

NEW CONSTRUCTION INDUSTRY SCHEME (CIS)

From April 2007

GUIDANCE NOTES FOR CORPORATE ESTABLISHMENTS

Introduction

In accordance with the provisions of the Finance Act 2004, HM Revenue and Customs (HMRC) has introduced changes to the Construction Industry Scheme from April 2007.

The Council's status as a deemed Contractor will not alter. We will **continue to apply the scheme for payments to subcontractors in respect of construction operations.**

In summary, the main features of new CIS are as follows:

- CIS cards, certificates and vouchers are no longer required.
- Instead of looking at a card or certificate to find out whether a subcontractor is to be paid under deduction or gross, contractors must contact HMRC to find out how a new subcontractor should be paid.
- Most subcontractors registered under the existing CIS rules have automatically transferred to the new system and will not need to re-register. If their status changes, HMRC will notify us.
- As previously, new subcontractors need to register with HMRC.
- Contractors must make a monthly return to HMRC showing payments made to all subcontractors.
- CIS annual returns will no longer need to be completed.
- Nil returns will have to be made under the new scheme.
- The monthly return will include an employee status declaration.
- Contractors must produce a written statement every month for each subcontractor from whom they have made a deduction.
- There is a new schools exemption.
- There are new automatic penalties for late or incorrect returns

No Cards Certificates or vouchers under new CIS

Under new CIS we no longer use:

- Registration Cards - CIS4
- Tax Certificates - CIS5 & CIS6
- Vouchers - CIS23, CIS24& CIS25

Subcontractors new to CIS need to register with HMRC in order to be paid for construction work. They can apply to be paid gross by the contractors they work for or they can register to be paid under deduction.

CIS Cards and Certificates will no longer be issued by HMRC and subcontractors will not need to present their cards or certificates in person in order for us to release payment.

Current card and certificate holders will be classified either gross or net as appropriate and will not need to re-register.

Verification of Subcontractors

A verification service has replaced cards and certificates. This is a new process of contacting HMRC when we engage a new subcontractor to find out if invoices can be paid gross (no deduction), net (20% deduction from labour element) or higher rate of deduction (30%). The higher rate of deduction is applied if a subcontractor cannot be matched on the HMRC system.

Most of our existing subcontractors do not need to be verified. HMRC has provided a list of “ subcontractors without the need for verification”. This should include those whom we have paid in the current or two previous tax years and whose current card or certificate is valid after April 2007.

An excel spreadsheet has been posted on W drive. The list is downloaded from OLAS and includes all subcontractors for whom CIS details have been entered. This includes subcontractors identified from the HMRC list plus those that have been verified since April 2007.

The current file name is: **CIS Subcontractors 1 08 06 07**

New files will be posted at regular intervals and the one with the latest date will be current.

If you cannot find an existing supplier that should be included on the spreadsheet, please contact the OLAS helpdesk to confirm whether CIS controls are in place.

Whenever we take on a new subcontractor or one who has not worked for the Authority in the current or last two years, there will be no details in OLAS. We will therefore need to contact HMRC to verify them.

If you need to verify one or more subcontractors you should contact Accountancy by:

- Telephone on extension 3261
- E-Mail to Jones, Douglas

Before contacting Accountancy please make sure you have the following information about the subcontractor depending on the subcontractor's type of business:

Sole trader	Partner in a firm	Company
Name	Firm's name	Company name
Unique taxpayer reference (UTR)	Partner's name	Company UTR
National Insurance number (NINO) if known	Firm's UTR	Company registration number.
	Partner's UTR or NINO (if an individual), or company registration number (if a company)	

If the subcontractor does not have a supplier record on OLAS then the information should be included on the new supplier request form and sent to the purchase ledger team.

In all cases: We must be able to confirm that a contract has been agreed with each subcontractor or that we have formally accepted a tender for work under a contract.

Once Accountancy have given the required information to HMRC they will check their records and tell us to pay the subcontractor either gross or under deduction. HMRC will also specify whether deductions should be at the standard rate or the higher rate for subcontractors not registered.

We will then be given a verification reference number which will cover all subcontractors verified during the same telephone call and will be recorded on our database of subcontractors.

The subcontractor's CIS details will then be included as part of the supplier record on OLAS so that payments can be included on the monthly return to HMRC and any CIS tax deductions correctly accounted for.

Once a subcontractor has been verified, we can continue to pay that subcontractor in the same way until we are notified of any change by HMRC.

Monthly returns to HMRC

From April 2007, contractors must make a monthly return to HMRC.

This includes details of:

- All payments made within new CIS to all subcontractors
- Any deductions made from those payments to subcontractors

Along with a declaration that:

- Employment status has been considered
- Subcontractors that need to be verified have been
-

One return will be submitted for the Authority, which must reach HMRC no later than 14 days after the end of the tax month, otherwise automatic penalties will be charged.

The monthly return should include all **payments made up to the 5th of the month**. In the case of subcontractors paid by BACS this means invoices entered and authorised several days before.

Returns will be produced by OLAS and sent to HMRC via the Government Gateway by Corporate Finance. At the same time tax deducted will be paid over to HMRC accounts office. A record of payments should be kept in case of queries from subcontractors or system failure.

However, **annual returns will no longer be required** so there is no extra work at year –end after 2007.

Payment and deduction statements for subcontractors

Contractors **must produce a written statement** every month for each subcontractors from whom they have made a deduction, showing what they have been paid and how much has been deducted from them.

This statement must be produced within 14 days of the end of the tax month, i.e. by the 19th of each month, and it must include the following information:

- Contractor name and employer tax reference
- End date of the tax month to which the statement applies
- Subcontractor's name and Unique Taxpayer Reference (UTR)
- Verification number if a deduction at the higher rate has been made
- Gross amount of payments
- Cost of materials
- Amount of the deduction

Statements will be produced by OLAS and sent out by Corporate Finance.

Step by step guide to processing CIS invoices

- 1) First step when paying invoices to an individual is to ensure they are **self-employed**. Guidance notes on employment status are published on the intranet under Personnel policies and on the HMRC new CIS website.
- 2) The next step is to identify **if the works are a construction operation**. A list of common operations is appended below and a more complete list is included in the HMRC Guide for Contractors CIS340.
- 3) Once you have confirmed that the work is a construction operation, check if the **subcontractor is included on the database** and if so, whether the invoice should be paid gross, or net of CIS tax (standard or higher rate).
- 4) New subcontractors or ones that have not been paid by us in the current or two previous tax years will **need to be verified** as detailed above.
- 5) If the subcontractor is to be paid net of tax, check that the materials/labour split is reasonable. **If no labour element is shown** then this figure should be agreed between the technical officer and the subcontractor.
- 6) Enter the invoice for **payment on OLAS** as detailed below in **invoice processing**.

Invoice Processing.

Invoices for CIS subcontractor payments must be processed in the following manner.

- **NB: Manual calculations are NO longer required. OLAS performs all necessary actions making the process much easier for users.**

- Step 1** Enter details onto the Transaction header screen with the relevant information such as Supplier number, Transaction reference, Transaction date, Received date, etc.
- Step 2.** Enter the VAT value. The VAT amount will not change from that shown on the original invoice.
- Step 3.** If the subcontractor is liable to be paid gross, enter the invoice as normal unless the work done is not included in the scheme. In this case the CIS excluded box must be ticked (see **“exclusions” below**)

Step 4. If the subcontractor is subject to CIS tax, enter line details for materials (described as you see fit), and a **separate line entry for labour** related elements with Cost Centre and Subjective codes.

Step 5. The **labour element must be flagged** by placing a 1 in the ‘**Labour**’ column. See sample below

Primary Details **Sundry Details**

Supplier: **IMP00613** WALL BUILDER & CO Page 1 of 1
INVOICE 1001 CONCRETE BLOCKS

Trans Ref: **ABCD123** CIS Excluded?

Received Date: **26 Mar 2007**

Trans Date: **25 Mar 2007** Due Date: **25 Mar 2007**

Gross Amount: **2350.00** Separate Cheque

VAT Amount: **350.00** System VAT: 350.00

User Data: Enclosure: Y/N Disputed: Y/N

Cmd	Description	PYP	Qty	Item Price	Labour?	C.C.	Subj	Gen'l	Er
	Materials			500.00	0	4500	L201		
	Labour			1500.00	1	4500	L201		

Prompt Update Previous Next New More Lines Cancel

perphilly TEST SYSTEM E5.1 Invoice Insert QVR

Once the invoice has been processed, all necessary tasks will be performed by the system.

- ❑ The appropriate CIS % will be deducted from the suppliers’ payment and a transaction will be created for same value paid against the supplier record used for HM Revenue & Customs NOR00012.
- ❑ Payment will be made to pay to HM Revenue and Customs monthly.
- ❑ Various reports and statements will be generated and dispatched monthly.

CIS Controls

If an invoice is entered on OLAS against a CIS subcontractor who is liable for tax, and labour is not specified at line detail, the system will display a warning message for your attention.

Cmd	Description	PYP	Qty	Item Price	Labour	C.C.	Subj
	materials		1	500.00 0		4500	L201
	labour		1	1500.00 0		4500	L201

Session 1 - Warning: GBW15: No labour related lines entered on New CIS Supplier

To ignore this warning could result in a penalty being imposed in addition to the Council having to bear the cost of the tax not deducted.

Exclusions

During instances where an accredited subcontractor's invoice needs to be excluded from the scheme, the 'CIS Excluded' flag **must be ticked**. See below.

Supplier: IMP00613 WALL BUILDER & CO
INVOICE 1001 CONTEPRETE BLOCKS
Trans Ref: ABCD123 CIS Excluded?
Received Date: 26 Mar 2007

It is important to remember that if the excluded box is left blank then the payment will be reported to HMRC and will be shown on the subcontractor's monthly statement.

It is contradictory to proceed and ignore the labour element warning (see above).

An incorrect return can lead to penalties being imposed (see "penalties" below)

For clarification on the type of works that can be excluded please see HMRC guide CIS340.

N.B. ALL PAYMENTS ENTERED BY SCHOOLS SHOULD BE EXCLUDED.
(See "Schools exemption" below)

PENALTIES

If a Contractor submits a monthly return that is incomplete or incorrect, HMRC may charge penalties if the error or omission has been caused by negligence or intent.

Incomplete or incorrect returns include:

- ❑ Persons or payments omitted from the return
- ❑ Persons or payments incorrectly entered onto the return
- ❑ Incorrectly making a declaration in respect of verification or employment status

NB: If the CIS excluded box is flagged in error and a tax deduction is required and not made, then we are still responsible for paying the tax to HMRC.

If the excluded box is not flagged when necessary then the payment will automatically be reported to HMRC and could result in a penalty being imposed for an incorrect return.

ANY PENALTIES INCURRED AS A RESULT OF THE ABOVE WILL BE PASSED ON TO THE DEPARTMENT CONCERNED.

Schools exemption

Local Authority schools with devolved budgets for minor works will not be required to operate the new scheme.

Essentially this means if the contract for construction work is between the school/governing body and the subcontractor and payment is made by the school, then the payment will fall outside CIS reporting requirements.

If however, the contract for construction work is between the subcontractor and the Local Authority (usually major capital works) then this will remain part of the Construction Industry Scheme and must be reported.

MOST COMMON CONSTRUCTION OPERATIONS

- **Painting and Decorating**
- **Building works (e.g refurbishment)**
- **Plumbing (installation of heating, water supply etc)**
- **Electrical works (installation of power supply, lighting etc)**
- **Glazing**
- **Damp proofing**
- **Roofing**
- **Partitioning**
- **Carpentry (e.g fix shelf to wall)**
- **Erection/dismantling of scaffolding**
- **Landscaping**
- **Fencing**
- **Lift installation**
- **Asbestos removal**
- **Construction, repair and resurfacing of roads and bridges including white lining.**

Note: The general rule is work altering a fixed structure in any way. There are some exceptions such as installation of security systems.

HMRC GUIDE CIS 340

To access the above plus other guidance notes relating to the scheme please go to:-

www.hmrc.gov.uk/new-cis