01 / START HERE

# CIS made clear.

Who deducts the money, where it goes and how you receive credit for it.

The **Construction Industry Scheme (CIS)** is a way HMRC collects tax in advance on certain construction payments. It is separate from VAT and from employee payroll.

## Which side of the payment are you on?

| You are the... | When you... |
|---|---|
| Contractor | Pay another business or self-employed person to carry out construction work. |
| Subcontractor | Carry out construction work for a contractor. |
| Both | Take a job from a contractor and pay other subcontractors to help deliver it. |

Both roles can apply to a sole trader, partnership or limited company. Tell SBX if you do both so we check both registrations. Being small, not VAT registered or only hiring someone occasionally does not automatically remove CIS.

### A SIMPLE LABOUR-ONLY PAYMENT

The job costs £1,000. HMRC has confirmed a 20% deduction. This example has no VAT or materials.

**£800**

Paid to the subcontractor

**+ £200**

Paid to HMRC as tax on the subcontractor's behalf

**Total paid by the contractor: £1,000.** The £200 is not an extra fee or a discount on the work.

### THE KEY POINT

CIS is tax paid in advance, not the final tax bill. A subcontractor may have more tax to pay or a refund once the year's full position is calculated.

Typical work includes building, demolition, repairs, decorating and installation work. A private homeowner paying for work on their own home does not normally deduct CIS, but the builder may still need to deduct it from payments to their own subcontractors.

Other businesses can also become CIS contractors if construction spending exceeds £3 million in a rolling 12 months. Ask us about mixed contracts, property development, labour agencies or work that is not obviously construction.

**CHECK THE RULES** CIS: who is covered · Before hiring a subcontractor · Deduction rates and calculation

02 / WORK OUT THE PAYMENT

# Do not simply deduct 20% from every invoice.

Check HMRC's rate, remove the right costs from the deduction calculation, then pay the balance.

## Worked example: ordinary 20% VAT

A VAT-registered subcontractor supplies labour and materials. The material charge equals their actual £500 cost, excluding recoverable VAT. HMRC confirms a 20% CIS rate.

| Invoice and payment calculation | Amount |
|---|---|
| Labour | £2,000 |
| Qualifying materials at cost | £500 |
| VAT: 20% × £2,500 | £500 |
| **Total invoice** | **£3,000** |
| CIS deduction: 20% × £2,000 | £400 |
| **Pay the subcontractor** | **£2,600** |
| Pay HMRC separately | £400 |

The sale is still £2,500 before VAT. The CIS deduction does not reduce the sale value or the VAT calculation.

## Use the rate HMRC confirms

| Verified status | CIS rate |
|---|---|
| Registered subcontractor | 20% |
| Unregistered / cannot be verified | 30% |
| Approved gross payment status | 0% |

"Gross payment status" means payment without CIS deductions. It needs HMRC approval; it does not mean the income is tax-free.

MATERIALS MEANS THE REAL COST

Exclude eligible materials bought directly by the subcontractor, not a made-up percentage or their mark-up. Keep the cost evidence. Travel and subsistence stay in the deduction calculation.

Some actual third-party plant hire and consumables can also be excluded. A charge for using the subcontractor's own equipment is not automatically an excluded hire cost.

IF THE CONSTRUCTION VAT REVERSE CHARGE APPLIES

Using the same job, the customer accounts for the £500 VAT instead of paying it to the supplier. The supplier's total to collect before CIS is £2,500, so cash paid is **£2,100** after the £400 CIS deduction. CIS still applies; "reverse charge" is not "VAT exempt".

The example above assumes ordinary VAT is correctly chargeable. Reverse charge generally concerns qualifying standard/reduced-rated construction between VAT-registered businesses, where CIS reporting and onward-supply conditions are met. End-user and other exceptions matter. Ask SBX before issuing the invoice.

CHECK THE RULES Deduction rates and calculation · Materials and payment evidence · Getting paid under CIS · Construction VAT reverse charge

03 / WHEN YOU PAY SUBCONTRACTORS

# Get set up before the first payment.

A UTR or an invoice does not prove that someone is self-employed, or that no deduction is needed.

### 01 Check the role and register

First establish whether the worker belongs on payroll. For genuine subcontractors, register your business as a CIS contractor before taking on the first one.

### 02 Collect details and verify with HMRC

Send us the legal name, address and UTR (Unique Taxpayer Reference). For a sole trader, include their NI number; for a company, its own UTR and company number. Partnerships need the relevant partnership details.

### 03 Use the confirmed rate

A new subcontractor must normally be verified before payment. Keep HMRC's verification result and follow later rate changes. Do not rely on the rate printed on an invoice.

### 04 Tell us what you actually paid

Send invoices, payment dates, materials evidence, deductions and net payments. Report payments in the correct tax month, not merely when an invoice was received.

## Your monthly calendar

**Example tax month: 6 September to 5 October 2026.**

| Action | Deadline |
|---|---|
| File the monthly CIS return | 19 October 2026 |
| Give statements where CIS was deducted | 19 October 2026 |
| Pay HMRC electronically, on a monthly basis | 22 October 2026 |

Postal payment is normally due by the 19th. Some small schemes pay quarterly with HMRC agreement; monthly returns are still required. Allow for payment clearance.

NO PAYMENTS THIS MONTH?

Tell us. Contractors in the construction business must file a nil return or notify HMRC of inactivity. Payments to gross-status subcontractors still belong on a return even though no tax was deducted.

The first late-return penalty is normally **£100**, with further penalties for continued delay. Filing a return does not pay the deductions to HMRC.

Keep CIS payment, deduction and materials records for at least 3 years after the relevant tax year ends. Other business and VAT records can need longer retention. Agree an earlier records deadline with SBX so there is time to check and submit.

CHECK THE RULES Before hiring a subcontractor · Verify subcontractors · Monthly returns · Pay CIS deductions · Keeping CIS records · Gross payments still need reporting

04 / WHEN CIS IS DEDUCTED FROM YOU

# The deduction is your tax credit.

Keep the monthly payment statements. The route for claiming the credit depends on your business type.

## Sole trader or partner

Record the **full business income before CIS**, then claim allowable costs to work out profit. Claim the CIS deductions separately in Self Assessment. A partnership allocates the credit to its partners as appropriate.

### A SIMPLE YEAR-END ILLUSTRATION

Final Income Tax and National Insurance bill: **£4,500**.

Valid CIS tax already deducted: **£6,000**.

Potential refund: **£1,500**.

Illustrative bill, not a tax-rate calculation. This assumes no other amounts owed or adjustments. A refund is not guaranteed; different profits or other income can leave tax still payable.

Example bookkeeping: a £1,000 sale with £200 CIS deducted gives **£800 in the bank and £200 tax already paid**. Record **£1,000 income**, not £800.

## Limited company

CIS deducted from the company belongs to the **company**, not to its director personally. SBX normally reports it through an **Employer Payment Summary (EPS)**, a payroll submission to HMRC.

This can offset the company's PAYE, NI and CIS liabilities. Unused credit normally carries forward within the same tax year; an excess at year end can be claimed from HMRC.

### COMPANY CASH-FLOW EXAMPLE

Assume £1,200 is due for payroll/CIS and £800 of valid, unused company CIS credit is available. After the EPS is correctly reported, the company pays **£400** to HMRC.

Do not simply deduct it yourself from the Corporation Tax return or a director's personal tax. Any year-end refund or offset must follow HMRC's process. Send the statements even if the company has no employees.

### KEEP BOTH THE INVOICE AND THE STATEMENT

Check the statement against the invoice and money received. Ask the contractor for missing or incorrect statements. CIS deducted from you and CIS you deduct from your subcontractors are different records; do not silently net them off in the books.

Gross payment status can improve cash flow because you receive payment without a deduction. HMRC applies business, turnover and compliance tests. You still need to budget for the tax that has not been collected upfront.

**CHECK THE RULES** Claim deductions back · Getting paid under CIS · Gross payment status · CIS 340: detailed rules

05 / YOUR FIRST MONTH WITH SBX

# Make the payment trail easy to follow.

The right information before payday is much easier than trying to fix deductions after the money has gone.

| When | Send or confirm with SBX |
|---|---|
| Before the first job / first subcontractor | Which legal business is contracting; whether you pay subcontractors, receive CIS payments or both; your UTR and any PAYE/CIS references; customer and worker details. |
| Before each new subcontractor is paid | Their registration details, agreed work, invoice and direct materials costs. Give us time to verify them and confirm the cash amount to pay. |
| After payment and each month | Actual payment dates, gross amounts, materials, CIS deductions and bank payments. Also send every statement showing CIS deducted from your own income. |
| Before we submit / you pay HMRC | Review our figures and reply promptly. Keep the HMRC payment separate from payments to subcontractors and use the correct reference supplied. |

### CHANGING TO A LIMITED COMPANY?

The company is a separate taxpayer. Its UTR, CIS registration and payment status need checking in their own right. Do not use your personal gross-payment status or an old company's details for a new company.

### ALREADY PAID PEOPLE WITHOUT CIS?

Tell us now, with the payment history. HMRC may seek deductions that should have been made, plus interest or penalties. Registering a new business does not clear the old business's position. We will assess the correction needed.

**CIS and VAT are two separate checks.** A VAT-registered customer, a limited-company subcontractor or work on a new build does not automatically mean no CIS. We need the actual contract, work and payment details.

### YOUR NEXT STEP

Contact our office or your account manager.
info@sbxaccountants.com | **020 7046 1730**

This guide covers ordinary UK construction arrangements. Employment status, agencies, mixed contracts, overseas businesses and unusual payment arrangements need a separate check. SBX's work is subject to the services agreed with you.

**CHECK THE RULES** Verify subcontractors · Monthly returns · CIS 340: detailed rules · Construction VAT reverse charge