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THE CONSTRUCTION INDUSTRY SCHEME

CIS EXPLAINED

Exclusive Business Insight from M.Simpson.

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M Simpson Associates acting as your agent will complete tax returns and reclaim overpaid Income Tax on your behalf .

We will offer genuine support & advice as your business grows

ABOUT THIS DOCUMENT

This document describes the Construction Industry Scheme, explains the rules for claiming expenses against income and explains how M Simpson Associates can help submit tax returns and reclaim any overpayments

WHAT IS THE CONSTRUCTION INDUSTRY SCHEME

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Businesses in the construction industry are known as contractors and subcontractors. They may be companies, partnerships or self-employed individuals. Contractors pay subcontractors for construction operations. Under the Construction Industry Scheme (CIS), HMRC will issue companies, partnerships and self-employed individuals working in the construction industry with either;

- Subcontractors Tax Certificates (CIS6, CIS5 and CIS5(partner)) to subcontractors who meet certain conditions, which allow them to be paid gross by the contractor without deductions for tax or NIC, or
- Registration Cards (CIS4(P) and CIS4(T)) to all other subcontractors, in which case contractors must deduct payments in respect of tax and NIC from all payments in respect of labour.

The scheme applies to workers who are self-employed in respect of the particular contract, and not to employees, who should be paid by PAYE. Whether or not an individual is a self-employed contractor or a PAYE employee will depend on the terms of the particular contract, and not on whether a Certificate or Registration Card is held.

In order to qualify for a CIS5 or CIS6 certificate, a business must satisfy certain conditions:

- Business Test - The business must be carrying out construction work in the UK or providing labour for such work, be run from proper premises with stock, equipment and facilities, and be run through a bank account, with proper records kept.
- Compliance Test - The business must have complied with its tax obligations in a timely manner for the period of three years ending with the date of the application. It is not enough for a business to bring its tax affairs up to date shortly before making an application - it must have complied with its obligations on time.
- Turnover test - the business must have a net turnover over a certain amount. There are three turnover tests that can be used, and the rules and limits are different for companies, partnerships and sole traders.

If any of these tests are not met then a tax certificate will not be issued by HMRC, but instead a Registration Card will be issued.

When a payment is made to a subcontractor, a voucher is issued or raised that shows the amount of the payment and any tax deductions made. All subcontractors have to make a return each year, in the same way as any other self-employed person or company, and the tax liability is based on that return. They may already have paid tax by payments on account or by tax deductions made.

WHAT IMPACT HAS THE SCHEME HAD FOR CONSTRUCTION WORKERS

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**If the amount already paid or deducted is more than the liability, HMRC will repay the balance due.
If there is a tax liability outstanding, a balancing payment must be made.**

The Construction Industry Scheme sets out the rules for how self-employed workers within the construction industry receive their pay. The scheme was introduced to stop the “cash in hand” culture that existed in the construction industry.

The CIS system has resulted in most sub-contractors overpaying income tax and having to reclaim the overpayment

HOW M SIMPSON ASSOCIATES CAN HELP

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M SIMPSON ASSOCIATES CAN HELP

We will Claim back all overpaid tax & advise on records to be kept

If you work in construction, there's a good chance HMRC owes you a tax refund

To make sure you get that refund, however, it is important to keep all records from your sub-contractor(s) showing your income and the tax that has been paid to HMRC along with receipts for any expenses incurred due to your Self-employment.

The more receipts and expenses you have the larger your refund will be as these reduce the amount you are taxed, this is known as reducing your taxable profit.

INFORMATION REQUIRED TO RECLAIM TAX

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In order for us to complete your Self-assessment Tax Return and hopefully get you a large tax refund you will have to provide all of your income and tax details from your contractor(s) in each tax year along with receipts for any expenses incurred by you.

You will also need to provide us with Information from any employment under PAYE and any other additional income that you have, such as job seekers allowance or income from a property you may be renting out or income from any investments you may have.

Frequently asked questions

What does MSAL do?

We'll complete your tax return and claim back all of your expenses.

How quickly can I get my money?

Once we've got all your information, we put your claim together typically within 4 weeks. The taxman will pay out on average after a further 6-8 weeks.

How much do you charge?

Our Standard service charge is £250 +VAT.

When do I pay?

Acting as your Agent you have nothing to lose. We only charge a fee when you get your money back, so there are no upfront charges.

Generally acting as your agent we take our fee when you get your refund.

In the rare case when you are not due a refund, you may have to pay our fee upfront.

What if I haven't kept all of my receipts?

Send us what you have and start keeping receipts from now on. We're able to claim back some expenses without receipts.

When do I need to get my tax return done by?

The simple answer is as soon as possible after the 5th April. We complete your tax return online and this has to be submitted before the 31st January. To avoid expensive penalties for late submissions from the taxman, get your information into us as quickly as possible.

All expenses incurred **wholly and exclusively** for business purposes can be claimed as a deduction from your gross income before CIS deductions.

Wholly and exclusively means that the sole purpose of the expenditure is for the purposes of your trade in the construction industry. This is not to say that a definitive part of an expense incurred for business and private purposes cannot be claimed. A dual purpose expense such as ordinary clothing, food and drink cannot however be claimed. “We eat to live not to work” is HMRC’s view. An exception would be protective clothing in the construction industry and exceptional meals and subsistence while working away

Basically this means anything you’ve had to pay for to be able to do your job. We’ve put together a list of some of the items below to help you;

Expenses that are only partially for business use will only be allowable to the extent they were incurred in the execution of your business / work

The most common expenses for a CIS subcontractor are:-

- Travel (Car or Van / public transport) costs. – **It is advisable to keep a daily log of mileage with brief details as to the purpose of this travel.**
- Parking and toll fees
- Accommodation / subsistence (food and refreshments) for when you lodge away or are working at a remote site, away from your normal place of work, **but daily, round sum claims for meals are not allowed**
- Tools / equipment / protective clothing (**not normal clothing**)
- Phone /Internet / postage costs / stationery
- Training & Development costs / Subscriptions
- Public liability insurance
- Use of home as office
- Rent / Rates / Light & Heat when working away from normal place of business
- Bank charges & Interest
- Accountancy costs
- Advertising & Promotions
- Laundry
- Capital allowances on fixed assets
- Pension Contributions made into a Company pension scheme
- Any other expenses incurred in the nature of your business

In addition you may be entitled to a refund for past expense that you have not claimed

Simply consider the questions below:-

Have you ever been employed as a construction worker?

Have you worked at temporary sites?

Have you driven a privately-owned vehicle to different sites?

If YES, you could be entitled to an additional tax refund - and because we can go back five years, a first claim could be more than £2,500.

You will need evidence of all these expenses so keep all receipts that can be reasonably construed as a business expense. It is advisable to hold on to these receipts as the Revenue if they choose to investigate can go back as far as 6 years

Remember you cannot claim for something you didn't actually pay for in the first place, or can't provide evidence that you did. You will be personally liable for any unpaid taxes NOT the company you're working through or taking advice from. Therefore you should steer clear of companies and scheme providers promoting generous expense allowances with "NO" receipts required.

IMPORTANT DATES

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The sooner you submit your tax return the sooner you will receive your cash refund

More details of the construction industry scheme can be found in the HMRC leaflet "IR40(CIS) - Construction Industry Scheme. Conditions for getting a Subcontractor's Tax Certificate." Forms and leaflets produced by HMRC can be accessed at <http://www.hmrc.gov.uk/leaflets/index.htm>