

Construction Industry Scheme

Changes for next tax year

In April 2007 the Construction Industry Scheme ("CIS") taxation regime will change significantly. These are the main points:

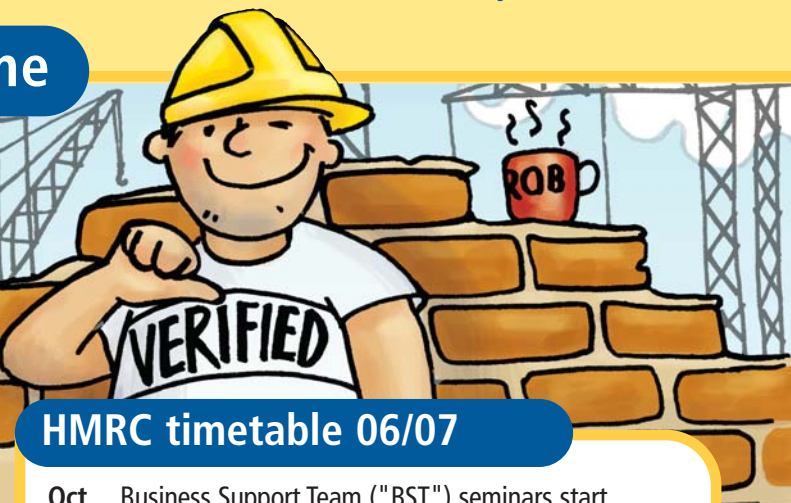
- The subcontractor will no longer present the contractor a card or certificate to demonstrate whether they should be paid gross or net of tax at 18%. This will be replaced by a verification system to confirm the subcontractor's status before they are paid. Once verified the contractor will be able to keep paying the subcontractor gross or net until notified otherwise by H M Revenue & Customs ("HMRC").
- Instead of issuing vouchers the contractor will make a monthly return and issue pay statements.
- The monthly return will include a declaration that requires the contractor to state that they have considered the status of subcontractors on the return and consider none of them to be employees (where these subcontractors are self-employed individuals).

Imminent notification

- In November this year HMRC will send contractors a list of subcontractors they have paid since April 2005. An updated list will be sent in March/April 2007
- These lists are based on the old CIS vouchers that have been sent in. Subcontractors appearing on the list don't need to be verified, unless HMRC has advised otherwise.
- Contractors that have more than 125 subcontractors will receive their list on a CD ROM, otherwise it will be on paper.

Barnes Roffe Topical Tips

- Get all vouchers up to date, so that all current subcontractors will be included on the verified list and you will then not need to take further action.
- Keep an eye out for the upcoming free seminars run by the Inland Revenue's BST on the new CIS system. You can book online at <http://www.hmrc.gov.uk/bst/work.htm>
- Check now (and keep under continuous review) the employment status of your current subcontractors. Some



HMRC timetable 06/07

- Oct** Business Support Team ("BST") seminars start
- Nov** Mailing to contractors with provisional details of subcontractors who do not have to be verified
- Jan** Contractor Guidance Pack mailed to registered contractors, with forms/posters for the new CIS
- Mar /Apr** Subcontractors mailed with confirmation of the details held on file (required for verification purposes)
Final mailing to contractors with details of subcontractors who do not have to be verified
- Apr** Go live – online registration and verification service begins
First monthly paper returns issued to contractors for filing by 19th of May

More guidance

- General guidance (the main section on HMRC's website)
http://www.hmrc.gov.uk/new-cis/new_guidance.htm
- Verification of a subcontractor
<http://www.hmrc.gov.uk/new-cis/cis345.pdf>
- June 2006 HMRC bulletin
<http://www.hmrc.gov.uk/new-cis/cis351.pdf>
- September 2006 HMRC bulletin
<http://www.hmrc.gov.uk/new-cis/update-sep06.pdf>

self-employed individual subcontractors may inadvertently cross the line and become employees. The existence of a CIS certificate, or clearance under the new verification process, will not exempt the employer from operating PAYE on such employee-subcontractors! A coming Topical Tips will give more details about this point.

Consult your Barnes Roffe LLP contact Partner for guidance in this important area.