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Guidance

Construction Industry Scheme: a guide for contractors and subcontractors (CIS 340)

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1. Introduction to the Construction Industry Scheme (CIS)

This section gives a brief introduction to CIS. The scheme sets out the rules for how payments to subcontractors for construction work must be handled by contractors in the construction industry and certain other businesses.

Under the scheme, all payments made from contractors to subcontractors must take account of the subcontractor's tax status as determined by HM Revenue and Customs (HMRC). This may require the contractor to make a deduction, which they then pay to HMRC, from that part of the payment that does not represent the cost of materials incurred by the subcontractor.

1.1 Types of work that are covered by the scheme

The scheme covers all construction work carried out in the UK, including jobs such as:

- site preparation
- alterations

- dismantling
- construction
- repairs
- decorating
- demolition

The UK includes UK territorial waters up to the 12-mile limit.

The scheme doesn't apply to construction work carried on outside the UK. However, a business based outside the UK and carrying out construction work within the UK is within the scheme and must register accordingly.

There is more information on the scope of the scheme in paragraphs 2.18 to 2.20 and in Appendix A. There is more information on businesses not resident in the UK at Section 5.

1.2 Types of businesses that are covered by the scheme

The scheme covers all types of businesses and other concerns that work in the construction industry, including:

- companies
- partnerships
- self-employed individuals

These businesses can be:

- contractors
- subcontractors
- contractors and subcontractors

Under the scheme, the terms 'contractor' and 'subcontractor' have special meanings that cover more than is generally referred to as 'construction'.

Contractor

A contractor is a business or other concern that pays subcontractors for construction work.

Contractors may be construction companies and building firms, but may also be government departments, local authorities and many other businesses that are normally known in the industry as 'clients'.

Some businesses or other concerns are counted as contractors if their average annual expenditure on construction operations over a period of 3 years is £1 million or more.

Private householders aren't counted as contractors so aren't covered by the scheme.

Subcontractor

A subcontractor is a business that carries out construction work for a contractor.

Businesses that are contractors and subcontractors

Many businesses pay other businesses for construction work, but are themselves paid by other businesses too. When they're working as a contractor, they must follow the rules for contractors and when they're working as a subcontractor, they must follow the rules for subcontractors.

For a more detailed explanation of what is a contractor and what is a subcontractor, please read Section 2.

1.3 Registering for the scheme

All contractors must register with HMRC for the CIS. Subcontractors who don't wish to have deductions made from their payments at the higher rate of deduction should also register with us. We'll provide registration details that contractors and subcontractors will need to use when they deal with payments.

For information on when and how to register, please read Registering for the scheme.

1.4 Verifying subcontractors

Before a contractor can make a payment to a subcontractor for construction work, they may need to verify with HMRC that the subcontractor is registered. We'll check whether the subcontractor is registered with us and then tell the contractor the rate of deduction they must apply to the payment, or whether the payment can be made without any deductions.

For more information, please read the verification process.

1.5 Making deductions from payments

Under the scheme, all payments made from contractors to subcontractors, must take account of the subcontractors' tax status. This may require the contractor to make a deduction, which they then pay to us from that part of the payment that does not represent the cost of materials incurred by the subcontractor.

If no deduction is required, the contractor can make the payment to the subcontractor in full.

If a deduction is required, the contractor must:

- calculate the deduction
- make the deduction
- record details of the payment, materials and deduction
- make the net payment to the subcontractor
- complete and give the appropriate statement of deduction to the subcontractor

For more information, please read making a payment.

1.6 Returns

Each month, contractors must send HMRC a complete return of all the payments they have made within the scheme or tell us that they have made no payments. The return will include:

- details of the subcontractors
- details of the payments made, and any deductions withheld
- a declaration that the employment status of all subcontractors has been considered
- a declaration that all subcontractors that need to be verified have been verified

For more information, please read completing a return.

1.7 Payments to HMRC

Each month, or quarter in some cases, contractors must send us a payment for the deductions they've made from subcontractors.

For more information, please read payments to us.

1.8 The scheme does not apply to employees

For a contract to be within the scheme, it mustn't be 'a contract of employment'. This means that the scheme applies to workers who are self-employed under the terms of the contract, and who are not employees subject to Pay As You Earn (PAYE).

Employment status depends on general law and it's for the contractor to decide on the individual's employment status when the subcontractor is first engaged. The fact that the subcontractor has worked in a self-employed capacity before is irrelevant in deciding on their employment status - it's the terms of the particular engagement that matter.

For more detailed advice for contractors, please read employment status.
(https://www.gov.uk/government/collections/employed-or-self-employed)

1.9 Subcontractors applying to be paid gross

Subcontractors can apply to be paid gross - with no deductions taken from their payments. To do this, subcontractors will need to show us that they meet certain qualifying conditions.

For more information, please read how to apply to be registered for gross payment.
(https://www.gov.uk/business-tax/construction-industry-scheme)

1.10 How subcontractors pay tax

Subcontractors have to make a return of their profits each year, and their tax liability is based on that return. A subcontractor may already have paid tax by payments on account or had deductions made, as shown on the payment and deduction statements given to them by their contractors.

If the amount already paid or deducted is greater than the amount due, we'll repay the excess. If there is a shortfall, then the subcontractor must make a balancing payment.

1.11 Subcontractors setting off deductions

Subcontractors that are limited companies should set off deductions they bear on their receipts against the following sums payable to us:

- PAYE tax due from the company's employees
- employers' and employees' National Insurance contributions (NICs) due
- Student Loan repayments due from the company's employees
- CIS deductions made from the company's subcontractors

The company will need to reduce the amount of PAYE, NICs, Student Loan repayments and any CIS deductions that the company is due to pay by the amount of CIS deductions made from the company's own income. This should be done monthly (or quarterly, as appropriate) and the calculation should be shown on the company's Employer Payment Summary (EPS).

If, for any month or quarter, the company's own CIS deductions are greater than the PAYE, NICs, Student Loan repayments and CIS liabilities payable, the company should set off the excess against future payments in the same tax year.

At the end of the tax year, once we've received the company's final Full Payment Submission (FPS) and final EPS, any excess CIS deductions that cannot be set off may be refunded or set against Corporation Tax due. No repayments or set-offs against other liabilities can be made in-year except where the company is in liquidation or administration.

Companies may keep their own records for this purpose or they may use form Construction Industry Scheme: record of amounts set-off (CIS132) (https://www.gov.uk/government/publications/construction-industry-scheme-record-of-amounts-set-off-cis132).

1.12 Registering for the scheme - contractors

When to register

When you're about to take on and pay your first subcontractor, regardless of whether that subcontractor is likely to be paid gross or under deduction.

How to register and more information

To register (https://www.gov.uk/what-you-must-do-as-a-cis-contractor/how-to-register), or if you need help, call the new Employer Helpline (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/employer-enquiries-support-for-new-employers).

What happens next

HMRC will set up a Contractor Scheme (and a PAYE Scheme if you have asked us to) and will tell you where to find the information you need.

1.13 Registering for the scheme - subcontractors

When to register

Register when you are, or your firm or company is, about to start work within the construction industry.

How to register and more information

To register (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/employer-enquiries-support-for-new-employers), or if you need help, call the CIS Helpline (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme).

What happens next

HMRC will write and confirm your registration and tell you what information you'll need to give to your contractors before they pay you.

2. The terms used under the scheme

2.1 Introduction to key terms

Under the scheme, a contractor has to make a deduction in certain situations when making a payment to a subcontractor under a contract that covers construction operations.

Terms used under the scheme

Term used	Paragraph
Contractors	2.2 to 2.9 and 2.12 to 2.14
Subcontractors	2.10 to 2.14
Payments	2.15
Deductions	2.16
Contracts	2.17
Construction operations	2.18 to 2.20, Appendix A

2.2 Contractor

Under the scheme, the term 'contractor' has a special meaning that is much wider than it normally has in the construction industry.

A contractor is a business or other concern that pays subcontractors for construction work. Under the scheme, there are 2 groups of contractors:

- mainstream contractors
- deemed contractors

Mainstream contractors

Mainstream contractors include the following:

- any businesses that include construction operations and pay others for work carried out under the scheme - there is more information on construction operations in paragraphs 2.18 to 2.20 and Appendix A
- any property developers or speculative builders, erecting and altering buildings in order to make a profit
- gang leaders organising labour for construction work - a gang leader will also be a subcontractor (there is more information on gang leaders at paragraph 2.14)
- foreign businesses that carry out construction operations in the UK or within UK territorial waters (up to the 12-mile limit)

Deemed contractors

Under the scheme, some businesses, public bodies and other concerns outside the mainstream construction industry but who regularly carry out or commission construction work on their own premises or investment properties are deemed to be contractors.

These concerns are deemed to be contractors if their average annual expenditure on construction operations in the period of 3 years ending with their last accounting date exceeds £1 million.

If these concerns have not been trading for the whole of the last 3 years, they are contractors if their total expenditure on construction operations for the part of that period of 3 years during which they were trading exceeds £3 million.

Any concern that is deemed to be a contractor because one of the above conditions is met will continue to be deemed a contractor until it can satisfy us that its expenditure on construction operations has been less than £1 million in each of 3 successive years.

The following bodies or businesses are examples of those that are 'deemed' to be contractors if they spend an average of more than £1 million a year on construction operations:

- non-construction businesses such as large manufacturing concerns, departmental stores, breweries, banks, oil companies and property investment companies
- local authorities
- development corporations or new town commissions
- the Commission for the New Towns
- the Housing Corporation, housing associations, housing trusts, Scottish Homes and the Northern Ireland Housing Executive
- any public bodies named in the regulations, such as National Health Trusts or Health and Social Services Trusts
- public offices or Departments of the Crown (including any Officer of the House of Commons and the Scottish Parliamentary Body)

For more information on deemed contractors, please read Appendices A, B and C.

2.3 Businesses and individuals that are not contractors under the scheme

Under the scheme, the following businesses and individuals aren't contractors:

- ordinary householders that are having work done on their own premises, such as new house building, decoration, repairs or an extension
- businesses which don't include construction operations whose average annual expenditure on construction work over the last 3 years has been less than £1 million

If you are unsure whether you're a contractor under the scheme, contact the CIS Helpline (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme).

2.4 Exceptions to the scheme for contractors

Under the scheme, businesses and other concerns that are otherwise mainstream or deemed contractors may not need to apply the scheme for certain types of work. Some typical cases are explained below.

2.5 Expenditure incurred by certain businesses on their own property

Businesses that aren't mainstream contractors but are brought into the scheme because they spend an average of more than £1 million on construction operations each year don't need to apply the scheme to expenditure that relates to property used for the purposes of the business itself, or, if the business is a company:

- other companies within the same group
- any company of which 50% or more of the shares are owned by the company

Other exempted types of properties include:

- offices
- warehouses
- nursing homes

- leased property used by the business's group, including property leased by one company to another within the same group
- any other facilities used for the business

Any incidental use of the property by third parties such as auditors, project team members who aren't employees and security staff, will not affect the exemption.

The scheme must be applied to expenditure for construction work on any property that is:

- not used for the purposes of the business, such as where it's let for commercial purposes to a third party
- for sale or to let (except where the sale or letting of that property is purely incidental to the business)
- is held as an investment

2.6 Work carried out on land owned by a subcontractor receiving payment

HMRC can authorise mainstream contractors not to apply the scheme to small contracts or payments for construction operations amounting to less than £1,000 (excluding the cost of materials) in the following cases, where the contractor is paying a subcontractor to undertake work:

- that falls within the scheme on the subcontractor's own property
- on any agricultural property of which the subcontractor is a tenant

An example of this type of payment is where a mainstream contractor lays a pipeline across some land and pays the land owner or tenant to fill in the hole after the pipeline has been laid.

To request authorisation not to apply the scheme to such payments, please contact the CIS Helpline (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme).

We will need the details of:

- the construction work to be done
- who will be doing the work
- where the work will be done
- the cost of the work

2.7 Small payments

We can authorise deemed contractors not to apply the scheme to small contracts for construction operations amounting to less than £1,000, excluding the cost of materials. (This arrangement doesn't apply to mainstream contractors.)

2.8 Local education authority maintained schools

The scheme shouldn't be operated for payments made for construction operations by the governing body or head teacher of a maintained school on behalf of the local education authority.

2.9 Charities

The scheme shouldn't be operated for payments made for construction operations by any body of persons or trust established for charitable purposes only. However, trading subsidiaries of such charitable bodies or trusts will need to apply the scheme to such payments where appropriate.

Generally, that will mean where the trading subsidiaries are brought into the scheme because they spend at least £1 million on average on construction operations each year as described at paragraph 2.2 onwards.

Under the scheme, the term 'subcontractor' has a special meaning that is much wider than it normally has in the construction industry.

2.10 Subcontractors

A subcontractor is a person or body that has agreed to carry out construction operations for a contractor. The subcontractor may be carrying out the operations in any way, including:

- carrying out the operations themselves
- having the operations done by their own employees or subcontractors

Subcontractors include:

- companies, corporate bodies or public bodies, as well as any self-employed individual running a business or partnership
- labour agencies or staff bureaux that contract to get work done with their own workforce, or to supply workers to a contractor
- foreign businesses being paid for construction operations that take place in the UK or its territorial waters (up to the 12-mile limit)
- gang leaders who agree with a contractor on the work to be done and receive payment for the work of their gang
- local authorities and public bodies who carry out construction operations for someone else (please read paragraphs 2.11)

2.11 Local authorities and public bodies as subcontractors

Local authorities (and their Direct Services or Labour Organisations) and public bodies (or subsidiaries) are subcontractors if they carry out construction operations for someone else.

Although they don't need to apply for registration, they must be regarded as registered for gross payment.

When making payments to local authorities and public bodies, contractors shouldn't:

- verify them
- apply deductions to any payments
- include the payments on their monthly returns

For the full list of local authorities and public bodies that are subcontractors when carrying out construction operations, please read the Construction Industry Manual (https://www.gov.uk/hmrc-internal-manuals/construction-industry-scheme-reform).

2.12 Agencies as subcontractors

Where a worker is supplied to a contractor by or through an agency and the worker carries out construction operations under the terms of a contract they have with the agency, the agency supplying the worker will be a subcontractor as far as the contractor is concerned. The contractor must always apply the scheme when making payment to the agency.

Where a worker is merely introduced to the contractor by an agency and subsequently carries out construction operations under the terms of a contract they have with the contractor, the agency isn't a subcontractor in this case.

2.13 Rules for agency workers

Special rules apply to agency workers who normally treat the worker as an employee for tax and NICs purposes. The business paying the worker should normally deduct tax under PAYE and account for Class 1 NICs.

Very exceptionally, the special rules for agency workers don't apply and any payments for construction work will fall within the scheme. The agency will then be a contractor and will need to fulfil its obligations in that role.

2.14 Gangs

The contractor must meet their obligations under the scheme for payment to the gang leader. The contractor doesn't need to be concerned with the transactions between the gang leader and the other members of the gang. Any deductions from payments to the members of the gang are the responsibility of the gang leader.

If the contractor makes a separate agreement with any other member of the gang, then that member will be a subcontractor or employee of the contractor. A contractor who pays each member of the gang separately must treat each as a separate subcontractor or employee and apply the deduction scheme or PAYE in each case.

For more information about payments to gang members, please contact the CIS Helpline (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme).

2.15 Payments

A payment is anything paid out by the contractor to the subcontractor under a contract for construction operations.This applies whether or not the payment is made directly to the subcontractor.

Payments include cash, cheques and credit. An advance, a sub or a loan is a credit and must be treated as a payment.

For more information on payments that are made to someone other than the subcontractor, please read paragraphs 6.4 to 6.6.

2.16 Deductions

A deduction is the amount that a contractor has to withhold on account of tax and Class 4 NICs from a payment made to a subcontractor. There are 2 rates of deduction:

- standard rate - which must be applied to payments made to those subcontractors that are registered with us to be paid under deduction
- higher rate - which must be applied to payments made to subcontractors where we are unable to identify the subcontractor

The deduction rates may change from time to time. You can find out the current rates by contacting us (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme).

The deduction does apply to any part of a payment that is for subsistence or travelling expenses.

The deduction doesn't apply to any part of a payment that is for the cost of:

- materials
- VAT

2.17 Contracts

A contract means any legally binding agreement or arrangement under which one individual or business does work or provides services for another individual or business. A contract includes an agreement made by word of mouth as well as a written document.

2.18 Construction operations

Construction operations are defined in law in Section 74, Finance Act 2004, which is shown at Appendix B.

As a general guide, construction operations cover almost any work that is done to a:

- permanent or temporary building or structure
- civil engineering work or installation

The work might include:

- site preparation
- alterations
- dismantling
- construction
- repairs
- decorating
- demolition

Any work in connection with construction done on a construction site in the UK or within its territorial waters (up to the 12-mile limit) and under contract to the owner, client, main contractor or a subcontractor is likely to be a construction operation.

2.19 Activities that are not construction operations

Some activities on construction sites aren't regarded as construction operations under the scheme. This includes any activity that is clearly not construction work, such as the:

- running of a canteen
- running of a hostel
- provision of medical or safety services
- provision of security services
- provision of site facilities

Paragraphs 2.18 to 2.20 give only a general guide to construction operations. Appendix A gives more detailed guidance and Appendix B shows the definition of construction operations from Section 74, Finance Act 2004.

2.20 Contracts that relate to construction and non-construction operations

Where a single contract relates to a mixture of construction and non-construction operations, all payments due under the contract are within the scheme. This is the case even if only one of the jobs is regarded as a construction operation.

If you're in any doubt whether a contract should be handled under the scheme, please contact the CIS Helpline (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme).

3. How payments are made to subcontractors

This section explains what must happen before payments can be made to subcontractors and how payments are made.

3.1 The verification process

Verification is the process we use to make sure that subcontractors have the correct rate of deduction applied to their payments under the scheme.

There are 3 main steps to the process:

Step 1. The contractor contacts us with details of the subcontractor
Step 2. We check that the subcontractor is registered with us
Step 3. We tell the contractor what rate of deduction to apply, if any

Before a contractor can make a payment for construction work to a subcontractor, they must decide whether they need to verify the subcontractor.

3.2 When does a contractor need to verify a subcontractor?

The rule is that a contractor doesn't have to verify a subcontractor if they last included that subcontractor on a return in the current or 2 previous tax years. (Please read the following paragraph for details of how this works in practice.)

If you're paying a subcontractor in the tax year that runs from 6 April 2016 to 5 April 2017, you don't have to verify them if you have already included them on any monthly return since 6 April 2014. Otherwise, you must verify the subcontractor.

Example 1

Date contractor engages subcontractor A: February 2016
Date contractor last paid subcontractor A: Never
Details of last payment return: None

Verification details

The contractor must verify this subcontractor before they can pay them under the scheme. We'll tell the contractor whether a deduction should be made from this and all future payments to the subcontractor.

Example 2

Date contractor re-engages subcontractor B: March 2016
Date contractor last paid subcontractor B: November 2013
Details of last payment return - contractor made last payment return for the subcontractor in

November 2013.

This was within the previous 2 tax years. When this subcontractor was last paid in November 2013 they were entitled to be paid gross.

Verification details

The contractor doesn't have to verify this subcontractor and should pay them gross, without any deduction.

Example 3

Date contractor re-engages subcontractor C: December 2016
Date contractor last paid subcontractor C: August 2011
Details of last payment return - contractor made last payment return for the subcontractor in August 2011. This was earlier than the previous 2 tax years.

Verification details

The contractor must verify this subcontractor before they can pay them as they've not included them on a return in the current or previous 2 tax years.

3.3 Paying the subcontractor gross or under deduction

If a contractor doesn't have to verify a subcontractor, for the reasons given in paragraphs 3.2, they must pay the subcontractor on the same basis as the last payment made to them - unless we have previously told the contractor otherwise.

This means that if the:

- subcontractor was last paid under the standard rate of deduction, the current payment must also be made under the standard rate of deduction
- last payment was made gross, because a deduction was not required, the current payment must also be made gross

3.4 Companies within a group

A contractor that is a company within a group doesn't have to verify a subcontractor if either of the following applies:

- the subcontractor has already been verified, within the current or previous 2 tax years, by one of the other companies within the same group
- paragraph 3.2 applies

3.5 How to verify a subcontractor

You can verify subcontractors using:

- the free HMRC CIS online service (https://www.gov.uk/use-construction-industry-scheme-online)
- commercial CIS software (https://www.gov.uk/government/publications/construction-industry-scheme-cis-commercial-software-suppliers)

You can also contact the CIS Helpline (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme).

3.6 The information HMRC will need

The contractor should have their own identifying details to hand, such as name, address, phone number etc. We'll will ask for this information so that we can be satisfied that the contractor is who they say they are. For the verification itself, please have the information below ready.

About the contractor

Details to be provided:

- name
- Unique Taxpayer Reference (UTR)
- accounts office reference
- employer reference

About the subcontractor

Sole trader:

- name
- UTR
- National Insurance number

Partner in a firm:

- firm's name
- partner's name
- firm's UTR

If the partner is an individual:

- partner's UTR or partner's National Insurance number

If the partner is a company:

- company's UTR or company registration number

Company:

- name of company
- company's UTR
- company registration number

About the contract

Confirmation that a contract has been agreed with the subcontractor or that you've formally accepted a tender for work under a contract.

3.7 What we'll do when we verify the subcontractor

We'll check our records to see if the subcontractor is registered with us and then tell the contractor to pay the subcontractor in one of the following ways:

- gross - that is without any deductions taken from the payment
- net of a deduction at the standard rate

- net of a deduction at the higher rate because we:
  - have no record of that subcontractor's registration
  - are unable to verify the details for any other reason

3.8 Verification reference number

When HMRC verify a subcontractor, we'll give the contractor a verification reference number. The verification reference number will be the same for each subcontractor that we've verified at the same time.

If it's not possible to verify a subcontractor, we'll add 1 or 2 letters to the end of the number so that it's unique to that subcontractor.

Example 1

A contractor phones HMRC to verify 5 subcontractors. We verify all 5 subcontractors and give the contractor the single verification reference V0004528765 to cover all of them.

Example 2

A contractor phones HMRC to verify 5 subcontractors. We verify 4 successfully, but we're not able to verify the fifth.

We give the contractor the single verification reference V04528765 for the 4 subcontractors who we could verify. We give the same verification number to the subcontractor who couldn't be verified but add a letter to the end so the number is V0004528765/A.

The verification reference number is important if the contractor has been told to make deductions from the subcontractor's payments at the higher rate. Contractors must make a note of the reference numbers given and must enter them on their monthly return alongside the entries for each subcontractor from whom deductions at the higher rate have been made. It's essential that the contractor shows the verification reference number, complete with any letters on the end, on the subcontractor's payment and deduction statement in each case where deductions have been made at the higher rate (please read paragraphs 3.15 to 3.16).

The subcontractor will need this reference number later when seeking credit for any of the deductions made.

Contractors don't need to show this reference on monthly returns or subcontractors' payment statements where deductions have been made at the standard rate or where the subcontractor has been paid gross.

3.9 Future verification

When a contractor has verified a subcontractor, or made a payment to the subcontractor if verification wasn't necessary, the contractor should continue to pay the subcontractor in the same way until we tell them about any change.

If a subcontractor is to change from gross payment to payment under deduction, or the other way round, we'll tell the subcontractor and the contractor.

3.10 Changing a subcontractors payment status

When we need to change a subcontractor's payment status from gross payment to payment under deduction, we'll write to tell them, giving 90 days' notice of any change to allow them to appeal, if required.

We'll also contact all contractors who have verified or used the subcontractor in the current or previous 2 tax years. We'll give contractors 35 days' notice of the change. Payments they make to the subcontractor after the notified date of change must be made under deduction. If the subcontractor's recent invoice has already been processed in the contractor's accounting system we wouldn't expect the contractor to reprocess it if it's difficult or time consuming, but would expect the change to be applied to the next payment.

Sometimes a subcontractor's payment status will change from payment under deduction to gross payment. If this happens, we'll tell the subcontractor and any contractors who have verified or used the subcontractor in the current or previous 2 tax years. The revised payment status should then be applied to all subsequent payments to the subcontractor as soon as it's practical for the contractor to do so.

3.11 Making a payment under deduction

Deductions must only be made from that part of the payment that does not represent the cost of materials incurred by the subcontractor.

Any travelling expenses (including fuel costs) and subsistence paid to or on behalf of the subcontractor must be included in the gross amount of payment and the amount from which the deduction is made.

3.12 How to calculate the amount to deduct

There are 2 steps that contractors must follow.

Step 1: Work out the gross amount from which a deduction will be made by excluding VAT charged by the subcontractor if the subcontractor is registered for VAT, please read the examples in Appendix D.

The contractor will need to keep a record of the gross payment amounts so that they can enter these on their monthly returns.

Step 2: Deduct from the gross payment the amount the subcontractor actually paid for the following items used in the construction operations, including VAT paid if the subcontractor isn't registered for VAT:

- materials (please read paragraph 3.13)
- consumable stores
- fuel (except fuel for travelling)
- plant hire (please read paragraph 3.14)
- the cost of manufacture or prefabrication of materials

3.13 Materials

The contractor can ask the subcontractor for evidence of the direct cost of materials.

If the subcontractor fails to give this information, the contractor must make a fair estimate of the actual cost of materials. The contractor must always check, that the part of the payment for materials supplied isn't overstated. If the materials element looks to be excessive we may seek to recover any under deduction from the contractor.

Examples of how to calculate the deduction are shown in Appendix D.

3.14 Plant hire claimed as materials

'Plant' includes, for example, scaffolding, cranes, cement mixers, concrete pumps, earth moving equipment and compressors.

Where the subcontractor hires plant in order to carry out construction work, the cost of the plant hire and any consumable items such as fuel needed for its operation may be treated as materials for the purposes of calculating any deduction.

This treatment only extends to plant and equipment actually hired by the subcontractor from a third party. If the subcontractor owns the plant used in executing the work no notional deduction for plant hire may be made, although consumable items such as fuel used by the plant may still be treated as materials.

The contractor should check this with the subcontractor before making payment as failure to do so may leave the contractor responsible for any under deduction.

3.15 Providing documentary evidence of a deduction

The contractor must provide a written statement to every subcontractor from whom a deduction has been made within 14 days of the end of each tax month. A tax month runs from the sixth of one month to the fifth of the next month so the statement must be provided by the 19th of the month.

The statement may be issued by electronic means but only where the:

- contractor and subcontractor agree to this method
- statement is in a form that allows the subcontractor to store and print it

The statement can be issued on the basis of one for each tax month or one for each payment if this is more frequent.

Contractors may choose the style of the statements but they must include the:

- contractor's own name and employer tax reference
- end date of the tax month in which the payment was made, such as 'tax month ending 5 May 2016' or the date of payment where the statement relates to a single payment
- following details of the subcontractor:
  - name
  - UTR
- personal verification number if the subcontractor couldn't be verified and a deduction at the higher rate has been made
- gross amount of the payments made to the subcontractor, as calculated above in paragraph 3.12
- cost of any materials that has reduced the amount against which the deduction has been applied
- amount of the deduction

There may be other information that a contractor may want to put on the statement to enable the subcontractor to understand the payment that has been made. For example, this may include the amount of VAT charged by the subcontractor.

If a contractor regularly fails to give a payment and deduction statement where a statement is required to be given, this may be taken into account when considering whether or not the contractor should retain gross payment status as a subcontractor.

It's good practice for a contractor to give a subcontractor a payment statement where the payment has been made gross, but there is no obligation to do so.

3.16 Duplicate statements

If a statement doesn't reach a subcontractor or it's lost, the subcontractor may ask the contractor for another copy.

Contractors may issue duplicates in such cases but the duplicate must be clearly marked 'Duplicate' to avoid any confusion with the missing statement if it's later found.

We've given an example of a typical statement of deduction in Appendix E.

3.17 Who to make payments to

The contractor should normally make payments under deduction to the subcontractor, but the subcontractor may authorise payment to be made out to another person, such as a debt factor (https://www.gov.uk/hmrc-internal-manuals/compliance-operational-guidance/cog909270).

The statement must still be made out in the name of the subcontractor and issued to the subcontractor so they receive credit for any deduction.

Please read paragraphs 6.9 to 6.11 for more information about making gross payments to someone other than the subcontractor.

3.18 Keeping records of payments

On or before making any payment to a subcontractor, the contractor must make a record of the:

- gross amount of the payment, excluding VAT
- cost of any materials excluding VAT (if the subcontractor is registered for VAT), for those subcontractors who are liable for a deduction
- amount of the deduction

3.19 Summary of procedures for making payment to a subcontractor

Contractors should:

- consider whether or not they need to verify the subcontractor with us (please read paragraph 3.2)
- verify the subcontractor if necessary (please read paragraphs 3.5 to 3.9)
- make payment to the subcontractor where a deduction isn't required

Where a deduction must be made from the payment, contractors should:

- calculate and make the deduction from the payment to the subcontractor
- record details of payment, materials and deduction
- make the net payment to the subcontractor
- complete either a statement of deduction for all payments made in that tax month or one statement for each payment, as the contractor prefers, to show date of tax month, gross payment, amount liable to deduction and amount deducted - exclude any amounts shown on any earlier statements

- give the statement to the subcontractor

4. What HMRC require from contractors

4.1 What is required from contractors

This section explains what we require from contractors under the scheme. It covers the contractor's monthly return, payment of any deductions due to us, and explains what might happen if contractors don't apply the scheme properly.

4.2 Monthly returns

Each month, contractors must send HMRC a complete return of all payments made to all subcontractors within the scheme in the preceding tax month. This is regardless of whether the subcontractors were paid:

- gross
- net of the standard deduction
- net of the higher deduction

Monthly returns must reach us within 14 days of the end of the tax month they are for.

Example

A return of all payments made to subcontractors between 6 May and 5 June must be sent in sufficient time to reach us by 19 June.

4.3 How to make a monthly return

There are 2 ways contractors can make their monthly returns:

- the free HMRC CIS online service (https://www.gov.uk/use-construction-industry-scheme-online)
- commercial CIS software (https://www.gov.uk/government/publications/construction-industry-scheme-cis-commercial-software-suppliers)

4.4 Reporting non-scheme payments to a subcontractor

Sometimes, contractors may include on the monthly return payments to subcontractors that aren't within the scheme.

Where this happens, we'll not normally regard such action as giving rise to an incorrect return.

However, when paying subcontractors under deduction, contractors should ensure that deductions aren't made from payments to subcontractors for contracts that are wholly outside the scope of the scheme.

4.5 No return due for the month

Contractors who haven't paid any subcontractors in a particular month must let us know by the 19th of the month that they've made no payments to subcontractors in the previous tax month using:

- the free HMRC CIS online service (https://www.gov.uk/use-construction-industry-scheme-online)
- commercial CIS software (https://www.gov.uk/government/publications/construction-industry-scheme-cis-commercial-software-suppliers)

You can also contact the CIS Helpline (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme).

If a contractor fails to tell us by the 19th of the month that no return is due we may issue a penalty. Where this happens and the contractor subsequently tells us that no subcontractors were paid in the month we'll cancel the penalty.

Contractors who know they won't be paying any subcontractors for several months should let us know and we'll make there CIS scheme 'inactive' for 6 months. If the situation changes during that time, the contractor must let us know.

4.6 Amending errors on monthly returns

The principle for the monthly return is that it should reflect what the contractor has actually paid and deducted in the month it covers.

HMRC recognises, however, that contractors will sometimes make mistakes on their monthly returns. Where this happens we'll not automatically look for penalties or take away the contractor's own gross status as a subcontractor. We'll usually only take these actions in the more serious cases where we believe the error or omission has been caused by the contractor's negligence or intent.

The following paragraphs, explain how and when a return needs to be amended, assuming that the relevant monthly return has already been submitted to us.

4.7 Incorrect entry of details on return

A contractor might omit details of a payment to a subcontractor or might make a mistake in entering details of the payment or deduction onto the return. For example, the contractor may transpose the payment figures and record a payment of £560 as £650 on the return.

In this case, the entry on the return will clearly not reflect the actual payments and/or deductions made in the month. To correct this type of error, contractors should phone us giving full details of the errors and the correct figures.

If you need to inform us about an incorrect return, please use:

- the free HMRC CIS online service (https://www.gov.uk/use-construction-industry-scheme-online)
- commercial CIS software (https://www.gov.uk/government/publications/construction-industry-scheme-cis-commercial-software-suppliers)

You can also contact the CIS Helpline (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme)

4.8 Subcontractor is underpaid in error

There'll be cases where the error has been made in the payment itself and copied onto the CIS monthly return, for example, where a subcontractor has been paid £2,000 instead of £3,000.

Underpayments of this type can usually be put right by a further, balancing payment. That further payment, and any deductions made from it, should be entered onto the return for the month in which it's paid. The total of payments made and any deductions should then be correct, overall.

4.9 Subcontractor is overpaid in error

If the contractor overpays the subcontractor, for example, by making a payment of £3,000 instead of the £2,000 due, then the monthly return should reflect the amount of the payment made, that is, £3,000.

How that is then corrected for CIS will depend on the approach that the contractor adopts. If the subcontractor's engagement continues into the following month, the contractor may agree with the subcontractor to pay £1,000, instead of the £2,000 due.

This will balance out the payments and the contractor simply needs to enter the £1,000 paid in the second month on the return for that month.

If the subcontractor is paid under deduction, the same principle will apply. For the first month in this example, assuming a deduction rate of 20%, there would be a net payment of £2,400 and a deduction of £600 and, in the second, a net payment of £800 and a deduction of £200. The payment statements provided to the subcontractor each month would also reflect those figures.

Where the subcontractor's contract has ended and no further payments are due, from which to take a previous month's overpayment, the steps to be taken by the contractor depend on what action is taken to recover the overpayment.

If the contractor stops the cheque or the subcontractor returns it without cashing it, the contractor should reissue the payment in the correct amount, retrieve and reissue the subcontractor's payment statement and contact us to report the error on the earlier return. The revised payment and any deductions should be recorded on the next monthly return.

Where the cheque has been cashed and any deductions have been paid over to us, the contractor will be seeking the excess payment from the subcontractor. Although the monthly return in this case will be correct, as it reflects what was actually paid in the month, the contractor should phone us to report the error and to advise us of the correct payments due to the subcontractor.

If you need to inform us about an incorrect return, please contact the CIS Helpline (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme).

4.10 Amending a return

Contractors that need to make corrections to returns, as described in the previous paragraphs, are able to make those corrections online. How they do this depends on whether they use:

- the free HMRC CIS online service (https://www.gov.uk/use-construction-industry-scheme-online)
- commercial CIS software (https://www.gov.uk/government/publications/construction-industry-scheme-cis-commercial-software-suppliers)

If the contractor uses the HMRC CIS online service to file returns, this same service may be used to amend any returns sent to us since 5 February 2016. To do this, contractors should go to the HMRC CIS online service and select 'Amend return' from the 'Returns' menu. To amend a return for a month earlier than the return for 5 February 2016, contractors must contact the CIS Helpline (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme).

Contractors using third party software to file their returns may be able to make amendments online depending on the implementation of such a feature within the software they are using. They'll need to check with their software supplier to find out if and when this facility is available to them.

4.11 Where commercial CIS software is unable to amend a return

Contractors who need to make amendments to their returns but can't yet do this online because their software supplier hasn't yet made the facility available should phone us with full details of which monthly return(s) they need to amend. Please contact the CIS Helpline (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme).

When making corrections over the phone, the contractor should make a note of the date and time of the call and nature of the changes. This is in case the contractor needs to make any subsequent enquiries about the changes.

If you need to inform us about an amended return and are unable to do this online, please contact the CIS Helpline (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme).

4.12 Making payments to HMRC

Contractors must pay the amount deductible from payments to subcontractors to our accounts office monthly. They must pay deductions due to be made in each tax month within 14 days of the end of that month or within 17 days where payment is made electronically, whether or not these deductions have actually been made. This means that where a required deduction has not actually been made from the subcontractor's payment, for whatever reason, the contractor is still responsible for paying that amount over to us.

Contractors may also have to pay penalties if they don't pay the amounts due on time and in full.

Example

Deductions made between 6 May and 5 June must be paid by 19 June, or by 22 June where payment is made electronically (or the previous banking day where the 22nd is a weekend or bank holiday).

Please ensure you use the correct payslip for the month in question.

If the contractor also has PAYE employees, the contractor must make a payment to our accounts office that includes both the subcontractors' deductions and the PAYE/NICs deducted.

A contractor whose average monthly payments to the accounts office (including, where applicable, PAYE and NICs deductions from employees) are below £1,500, may choose to pay quarterly.

The quarters end on 5 July, 5 October, 5 January and 5 April and payments are due within 14 days of the end of each quarter or 17 days if the contractor pays electronically.

Even where payments are made on a quarterly basis, contractors must still send returns monthly (see paragraph 4.2 above).

4.13 Companies setting off deductions

Companies that have deductions taken from their income as subcontractors should set off these deductions against the amounts payable monthly or quarterly for PAYE, NICs and Student Loan repayments due from their employees and CIS deductions from their subcontractors. This should be done monthly (or quarterly, as appropriate) and the calculation should be shown on the company's EPS.

Companies should simply reduce the amount of PAYE, NICs, Student Loan repayments and any scheme deductions they pay over to our accounts office by the amount of CIS deductions made from their income.

In any month or quarter, if the company's own CIS deductions are greater than the PAYE, NICs, Student Loan repayments and CIS liabilities payable, the company should set off the excess against future payments in the same tax year. At the end of the tax year, when we've received the company's final EPS and full payment submission, any excess CIS deductions that cannot be set off may be refunded or set against any Corporation Tax due.

Contractors must keep a record of the amounts set off so they can complete their end-of-year returns. They can keep their own records for this purpose or they can use form CIS132 'Record of amounts set off' (https://www.gov.uk/government/publications/construction-industry-scheme-record-of-amounts-set-off-cis132).

4.14 Employer annual return

There are no annual returns within the CIS.

4.15 Inspection of records

From time to time, we'll inspect the records of contractors in the same way as we inspect an employer's PAYE records.

4.16 Records archived using optical imaging systems

If records are created in paper form, we're content for them to be archived using optical imaging systems, as long as what is retained is a complete and unaltered image of the original paper document.

Contractors must, at their own cost:

- keep records for at least 3 years after the end of the tax year to which they relate
- make records available on request
- provide viewing facilities for the records
- provide full-scale copies of the records if required

4.17 Action we'll take if contractors don't operate the scheme correctly

If a contractor fails to operate the scheme correctly, we may cancel the contractor's own gross payment status if the contractor also operates as a subcontractor.

4.18 Penalties for late monthly returns

If a contractor fails to submit a monthly return on time, we'll charge them the day after the filing date - a fixed penalty of £100.

If the return is still outstanding, we'll charge a:

- second fixed penalty of £200 - 2 months after the filing date
- tax-geared penalty which is the greater of £300 or 5% of any deductions shown on the return - 6 months after the filing date
- second tax-geared penalty which is the greater of £300 or 5% of any deductions shown on the return, (where we believe information has been deliberately withheld, this penalty will be higher) - 12 months after the filing date

From 6 April 2015 we don't charge contractors a penalty in respect of any months for which a return isn't due for the month. However, if a contractor doesn't tell us that a return isn't due for the month, a penalty may be issued. Where this happens, contractors should let us know that they have no return to make for the month in question and we'll cancel the penalty.

Please read paragraph 4.5 for more information about this.

4.19 Penalties for incomplete or incorrect monthly returns

If a contractor submits a monthly return that is incomplete or incorrect, we may charge penalties where we believe the error or omission has been caused by negligence or intent on the part of the contractor.

Incomplete or incorrect returns include:

- persons or payments omitted from the return
- persons or payments incorrectly entered onto the return
- failing to make a declaration in respect of verification or employment status
- incorrectly making a declaration in respect of verification or employment status

4.20 Missing records

If a contractor fails to produce records relating to payments made under the scheme when asked to do so, we may charge penalties up to £3,000.

We may charge contractors penalties of up to £3,000 if they:

- fail to give statements to subcontractors registered for payment under deduction, recording their payments and deductions
- negligently or deliberately provide incorrect information in such statements

4.21 Problems with deductions

If things go wrong when a contractor applies deductions, the contractor may need to satisfy us that every reasonable care was taken to follow the rules of the scheme and that either:

- the failure to make all or some of the deduction was due to an innocent error
- in spite of reasonable care, the contractor didn't believe that the payment came within the rules of the scheme

If we refuse to waive payment of the deductions that should have been made, the contractor has the right of appeal (https://www.gov.uk/tax-appeals) against that decision.

Where we cannot agree whether or not a deduction should have been made, we may make an assessment of the amount we believe should have been deducted. The contractor has a right of appeal (https://www.gov.uk/tax-appeals) against our assessment.

HMRC will waive the contractor's liability if we're satisfied that the individual or business the contractor made the payments to:

- was not chargeable to Income Tax or Corporation Tax for these payments
- has made a return of income or profits that includes the payments and has paid the Income Tax and Class 4 NICs or Corporation Tax for the income or profits

5. Businesses not resident in the UK

5.1 Non-resident businesses

The scheme applies to any non-resident:

- contractor who pays subcontractors for construction work carried out in the UK
- subcontractor who is being paid for construction work carried out in the UK

It doesn't matter where payment is actually made - if the construction work is carried out in the UK then the scheme applies to that payment.

There is no difference between the treatment of UK contractors and subcontractors and non-resident contractors and subcontractors.

If you're applying to be registered as a subcontractor you'll need to do this before you start work in the UK. Otherwise, your contractor will have to make deductions at the higher rate from your payments.

5.2 Non-resident individuals and partnerships registering for CIS

Non-resident individuals and partnerships who need to register as:

- contractors should read paragraph 1.12 in this guide
- subcontractors should read paragraph 1.13 in this guide

5.3 Non-resident companies registering for CIS

Companies taking on subcontractors for construction work in the UK and companies that are intending to act as subcontractors in the UK need to register with our Specialist Personal Tax Office.

There are 3 ways to contact us about this.

Post:

Charities, Savings & International 1
HM Revenue and Customs
BX9 1AU

Fax: 03000 547381
Telephone: 03000 516644 (Overseas +44 3000 516644)

For information about Double Taxation Agreements (DTAs) or about how the Construction Industry Scheme applies to non-residents or to discuss registration or other matters about the scheme, we can give you advice and send you the forms and leaflets you need.

5.4 Repayment of deductions where there is a Double Taxation Agreement

If you, or your company, are resident in a country that has a DTA with the UK it's possible that you may be entitled to claim exemption from UK tax. This will be the case where your UK business profits are not attributable to a permanent establishment in this country through which you are carrying on business. Claims for exemption under the terms of a DTA should be sent to Specialist Personal Tax International. You can find more information in the guide RDR1-residence, domicile and the remittance basis (https://www.gov.uk/government/publications/residence-domicile-and-remittance-basis-rules-uk-tax-liability).

5.5 Permanent establishment

The term 'permanent establishment' includes:

- place of management
- a branch
- an office
- a factory
- a workshop
- an installation or structure for the exploration of natural resources
- a mine, an oil or gas well, a quarry or any other place of extraction of natural resources
- a building site or construction or installation project

A building site or construction or installation project is a permanent establishment. However, under many DTAs it isn't treated as one if it does not last longer than a stated period - usually between 3 and 24 months. Check the agreement for your country of residence to see what, if any, the period is.

The existence of a DTA doesn't mean that you don't have to operate the CIS. You must still register and operate the scheme as normal.

If we agree that you're exempt from UK tax under a DTA, we'll repay any deductions made under the scheme as follows.

Company subcontractors should set off any deductions made from payments they receive from contractors against their own liability for PAYE/NICs and subcontractors' deductions, where they have such liabilities. Any balance of deductions that cannot be set off in this way may be repaid on submission of the company's Employment Payment Summary (EPS) and FPS.

Individuals and partnership subcontractors wanting to claim a refund should contact us at the office where they registered for the scheme.

5.6 Repayment of deductions where there is no DTA

Generally, if you are an individual or partner in a firm, any deductions made by contractors from the amounts they pay you are allowable against your UK tax liability. However, there may be times when you make little or no profit in the tax year, and the deductions exceed your liability. When this happens, you can claim a repayment of the excess deductions from us. If we're satisfied that you have paid too much, we'll send you a repayment.

Companies must reclaim a repayment of excess deductions on submission of their FPS and EPS under Real Time Information (RTI).

5.7 Non-resident subcontractors who don't register

If you don't register as a subcontractor when you should do, your contractor is obliged to make deductions at a higher rate from any payments made to you.

6. Miscellaneous

6.1 False declarations

It's an offence for a subcontractor knowingly to:

- make a false declaration
- submit any false documentation

in order to register for gross payment or payment under deduction.

This offence may result in a penalty of up to £3,000.

6.2 Disputes about deductions

If a contractor and a subcontractor cannot agree about a deduction, either of them may ask us for a ruling. If they still cannot reach an agreement after the ruling, either the contractor or the subcontractor may ask us to bring the matter before the independent tax tribunal for a decision.

If agreement can't be reached quickly because of the dispute, the contractor must make the appropriate deduction and pay it to our accounts office. If it's later found that some or all of the deduction wasn't necessary, we'll repay the excess to the subcontractor.

The same rules apply in any disagreement with us.

6.3 Use of trading names

Many businesses, whether sole traders, partnerships or companies, conduct all, or part, of their business using one, or sometimes more, trading names. However, a trading name has no legal status of its own and is simply a brand name for the underlying legal entity.

When registering for CIS, subcontractors will need to provide us with their legal name but they can also give us one trading name, if they wish.

When the subcontractor subsequently enters into a contract with a contractor, they should give the contractor details of their legal name, as registered on our computer system, together with their UTR, and National Insurance number, or company registration number when they are a company. Without this information, we may be unable to identify the subcontractor when the contractor attempts to verify them.

When this happens, we'll tell the contractor to make deductions at the higher rate from any payments to the subcontractor.

Contractors should enter the subcontractor's name, as it's recorded on our computer system, onto the monthly return.

Payment to third parties

6.4 Nominees

If payment is to be made to a subcontractor's nominee, for example, a gang member, workmate or the subcontractor's relative, the contractor must verify both the subcontractor and the nominee. For payment to be made gross to the nominee, both the subcontractor and the nominee must be registered for gross payment.

If the subcontractor isn't registered for gross payment, payment under deduction must be made to the nominee using the rate applicable to the subcontractor.

This means that if the subcontractor is registered for payment under deduction, the standard rate of deduction must be applied to the payment being made to the nominee. If the subcontractor isn't registered, or cannot be verified for any other reason, the payment to the nominee must be made under deduction at the higher rate - regardless of the nominee's own payment status.

The contractor must still make out a payment and deduction statement in the name of the subcontractor and issue it to the subcontractor.

6.5 Debt factors

If a subcontractor assigns their right to receive payment to a debt factor, then, the contractor can make the payment as if it were being made direct to the subcontractor.

If we've told the contractor to pay the subcontractor gross, the payment to the debt factor must also be made gross.

If we've told the contractor to make a deduction from the payment to the subcontractor, the contractor must make the deduction from the payment to the debt factor.

The contractor must still make out a payment and deduction statement in the name of the subcontractor and issue it to the subcontractor.

6.6 Personal representatives, liquidators and receivers

Where a subcontractor has died, any payments to their personal representatives should be made on the same basis as payments were made to the deceased immediately before their death.

Where a liquidator, receiver or administrator has been appointed to conduct the affairs of a company, payments should continue to be made in accordance with the company's tax status.

6.7 Death of a contractor

If a contractor dies, the responsibility for the running of the scheme falls to their personal representatives. The responsibilities include paying over deductions and sending in the monthly returns.

6.8 Takeover of a business

If a business previously run by an individual is taken over by a partnership or company, the old scheme registration can't be used for the new business. The new business must register for the scheme and get gross payment status before it can be paid without deductions being made. Similarly, if an individual takes over as sole proprietor of a business having previously been a partner or director of that business, they must apply again for gross payment status as the previous status of the partner or director will no longer be valid.

When a contractor takes over another business as a going concern, the contractor may request authorisation to treat certain subcontractor verifications made by the previous business as if they had been made by the new business. Normally, this will apply in respect of any subcontractors who are working on ongoing contracts at the time of the transfer of the business. This will avoid the need for the contractor to have to verify several subcontractors after the acquisition of the business.

To request authorisation in these circumstances, please contact the CIS Helpline (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme). We will need the following details for both the new contractor and the former contractor business:

- name
- UTR
- accounts office reference
- employer reference

We'll also need to know which subcontractors' contracts are being transferred to the new business.

6.9 Change of control of a close company

A close company is basically a company that is under the control of 5 or fewer persons. If a close company holds gross payment status and there is a change of control - through a transfer or issue of shares in the company - the company must notify us of the names and addresses of the new shareholders within 30 days. Companies that fail to do this may have their gross payment status withdrawn.

6.10 Change of address

Subcontractors must notify us of any changes to their:

- business address
- registered office address
- private address

6.11 Contra and setoffs

The terms 'contra' and 'set off' have special meanings in the construction industry.

Contras

A contra is a charge for goods or services supplied by one party to another.

Under the scheme, a contra does not reduce the payment from which the deduction may have to be made and is a payment by the contractor to the subcontractor.

Example

On a contract worth £200, a contractor gives the subcontractor some surplus materials and restricts payment by £50.

The contractor must calculate the deduction on the full contract value of £200.

When completing the monthly return, the contractor must show the gross payment to the subcontractor, or the amount before deduction where appropriate, in the amount of £200.

Set off

A set off is money not paid to a subcontractor by a contractor who believes there has been a breach of contract.

Under the scheme, a set off does reduce the payment from which the deduction may have to be made and so isn't a payment by the contractor to the subcontractor.

Example

On a contract worth £2,000, a contractor withholds £400 because work was below standard.

The contractor must calculate the deduction on £1,600.

When completing the monthly return, the contractor must show the gross payment to the subcontractor, or the amount before deduction where appropriate, in the amount of £1,600.

6.12 Paying subcontractors by credit or debit cards

Subcontractors may invite contractors to pay them by debit, credit or other type of purchase card in order to obtain payment under the contract. Usually, there'll then be a difference in the timing between the subcontractor receiving payment from the card company and the contractor receiving and paying against a statement on which that particular charge appears.

The contractor's arrangements for paying and accounting for these charges will affect the timing of when such payments must be entered onto the monthly return. If the contractor's accounting system will not treat the subcontractor's invoice as having been paid until payment is made to the card company, then that will be the point at which the payment should be included on the monthly return.

Although there is no particular reason why cards can't be used to make payments to subcontractors paid under deduction, doing so would lead to a number of problems. These include the timing of the payment of the amount deducted, the recording of the payment and deduction on the relevant monthly return and the issue of the deduction statement to the subcontractor. We therefore recommend that contractors should restrict the use of payment cards to those subcontractors paid without deduction or to cover only the cost of materials.

6.13 Retention payments

Some contracts allow the contractor to retain a percentage of the contract price for a period after the construction work has been completed. This is done so that if deficiencies in the work become apparent during the 'retention period', the final payment can be withheld until the subcontractor has made good the faults.

There are no special rules for retention payments and they are treated the same way as any other payments. Whether the retention payment is made gross or under deduction depends on the subcontractor's tax status at the date of payment and not when the work was actually done.

At the time of payment of the retention, the contractor must decide whether they must verify the subcontractor (in accordance with paragraphs 3.1 to 3.9) and then make the deduction required under the scheme.

6.14 Reverse premiums

'Reverse premium' is the term commonly used to describe when a landlord or developer offers inducements to prospective tenants to take up an interest in land.

An example of an inducement is payment of all or part of the costs of fitting out the property. Such inducements are excluded from the scheme.

6.15 Payments made under a Private Finance Initiative arrangement

The Private Finance Initiative (PFI) is a form of Public Private Partnership, aimed at enabling the public and private sectors to work more closely together by making use of private capital and expertise in the provision of public sector infrastructure and services. PFI contracts are often for long periods, typically 20 to 30 years.

Common types of PFI include:

- services sold to the public sector - the private sector provides the capital assets and the public purchaser pays only on delivery of the specified services
- financially free-standing projects - the private sector designs, builds, finances and operates an asset, recovering the costs through direct charges on the private users of the asset

- joint ventures - the costs of a project are not met entirely by the charges on end users but are subsidised from public funds

Payments made by a public body under a PFI arrangement are specifically excluded from the CIS and the scheme must not be applied to such payments.

If you have any doubt about whether an arrangement is outside the scope of the scheme because it should qualify as a PFI arrangement you should contact the CIS Helpline (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme).

6.16 Group companies

The definition of group companies for the purposes of certain aspects of the scheme, is contained at Section 152 Corporation Taxes Act (CTA) 2010. Basically, 2 companies are deemed to be members of a group if one is at least a 75 % subsidiary of the other, or both companies are at least 75% subsidiaries of a third company and so on.

6.17 Managing agents

When a managing agent is acting for a principal or client in letting contracts that include construction operations, the managing agent will not generally be a contractor as defined within the scheme. This is because the contract for construction operations will more likely be between the principal and the subcontractor. The managing agent's role would be to see that the work is carried out in accordance with the principal's contract with the subcontractor and may include making payments to the subcontractor.

Where the contract between the principal and the managing agent includes the maintenance of the property and the agent enters into a contract on their own behalf, even though this is done under the terms of the service contract between the agent and the principal, the agent will be acting as a contractor within the scheme.

Payments made under a contract between the managing agent and the subcontractor may also fall within the scheme where it's a mixed contract, for example, where it includes elements of security, cleaning, minor repairs and maintenance.

6.18 Scheme representatives

A contractor that is a company within a group may be authorised to appoint another of the companies within the same group to undertake its obligations under the scheme. For example, a group of several companies required to operate the scheme could choose a single company within the group to operate CIS on their behalf.

The scheme representative must continue to make returns and payments to us under the name of the company or companies for which it's acting.

Each company that has chosen to have its scheme obligations handled by another company within its group will always remain liable for any obligations it has under the scheme even though it has chosen another company to operate the scheme on its behalf.

To request authorisation in these circumstances, please contact the CIS Helpline (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme).

6.19 Unofficial forms

No substitute forms may be used. If a form has been lost or mislaid, please ask us for another. However, contractors will need to create their own statements of deduction for those subcontractors from whom deductions have been made. Paragraphs 3.15 and 3.16 and Appendix E give more information on this.

Appendix A

A.1 The scope of construction operations

This Appendix gives information on the scope of construction operations as HMRC has interpreted it from the legislation in Section 74, Finance Act 2004.

We have reproduced Section 74, Finance Act 2004 in Appendix B for your reference.

Contracts relating to construction operations

A.2 Definition of a contract

A contract may be either:

- written
- agreed by word of mouth

Regardless of the form of the contract, the common characteristic will be that there will be a payment by a contractor to a subcontractor and the contract will relate to construction operations.

Many contracts in the construction industry are agreed by word of mouth. This will not normally stop them from being legally binding on both parties and means they will come within the scheme.

Written contracts can vary in size and complexity.

When you have decided that a contractor and a subcontractor are parties to a contract and that the contract isn't one of employment, you need to decide whether it's a contract that relates to construction operations.

A.3 Contracts relating to construction operations

Any contract that has construction operations included in it, however small a part that may be, will fall within the scheme.

A.4 Mixed contracts

If a contract includes some work that is within the scheme and some that isn'thing to do with construction at all then all payments made under that contract will come within the scheme - even if shown on separate invoices. These types of contracts are often referred to as mixed contracts.

A.5 Contracts that relate to construction operations because the work contributes to the overall delivery of a construction project

Some contracts will relate to construction operations because they include work that contributes to the overall delivery of a construction project. For example, a tree surgeon may have many contracts in a year for tree felling. Tree felling isn't normally a construction operation in itself, but if the trees are cut down as part of work to clear a site ready to build a housing estate or a road, payments for the tree felling will be within the scheme.

This means that it isn't possible simply to look at the types of work carried out by a business to decide whether the business is a contractor or subcontractor. Contracts for the work will sometimes be covered by the scheme and sometimes will not.

A.6 Contracts that don't specifically provide for construction operations

Construction operations refers not only to particular works, but also to the work that people need to do in order to carry out those operations. This means that a contract relating to construction operations could include a contract that didn't specifically provide for operations, but which did provide for the provision of labour to carry out those operations.

An example of this would be where a subcontractor was under a duty to provide the labour of scaffolders to a contractor. The work of scaffolders is within the scheme when it's preparatory or integral to construction operations taking place.

A.7 Construction operations

The rest of this appendix gives guidance on operations that are regarded as construction operations within the scheme and operations that are regarded as non-construction operations.

Please read these paragraphs in conjunction with the table in Appendix C.

It's not possible for us to give exhaustive information in this guidance note. If you're unsure whether any work is within the scope of the scheme, please contact the CIS Helpline (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme) for advice.

Construction operations included within the scheme

Description	Legislation (please read Appendix B)	Paragraph
Buildings and structures	S74 (2)(a)	A.8
Construction	S74 (2)(a)	A.9
Alteration	S74 (2)(a)	A.10
Repair	S74 (2)(a)	A.11
Extension	S74 (2)(a)	A.12
Demolition	S74 (2)(a)	A.13
Dismantling	S74 (2)(a)	A.14
Works forming part of the land	S74 (2)(b)	A.15
Installation of systems	S74 (2)(c)	A.16
Internal and external cleaning	S74 (2)(d)	A.17
Painting and decorating	S74 (2)(e)	A.18

Integral works	S74 (2)(f)	A.19
Preparatory works	S74 (2)(f)	A.20
Finishing operations	S74 (2)(f)	A.21

A.8 Buildings and structures

Most construction operations are carried out as work on buildings and structures. The operations can be:

- permanent
- temporary
- offshore

The 6 main areas of work are:

- construction
- alteration
- repair
- extension
- demolition
- dismantling

Each of these is explained below in more detail.

A.9 Construction

Construction is a broad term that covers all of the following, to:

- build
- make
- put together
- assemble

Construction does include the assembly of prefabricated units and site facilities.

Example

The onshore construction of wind turbine towers and modular elements of wind turbine towers that are later towed to their final location at sea is an example of how broad we regard the definition of construction.

A.10 Alteration

An alteration is where a building or structure has been made different in any way. Alterations can be major or can be as simple as an adjustment or modification.

Examples:

- an alteration to the fabric of a building to accommodate equipment such as an item of plant or machinery, lifts, hoists or heavy-duty conveyors
- an alteration to accommodate a building service system (please read paragraph A.16 Installation of systems)

- removal of asbestos
- installation of partitioning or shop fittings to allow the building to be used in a different way

Notice 708 VAT: Buildings and construction (https://www.gov.uk/government/publications/vat-notice-708-buildings-and-construction) explains the meaning of alterations for VAT purposes.

A.11 Repair

Repair includes 'making good' and replacement of defective or damaged parts of a building or structure. Repairs also include repair of a building or structure that is necessary following a repair to any systems in the building or structure, even though a repair to the system itself isn't a construction operation for the purposes of the scheme (please read paragraph A.16 Installation of systems).

A.12 Extension

Extension means adding to or enlarging an existing building or structure.

A.13 Demolition

Demolition means pulling down a building or structure.

A.14 Dismantling

Dismantling means taking a building or structure apart. This is usually where the materials are expected to be used again.

Sometimes part of a building may be destroyed or dismantled prior to a refurbishment or to its use being changed. Often this type of work will be an alteration to the building or structure as well and the legislation is broad enough to include any work that involves any of the following:

- taking a building or structure apart
- totally destroying a building or structure
- rebuilding a building or structure
- altering a building or structure

The resulting building or structure may be permanent or temporary.

A.15 Works forming part of the land

All types of construction work that don't involve buildings or structures are called works forming, or to form, part of the land.

Examples include:

- minor works, such as a wooden fence with concrete posts
- major works such as roads, railways, bridges, harbours and power lines
- industrial plant such as petrochemical plant, a silo, tank or water treatment plant

Plant that is located in a building will not form part of the land and so will not fall within the scheme under this section. However, in some circumstances the installation of plant may require that the building be altered to accommodate or remove the plant so this will still be a construction operation.

Alteration, repair, extension, and demolition of works forming part of the land are also construction operations.

A.16 Installation of systems

A system is something that is made up of connected parts to perform a particular function such as systems of heating or lighting. The scheme includes the installation of 'systems'. As such, it includes the installation of complete systems rather than parts of a system. Complete systems will be installed in new builds or existing buildings and structures undergoing reapply-development. Repairs to a system, such as new taps on a sink or an extension to a system such as adding an extra radiator are not installations of systems and are therefore not included within the scheme.

A.17 Internal and external cleaning

Internal cleaning is regarded as a construction operation if it's undertaken whilst the construction contract is ongoing.

External cleaning or routine cleaning of existing commercial or industrial premises that are not undergoing any types of construction operations isn't regarded as a construction operation unless it's preparatory to painting and decorating.

A.18 Painting and decorating

Painting and decorating is regarded as a construction operation.

A.19 Integral works

Integral works are works that must be carried out for a construction operation to be completed.

Example

Erection of scaffolding might not be considered to be the construction of a structure in its own right, but it's a construction operation because it wouldn't be possible to carry out other works that are construction operations without it.

A.20 Preparatory works

Preparatory works are works that must be carried out before a construction operation can be started.

Example

Clearing a site or draining land in a flood plain before building houses.

A.21 Finishing operations

Finishing operations are work that 'renders complete' or 'finishes off' any of the construction operations in the previous paragraphs.

Example

In most modern commercial buildings much of the internal fixtures and fittings will be included in the design specifications and a building will not be considered complete without them.

Finishing operations aren't regarded as construction operations in their own right. They must be considered as part of the overall work that is being carried out as well as part of the contract as a whole. Often, the same work won't be a construction operation when it's carried out as an independent activity.

Examples:

- tree planting and landscaping in the course of forestry or estate management are not construction operations
- tree planting and landscaping as part of a new housing development are construction operations

The only exception to finishing operations is carpet fitting. Statement of Practice 12 (1981) (https://www.gov.uk/government/publications/statement-of-practice-12-1981) provides that carpet fitting (but no other floor covering) is regarded as excluded from the scheme. However, if carpet fitting is part of a mixed contract, then all the contract comes within the scheme. Please read paragraph A.4.

A.22 Non-construction operations

Some operations are specifically excluded from the scheme and these are explained below.

Where a contract includes operations that are construction operations, and operations that aren't construction operations, all payments for both types of work will fall within the scheme.

Description	Legislation (please read Appendix B)	Paragraph
Drilling	S74 (3)(a)	A.23
Extraction	S74 (3)(b)	A.24
Manufacture of building or engineering components and delivery	S74 (3)(c)	A.25
Manufacture of components for systems	S74 (3)(d)	A.26
Professional work	S74 (3)(e)	A.27
Artistic works	S74 (3)(f)	A.28
Signwriting and signboards	S74 (3)(g)	A.29
Seating, blinds and shutters	S74 (3)(h)	A.30
Security systems	S74 (3)(i)	A.31

A.23 Drilling

Drilling work connected with actual, physical extraction of minerals or natural resources isn't a construction operation.

A.24 Extraction

Extraction of minerals or natural resources isn't a construction operation. Extraction includes:

- drilling for oil and gas
- pumping of oil and gas
- digging for coal and other minerals from underground deposits
- removal of coal and other minerals from underground deposits

- associated surface workings, such as open cast mine quarrying

Work connected with the primary purpose of mineral extraction isn't a construction operation. This includes:

- tunnelling, boring and shoring up tunnels in mines
- installing rail systems, conveyor systems and other systems

This is in contrast to tunnelling done in connection with the construction of a mainline railway for example, which would be a construction operation because it's an integral part of the construction of a work forming part of the land.

A.25 Manufacture of building or engineering components and delivery

Manufacture of the following isn't a construction operation, building or engineering:

- components
- equipment
- material
- plant
- machinery

Delivery of these is also not a construction operation.

A.26 Manufacture of components for systems

Manufacture of components for systems isn't a construction operation. Examples of components for systems include components of:

- heating
- lighting
- air-conditioning
- ventilation

Delivery of these is also not a construction operation.

A.27 Professional work

Professional work done by architects and surveyors as part of their normal professional discipline, whether on or off site, isn't a construction operation.

The only exception is where a professional goes beyond their professional discipline to take on the role of developer or main contractor in addition to providing professional services. In this case, the work isn't excluded from the scheme.

The work of other professionals is excluded only if they are acting purely as consultants. Typically, this would include the production of designs, plans, technical assessments and reports relating to construction projects including site testing. Any work that goes beyond a consultative or advisory role and becomes the supervision of labour or the co-ordination of construction work using that labour isn't excluded from the scheme.

A.28 Artistic works

All works that are wholly artistic are not regarded as construction operations. This means that if the works fulfil a normal functional purpose associated with a building, they aren't excluded from the scheme.

Examples include a:

- statue, even if commissioned with a new building, has no function other than to be enjoyed as an artistic work - its construction and installation wouldn't be regarded as a construction operation
- stained glass window with artistic merit, but it's a window that lets in light and is a decorative version of a common feature of a building, so its construction and installation would be regarded as a construction operation

A.29 Signwriting and signboards

Signwriting and work related to signboards and advertising boards is excluded from the scheme. This exclusion is very specific and doesn't extend to traffic signs or street furniture.

A.30 Seating, blinds and shutters

Seating in theatres, sports stadiums and other locations, and fixed seating is excluded from the scheme. This exclusion also covers louvered shutters, venetian blinds, other similar internal blinds, and curtain fittings.

Awnings aren't excluded.

A.31 Security systems

Installation of security systems that are dedicated to security only is excluded from the scheme. Specific types of systems specifically mentioned in the legislation are burglar alarms, closed circuit television and public address systems. Preparatory works on the land such as digging, building/erecting concrete posts on which to install the closed-circuit television (CCTV) is within CIS.

Example

Installation of a computer controlled centralised locking system with programmable key cards, such as those used in hotels, would be excluded from the scheme.

The installation must be a system and not simply a building feature that incidentally fulfils a security purpose.

Examples include:

- doors equipped with locks provide a measure of security, but they don't represent a system, so they wouldn't be excluded from the scheme
- fencing may deter intruders but it's a traditional feature of buildings and their surrounds and not a security system, even if it has security features, so it wouldn't be excluded from the scheme

Appendix B

Extract from Finance Act 2004

Section 74

B.1 In this section 'construction operations' means operations of a description specified in subsection (2), not being operations of a description specified in subsection (3); and references to construction operations:

(a) except where the context otherwise requires, include references to the work of individuals participating in the carrying out of such operations

(b) don't include references to operations carried out or to be carried out otherwise than in the UK (or the territorial sea of the UK)

B.2 The following operations are, subject to subsection (3), construction operations for the purposes of this chapter:

(a) construction, alteration, repair, extension, demolition or dismantling of buildings or structures (whether permanent or not), including offshore installations

(b) construction, alteration, repair, extension or demolition of any works forming, or to form, part of the land, including (in particular) walls, roadworks, power lines, electronic communications apparatus, aircraft runways, docks and harbours, railways, inland waterways, pipelines, reservoirs, water mains, wells, sewers, industrial plant and installations for purposes of land drainage, coast protection or defence

(c) installation in any building or structure of systems of heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection

(d) internal cleaning of buildings and structures, so far as carried out in the course of their construction, alteration, repair, extension or restoration

(e) painting or decorating the internal or external surfaces of any building or structure

(f) operations which form an integral part of, or are preparatory to, or are for rendering complete such operations as are previously described in this subsection, including site clearance, earth-moving, excavation, tunnelling and boring, laying of foundations, erection of scaffolding, site restoration, landscaping and the provision of roadways and other access works

B.3 The following operations are not construction operations for the purposes of this chapter:

(a) drilling for, or extraction of, oil or natural gas

(b) extraction (whether by underground or surface working) of minerals and tunnelling or boring, or construction of underground works, for this purpose

(c) manufacture of building or engineering components or equipment, materials, plant or machinery, or delivery of any of these things to site

(d) manufacture of components for systems of heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection, or delivery of any of these things to site

(e) the professional work of architects or surveyors, or of consultants in building engineering, interior or exterior decoration or the laying-out of landscape

(f) the making, installation and repair of artistic works, being sculptures, murals and other works which are wholly artistic in nature

(g) signwriting and erecting, installing and repairing signboards and advertisements

(h) the installation of seating, blinds and shutters

(i) the installation of security systems, including burglar alarms, closed circuit television and public address systems

B.4 The Treasury may by order made by statutory instrument amend either or both of subsections (2) and (3) by:

- adding
- varying
- removing

any description of operations.

B.5 No statutory instrument containing an order under subsection (4) shall be made unless a draft of the instrument has been laid before and approved by a resolution of the House of Commons.

Appendix C

This Appendix gives guidance on construction operations that are included within the scheme and those that are excluded.

There is an A-Z guide in the Construction Industry Scheme Manual at CISR14330 (http://www.hmrc.gov.uk/manuals/cisrmanual/CISR14330.htm).

The guidance isn't exhaustive so if you are unsure whether work is within the scope of the scheme, please contact the CIS Helpline (https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme).

C.1 Contracts that include work that is included and work that is excluded

If a contract includes some construction operations that are within the scheme and some that are excluded, all payments made under that contract will come within the scheme.

C.2 Status of private householders

Private householders aren't contractors for the purposes of the scheme but if you do any of the work listed below for a contractor who is doing the work for a private householder, the contractor will have to operate the scheme on payments they make to you.

C.3 Included and excluded operations

Planning

Operations included:

- none

Operations excluded:

- professional work (including the ancillary work of engineers, draughtsmen, scientists and technicians) of architects, surveyors or consultants in building, engineering, decoration (interior or exterior) or landscaping

Site preparation

Operations included:

- demolition of, for example, buildings, structures and tree-felling
- preparation of site and site-clearance, earth-moving on site, excavation, tunnelling and boring

Operations excluded:

- delivery of materials
- transport of spoil from site

Construction

Operations included:

- preparation and laying of foundations and piling
- actual construction, alteration or repair of a permanent or temporary building or civil, chemical or other industrial engineering work or industrial plant or structure - for example:
  - asbestos removal
  - storage tanks
  - silos
  - pylons
  - cranes or derricks
  - pumps
- construction of site facilities including site huts, portable buildings and site hoardings
- installation of power lines, pipelines, gas mains, sewers, drainage, cable television and telecommunications distribution systems
- installation of closed-circuit television for purposes other than security (such as traffic management)
- installation of public services
- construction, repair and resurfacing of roads and bridges including white-lining
- provision of temporary and permanent roadways and other access works such as drives
- erection or dismantling of scaffolding falsework and formwork
- plant hire with operator for use on site
- installation of fire protection systems designed specifically to protect the fabric of the building (such as sprinkler systems, fireproof cladding) rather than a fire warning (alarm) system
- installation of prefabricated components or equipment under 'supply and fix' arrangements.
- transport of materials on site
- internal cleaning of buildings and structures carried out in the course of, or on completion of, their construction, alteration, extension, repair or restoration
- work done on installations (such as rigs, pipelines, construction platforms) maintained or intended to be established for underwater exploration for, or exploitation of, minerals where the work is on land or in the UK territorial waters (up to the 12-mile limit)
- installation of systems of heating, lighting, air-conditioning, ventilation, power supply and distribution, drainage, sanitation, water supply and distribution, and fire protection works
- installation of lifts, plant, or machinery needed by the specification of a building under construction or alteration
- construction and repair of industrial plant
- site restoration and landscaping
- installation, structural repair and painting of lamp standards, traffic lights, parking meters and street furniture
- construction of concrete and marble floors
- installation of and repair to:
  - glazing

  - doors and rolling grills or security shutters
  - kitchens and bathrooms
  - shop-fittings including fixed furniture (except seating and freestanding display cabinets)
- painting and decorating the internal or external surfaces of any building or structure

Operations excluded:

- manufacture or offsite fabrication of components or equipment, materials, plant or machinery and delivery of these to the site - for example:
  - traditional building materials
  - prefabricated beams and panels
  - ready-mixed concrete
- manufacture and delivery of prefabricated site facilities
- running of site facilities such as canteens, hostels, offices, toilets and medical centres or the supply of security guards
- installation or replacement of telecommunication or computer wiring through pre-existing ducting in buildings
- delivery of road-making materials
- setting out traffic cones
- hire of scaffolding equipment (without labour)
- delivery, repair or maintenance of construction plant or hire equipment without an operator - for example, concrete mixers, pumps and skips
- installation of fire alarms,security systems, including burglar alarms, closed-circuit television as part of a security system, and public address systems, but not any preparatory works on the land such as digging, building/erecting concrete posts on which to install the CCTV
- transport of materials from site to site on the public highway
- assembly of temporary stages and exhibition stands including lighting
- external cleaning (other than painting or decorating) of buildings and structures
- drilling for, or extraction of, oil or natural gas
- extraction of minerals, boring or construction of underground works for this purpose
- manufacture, delivery, repair, servicing or maintenance of these items:
  - systems of heating
  - lighting
  - air-conditioning
  - ventilation
  - power supply and distribution
  - drainage
  - sanitation
  - water supply and distribution
  - fire protection works
  - lifts, plant or machinery needed by the specification of a building under construction or alteration
- replacement of system parts not involving other construction operations (for example, taps or a radiator)
- stairlifts requiring no alteration or repair to the building
- tree planting and felling in the ordinary course of forestry or estate management
- manufacture and delivery of lamp standards - routine maintenance such as cleaning and general replacement
- manufacture offsite and delivery of flooring materials
- manufacture and delivery of:

  - glazing materials
  - computer and instrumentation systems
  - thermal insulation materials
  - heating and ventilation systems
  - doors and rolling grills
  - painting or decorating materials
- manufacture, delivery and installation of seating, blinds and louvered shutters
- manufacture, installation and repair of artistic works (for example sculptures and murals) which are wholly decorative in nature (not functional items caught by the scheme which incidentally have artistic merit)
- manufacture and installation of solar, blackout or anti-shatter film
- signwriting and erecting,installation and repair of signboards and advertisements

Finishing operations

Operations included fitting of:

- floor coverings, such as vinyl, linoleum (but not carpet) and laminated wooden flooring
- pigeon mesh
- TV aerials and satellite receivers Installation of refrigeration units

But only where these operations render complete a building or structure that has been constructed or altered.

Appendix D

This Appendix gives examples of the deduction from subcontractors paid under deduction.

Deductions at the standard rate

Examples D1 to D3 show deductions at the standard rate of 20% which was the rate in force at the time of writing this guide.

Example D1

Where no materials are supplied ('labour-only')
A labour-only subcontractor does work on site for £200
Total payment £200
Amount deducted at 20% = £40
Net payment to subcontractor £160

The contractor calculates the deduction (£40), which has to be paid to our accounts office. The labour-only subcontractor receives the balance of £160.

Entries on the contractor's monthly return

In example D1, the contractor should enter the following amounts in the appropriate boxes on the contractor's monthly return:

Total payment £200
Direct cost of materials used £0
Amount deducted £40

Example D2

The following is an example of a calculation where materials as well as labour are supplied ('supply and fix') and the contractor has paid the subcontractor's expenses.

Where the subcontractor isn't registered for VAT, any VAT they had to pay on materials should be included in the cost of materials when calculating the CIS deduction.

Where expenses, for example accommodation, mobile phone and fuel costs are paid to the subcontractor, the amounts should be included in the subcontractor's gross payment.

A tiling subcontractor, who isn't VAT-registered, agrees to tile a wall and to supply the necessary materials for a total payment of £535. The materials cost the subcontractor a total of £235 (£200 + £35 for VAT). The subcontractor is also paid accommodation costs of £50 and fuel of £10.

Labour charge £300
Materials £235
Accommodation and fuel £60
Amount due (invoice amount) £595

Calculation of deduction

Total payment £595
Less cost of materials (inclusive of VAT) £235
Amount liable to deduction £360
Amount deducted at 20% £72
Net payment to subcontractor £523

The contractor deducts the cost of materials from the price for the whole job and calculates the deduction on the difference of £360. The contractor has to pay £72 to our accounts office and pays £523 (£595 - £72) to the subcontractor.

Entries on the contractor's monthly return

In example D2, the contractor should enter the following amounts in the appropriate boxes on the contractor's monthly return:

Total payment £595
Direct cost of materials used £235
Amount deducted £72

Example D3

The following is an example of a calculation where materials as well as labour are supplied ('supply and fix'). Where the subcontractor is registered for VAT, any VAT they had to pay on materials should be excluded from the cost of materials when calculating the CIS deduction.

For the total cost of £600, a subcontractor who is a taxable person for VAT purposes, agrees to paint the interior of a building and to supply the materials. The painter pays £235 for the materials, which includes VAT of £35.

Labour charge £400
Materials £200
Total payment £600

Add VAT £105
Amount due (invoice amount) £705

Calculation of deduction

Total payment (exclusive of VAT) £600
Less cost of materials (exclusive of VAT) £200
Amount liable to deduction £400
Amount deducted at 20% £80
Net payment to subcontractor £625

The subcontractor is paid £625, which is the invoice amount (£705) less the deduction (£80).

Entries on the contractor's monthly return

In example D3, the contractor should enter the following amounts in the appropriate boxes on the contractor's monthly return:

Total payment £600
Direct cost of materials used £200
Amount deducted £80

Deductions at the higher rate

Examples D4 to D6 show deductions at the higher rate of 30%. This rate is used for illustration purposes and may or may not be the rate in force at the time of reading this guide.

Example D4

Where no materials are supplied ('labour-only')
A labour-only subcontractor does work on site for £200
Total payment £200
Amount deducted at 30% £60
Net payment to subcontractor £140

The contractor calculates the deduction (£60), which has to be paid to our accounts office. The labour-only subcontractor receives the balance of £140.

Entries on the contractor's monthly return

In example D4, the contractor should enter the following amounts in the appropriate boxes on the contractor's monthly return:

Total payment £200
Direct cost of materials used £0
Amount deducted £60

Example D5

The following is an example of a calculation where materials as well as labour are supplied ('supply and fix'). Where the subcontractor isn't registered for VAT, any VAT they had to pay on materials should be included in the cost of materials when calculating the CIS deduction.

A tiling subcontractor, who isn't VAT registered, agrees to tile a wall and to supply the necessary materials for a total payment of £535. The materials cost the subcontractor a total of £235 (£200 + £35 for VAT).

Labour charge £300
Materials £235
Amount due (invoice amount) £535

Calculation of deduction

Total payment £535
Less cost of materials (inclusive of VAT) £235
Amount liable to deduction £300
Amount deducted at 30% £90
Net payment to subcontractor £445

The contractor deducts the cost of materials from the price for the whole job and calculates the deduction on the difference of £300. The contractor has to pay £90 to our accounts office and pays £445 (£535 - £90) to the subcontractor.

Entries on the contractor's monthly return

In example D5, the contractor should enter the following amounts in the appropriate boxes on the contractor's monthly return:

Total payment £535
Direct cost of materials used £235
Amount deducted £90

Example D6

The following is an example of a calculation where materials as well as labour are supplied ('supply and fix'). Where the subcontractor is registered for VAT, any VAT they had to pay on materials should be excluded in the cost of materials when calculating the CIS deduction.

For the total cost of £600 a subcontractor, who is a taxable person for VAT purposes, agrees to paint the interior of a building and to supply the materials. The painter pays £235 for the materials, which includes VAT of £35.

Labour charge £400
Materials £200
Total payment £600
Add VAT £105
Amount due (invoice amount) £705

Calculation of deduction

Total payment (exclusive of VAT) £600
Less cost of materials (exclusive of VAT) £200
Amount liable to deduction £400
Amount deducted at 30% £120
Net payment to subcontractor £585

The subcontractor is paid £585, which is the invoice amount (£705) less the deduction (£120).

Entries on the contractor's monthly return

In example D6, the contractor should enter the following amounts in the appropriate boxes on the contractor's monthly return:

Total payment £600
Direct cost of materials used £200
Amount deducted £120

Appendix E

Example payment and deduction statement

Example of a payment and deduction statement to be given to subcontractors paid under deduction on a:

- payment basis
- monthly basis, where this is less frequent

Any Contractors Ltd
56 High Street
Anytown
ABC 123

Contractor's Employer Reference Number: 123/456789
Construction Industry Scheme
Statement of payment and deduction for month ending 5 April 2015
Subcontractor
Name Mr A N Other
Unique Taxpayer Reference 98765 43210
Gross amount paid (Excl VAT) (A) £5,450.36
Less cost of materials £584.72
Amount liable to deduction at 20% £4,865.64
Amount deducted (B) £973.12
Amount payable (A - B) £4,477.24
Verification number (verification number only to be entered where a deduction at the higher rate has been made)

Further information

More detailed information about CIS (https://www.gov.uk/business-tax/construction-industry-scheme) and Self Assessment (https://www.gov.uk/topic/personal-tax/self-assessment) is available.

Find out how to register as a contractor (https://www.gov.uk/what-you-must-do-as-a-cis-contractor/how-to-register).

Your rights and obligations

Your Charter (https://www.gov.uk/hmrc/your-charter) explains what you can expect from us and what we expect from you.

How we use your information

HMRC is a Data Controller under the Data Protection Act 1998 (https://www.gov.uk/hmrc/information-charter). We hold information for the purposes specified in our notification to the Information Commissioner, including the assessment and collection of tax and duties, the payment of benefits and the prevention and detection of crime, and may use this information for any of them.

We may get information about you from others or we may give information to them. If we do, it will only be as the law permits, to:

- check the accuracy of information
- prevent or detect crime
- protect public funds

We may check information we receive about you with what is already in our records. This can include information provided by you as well as by others such as other government departments or agencies and overseas tax and customs authorities. We will not give information to anyone outside HMRC unless the law permits us to do so.

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