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# The new Construction Industry Scheme

## Construction briefing April 2007

On 6 April 2007 a new construction industry tax scheme came into force. We set out below a short introduction to the scheme together with a summary of the key changes.

### **WHAT IS THE CIS?**

The Construction Industry Scheme (CIS) is a tax regime governing payments for construction operations by "contractors" to "sub-contractors". Contractors include all businesses involved in the construction industry (i.e. developers and building contractors) together with all non-construction businesses if their average annual expenditure on construction operations over a period of three years is £1m or more. Sub-contractors include all those paid for construction works by contractors. The CIS sets out when a sub-contractor may be paid gross, and when a deduction must be made by the contractor at source on account of the sub-contractor's liability for income tax/corporation tax and Class 4 National Insurance Contributions.

### **KEY CHANGES TO THE CIS EFFECTIVE FROM 6 APRIL 2007**

Key points to note are as follows:

- Contractors now have a duty to check/verify the status of every sub-contractor with HMRC before any payment is made. HMRC will confirm if the sub-contractor is to be paid net or gross.
- There is no longer a need for registration cards, sub-contractor's certificates or vouchers (or for the contractor to verify same) before a contractor can make payment to a sub-contractor.
- The majority of sub-contractors registered under the old scheme will be automatically transferred over to the new scheme and will not have to re-register. However, new sub-contractors and those that formerly only held temporary registration cards that expired before 6 April will be required to register with HMRC.
- The standard level of tax deduction for sub-contractors has increased from 18% to 20%. In addition a new higher rate of tax deduction of 30% has been introduced for sub-contractors that cannot be "verified" on HMRC's system. This higher rate will apply until the sub-contractor registers with HMRC or rectifies any verification problems with HMRC.
- The CIS36 annual return is no longer in use. Instead, contractors must make a return every month to HMRC showing payments made to all sub-contractors. Contractors must declare that none of the workers listed on the return are employees.
- In addition "nil" returns must be made when no payments are made in any given month.



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CLARITY MATTERS

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## EXEMPTIONS FROM THE CIS

The exemptions include:

- "Reverse premiums" - typically an inducement payment made by a landlord to a tenant as a contribution to the tenant's fit-out works. For example, a Landlord (or a group/affiliate company of the Landlord) may make payments to or on behalf of a tenant for works to be carried out as a term of an Agreement for Lease and such payments will be exempt from the CIS.
- Construction operations relating to property used in the business of a contractor or a group company of the contractor.

## CONTACTING HMRC

For more information (and to verify the status of sub-contractors on-line) please visit [www.hmrc.gov.uk/new-cis](http://www.hmrc.gov.uk/new-cis) or phone the CIS helpline on 0845 366 7899.

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