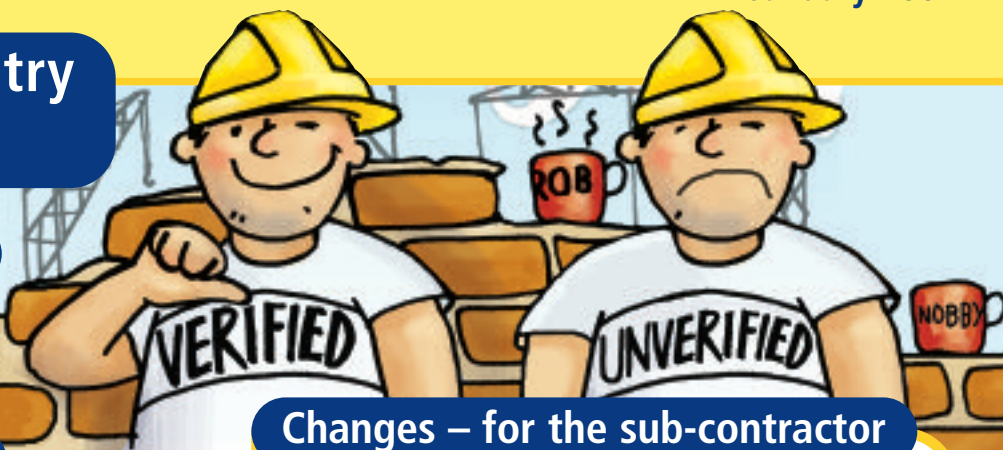




## Construction Industry Scheme Update 2

Check the status!



### Important news for the construction industry

In [TT85](#) we gave advance warning of the changes scheduled for the Construction Industry Scheme (CIS) effective 6th April 2007. Here we provide more details about these imminent changes.

### Changes – for the sub-contractor

Sub-contractors should note:

- they must have applied for renewal with HMRC in good time before April 2007.
- there is a reduction in the compliance period from 3 years to 12 months (this is the period in which sub-contractors must meet all of their tax and other obligations to remain registered for gross payment, e.g. CIS/PAYE up to date, corporation tax up to date etc).

### Changes – for the contractor

The new CIS will operate very differently from the current one. The existing system with its exemption certificates, registration cards and annual returns will be replaced by a system heavily reliant on online facilities and a monthly return.

The key to the new scheme is the correct classification of workers to ensure the person being engaged is a sub-contractor and not an employee. The contractor must put procedures in place to validate the status of all sub-contractors.

If the sub-contractor is correctly classified as self-employed, then under the new scheme, on engagement, the contractor must:

- check with HM Revenue & Customs (HMRC) by phone or online to verify whether a sub-contractor is registered and whether to pay the sub-contractor gross or to deduct tax;
- make no deduction for tax if the sub-contractor is registered for gross payment;

- must deduct CIS tax at the new rate of 20% (instead of the current rate 18%) on payment for labour if registered for net payment;
- must deduct CIS tax at the higher rate of 30% if a sub-contractor is not registered.

Once verified, repeat verifications are not normally necessary – HMRC will advise of any change in status. Contractors should by now have received form CIS333 and can start preparing their records using the details it contains about sub-contractors and their current status. Existing sub-contractors shown on this form do not need to be verified with HMRC.

Note that vouchers will no longer be issued and instead a monthly return and pay statement must be issued by the contractor. This is best done on-line. Beware the monthly return includes a declaration from the contractor stating they have considered the status of sub-contractors and consider none of them to be employees.

## Barnes Roffe Topical Tips

- It is important to ensure all documentation for sub-contractors is up to date, including the monthly contractor return and vouchers.
- Make sure you are satisfied that all sub-contractors are proper sub-contractors and not employees. This is not a new requirement but HMRC is continually increasing the focus here.

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