

Construction Industry Scheme (CIS)

Simple Guide for Contractors & Subcontractors

What is CIS?

The **Construction Industry Scheme (CIS)** is a tax scheme for the construction industry.

It means:

- Contractors deduct tax from subcontractors' payments
- The tax is paid to HMRC on the subcontractor's behalf
- It counts as advance tax towards their final tax bill

Who Does CIS Apply To?

CIS applies to most construction work, including:

- Building work
- Repairs and decorating
- Demolition
- Civil engineering (roads, bridges, etc.)
- Installing heating, lighting, power and water systems

It usually does **not** apply to:

- Architects and surveyors
- Delivering materials only
- Scaffolding hire without labour
- Carpet fitting
- Running a canteen on a building site

If you:

- **Pay subcontractors** → You are a *contractor*
- **Are paid for construction work** → You are a *subcontractor*
- Do both → You must register as both

What Tax Is Deducted?

Contractors must deduct:

- **20%** if the subcontractor is registered for CIS
- **30%** if they are not registered
- **0% (Gross Status)** if the subcontractor has been approved for gross payment

The deductions go to HMRC and count towards:

- Corporation Tax (if limited company)
- Personal tax (if sole trader)

Do I Have To Register?

Contractors:

You **must** register if you pay subcontractors.

Subcontractors:

You do not have to register — but if you don't, 30% will be deducted instead of 20%.

To register you'll need:

- UTR number
- National Insurance number
- Business details
- VAT number (if registered)

Monthly Responsibilities (For Contractors)

If you're a contractor, you must:

1. **Verify subcontractors with HMRC**
2. Deduct the correct tax rate
3. File a **monthly CIS return**
4. Pay deductions to HMRC (by the 19th/22nd of the following month)

Even if you made no payments, you may still need to file a return.

Late returns = automatic penalties.

Limited Company vs Sole Trader

If you're a subcontractor:

- **Limited company** → CIS deducted can be offset against Corporation Tax
- **Sole trader** → CIS deducted reduces your Self Assessment tax bill

If too much tax has been deducted, a refund can be claimed.

Employment Status – Important

CIS only applies to **self-employed subcontractors**.

If someone should legally be treated as an employee, they must go through **PAYE**, not CIS.

Getting this wrong can lead to:

- PAYE arrears
- National Insurance liabilities
- Penalties

VAT & CIS

If you are VAT registered and working under CIS, you may also need to consider the **Domestic**

Reverse Charge for VAT This changes who accounts for VAT in certain construction supply chains.

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Services Include:

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It does **not** change CIS deductions.

Common CIS Mistakes

- Not verifying subcontractors
- Using CIS when PAYE should apply
- Missing monthly returns
- Paying deductions late
- Assuming gross status lasts forever

Quick Summary

Role	What You Must Do
Contractor	Verify, deduct, file monthly returns, pay HMRC
Subcontractor	Register (to avoid 30%), keep records, reclaim if needed
Both	Manage both sides correctly

Why CIS Matters

CIS is simple in theory, but mistakes can be expensive.

Good systems mean:

- Correct deductions
- No surprise penalties
- Better cashflow planning
- Proper tax credits claimed

The GMS Approach

Tax planning should not be a once-a-year exercise.

At GMS, we focus on forward planning throughout the year — monitoring profit levels, reviewing thresholds and identifying opportunities before tax liabilities become fixed.

This includes:

- Managing higher rate exposure
- Timing capital expenditure strategically
- Structuring salary, dividends and pension contributions efficiently
- Reviewing profit regularly to avoid surprises

Quarterly reviews create visibility, control and informed decision-making.

Compliance is essential. Planning is where real value is created.

Disclaimer

This fact sheet is for general guidance only and does not constitute personalised tax advice. Tax legislation, thresholds and reliefs may change. The suitability of any strategy depends on your individual circumstances. Professional advice should be obtained before taking action based on the information contained within this document.

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