

# **Contractors – countdown to the new CIS**

From April 2007 new Construction Industry Scheme rules will apply which will involve yet more administration work. Furthermore, these new rules come with new penalties and either ignoring the rules or making errors could be very expensive.

This is the third in a short series of Newsletters dealing with the introduction of the new system. The first two newsletters highlighted the changes in the system and the self employed status of Subcontractors. This final Newsletter is aimed at Contractors and will consider how they should comply with the new rules from April.

## **Verification of Subcontractors**

It will be a requirement under the new rules that a Contractor will need to verify the Status of his Subcontractors to determine the rate at which tax, if any, is to be deducted from payments made to each Subcontractor. Verification will not be required if the Subcontractor has previously been paid either in the current tax year or previous two tax years and so verification will generally only be needed where you are paying a new Subcontractor.

Verification can be made via the internet or by telephone on 0845 366 7899. The Contractor will then be advised of the rate of tax to be deducted and will be provided with a verification reference number which must be retained.

If the Revenue are unable to verify a Subcontractor because he has not registered with them then a higher rate of tax deduction will be required and the verification process will need to be repeated each time he is paid, until verification is successful

## **Payment Statements**

Under the new system, CIS vouchers will no longer be required, and these are to be replaced by the issue of a Payment Statement. These statements can be issued for every payment to a Subcontractor or can be prepared on a monthly basis. The statements will have no set format but will need to include the following information

- Contractors name and employers tax reference
- The tax month of payment
- The Subcontractors name, tax reference
- The verification reference number for any unverified Subcontractor
- The Gross payment and the cost of any materials
- The amount of tax deducted

Payment Statements will only be required where tax has been deducted, although they may also be used where payments have been made gross.

You should make your Subcontractors aware that this document is their evidence of the tax deducted and should be retained by them.

## **Rate of Deduction**

As from 6 April 2007 the rate of tax to be deducted will no longer be at 18% and will be 20% for registered Subcontractors (old CIS4 Subcontractors) and 30% if unregistered. You may wish to highlight this change to your Subcontractors now so that they are prepared for the change in the rate of deduction.

## **Monthly Returns**

A Contractor will need to complete monthly returns to declare the payments made to subcontractors during the month. The returns may be submitted to the revenue by post or may be sent via the Internet. These returns must be made within 14 days of the tax month end and penalties will be charged if the returns are late.

The monthly returns will contain a declaration that the Contractor has considered the status of their Subcontractors and that they are not to be treated as employees. Making a false declaration will not only make the Contractor liable to the PAYE that should have been deducted but a penalty as well.

The Monthly returns will be pre-printed with the names and reference numbers of recently paid Subcontractors and there will be space to add the details of new Subcontractors. The return will then need to be completed to record the payments made to each Subcontractor, the cost of materials and the amount of tax deducted, if any.

A return will still be required even if there are no Subcontractors paid during the month. If there are likely to be no Subcontractors for a number of months then the need to complete monthly returns can be suspended for a six month period. If any Subcontractor payments are made during this period then the Subcontractor will need to inform the revenue without delay.

The revenue have issued example monthly returns and you should review these documents now to ensure that you understand how the forms should be completed.

## **Tax Payments**

Payments will normally be required on a monthly basis and will be due 14 days after the month end, although if your average monthly payments including PAYE are less than £1,500 then payments may be made quarterly. Even if payments are made quarterly then monthly returns will still be required.

Where the Contractor is a Company and suffers a tax deduction from their income as a Subcontractor then these deductions should be offset against the payments due.

## **Penalties**

New severe penalties will come into force from April and failure to comply with the rules will be expensive. Failure to complete the monthly returns will cost a Contractor from £100 per month per return and this will even apply to Nil returns. Penalties may also be charged for incorrect and incomplete returns and these can amount to up to £3,000.

If you are also a Subcontractor with a CIS6 then failure to comply with the new rules could also impact upon your entitlement to receive gross payment. New strict tests are being introduced and even small failures such as being a few days late in your tax payments could be enough to make you lose your entitlement.

## **Online Filing**

The revenue are very keen that, where possible, you use the internet to file the monthly returns and if you are computer literate then you may wish to consider this option. You will first need to register for online filing and this should be done as soon as possible after 6 April 2007 as the initial registration process requires that the Revenue write to you with an activation code and this may take some time.

## **Conclusion**

It is important that you understand how the changes will affect both you and your Subcontractors so that you are ready for the introduction of the new rules. Getting things wrong could be very expensive and you should spend time now to ensure that you are familiar with the rules.

Remember that from 6 April

1. No more CIS cards or vouchers
2. Verify Subcontractor Status before payment
3. Issue Subcontractors with payment statements
4. Deduct the correct rate of tax
5. Complete monthly contractor returns

If you would like any guidance on the changes and their impact on your business then please contact us. We can guide you through the process to help ensure a smooth transition to the new rules.

*These notes are intended as a general introduction only and advice should be sought in respect of your own individual circumstances. Wilkinson & Partners Limited would be happy to discuss the subject with you in greater detail.*

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