

The Construction Industry Scheme

The Contractor's Viewpoint

If you are a contractor and you want to engage somebody to work for you, you must first establish whether or not the type of work involved falls within the construction industry scheme. HM Revenue & Customs (HMRC) Factsheet CIS348 is a useful starting point for this.

Once you are satisfied about the status of the work, you need to obtain basic details from the subcontractor, such as name, unique taxpayer reference (UTR) and national insurance number.

If you use subcontractors who do not trade as limited companies, the first priority is to establish whether, in all the circumstances, they are entitled to be treated as self employed. This matter is discussed in our fact sheet *Employed or Self Employed?* All wages for employees must be paid under PAYE.

If you believe your worker should be categorised as self employed, you need to set up an appropriate contract. The next stage is *Verification*. You need to contact HMRC to verify the subcontractor, and to establish whether the subcontractor is to be paid gross or net. For net payments there are two rates of deduction – a standard rate (20%) for those who have registered with HMRC (“matched”) and a higher rate (30%) for those who have not (“unmatched”).

You will be given a *verification reference number* for each set of subcontractors verified in the same telephone call or internet session. These will be in the format V0000543267 for matched subcontractors but will have one or two letters on the end that are unique to each unmatched subcontractor (eg V0000543267/B).

Please note that the verification process should be used only when a contract is in place, or a tender accepted. It cannot be used speculatively to establish payment status details of a subcontractor.

Contractors must issue a *payment statement* to each subcontractor for whom they have made a deduction from a payment. The statement may cover all payments in a tax month, or each individual payment. There are penalties if payment statements are not issued within 14 days of the end of the tax month. There is no prescribed format, but they must contain the following information:

- the contractor's name and reference
- subcontractor's name and UTR
- verification reference number
- total payment(s) in the tax month
- the cost of any materials supplied
- deduction(s) made from the payment(s)

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Care should be taken when using standard payroll statements, as they often have inappropriate headings, such as “employee number”. It is important that payment statements clearly identify the subcontractor as a self-employed individual rather than an employee.

Contractors must also make *monthly returns* of all payments to subcontractors, showing for each subcontractor most of the details shown on the payment statements, together with declarations that:

- all subcontractors needing verification have been verified
- employment status has been considered, where appropriate

Returns and payments must reach HMRC within 14 days of the end of the relevant tax month. There will be penalties if these are late or incorrect.

Nil returns must be made if no subcontractors have been paid in the month. There are no annual returns.

Contractors who are also subcontractors must pass the *compliance test* to remain eligible for gross payments. The old compliance test focused on the contractor’s compliance over a three year period. The new test looks at a 12 month period, but the rules are much stricter – for instance if you pay your PAYE/CIS deductions more than 14 days late **even just once** you will lose your gross payment status and future payments will be net of tax.