

Will you be ready for the new CIS rules?

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 first in a short series of Newsletters dealing with the introduction of the new system. This first newsletter will highlight the changes in the system and how it will affect both Contractors and Subcontractors. A further Newsletter will follow very shortly and will consider the self employed tax status of Subcontractors and a final Newsletter will be issued in the New Year which will be aimed at Contractors to assist them to be ready for the new rules in April.

What is changing?

As from April, there will be no need for any CIS cards, and vouchers will not need to be completed, but new administration tasks will be brought in to replace them.

Instead of checking CIS cards, a Contractor will need to verify a Subcontractors status with the Revenue, which will confirm at which rate to deduct tax.

Although there will be no vouchers to complete, where tax has been deducted, a Contractor will need to provide a Subcontractor with a payment statement which will detail the gross income and tax deducted. These statements will need to be completed every month.

The Contractor will need to make monthly returns to the Revenue, detailing the payments made and tax deducted each month. Returns will still be required even if no payments are due. Any tax deducted from Subcontractors will need to be paid over to the revenue every month.

As part of the monthly return, the Contractor will need to make a declaration that they consider that their Subcontractors are self employed and not employees. Making a false declaration could result in a penalty of up to £3,000.

Verifying Subcontractors

Before making payment, a Contractor will need to verify the Subcontractors status with the Inland Revenue who will confirm whether the payments are to be paid gross (CIS5 or 6), net of tax (CIS4) or net of a higher rate deduction (not registered with the Revenue). Thankfully, you will not need to verify status every time you make payment, so long as you have paid them at some point in the current or previous two tax years and so for most Contractors verification will only need to be made for new Subcontractors.

Verification can be made by Telephone or via the Internet.

Status

As part of the monthly return includes a declaration that your Subcontractors are self employed and not employees it is important that a Contractor understands the difference between them and so avoids making a false declaration.

It is important to understand that the difference is not simply a matter of choice and the status will depend upon a large number of different factors.

Getting the status right is a very big subject in its own right and will be discussed in our next newsletter which should be with you in the next couple of weeks.

The cost of getting it wrong?

New severe penalties will come into force from April and failure to comply with the rules will be expensive. In addition to the £3,000 penalty mentioned above, failure to complete the monthly returns will cost a Contractor from £100 per month per return and this will even apply to Nil returns.

If you are a Contractor and currently have a CIS 5 or CIS 6, then fail to comply with the rules and you will not only incur penalties but you will also most likely lose your entitlement to receive gross payment in the future. 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.

How will it affect me?

This will depend upon whether you are a Subcontractor or Contractor. If you are a Subcontractor then the changes in the rules will not cause too many problems especially if you currently hold a registration card.

If you are a Contractor, even if only an occasional Contractor then it is important that you understand and comply with these new rules. A final newsletter will be issued in the New Year which will discuss the requirements in much greater detail. However, if you have any queries in the meantime then please give us a call

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.

Wilkinson & Partners Limited

The Old Schoolhouse

75A Jacobs Wells Road

Clifton

Bristol

BS8 1DJ

Telephone: 0117 921 1222 Fax: 0117 921 1120

e-mail: info@wilkinsonpartners.co.uk

Website: www.wilkinsonpartners.co.uk