



# CIS-MANAGEMENT

## Construction and assembly in the UK Construction Industry Scheme

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ICON Wirtschaftstreuhand GmbH

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# CIS-Management

**The British tax authorities (so-called HM Revenue & Customs, shortly HMRC) introduced the Construction Industry Scheme (CIS) to ensure proper tax collection from contractors and their subcontractors.**

Under the CIS scheme, the contractor is required to check if the contract with the subcontractor falls under the CIS scheme or not and if CIS deductions have to be made.

**You are working in the UK on a construction and assembly site and your are faced with the CIS scheme?**

Focus on your core business as part of your UK contract. Handle over the CIS management to ICON.

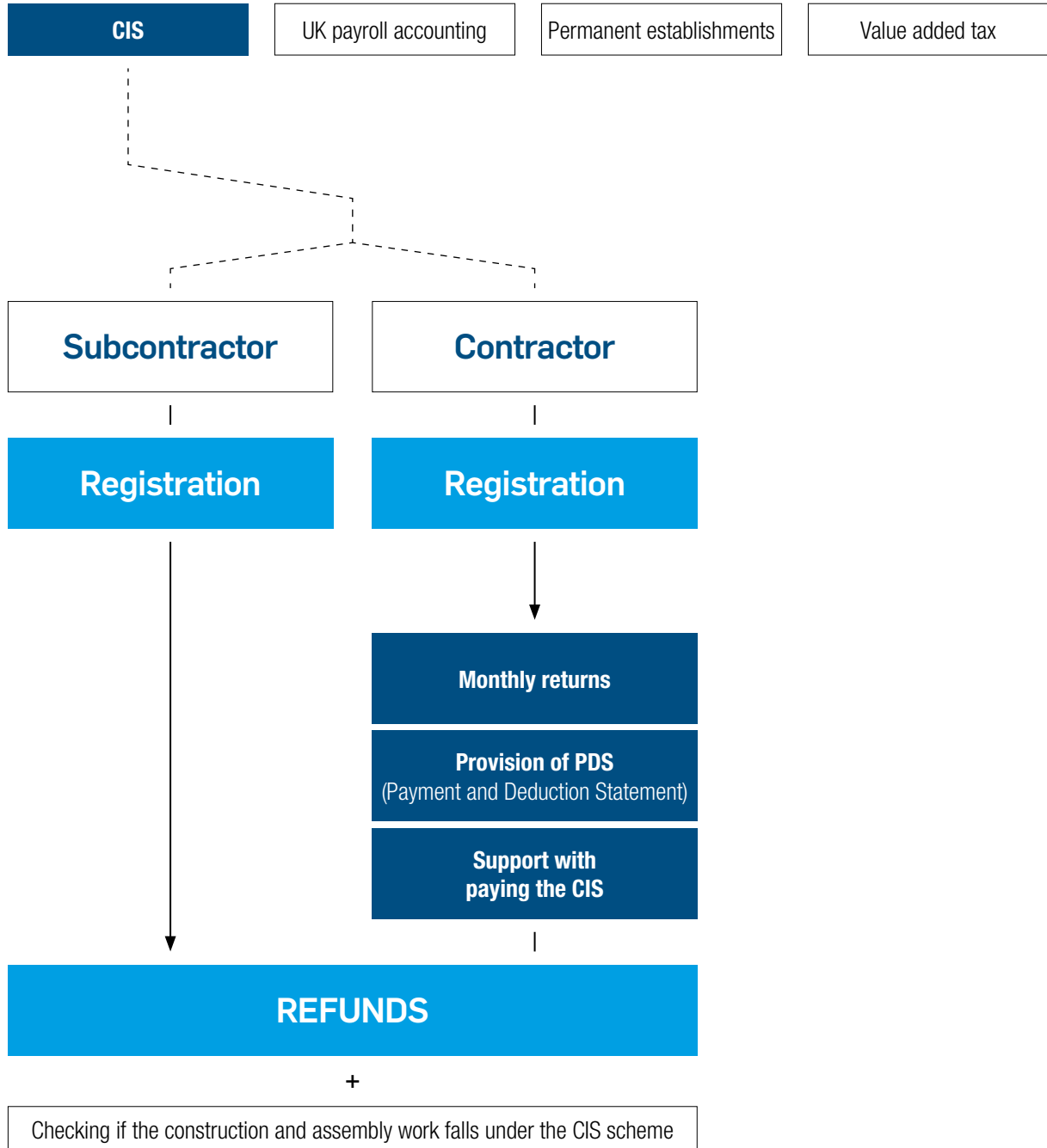
We will assist you in the CIS registration process, in filing the monthly CIS returns and claiming refunds of CIS. Based on our long-term experience, we offer this service efficiently and cost-effectively.

## What can ICON do for you?

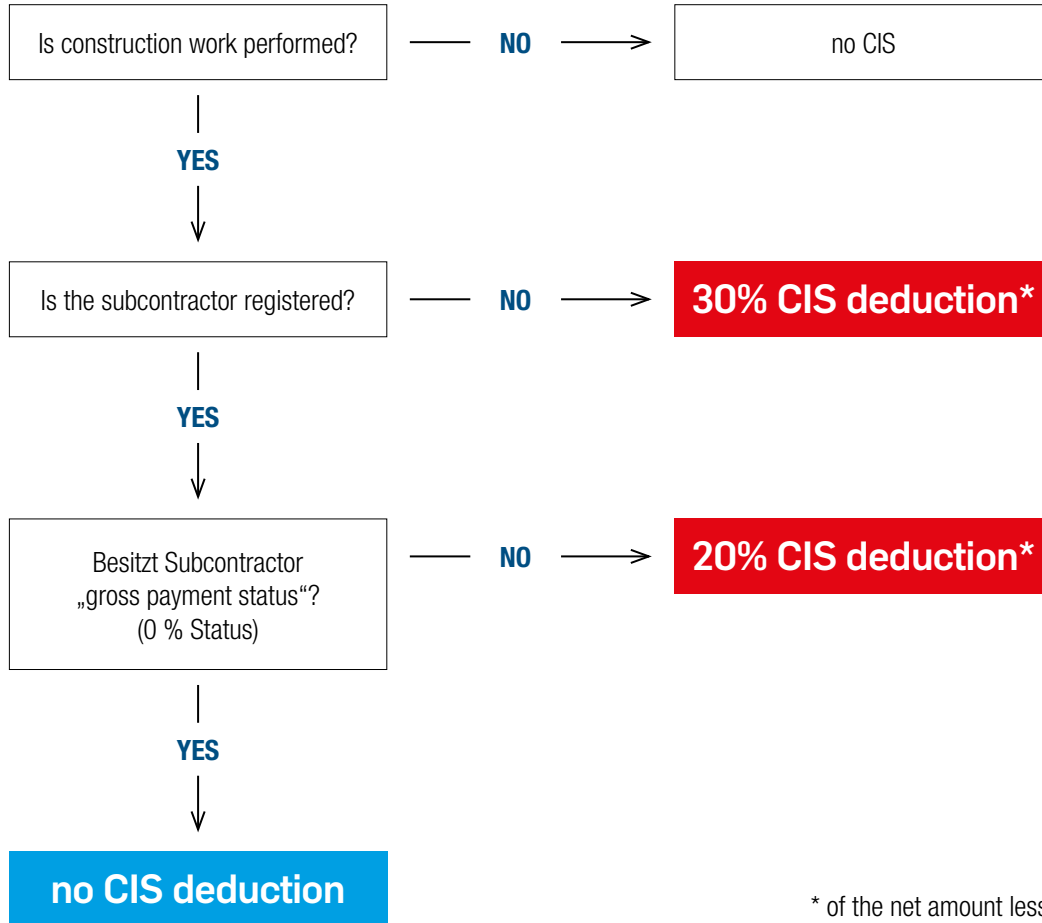
- We deal with all tax issues with HMRC as a tax agent on your behalf.
- We register you for the CIS scheme.
- We ensure that deadlines are met.
- We submit monthly CIS returns for you.
- We claim a refund of CIS.

**This brochure gives you an overview of our CIS services and an insight into the Construction Industry Scheme (CIS) in the UK.**

# ICON service packages for CIS



# Brief check / CIS deduction



\* of the net amount less cost of materials

# What does CIS mean?

The Construction Industry Scheme (CIS) is a deduction made from **payments to a subcontractor**. The deduction applies to companies that are hired or hire other companies to carry out construction and assembly services in the UK. CIS rules apply for companies based both inside and outside the UK. The scheme covers all construction work in the course of site preparation, repairs, maintenance, alterations or demolition in respect of buildings and structures.

The term “**construction work**” defined very broadly. Work covered by CIS ist for example:

- Construction, alteration, repair of buildings and structures
- Construction, alteration, repair of roads, electrical power lines and drainage
- Supply and installation of machinery or equipment
- Work as a site manager (site supervisor)
- Hiring out of labour by temporary employment agencies to construction sites
- Installation of heating systems, air-conditioning, entry systems

**Each contract** must be verified whether the works can be defined as “construction work” under the CIS scheme.

If the company is subject to the CIS scheme, a CIS deduction has to be made from the invoice amount and paid to HMRC. A **CIS registration** may **reduce or eliminate the need of CIS deductions**.

For obligations of the subcontractor as well as that of the contractor and how to avoid a CIS deduction please see the following pages.

# Subcontractor

**A subcontractor is a business that carries out construction work for a contractor under the CIS scheme. If this construction work is performed in the UK, it is generally subject to the CIS scheme.**

The rules on deductions depend on whether the subcontractor has registered with HMRC for CIS and whether he has a Unique Taxpayer Reference number (UTR). In addition to the UTR number, companies based in the UK also need to provide evidence of their company's registration by means of the company registration number (CRN).

## The CIS deduction rates are as follows:

- **No CIS deduction (gross payment status):** In order to be paid without CIS deductions the subcontractor has to register for the CIS scheme.

Within the CIS registration procedure the subcontractor has to pass the turnover test. As a part of it, it has to be proved that the net construction turnover (turnover less costs of material) of the company in the last twelve months prior to the submission of the registration application exceeds GBP 30,000 per director or partner, or exceeds GBP 100,000 in total. Passing the test will lead to a 0 % CIS deduction rate.

- **Deduction of 20 % (standard rate):** This applies if the subcontractor has a valid Unique Taxpayer Reference number (UTR) but does not meet the requirements regarding the turnover test or the subcontractor has tax debts in the UK. In this case, the contract deducts 20% from the amount payable (less the costs of materials) to the subcontractor. The CIS deduction has to be paid to HMRC.
- **Deduction of 30 % (higher rate):** This applies if the subcontractor does not have a Unique Taxpayer Reference (UTR), i.e. they are not registered for CIS. In accordance to the CIS scheme the contractor has to make a CIS deduction of 30% from the amount payable (less the cost of materials) and pay to HMRC.

In order to avoid deductions, the subcontractor should register for the CIS scheme (it takes around two months) before the first payment will be done. Once the registration is finalized, the subcontractor will be given a ten-digit UTR number, if one does not already exist. This must then be given to the contractor.

In case a 20% deduction was made, the subcontractor can apply for a refund. 30% CIS deductions may also be claimed for refund once the subcontractor has registered for CIS. Claims for CIS refund may only be made for the past four years.



# Contractor

**The contractor must also perform a CIS registration if he acts as subcontractor towards his contractor.**

For this reason, he needs to register as a subcontractor to avoid a CIS deduction. In this case two CIS registrations have to be performed: **one** as a subcontractor and **the other** one as a contractor.

After completion of CIS registration the following steps are to be taken:

- 1) Check** if the contract with the subcontractor falls under the CIS scheme.
- 2) Verify the subcontractor:** The contractor has to verify each subcontractor payment before making the payments in order to check if CIS deductions have to be made or not. For verification the UTR number of the subcontractor is needed.
- 3) Monthly CIS return:** The UK tax month starts on the 6th of a month and ends on the 5th of the following month. The contractor is required to submit a monthly CIS return to HMRC with all payments made in the preceding tax month which fall under the CIS scheme. The CIS calculation basis is the payment made to the subcontractor less costs of material and VAT. In months where no payments are made to subcontractors, a so-called Nil return has to be submitted. The filing date for CIS returns is the 19th of the following month.

Also the CIS deductions have to be paid by the 19th of the following month into the HMRC-account. In case of late submission payment penalties are issued automatically.

- 4) Payment and deduction statement:** The contractor has to provide a confirmation of the CIS deduction made to the subcontractor (so-called payment and deduction statement, shortly PDS). This will enable the subcontractor to claim a refund of CIS from HMRC.

Any omitted CIS deduction carries the risk that the contractor could become liable for unpaid British corporation tax, payroll tax or national insurance liabilities of the subcontractor. This could happen in case of audits performed by HMRC in later periods.





# Other UK tax risks

Have you yet checked the following issues in relation to your construction site in the UK?

- Do you constitute a permanent establishment in the UK?
- Do you have to enroll for payroll tax in the UK?
- Does any assignment of employees exceed the 183 days period in the UK?
- Do the invoices have to be issued with or without UK VAT for the UK project?





Please do not hesitate to contact us if you have any questions!

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