



INFORMATION SHEET.

The New CIS Scheme

The new scheme operates from 6th April (a Friday) for all pay to Subcontractors who fall within the scheme irrespective of when the work was undertaken.

There are various stages that have to be considered for the scheme to operate.

1) The first thing that has to be considered by the Contractor is whether the work under taken by the sub contractor is one of employment or not. This decision is that of the Contractor. As part of the monthly form filling the Contractor signs a declaration, which states, "The employment status of each individual included on this return has been considered and payments have not been made under contracts of employment." The Contractor should keep evidence to demonstrate at a later date that this statement is correct for all subcontractors paid under the new scheme.

2) Once the subcontractors' status has been established then the subcontractor will need to be verified to establish the level of tax deductions to be made. In March 2007 an updated list from HMRC will be sent out to Contractors listing verified subcontractors who they have paid in the last 2 years under the old scheme. The list will show

- A) The subcontractors' name
- B) The subcontractors UTR (Unique Tax Reference) number
- C) His national insurance number
- D) The last tax month he was paid
- E) The tax treatment under the new scheme being

- i) Gross
- ii) Net with tax deductions now at 20%.

3) If the subcontractor is not on the list provided by HMRC then he will need to be verified in order to establish the deduction rate. HMRC expect that a contract be in place between the Contractor and the Subcontractor before the verification process is started.

The Contractor will need to provide

- i) His name
- ii) His UTR number
- iii) Employer's reference number
- iv) His NI number

Similar information will be required for Firms and Companies.

The subcontractor will need to provide to the Contractor

- i) His UTR number
- ii) His NI number or company registration number.

Verification can be done by phone 08453667899 up to a maximum of 10 subcontractors at a time

or following the links at

<http://www.hmrc.gov.uk/new-cis> up to a maximum of 100 subcontractors at a time

The main contractor will be given a verification reference number for each batch of subcontractors that are verified, together with an indication of whether payments are to be made gross or net. If the subcontractor cannot be verified the verification number will have an extra letter at the end and deductions of 30% will be made.

It is important to keep a note of the verification numbers as the unverified/unmatched subcontractor's number is needed for the monthly return. The numbers should also be kept for referencing at a later date if there are disputes with HMRC.

In some cases the Contractor will not need to verify the subcontractor if the subcontractor has appeared on a CIS return (old or new) within the current tax year or in the previous two. The Contractor can assume that the registration status that was previously in place remains so. For a subcontractor under the old CIS scheme the test is whether the CIS 4,5, or 6 had an expiry date after the 5th April 2007, if it did and the Contractor has no reason to believe that the subcontractor is not registered the that status is assumed to continue.

However it is advisable to check with the subcontractor in both cases that his tax treatment has not changed under the new scheme. If in doubt apply the verification procedure.

4) Within 14 days of the Tax month end i.e. by 19th, the contractor has to provide the subcontractor with a statement showing the amount of tax that has been deducted (An example is attached) from his payments during that month.

The statement must include the following:

- A) The contractors own name and employers tax reference number.
- B) The end of tax month in which the payment was made.
- C) The details of the subcontractor

- i) Name
- ii) UTR number

- iii) Personal verification number when higher rate tax deducted
- iv) The gross amount of payment
- v) The cost of materials supplied
- vi) The amount of deduction.

Duplicates can be issued but must clearly show they are duplicates.

5) Each month the contractor will need to complete a monthly return of all payments made gross or otherwise to all subcontractors within the scheme for the proceeding month. The return can be completed in three ways

- i) Manually and posted
- ii) On line directly via HMRC site
- iii) Electronically using third party software i.e. Coyne Butterworth & Chalmers

When completing the return full details will be needed including:

- A) Subcontractors name
- B) Subcontractors UTR reference
- C) Verification number of contractors who suffer deductions at the higher rate.
- D) Amounts paid to subcontractors, materials allowed and tax deductions made.

Nil returns are required and if a return is used containing the names of subcontractors not paid in that month then their entries are left blank.

The contractor will be liable for a penalty if the return is not completed correctly and/or filed on time, within 14 days of the tax month end (by the 19th of the month.) The penalty is £100 for returns per 50 subcontractors or part thereof.

HMRC have produced a new guide to the scheme which can be found at <http://www.hmrc.gov.uk/new-cis/cis340.pdf>

The above is intended to offer the user general information of interest only and for advice on individual cases, please contact us to arrange a free informal and no obligation initial meeting.