



## **What is CIS?**

The Construction Industry Scheme (CIS) is a HM Revenue and Customs (HMRC) income tax on self employed construction contractors.

The old scheme used a variety of cards, vouchers and certificates to ensure payment and legislation compliance.

As from 6th April 2007 all contractors are legally required to comply by the new rules.

## **Why has the government changed the scheme?**

The old system was cumbersome and costly for all. Both HMRC and the construction industry was seeking to reduce the burden. HMRC estimated the long-term savings to the construction industry to be £22m per year (40% lower than the current CIS scheme\*) . The objective of the new CIS scheme is to increase the level of compliance, and ensure the employment status is correctly applied.

(ref HMRC CIS Regulatory Assessment paper 2002, [www.hmrc.gov.uk](http://www.hmrc.gov.uk)\*)

## **When does the change take effect?**

As from 6th April 2007 all contractors are legally required to comply by the new rules.

## **What are the changes?**

The new scheme has dispensed of cards, certificates and vouchers and replaced with Electronic registration, HM Revenue and Customs (HMRC) call centers for subcontractor verification and payment clarification and a monthly return to HMRC showing all subcontractor payments.

Many contractors accept a subcontractor registration card as proof of self-employment. The new scheme places the emphasis firmly on the contractor to define the employment status for each subcontractor, and to confirm this status for every subcontractor who has been paid each month.

- If the contractor has paid the same person within the last two years, payments can be made on the same basis.
- If the sub-contractor is new to the contractor then the contractor must contact HMRC by post, telephone or on-line. They will then verify the subcontractor and inform the contractor if they can pay gross, standard rate (18%) or higher rate (30%).

Briefly, it looks like this:

**Registration Process:** Subcontractors continue to register with the HMRC but, in addition to calling into a local office, they are able to do this electronically or by phone. They are then informed whether they should receive payments gross or net. They are not be issued with a card or certificate.

**Verification Process:** On engaging a subcontractor who has not worked for them for a set period of time, the contractor will no longer have a card or certificate to look at. Instead they must contact the HMRC to (a) confirm that the contract is one of self-employment, and (b) to ascertain whether the subcontractor should be paid net or gross.

**Payment by Contractor to Subcontractor:** The contractor will make payment to the subcontractor – in accordance with the net or gross instructions given by the HMRC.

**Recording and Reporting Payments:** The contractor will submit a monthly return to the HMRC showing, for all subcontractors to whom payments have been made, the amount paid and, in net cases, the amount of materials and deductions.

New guidance is also available to download from the [HMRC website](#).

### **How do I ensure all details are accurate?**

Precise details are important to ensure the HMRC computer recognises the payee. If the information is incorrect the instruction will be to deduct the higher rate when gross payment would have been appropriate. Centralising all CIS information through specialist software can ease this burden, enabling you to accurately record, track and report to HMRC.

Sage Construction software allow you to record, track and report on CIS for the current scheme and also have new fields and reports in place for the introductions of the new scheme.

## **What do I need to submit each month?**

- By the 19th of each month you need to submit a **status declaration** and pay HMRC the tax deducted.

Sage Construction Solutions include a **Contractors Monthly Return**. This report lists all payments made to all sub-contractors within a specific tax month and will be available to submit via the internet to HMRC.

- On the 19th you need to provide a **written statement** to each sub-contractor giving full details of the payment made and tax deducted.

The **Sub-Contractor Payments Statement Report**, within Sage Construction Solutions details the payments made and tax deducted for each sub-contractor. This report can be distributed to each sub-contractor as required by the new CIS scheme.

## **Failure to submit forms can result in substantial fines from HMRC.**

### **Will this be time consuming?**

Manual processing of CIS can be time consuming and prone to errors. Centralising all CIS information through specialist software can ease this burden.

Sage Construction software allows you to not only match and verify subcontractors online, but also allows you to produce reports to comply with new legislation.

### **Who will the change affect?**

The change will affect the majority of contractors and any Sage customers who are contractors and have purchased software before February 2006.

### **CIS processing made easy**

Investing in a computerised solution can take the burden out of CIS processing, saving time and reducing overheads. Sage Construction software not only offers time saving routines to help simplify CIS procedures but also provide hands-on control for contracts, jobs and estimates.

If you are new to Sage or would like more information on how Sage can help please call your local Sage Business Partner (PLAN:IT Business Systems ) **0161 723 0999**