a computer controlled centralised locking system with programmable key cards, such as those used in hotels, would be excluded from the scheme.

A.45 The installation must be a system and not simply a building feature that incidentally fulfils a security purpose.

Examples

- Doors equipped with locks provide a measure of security, but they do not represent a system, so they would not be excluded from the scheme.
- Fencing may deter intruders but it is a traditional feature of buildings and their surrounds and not a security system, even if it has security features, so it would not be excluded from the scheme.

**Extract from
Finance Act
2004**

Appendix B

Section 74

B.1 In this chapter 'construction operations' means operations of a description specified in subsection (2), not being operations of a description specified in subsection (3); and references to construction operations:

- (a) except where the context otherwise requires, include references to the work of individuals participating in the carrying out of such operations, and
- (b) do not include references to operations carried out or to be carried out otherwise than in the United Kingdom (or the territorial sea of the United Kingdom).

B.2 The following operations are, subject to subsection (3), construction operations for the purposes of this chapter:

- (a) construction, alteration, repair, extension, demolition or dismantling of buildings or structures (whether permanent or not), including offshore installations,
- (b) construction, alteration, repair, extension or demolition of any works forming, or to form, part of the land, including (in particular) walls, roadworks, power lines, electronic communications apparatus, aircraft runways, docks and harbours, railways, inland waterways, pipelines, reservoirs, water mains, wells, sewers, industrial plant and installations for purposes of land drainage, coast protection or defence,
- (c) installation in any building or structure of systems of heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection,
- (d) internal cleaning of buildings and structures, so far as carried out in the course of their construction, alteration, repair, extension or restoration,
- (e) painting or decorating the internal or external surfaces of any building or structure,
- (f) operations which form an integral part of, or are preparatory to, or are for rendering complete such operations as are previously described in this subsection, including site clearance, earth-moving, excavation, tunnelling and boring, laying of foundations, erection of scaffolding, site restoration, landscaping and the provision of roadways and other access works.

B.3 The following operations are not construction operations for the purposes of this chapter:

- (a) drilling for, or extraction of, oil or natural gas,
- (b) extraction (whether by underground or surface working) of minerals and tunnelling or boring, or construction of underground works, for this purpose,
- (c) manufacture of building or engineering components or equipment, materials, plant or machinery, or delivery of any of these things to site,
- (d) manufacture of components for systems of heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection, or delivery of any of these things to site,
- (e) the professional work of architects or surveyors, or of consultants in building, engineering, interior or exterior decoration or the laying-out of landscape,
- (f) the making, installation and repair of artistic works, being sculptures, murals and other works which are wholly artistic in nature,
- (g) signwriting and erecting, installing and repairing signboards and advertisements,
- (h) the installation of seating, blinds and shutters,
- (i) the installation of security systems, including burglar alarms, closed circuit television and public address systems.

B.4 The Treasury may by order made by statutory instrument amend either or both of subsections (2) and (3) by:

- (a) adding,
- (b) varying, or
- (c) removing

any description of operations.

B.5 No statutory instrument containing an order under subsection (4) shall be made unless a draft of the instrument has been laid before and approved by a resolution of the House of Commons.

Appendix C

This Appendix gives guidance on construction operations that are included within the scheme and those that are excluded.

For a A-Z guide please go to

www.hmrc.gov.uk/manuals/cisrmanual/cisr14330.htm

The guidance is not exhaustive so if you are unsure whether work is within the scope of the scheme, please contact us.

Phone: **0845 366 7899**

Internet: **www.hmrc.gov.uk/cis**

Contracts that include work that is included AND work that is excluded

If a contract includes some construction operations that are within the scheme and some that are excluded, **all** payments made under that contract will come within the scheme.

Status of private householders

Private householders are not contractors for the purposes of the scheme but if you do any of the work listed below for a contractor who is doing the work for a private householder, the contractor will have to operate the scheme on payments they make to you.

List of included and excluded operations

Operations included	Operations excluded
<p><i>Planning</i></p> <p>None</p>	<p>Professional work (including the ancillary work of engineers, draughtsmen, scientists and technicians) of architects, surveyors or consultants in building, engineering, decoration (interior or exterior) or landscaping.</p>

Operations included	Operations excluded
<p>Site preparation</p> <p>Demolition of, for example, buildings, structures and tree-felling.</p> <p>Preparation of site and site-clearance, earth-moving on site, excavation, tunnelling and boring.</p> <p>Construction</p> <p>Preparation and laying of foundations and piling.</p> <p>Actual construction, alteration or repair of a permanent or temporary building or civil, chemical or other industrial engineering work or industrial plant or structure. For example:</p> <ul style="list-style-type: none"> • asbestos removal • storage tanks • silos • pylons • cranes or derricks • pumps. <p>Construction of site facilities including site huts, Portakabins and site hoardings.</p> <p>Installation of power lines, pipelines, gas mains, sewers, drainage, cable television and telecommunications distribution systems.</p>	<p>Delivery of materials.</p> <p>Transport of spoil from site.</p> <p>Manufacture or offsite fabrication of components or equipment, materials, plant or machinery and delivery of these to the site. For example:</p> <ul style="list-style-type: none"> • traditional building materials • prefabricated beams and panels • ready-mixed concrete. <p>Manufacture and delivery of prefabricated site facilities.</p> <p>Running of site facilities such as canteens, hostels, offices, toilets and medical centres or the supply of security guards.</p> <p>Installation or replacement of telecommunication or computer wiring through pre-existing ducting in buildings.</p>

Operations included	Operations excluded
<p><i>Construction (continued)</i></p> <p>Installation of closed-circuit television for purposes other than security (such as traffic management).</p> <p>Installation of public services.</p> <p>Construction, repair and resurfacing of roads and bridges including white-lining.</p> <p>Provision of temporary and permanent roadways and other access works such as drives.</p> <p>Erection or dismantling of scaffolding falsework and formwork.</p> <p>Plant hire with operator for use on site.</p> <p>Installation of fire protection systems designed specifically to protect the fabric of the building (such as sprinkler systems, fireproof cladding) rather than a fire warning (alarm) system.</p>	<p>Delivery of road-making materials.</p> <p>Setting out traffic cones.</p> <p>Hire of scaffolding equipment (without labour).</p> <p>Delivery, repair or maintenance of construction plant or hire equipment without an operator. For example, concrete mixers, pumps and skips.</p> <p>Installation of fire alarms, security systems including burglar alarms, closed-circuit television as part of a security system, and public address systems.</p>

Operations included	Operations excluded
<p><i>Construction (continued)</i></p> <p>Installation of prefabricated components or equipment under 'supply and fix' arrangements.</p> <p>Transport of materials on site.</p> <p>Internal cleaning of buildings and structures carried out in the course of, or on completion of, their construction, alteration, extension, repair or restoration.</p> <p>Work done on installations (such as rigs, pipelines, construction platforms) maintained or intended to be established for underwater exploration for, or exploitation of, minerals where the work is on land or in the UK territorial waters (up to the 12-mile limit).</p> <p>Installation of systems of heating, lighting, air-conditioning, ventilation, power supply and distribution, drainage, sanitation, water supply and distribution, and fire protection works.</p>	<p>Transport of materials from site to site on the public highway.</p> <p>Assembly of temporary stages and exhibition stands including lighting.</p> <p>External cleaning (other than painting or decorating) of buildings and structures.</p> <p>Drilling for, or extraction of, oil or natural gas.</p> <p>Extraction of minerals, boring or construction of underground works for this purpose.</p> <p>Manufacture, delivery, repair or maintenance of these items. Replacement of system parts not involving other construction operations (for example, taps or a radiator).</p>

Operations included	Operations excluded
<p><i>Construction (continued)</i></p> <p>Installation of lifts, plant, or machinery needed by the specification of a building under construction or alteration.</p> <p>Construction and repair of industrial plant.</p> <p>Site restoration and landscaping.</p> <p>Installation, structural repair and painting of lamp standards, traffic lights, parking meters and street furniture.</p> <p>Construction of concrete and marble floors.</p> <p>Fitting of eye bolts whether internal or external.</p> <p>Installation of and repair to:</p> <ul style="list-style-type: none"> • glazing • doors and rolling grills or security shutters • kitchens and bathrooms • shop-fittings including fixed furniture (except seating and freestanding display cabinets). 	<p>Servicing, repair or maintenance of these items.</p> <p>Stairlifts requiring no alteration or repair to the building.</p> <p>Tree planting and felling in the ordinary course of forestry or estate management.</p> <p>Manufacture and delivery of lamp standards. Routine maintenance such as cleaning and general replacement.</p> <p>Manufacture offsite and delivery of flooring materials.</p> <p>Manufacture and delivery of:</p> <ul style="list-style-type: none"> • glazing materials • computer and instrumentation systems • thermal insulation materials • heating and ventilation systems • doors and rolling grills • painting or decorating materials.

Operations included	Operations excluded
<p><i>Construction (continued)</i> Painting and decorating the internal or external surfaces of any building or structure.</p>	<p>Manufacture, delivery and installation of seating, blinds and louvered shutters.</p> <p>Manufacture, installation and repair of artistic works (for example sculptures and murals) which are wholly decorative in nature (not functional items caught by the scheme which incidentally have artistic merit).</p> <p>Manufacture and installation of solar, blackout or anti-shatter film.</p> <p>Signwriting and erecting, installation and repair of signboards and advertisements.</p>

Operations included	Operations excluded
<p><i>Finishing operations</i></p> <p>Fitting of:</p> <ul style="list-style-type: none"> • floor coverings, such as vinyl, linoleum (but not carpet) and laminated wooden flooring • pigeon mesh • TV aerials and satellite receivers. <p>Installation of refrigeration units.</p> <p><i>But only where these operations render complete a building or structure that has been constructed or altered.</i></p>	

Examples of deductions from subcontractors' payments

Deductions at the standard rate

Appendix D

This Appendix gives examples of the deduction from subcontractors paid under deduction.

Examples D1 to D3 show deductions at the standard rate of 20 per cent which was the rate in force at the time of printing of this guide.

Example D1

Where no materials are supplied ('labour-only')

A labour-only subcontractor does work on site for £200

	£
Total payment	200
Amount deducted at 20%	-40
Net payment to subcontractor	160

The contractor calculates the deduction (£40), which has to be paid to our accounts office. The labour-only subcontractor receives the balance of £160.

Entries on the Contractor's monthly return

In this example, the contractor should enter the following amounts in the appropriate boxes on the Contractor's monthly return:

Total payment	200
Direct cost of materials used	
Amount deducted	40

Example D2

The following is an example of a calculation where materials as well as labour are supplied ('supply and fix').

Where the subcontractor is **not registered for VAT**, any VAT they had to pay on materials should be **included** in the cost of materials when calculating the CIS deduction.

A tiling subcontractor, who is not VAT-registered, agrees to tile a wall and to supply the necessary materials for a total payment of £535. The materials cost the subcontractor a total of £235 (£200 + £35 for VAT).

	£
Labour charge	300
Materials	235
	<hr/>
Amount due (invoice amount)	535

Calculation of deduction

Total payment	535
Less cost of materials (inclusive of VAT)	-235
Amount liable to deduction	300
Amount deducted at 20%	-60
	<hr/>
Net payment to subcontractor	475

The contractor deducts the cost of materials from the price for the whole job and calculates the deduction on the difference of £300. The contractor has to pay £60 to our accounts office and pays £475 (£535 - £60) to the subcontractor.

Entries on the Contractor's monthly return

In this example, the contractor should enter the following amounts in the appropriate boxes on the Contractor's monthly return:

Total payment	535
Direct cost of materials used	235
Amount deducted	60

Example D3

The following is an example of a calculation where materials as well as labour are supplied ('supply and fix').

Where the subcontractor is **registered for VAT**, any VAT they had to pay on materials should be **excluded** from the cost of materials when calculating the CIS deduction.

For the total cost of £600, a subcontractor who is a taxable person for VAT purposes, agrees to paint the interior of a building and to supply the materials. The painter pays £235 for the materials, which includes VAT of £35.

	£
Labour charge	400
Materials	200
Total payment	<u>600</u>
Add VAT	105
Amount due (invoice amount)	<u>705</u>

Calculation of deduction

Total payment (exclusive of VAT)	600
Less cost of materials (exclusive of VAT)	-200
Amount liable to deduction	400
Amount deducted at 20%	<u>-80</u>
Net payment to subcontractor	<u>625</u>

The subcontractor is paid £625, which is the invoice amount (£705) less the deduction (£80).

Entries on the Contractor's monthly return

In this example, the contractor should enter the following amounts in the appropriate boxes on the Contractor's monthly return:

Total payment	600
Direct cost of materials used	200
Amount deducted	80

Deductions at the higher rate

Examples D4 to D6 show deductions at the higher rate of 30 per cent. This rate is used for illustration purposes and may or may not be the rate in force at the time of reading this guide.

Example D4

Where no materials are supplied ('labour-only')

A labour-only subcontractor does work on site for £200

	£
Total payment	200
Amount deducted at 30%	-60
Net payment to subcontractor	140

The contractor calculates the deduction (£60), which has to be paid to our accounts office. The labour-only subcontractor receives the balance of £140.

Entries on the Contractor's monthly return

In this example, the contractor should enter the following amounts in the appropriate boxes on the Contractor's monthly return:

Total payment	200
Direct cost of materials used	
Amount deducted	60

Example D5

The following is an example of a calculation where materials as well as labour are supplied (supply and fix).

Where the subcontractor is **not registered for VAT**, any VAT they had to pay on materials should be **included** in the cost of materials when calculating the CIS deduction.

A tiling subcontractor, who is not VAT-registered, agrees to tile a wall and to supply the necessary materials for a total payment of £535. The materials cost the subcontractor a total of £235 (£200 + £35 for VAT).

	£
Labour charge	300
Materials	235
Amount due (invoice amount)	535

Calculation of deduction

Total payment	535
Less cost of materials (inclusive of VAT)	-235
Amount liable to deduction	300
Amount deducted at 30%	-90
Net payment to subcontractor	445

The contractor deducts the cost of materials from the price for the whole job and calculates the deduction on the difference of £300. The contractor has to pay £90 to our accounts office and pays £445 (£535 - £90) to the subcontractor.

Entries on the Contractor's monthly return

In this example, the contractor should enter the following amounts in the appropriate boxes on the Contractor's monthly return:

Total payment	535
Direct cost of materials used	235
Amount deducted	90

Example D6

The following is an example of a calculation where materials as well as labour are supplied (supply and fix).

Where the subcontractor is **registered for VAT**, any VAT they had to pay on materials should be **excluded** in the cost of materials when calculating the CIS deduction.

For the total cost of £600 a subcontractor, who is a taxable person for VAT purposes, agrees to paint the interior of a building and to supply the materials. The painter pays £235 for the materials, which includes VAT of £35.

	£
Labour charge	400
Materials	200
Total payment	<u>600</u>
Add VAT	105
Amount due (invoice amount)	<u>705</u>

Calculation of deduction

Total payment (exclusive of VAT)	600
Less cost of materials (exclusive of VAT)	-200
Amount liable to deduction	400
Amount deducted at 30%	-120
Net payment to subcontractor	<u>585</u>

The subcontractor is paid £585, which is the invoice amount (£705) less the deduction (£120).

Entries on the Contractor's monthly return

In this example, the contractor should enter the following amounts in the appropriate boxes on the Contractor's monthly return:

Total payment	600
Direct cost of materials used	200
Amount deducted	120

Example payment and deduction statement

Appendix E

Example of a payment and deduction statement to be given to subcontractors paid under deduction:

- on a payment basis, or
- monthly, where this is less frequent.

Any Contractors Ltd

56 High Street

Anytown

ABC 123

Contractor's Employer Reference Number: 123/456789

Construction Industry Scheme

Statement of payment and deduction for month ending:
05 April 2013

Subcontractor

Name

Mr A N Other

Unique Taxpayer Reference **98765 43210**

Verification number*

	£
Gross amount paid (Excl VAT) (A)	5,450.36
Less cost of materials	584.72
Amount liable to deduction at 20%	4,865.64
Amount deducted (B)	<u>973.12</u>
Amount payable (A – B)	<u>4,477.24</u>

* Verification number only to be entered where a deduction at the higher rate has been made.

Please keep this document safe

Getting advice

You can get more detailed advice from our CIS website.

This booklet together with other information about CIS, is available online at www.hmrc.gov.uk/cis

For advice on Self Assessment you can phone our Self Assessment Helpline on **0845 9000 444**

To register as a contractor, please phone our New Employer Helpline on **0845 60 70 143**

Our Advice Teams provide help about CIS over the phone, and give presentations locally. To find out more, go to www.hmrc.gov.uk/bst

Your rights and obligations

Your Charter explains what you can expect from us and what we can expect from you. For more information go to www.hmrc.gov.uk/charter

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We may get information about you from others or we may give information to them. If we do, it will only be as the law permits, to:

- check the accuracy of information
- prevent or detect crime
- protect public funds.

We may check information we receive about you with what is already in our records. This can include information provided by you as well as by others such as other government departments or agencies and overseas tax and customs authorities. We will not give information to anyone outside HM Revenue & Customs unless the law permits us to do so. For more information go to www.hmrc.gov.uk and look for *Data Protection Act* within the Search facility.

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