

# Construction Industry Scheme - important changes

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The construction industry tax scheme (CIS) has been in force since 1999 (and before that another version of the scheme was in place). On 6 April 2007 the way in which the CIS is operated is changing, although the scope of the scheme will remain unchanged. The CIS is intended to prevent "cash-in-hand" payments to subcontractors and to ensure that the tax due in respect of payments to subcontractors is collected. The aim of the changes being made in April is to reduce the regulatory burden on contractors and subcontractors, while at the same time improving compliance with tax obligations.

## No more vouchers or certificates

The previous version of the CIS involved the production of paper vouchers to evidence payments between contractors and subcontractors. Subcontractors were either issued with a CIS5 or CIS6 certificate, which entitled them to be paid gross, or a CIS4 registration card, which alerted contractors to the requirement to pay the subcontractor net of tax. The new CIS does not involve registration cards or certificates. Instead, contractors are required to "verify" subcontractors with HMRC, and HMRC will issue instructions about how the subcontractor should be paid.

## Registration of subcontractors

Subcontractors will be obliged to register with HMRC, and will be issued with a unique taxpayer reference number. Subcontractors who already hold either a certificate or registration card are not obliged to re-register with HMRC. As before, the subcontractor will have to meet certain conditions in order to be able to be paid gross.

## Verification of subcontractors by contractors

Before paying a subcontractor, a contractor will have to contact HMRC either on-line or by telephone, and provide them with certain details about themselves (and the subcontractor) including their name, unique taxpayer reference, and accounts office reference. For subcontractors who are sole traders, their national insurance number will be needed, and for limited companies, their company registration number.

HMRC will then give the contractor a **verification number** a record of which should be kept, and will confirm to the contractor whether the subcontractor should be paid net or gross. If HMRC is unable to find a record of that subcontractor on their system, the contractor will still be issued with a verification number but will have to deduct tax at a higher rate, which is expected to be 30%. The subcontractor will need to contact HMRC in order to get registered.

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One advantage of the new system is that once a contractor has verified a subcontractor they can continue to pay them in the same way unless HMRC contacts them to instruct them to change the payment arrangements.

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### Existing subcontractors

If a subcontractor is being paid in the first year of the new CIS, between 6 April 2007 and 5 April 2008, the contractor will **not** have to verify them if they have already been included on any monthly return in that tax year, or if the contractor has paid them since 6 April 2005 and their certificate or registration card was inspected when that payment was made (provided it had an expiry date of April 2007 or later). HMRC have said that they will send contractors a list of subcontractors they have paid in the past, in March/April 2007.

Contractors are also obliged to give a payment statement to each subcontractor from whom they have made a deduction. Any subcontractor from whose payments tax has been deducted at the higher rate will need to produce this statement to claim a refund from HMRC.

### Monthly returns

Contractors will be obliged to make monthly returns to HMRC showing payments made to subcontractors, within 14 days of the end of the tax month. The return will include a declaration that none of the contracts to which the return relates is a contract of employment. HMRC is looking more closely at the employment status of subcontractors, and if it considers that a subcontractor is actually an employee of the contractor HMRC could seek payment of PAYE tax and National Insurance contributions from the contractor. If no payments have been made in a particular month, a nil return must be made. It will be possible to file the monthly returns on-line, which is likely to be much quicker and more convenient for contractors.

HMRC has issued several explanatory leaflets on the new CIS which are available at [http://www.hmrc.gov.uk/new-cis/new\\_guidance.htm](http://www.hmrc.gov.uk/new-cis/new_guidance.htm). This includes guidance on the employment status of subcontractors.

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