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What you must do as a Construction Industry Scheme (CIS) contractor

1. Overview

You must register (<https://www.gov.uk/what-you-must-do-as-a-cis-contractor/how-to-register>) as a contractor with the Construction Industry Scheme (CIS) if:

- you pay subcontractors to do construction work
- your business does not do construction work but you usually spend more than £1 million a year on construction

You may be a sole trader, in a partnership or own a limited company.

If you're not sure if you need to register, check who is covered by CIS (<https://www.gov.uk/what-you-must-do-as-a-cis-contractor/who-is-covered-by-cis>).

Rules you must follow

1. You must register for CIS before you take on your first subcontractor.
2. You must check if you should employ the person (<https://www.gov.uk/employment-status/employee>) instead of subcontracting (<https://www.gov.uk/employment-status/selfemployed-contractor>) the work. You may get a penalty (<https://www.gov.uk/what-you-must-do-as-a-cis-contractor/file-your-monthly-returns>) if they should be an employee instead.
3. Check (<https://www.gov.uk/what-you-must-do-as-a-cis-contractor/verify-subcontractors>) with HM Revenue and Customs (HMRC) that your subcontractors are registered with CIS.
4. When you pay subcontractors, you'll usually need to make deductions (<https://www.gov.uk/what-you-must-do-as-a-cis-contractor/make-deductions-and-pay-subcontractors>) from their payments and pay the money (<https://www.gov.uk/what-you-must-do-as-a-cis-contractor/pay-deductions-to-hmrc>) to HMRC. Deductions count as advance payments towards the subcontractor's tax and National Insurance bill.
5. You'll need to file monthly returns (<https://www.gov.uk/what-you-must-do-as-a-cis-contractor/file-your-monthly-returns>) and keep full CIS records (<https://www.gov.uk/what-you-must-do-as-a-cis-contractor/record-keeping>) - you may get a penalty if you do not.
6. You must let HMRC know about any changes to your business (<https://www.gov.uk/what-you-must-do-as-a-cis-contractor/tell-hmrc-about-changes>).

2. Who is covered by CIS

The Construction Industry Scheme (CIS) covers most construction work to buildings, including site preparation, decorating and refurbishment.

Mainstream contractors

If your business is construction and you pay subcontractors for construction work, you're a 'mainstream' contractor. This applies if you're a:

- builder
- labour agency
- gangmaster (or gang leader)
- property developer

Deemed contractors

You count as a 'deemed' contractor if your business does not do construction work but you spend an average of more than £1 million a year on construction in any 3-year period. This could apply to:

- housing association or arm's length management organisations (ALMOs)
- local authorities
- government departments

Exceptions for contractors

CIS does not apply if your work is:

- paid for by a charity or trust
- paid for by a governing body or head teacher of a maintained school on behalf of the local education authority
- on the subcontractor's own property and worth less than £1,000 excluding materials - you must call the CIS helpline (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme>) to get an exemption

CIS also does not apply if you're a deemed contractor paying for:

- work on property (that is not for sale or rent) for your own business use
- a construction contract worth less than £1,000 excluding materials - you must call the CIS helpline (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme>) to get an exemption

Construction work not covered by CIS

There are also certain jobs that are exempt from the scheme, including:

- architecture and surveying
- scaffolding hire (with no labour)
- carpet fitting
- delivering materials
- work on construction sites that is clearly not construction, for example running a canteen or site facilities

The CIS guide for contractors and subcontractors (<https://www.gov.uk/government/publications/construction-industry-scheme-cis-340>) explains in full what type of work is covered by CIS.

3. How to register

To register as a contractor, you need to follow the process for setting up as a new employer (<https://www.gov.uk/register-employer>).

When done, you'll get a letter from HM Revenue and Customs (HMRC) with the information you need to start working as a Construction Industry Scheme (CIS) contractor.

If your business is based outside the UK but you do construction work here, you follow a different registration process (<https://www.gov.uk/construction-industry-scheme-businesses-based-outside-uk>).

Help with registering

If you need help, call the new employer helpline (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/employer-enquiries-support-for-new-employers>) or the CIS helpline (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme>).

You can also sign up for webinars and emails (<https://www.gov.uk/government/news/webinars-emails-and-videos-on-the-construction-industry-scheme-cis>) or watch videos from HMRC about CIS.

4. Verify subcontractors

Before you can pay a new subcontractor, you'll need to 'verify' them with HM Revenue and Customs (HMRC).

HMRC will tell you:

- whether they're registered for the Construction Industry Scheme (CIS)
- what rate of deduction (<https://www.gov.uk/what-you-must-do-as-a-cis-contractor/make-deductions-and-pay-subcontractors>) to use or if you can pay them without making deductions

You must also verify subcontractors you've used before if you have not included them on a CIS return (<https://www.gov.uk/what-you-must-do-as-a-cis-contractor/file-your-monthly-returns>) in the current or last 2 tax years.

How to verify

You can verify subcontractors using:

- the free HMRC CIS online service (<https://www.gov.uk/use-construction-industry-scheme-online>)
- commercial CIS software (<https://www.gov.uk/government/publications/construction-industry-scheme-cis-commercial-software-suppliers>)

If you need to verify more than 50 subcontractors you'll need to use commercial CIS software.

What you'll need

Make sure you have:

- your Unique Taxpayer Reference (<https://www.gov.uk/find-lost-utr-number>) (UTR)
- the reference number for your HMRC accounts office
- your HMRC employer reference

You'll also need your subcontractor's:

- UTR
- National Insurance number if they're a sole trader - you cannot verify temporary numbers, which start with 'TN' or 2 digits
- company name, company UTR and registration number if they're a limited company
- nominated partner details, trading name and partnership UTR if they're a partnership

5. Make deductions and pay subcontractors

When you pay a subcontractor, you usually make some deductions from their payments.

HM Revenue and Customs (HMRC) will tell you how much to deduct from a subcontractor's payments when you verify them (<https://www.gov.uk/what-you-must-do-as-a-cis-contractor/verify-subcontractors>).

The Construction Industry Scheme (CIS) deduction rates are:

- 20% for registered subcontractors
- 30% for unregistered subcontractors
- 0% if the subcontractor has 'gross payment' status (<https://www.gov.uk/what-you-must-do-as-a-cis-subcontractor/gross-payment-status>) - for example they do not have deductions made

You must pay these deductions to HMRC - they count as advance payments towards the

subcontractor's tax and National Insurance bill.

How to make a CIS deduction

To make a deduction from a subcontractor's payment, start with the total (gross) amount of the subcontractor's invoice.

Take away the amount the subcontractor has paid for:

- VAT
- materials
- equipment which is now unusable ('consumable stores')
- fuel used, except for travelling
- equipment hired for this job ('plant hire')
- manufacturing or prefabricating materials

Finally, deduct the CIS percentage rate (as given to you by HMRC) from the amount left. You'll be left with the net amount you need to pay the subcontractor.

Paying subcontractors

You usually pay your subcontractors directly. But you can pay them through a third party (<https://www.gov.uk/construction-industry-scheme-payments-to-someone-else>) (such as a relative or debt company) if they ask you to.

If you make deductions, you must give the subcontractor a payment and deduction statement (<https://www.gov.uk/government/publications/construction-industry-scheme-payment-and-deduction-certificate>) within 14 days of the end of each tax month.

Example If the tax month was 6 May to 5 June, you must give the statement by 19 June.

If you're not making payments

If you know you're not going to make any payments to subcontractors for up to 6 months, you can ask for your scheme to be made 'inactive' (<https://www.gov.uk/use-construction-industry-scheme-online>). HMRC will not send you any returns for that period.

You must file a return (<https://www.gov.uk/what-you-must-do-as-a-cis-contractor/file-your-monthly-returns>) when you start paying subcontractors again.

6. Pay deductions to HMRC

You must pay HM Revenue and Customs (HMRC) any deductions you've made.

HMRC will set up a Construction Industry Scheme (CIS) payment scheme for you when you register (<https://www.gov.uk/what-you-must-do-as-a-cis-contractor/how-to-register>) as a contractor.

If you already have employees, HMRC will change your existing PAYE Scheme to a PAYE/CIS scheme. You should make one payment each month or quarter to cover your PAYE tax, National Insurance and CIS deductions.

When and how to pay

Pay HMRC every month by the 22nd (or the 19th if you're paying by post). You may be charged interest and penalties (<https://www.gov.uk/running-payroll/paying-hmrc>) if you pay late.

Pay CIS deductions to HMRC in the same way as PAYE and National Insurance payments (<https://www.gov.uk/pay-payee-tax>).

7. File your monthly returns

You must tell HM Revenue and Customs (HMRC) each month about payments you've made to subcontractors through your monthly return.

You can file returns by using:

- the HMRC CIS online service (<https://www.gov.uk/use-construction-industry-scheme-online>)
- some commercial CIS software (<https://www.gov.uk/government/publications/construction-industry-scheme-cis-commercial-software-suppliers>)

On your return, you must declare that the subcontractors listed are not employees (<https://www.gov.uk/employment-status/employee>).

You could get a penalty of up to £3,000 if you give the wrong employment status for a subcontractor on your monthly return.

You do not have to file a return for the months when you made no payments to subcontractors, but you must tell HMRC (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme>) that no return is due.

Using commercial CIS software

Your return must not include any negative values if you're using commercial CIS software (<https://www.gov.uk/government/publications/construction-industry-scheme-cis-commercial-software-suppliers>).

If any entries come to less than 0, you should put '0' instead.

HMRC might ask you later to give details of any entries you've replaced.

Deadlines

Send your monthly returns to HMRC by the 19th of every month following the last tax month.

Example If you're making a return for the tax month of 6 May to 5 June, it must reach HMRC by 19

June.

Penalties for late returns

You'll get a penalty if you miss the deadline for filing returns.

The penalty will be cancelled if you let HMRC know that you did not pay any subcontractors that month.

How late the return is	Penalty
1 day late	£100
2 months late	£200
6 months late	£300 or 5% of the CIS deductions on the return, whichever is higher
12 months late	£300 or 5% of the CIS deductions on the return, whichever is higher

For returns later than this, you may be given an additional penalty of up to £3,000 or 100% of the CIS deductions on the return, whichever is higher.

Pay your late filing penalty (<https://www.gov.uk/pay-construction-industry-scheme-cis-late-filing-penalty>).

If you disagree with a penalty

You can appeal within 30 days of the date on the penalty notice:

- through HMRC's online service (<https://www.tax.service.gov.uk/gg/sign-in?continue=/construction-ind-scheme/&origin=CIS-frontend>)
- by writing to HMRC (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme>) - quote your Unique Taxpayer Reference (UTR) and the payment reference shown on the notice

Correcting or changing returns

Use the HMRC CIS online service (<https://www.gov.uk/use-construction-industry-scheme-online>) to change or correct something on your return.

Call the CIS helpline (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme>) if you need any help with this.

8. Record keeping

Under the Construction Industry Scheme (CIS), you must keep records of:

- the gross amount of each payment invoiced by subcontractors, excluding VAT
- any deductions you've made from subcontractor payments

If you made deductions, you must also keep records of the costs of materials the subcontractor invoiced you for, excluding VAT.

Keep these details for at least 3 years after the end of the tax year they relate to. HM Revenue and Customs (HMRC) could ask to see your CIS records at any time.

You could be fined up to £3,000 if you cannot show your CIS records when asked by HMRC.

9. Tell HMRC about changes

You must tell HM Revenue and Customs (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme>) (HMRC) if:

- you change address (as an individual or business)
- you change your business structure - for example from sole trader to limited company or vice versa
- a contractor dies
- you're a multiple contractor (<https://www.gov.uk/construction-industry-scheme-multiple-contractor-status>) and you take on another contractor's business - you must tell HMRC within 90 days

If you stop trading or using subcontractors

You must:

- tell HMRC (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/construction-industry-scheme>)
- stop filing monthly CIS reports

Do this even if you've stopped using subcontractors temporarily, for example because you're using your own employees to carry out work.