



## What is CIS?

The Construction Industry Scheme (CIS) sets out how payments must be made to subcontractors by contractors for construction work. It was extensively revised in 2007, and this guide refers only to the scheme currently in operation.

A Contractor (or Deemed Contractor) is responsible for making deductions from the payments made to sub-Contractors if the payment falls within the scope of CIS.

There are 2 things that decide this:

Firstly, that the work being carried out is a "Construction Operation" – See our guide to "What is a Construction Operation?". This is not just a matter of the type of work being undertaken, but the kind of structure it is being performed on, whether it is an installation or repair, if it is a contract in its own right or part of the preparatory or finishing work for a build.

Secondly, that the contract is one of self-employment – See our guide "Are you self-employed?". Even if you are registered as self-employed, the contract you are currently engaged on may be deemed to be a contract of employment, and in that case CIS payments wouldn't apply.

If a Contractor believes that the payments for the work you have done should be subject to CIS then they have to verify with HMRC that you are registered under the Construction Industry Scheme. When they verify you they will be told whether you should "be paid under deductions" or paid gross.

If you are to be paid under deductions, then there are 2 rates which could apply: 20% is the standard deductions that are made if you can be verified as being registered with CIS. However, if you can not be verified (for example if you are still being set up, or if the details you have given to the contractor don't match HMRC's records) then deductions will be made at 30%.

Gross payment status is something which a Contractor or Sub-contractor can apply for, and is granted upon the basis of your record with HMRC, for example if your payments have been made on time, forms have been submitted on time etc.

The rate (20%, 30% or Gross) at which the Contractor is told to make deduction is not something that the Contractor paying you can have any influence on. They merely follow what HMRC instructs them to do.

So, you have deductions made from your invoices by the Contractor at the rate specified by HMRC, is that all there is to it? Unfortunately, no!

For the payments to be subject to CIS in the first place, you will have to be registered as self-employed, and therefore subject to an annual Self-Assessment. The payments that have been deducted through-out the year from your invoices should be thought of as payments on account.

When you, or your accountant submit your self-assessment they will calculate the amount of Income Tax that you should have paid, and what has been deducted through CIS. You will either owe a balancing payment, or be due a rebate, but one thing is almost guaranteed, there will be some kind of correcting payment necessary. Don't fall into the trap of thinking that deductions are being taken so what is left is yours to spend, these are payments on account until the real figure is worked out at the end of the tax year.

You should also remember that as a self-employed person you need to pay Class 2 National Insurance – what used to be called "paying your stamp", and then at the end of the year when your profits are calculated there could be Class 4 National Insurance Due.

We get asked 2 questions on a regular basis, "Am I better off going CIS?" and "What are the benefits of CIS?", but this is the wrong way to think about CIS. It isn't your choice whether you are paid via CIS, it's the law! If you fulfil the criteria, ie the contract you are working on, is one where you are self-employed, and the work you are doing is a construction operation as set out by the scheme, then a Contractor must operate the CIS scheme on any payments made to you.

At the end of the year, even if you have been paid under CIS through-out the year, you will need to do a self-assessment and that will determine how much tax and NI you owe. Get a good accountant, expect the worse, and hopefully you'll be pleasantly surprised when your self-assessment is calculated.

The saying is that there are only 2 things in life that are certain, death and taxes! CIS is not a magic way to avoid tax, it is a way of the Tax Man still getting his hands on the tax due in what was traditionally a cash in hand industry.

**01332 856986 - [contactus@simplifybusiness.co.uk](mailto:contactus@simplifybusiness.co.uk)  
[www.simplifybusiness.co.uk](http://www.simplifybusiness.co.uk)**