

Surviving the new CIS



This Sage guide highlights key points to help you avoid such situations.

Taking on a new Subcontractor

Is the subcontractor a limited company?

- YES - go to Verification
- NO - go to Employment Status

Employment Status

- You'll need to check whether the subcontractor is an employee before you go any further. Do this before checking against CIS 333 or any other form of verification, such as the previous month's return.
- There are various techniques to check employment status, but before you start you need to have a clear idea of the terms under which you are engaging the worker.
- The HMRC's interactive Employment Status Indicator (ESI) Tool allows you to check employment status online when you engage a new worker. You will need the facts of the engagement ready before you start, although you can log back in within seven days provided you record the reference number.
- The ESI tool will produce a summary of the worker's status. Click on "Enquiry Details" to print the full details of the answers you have given. It is a good idea to retain this for your records, in the event of an enquiry.
- You can also use the services of a professional adviser, or the Sage HR Advice service can also help. Think about having written terms of engagement for your subcontractors.
- If you engage the same workers repeatedly on the same terms, there is no need to check their employment status every time. It is a good idea to carry out periodic checks to make sure that changes to working practices have not changed the workers' employment status.
- More help from www.hmrc.gov.uk/calcs/esi.htm and help sheet CIS 349

Once you are satisfied that workers are not employees, you can move on to verification of their CIS tax status.

Verification

You will need to verify any subcontractor you engage when you have not paid that subcontractor within the current or last two tax years. You must verify subcontractors before you pay them for the first time.

Have you already paid or verified the subcontractor

- YES - go to Change of Subcontractor Status
- NO - Continue Here

Is the subcontractor listed on form CIS 333?

- YES - go to Change of Subcontractor Status
- NO - Continue Here
- If the subcontractor is not listed on your CIS 333, you should check your records to see whether you paid the subcontractor within the previous two tax years. If you did:
 - Establish whether they held a CIS exemption certificate (CIS 5 or 6) with an expiry date after 6 April 2007. If so, you can pay them gross.
 - If they held a CIS registration card with an expiry date after 6 April 2007 (if any), you can pay them net of the standard rate of deduction.
- Otherwise you will need to verify your subcontractor before payment. You will need the Unique Tax Reference (UTR) number and National Insurance (NI) number of the subcontractor in addition to the normal name and address details. If the subcontractor is a limited company, you will need the company reference number instead of the NI number. For a partnership, you will need the Partnership UTR in addition to the partner's UTR. Doublecheck these details before filing as any unmatched submissions will result in higher rate deductions.
- You can verify online using HMRC's Government Gateway, via software with a specialist CIS application or by telephone on 0845 366 7899.
- You will be given a verification number with the results of the verification. It is essential that you record this accurately for future reference. HMRC will check that you have verified your subcontractors by checking this number. You will also need to quote the verification number on returns for staff who are liable to higher rate (30%) deductions. If you check online, your software will record the number automatically.
- The results of verification will be one of three outcomes:
 - Registered for gross payment. No tax to deduct.
 - Registered for net payment. Deduct tax from payments other than for the cost of materials at the lower rate.
 - Not registered (Unmatched). Deduct tax from payments other than for the cost of materials at the higher rate. Record the unique verification number (including the suffix letter) carefully.

For more information see [Help sheet CIS 345](#)

Change of Subcontractor Tax Status

Have you already paid or verified the subcontractor since 6 April 2007?

- YES - Continue Here
- NO - go to Paying Subcontractors
- You will be notified if a subcontractor you have paid within the last two years has changed tax status.
- HMRC will advise you in writing that the subcontractor has changed CIS tax status and what the new tax status is, and from which date it is to be applied.
- You must apply the new tax status to all payments made from the date specified. It does not matter when the work was done. It is the date of payment that counts.
- You need to update your subcontractor records to reflect the new tax status, so that it will be applied every time you make a payment - as in the supplier record below.

The screenshot shows a software window titled "Supplier - Diva Promotions Ltd" with a menu bar including Details, Defaults, Credit Control, Purchases, Orders, Graphs, Activity, Bank, CIS, Contacts, and Memo. The main area is divided into several sections:

- Business type:** A dropdown menu set to "Sole Trader".
- Subcontractor details:** Fields for Trading name (Diva Promotions Ltd), Legal name, First name or initial (John), Second name, and Surname (Smith). There is a checkbox for "Use the legal name in reports".
- Verification status:** Status (Verified with HMRC), Verification number (V5678912345), Last verified (10/02/2007), and Tax treatment (Net (standard rate)). There are buttons for "Verify Now" and "Tax Treatment...".
- Payment details:** Payment frequency (Monthly), and checkboxes for "Agreement to send monthly statements by email" and "Agreement to pay a third party".

Supplier

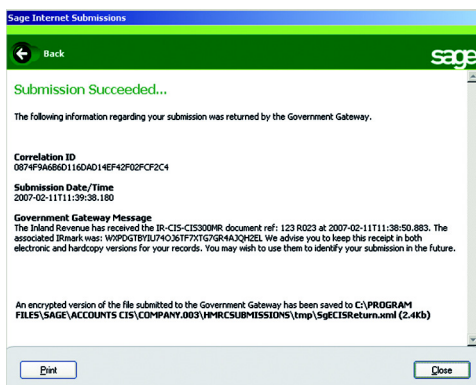
Paying Subcontractors

- Calculate the net payment by applying the appropriate rate of tax (lower or higher rate) to the total payment due (excluding VAT).
- You do not need to deduct tax from any part of the payment which represents the cost of materials. You must deduct tax from other payments such as travelling expenses.
- You will need to record the gross amount, the amount allowed for the cost of materials, and the tax deducted, in order to prepare the monthly return and subcontractor payment advice.
- You do not have to issue a payslip or other documentation with the payment.

Monthly Returns

- You must submit to HMRC a monthly return of payments to subcontractors each tax month (from 6th of each month to 5th of following month).
- The return includes payments to all subcontractors whether paid net or gross.
- The return can be made on paper or online via HMRC or software. If you use a paper return you must use the form issued to you by HMRC, in respect of the correct month, and send back in the envelope provided.
- The return shows the name, UTR and NI number or company number of each subcontractor paid in the month, together with the gross amount of payment (excluding VAT), and in respect of subcontractors liable to tax, the amount allowed for materials and the tax deducted. For subcontractors liable to the higher rate of deduction, you must also show the unique verification number.
- The return is due within 14 days after the end of the tax month and must arrive with HMRC by the due date. If you do submit a late return, an automatic penalty will be charged and this will increase for each month that the return is late. Fines may also be levied for inaccurate returns, so ensure that you have adequate administration systems in place.
- If you have made no payments to subcontractors in the month you must provide a nil return, otherwise a penalty will also be due. You can do this by telephone (0845 366 7899) or online. Filing via HMRC's Government Gateway or with a specialist CIS application will give you a guarantee of receipt and peace of mind.
- Where you do not expect to pay subcontractors for a period of six months, you can make an inactivity request to avoid the need to make nil returns for six months. You must remember to notify the CIS helpline if you make payments unexpectedly again before that period ends.
- Make sure that you consider and tick the declarations regarding employment status and verification, and state that the return is correct and complete. Don't forget to sign the paper version! There is no signature box on the electronic version, as submitting online is taken as confirmation that you have considered employment status.

For more information see help sheet CIS 346



Sage Internet Submissions

Notifying your Subcontractors

- You must provide each subcontractor liable to tax deduction with a payment advice showing the amount you have paid him and the amount of tax deducted in respect of each tax month. It is regarded as good practice to provide the same information to subcontractors paid gross.
- The payment advice can be provided after each payment if you prefer - if you do, a monthly advice is not needed in addition to this.
- If your subcontractor agrees, the advice can be provided by e-mail.
- There is no standard form, but the advice must include all of the details about the subcontractor which appear on the CIS 300 return, plus details about the contractor making payment, and the tax month which the advice relates to. The Sage 50 CIS standard report includes all of the necessary information.

SubContractor Monthly Statement	
Generic Scenarios	
Contractor's Unique Tax Reference: 1234567881	
Construction Industry Scheme Statement of payment and deduction for month ending: 05/10/2007	
Subcontractor	
Name:	Sole Traderone
Unique Taxpayer Reference	3234567880
NINO:	YW000004A
CRN:	
Higher Rate Verification Number:	
Gross amount paid (Excl VAT and CITB levy): (A)	100.00
Less cost of materials:	0.00
Amount liable to deduction	100.00
CIS Tax Deducted: (B)	<u>20.00</u>
Amount Payable: (A-B)	80.00
*Verification number only to be entered where a deduction at the higher rate has been made.	

Subcontractor Monthly Statement

Making Payments

- The tax you deduct from your subcontractors should normally be paid over monthly, to reach the HMRC accounts office by 19th of the month - that is 14 days after the end of the tax month.
- Some small contractors have arranged for quarterly payment of PAYE and NIC. The quarterly payment arrangements also apply to CIS due, provided you are within the limits for the quarterly payment scheme.
- If it is easier, you can pay electronically. For information on how to set this up see <http://www.hmrc.gov.uk/howtopay>. Follow information for employers paying PAYE (which CIS tax is classed as).
- If you are a company, you can set off CIS you have suffered on your income (if any) against payments of PAYE, NIC and CIS tax due, paying the net amount. You will need to record what you have done carefully to prove that you have made adequate payments at the end of the year.

Keeping Gross Status as a Subcontractor

- If you are both a contractor, engaging subcontractors, and a subcontractor, working for other businesses in the construction sector, you will need to ensure that you retain gross payment status otherwise your cashflow will be adversely affected.
- Re-categorisation to net, after which you will suffer the lower rate deduction from the payments you receive for labour, can technically happen at any time, but HMRC will be instituting a programme of rolling checks.
- In order to retain gross payment status you will need to comply with all of your tax obligations on time, at all times. You will also have to meet the turnover limits applying to your business.
- The compliance rules do allow you some leeway if you make occasional late returns or rare late payments of tax, but you will automatically lose gross payment status if any CIS monthly return is filed more than 28 days late.
- You will not lose your gross payment registration provided you do not exceed the following in any twelve month period :
 - Three late submissions of your CIS monthly return - up to 28 days late.
 - Three late payments of CIS/PAYE deductions - up to 14 days late.
 - One late payment of Self Assessment tax - up to 28 days late.
 - Any employer's end of year return (form P35) made late.
 - Any late payments of Corporation Tax – up to 28 days late, including where any shortfall in the payment has incurred an interest charge but no penalty.
- Any Self Assessment return made late.
- If you are a limited company, you will also need to file your accounts and annual return on time.
- If you are working through a partnership, a failure by any one of the partners will affect the firm's gross payment status.

For more information see CIS 343, which is available in several languages.

Other Tips

- CIS 333 is not proof of self employed status. You will still need to check employment status for individuals listed on the form.
- It is a good idea to verify subcontractors when they are engaged rather than waiting until pay day. If they provide incorrect information you will then have the chance to check any “unmatched” reports and re-check the data before pay day.
- Make sure that you have adequate sickness and holiday cover for monthly returns and payments, to ensure that you don't incur penalties and compromise your gross payment status.
- Think carefully about all other aspects of tax compliance if you are registered for gross payment.
- Make sure that you have a Government Gateway ID and have activated the CIS service before you try to verify or file returns online.
- HMRC has produced extensive guidance for contractors and subcontractors, all of which can be downloaded from their website. In particular, Booklet CIS 340 is an extensive and detailed guide to all aspects of the scheme. Fact sheets are available on particular aspects of the scheme, with those for subcontractors being available in Polish and a number of other languages.

Help sheet CIS 347 is a simple outline summary of the key obligations for contractors.

Sources of Help

- HMRC new CIS page with links to publications and frequently asked questions www.hmrc.gov.uk/cis
- HMRC new CIS helpline 0845 366 7899
- HMRC general guidance on employed v self employed www.hmrc.gov.uk/employment-status

Sage 50 Accounts & CIS

Find out how Sage software can help you comply with the new Construction Industry Scheme (CIS) and manage your customers and suppliers to ensure an efficient cash flow for your business.

Visit <http://shop.sage.co.uk>

For further advice on dealing with the new CIS, talk to one of our Construction Team.

About Sage

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