

LEGAL ALERT

**GET READY FOR 6 APRIL 2006
THE NEW CONSTRUCTION INDUSTRY SCHEME IS COMING!**

Why are the rules being changed?

The new CIS regulations are to be found in the Income Tax (Construction Industry Scheme) Regulations 2005 and they will replace the 1993 Regulations. They are designed to reduce the regulatory burden on the industry, to improve compliance with tax obligations and to help construction businesses to get the employment status of their workers right.

What will happen?

There will be a new registration process. A newly registered Sub-contractor will be issued with a unique taxpayer reference number instead of a registration card or a CIS5 or CIS6 tax certificate. He will need to provide the Contractor with his name, unique taxpayer reference number and NI number. A Sub-contractor already holding a registration card or tax certificate (other than temporary registration cards expiring prior to April 2006) is not required to re-register.

Contractors will have to contact the Inland Revenue to check whether a Sub-contractor is registered under the CIS and whether he should be paid net of CIS tax or gross.

Contractors must make net or gross payments to Sub-contractors in accordance with the instructions given by the Inland Revenue. If a Sub-contractor is not registered, or has not given accurate details to the Contractor, the Contractor must deduct higher rate tax.

New rules relating to record keeping and monthly returns require Contractors to submit monthly returns to the Revenue showing, for all Sub-contractors to whom payments have been made, their names, reference numbers, the amount paid and details of the deductions made. Monthly reports must be submitted (electronic facilities will be available) within 14 days from the end of the tax month to which they relate. Penalties may be imposed for late returns.

What are the pros and cons of the new CIS?

Contractors have to know the employment status of the workers they engage. The planned support from the Inland Revenue by telephone, post or through an online interactive tool is designed to assist Contractors with this task. A Contractor will no longer have to request documents from a Sub-contractor to establish whether payment should be net of CIS tax or gross as the Contractor will contact the Inland Revenue with basic details about the Sub-contractor and will be provided with this information direct.

On the down side, Contractors will have to make a monthly return whether or not payments have been made to any Sub-contractor in that month. If necessary, nil returns must be filed. Larger Contractors will be required to pay CIS tax electronically, with similar penalties being imposed as apply to a failure to pay PAYE.

What do Contractors do before next April?

Contractors may continue to pay Sub-contractors they have paid in either of the two years preceding the year in which payment is to be made under the same arrangements, unless they have been notified by the Revenue of a change in status of the Sub-contractor. If the existing arrangements are adopted, Contractors will need to be able to produce to the Revenue the CIS payment details for the preceding two tax years.

**If you require further information and advice please contact Anna Rabin
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