



# CIS

**White paper**



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### Published by BASDA

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# 1. EXECUTIVE OVERVIEW

In April 2007 a new Construction Industry Scheme (CIS) is being introduced. Like the Scheme it is replacing, it will not only apply to mainstream construction businesses but may also include non-construction businesses and other concerns where their average annual spending on construction operations is £1 million or more.

The introduction is likely to require significant changes to either the contractor's Accounts Payable processes or Payroll systems. If contractors don't already have plans in place to implement the changes in good time for April 2007, then they must start to plan as soon as possible as penalties for non-compliance are automatic and not trivial.

There are a number of basic questions that organisations will need to answer that are covered in depth by various publications from HMRC such as:

- Do they qualify as a 'contractor' under the new CIS?
- How has the CIS changed?
- Why has the CIS changed?
- Can my existing software handle the new CIS?
- What are the associated costs of the change?

This White Paper from BASDA brings together issues from just one aspect of the CIS – namely the implications of the new scheme on IT systems. The main issues to consider are:

## What are the changes to the CIS?

### Monthly Subcontractor Payment & Deduction Statement

Instead of sending paper CIS25 vouchers every month, each contractor must now send a detailed statement to each subcontractor if they have made any deductions from the subcontractor's payment during the tax month.

HMRC regulations allow the contractor to send this statement electronically, but only where the subcontractor has agreed to this. Otherwise contractors must produce a written statement (which can be a fax). The subcontractor statement contains significantly more information than a normal Accounts Payable Statement. Business software will need to be updated to meet the requirements of this statutory statement.

### Verification

Newly recruited subcontractors will need to be verified with HMRC before payment is made. This process can be undertaken by:

1. Telephone: 0845 366 7899
2. Internet: [www.hmrc.gov.uk/new-cis](http://www.hmrc.gov.uk/new-cis)
3. Electronically: using either third party software to undertake verification over the Internet or traditional Electronic Data Interchange (EDI)

In the first year of the new scheme, subcontractors that have been paid since 6 April 2005 do not need to be verified if the contractor was provided with evidence from the subcontractor of one or more of the following:

- CIS4(P) Registration Card
- CIS4(T) Temporary Registration Card with an expiry date of 04/2007, or later
- Tax certificate CIS5 or CIS6, with an expiry date of 04/2007, or later

To help contractors identify subcontractors who do not need to be verified, the contractor will receive a file from HMRC in November 2006 and again in March 2007, containing details of subcontractors that the contractor has paid in the last two years. The contractor should match this file against the details they have

in their database for subcontractors. Contractors may find inconsistencies with their database – these should be taken up with the subcontractor concerned, and not HMRC.

**This is a new process and traditional business software is unlikely to have the functionality to undertake this process.**

### Monthly Return

Contractors must complete a monthly return, to reach HMRC within 14 days of the end of each tax month, detailing all payments made to all subcontractors under the CIS in the preceding tax month. The return is for all subcontractors whether or not they were paid gross, paid net of the standard deduction or paid net of the higher deduction.

A Monthly Return can be made in one of three ways:

1. Internet: [www.hmrc.gov.uk/new-cis](http://www.hmrc.gov.uk/new-cis)
2. Electronically: using either Electronic Data Interchange (EDI) or other third party software
3. Paper Return by Post

Every Contractor will receive the paper return in the first month, irrespective of how they plan to file in the future (for example electronic filing).

Most Contractors will prefer to send the complex form electronically – **traditional business systems will need to be upgraded or replaced to handle this new functionality.**

## Technology considerations

It is essential that Contractors plan for new CIS changes early. Contractors will need to update their business systems and their current CIS third-party software. In some cases software suppliers will only be supporting these changes in the latest version of their software which may mean upgrading older versions of business software.

It may be easier for companies currently using paper-based systems to consider entry-level CIS software to handle the subcontractor statements, the complex data recording and the monthly returns to HMRC.

HMRC is unable to present live data to the HMRC CIS Gateway until 6 April 2007. This makes testing of systems and more importantly ensuring that their contractors' data is clean, somewhat difficult.

Contractors will be able to send sample verifications to HMRC between 6 April 2007 and 19 May 2007 to make sure that everyone they intend to pay has been correctly set up in their system. This will also help confirm that their IT function has successfully applied the live passwords or digital certificates that they need to communicate with the Government Gateway.

## 2. WHAT ARE THE IMPLICATIONS OF THE NEW CIS?

### Introduction

The key aspects of the reform of the construction industry scheme are:

- Monthly CIS23, CIS24 & CIS25 vouchers no longer required
- No subcontractor CIS4, CIS5 & CIS6 Cards / Certificates
- Detailed record keeping required for all subcontractors for payments and deductions
- Monthly return to HMRC – paper or electronic
- New monthly subcontractor Payment & Deduction Statement
- Tax Treatment Qualification Test (TTQT) applied to subcontractors
- Subcontractor verification – telephone or electronic
- No annual returns

The new CIS for April 2007 has far reaching implications for Contractors. On a practical level when the scheme is in full flow, subcontractors no longer need to present themselves and their card or certificate at the contractor's offices. This will be welcomed by both parties. The move towards electronic credentials is a bold one, and is one way to tackle the issue of counterfeit cards and certificates.

### How can business software help?

Be it PAYE, VAT, Corporation Tax or Health & Safety, all dealings with Government depend upon accurate record-keeping. IT systems are the key tool to keeping consistent and clear records for business activities.

When it is time to complete key monthly and annual returns, efficiency and accuracy are vital – time spent chasing paper or keying data into a spreadsheet is time wasted. Well-managed business software gives the assurance of a single view of the truth, and efficient access to key business data.

Good IT systems with poor procedures supporting them can only generate best guess figures that may lead to penalties or an inspection. The key is to invest in software from BASDA members that can support the changes to CIS.

For the security of all parties, HMRC require that each transaction submitted electronically is encrypted and additionally, carries an "IR Mark". This is analogous to a wax-sealed envelope to guarantee that the electronic messages have not been interfered with. Many electronic transactions with Government now insist on this form of security.

Most importantly business software can take the grunt out of producing the new complex monthly subcontractor statements, which require detailed information to be stored about each subcontractor that will also be used for the monthly return to HMRC. Not easy to undertake with paper-based systems, and even more difficult to achieve with spreadsheets.

### What to look for

Firstly, it is important to be clear about the outcomes that the business needs from the business software. A project manager must be able to measure whether the outcomes have been achieved.

As new CIS will affect many parts of a business, "buy-in" for change from the highest level of management is essential. The project manager will need to define the resources needed and the planned benefits.

Some Contractors will pass their requirements to IT for package selection; in others the business will take responsibility. A good place to start the procurement is the BASDA website where a broad range of business software able to manage new CIS requirements is listed. See [www.basda.org/CIS](http://www.basda.org/CIS).

The Project Manager must also consider how new CIS-capable business software works with existing systems. There will be no efficiency gains if data is re-keyed from a Payments system into spreadsheets, for example – this practice is likely to introduce more errors. It is important that a new CIS system integrates with existing business software. Success is more likely where businesses work with software vendors to make sure nothing is missed.

Many software vendors will agree to review existing hardware and software to ensure their products will work efficiently, and passing contractual responsibility to the supplier will focus their attention,

It is important to remember that CIS is not unique to the UK, (many other countries operate a "withholding tax" scheme) but the electronic message formats will be specific to the UK. Business software developed overseas may therefore not meet UK requirements.

### What difference will a BASDA-recognised business system make?

Using a system from a BASDA member has a number of advantages. Members committed to the "BASDA Code of Practice" will ensure that all of their business software is fit for purpose and thoroughly tested. The Code of Practice brings benefits aside from peace of mind. [www.basda.org/codeofpractice](http://www.basda.org/codeofpractice)

### IT Resources

The new CIS being introduced in April 2007 is likely to require significant changes to existing Payments processes and systems. Businesses should have plans in place now to implement the changes in good time.

It is possible that existing systems do not have the capability to store necessary additional information about subcontractors. In particular, the regulations covering payments to nominees on behalf of a subcontractor are likely to present difficulties.

There will basically be two types of software suitable for handling the new CIS scheme.

1. Payroll software which, in addition to handling normal employee payroll, will incorporate the functionality to handle the online verification of subcontractors, the logging of invoice details, the calculation of deductions, the production of Payment Statements, the incorporation of CIS deductions into the monthly HMRC payment, and the online filing of Monthly Returns. Such systems (priced in hundreds of pounds) will be best suited to smaller Contractors, and those starting up for the first time as Contractors within the scheme.
2. Business software which will incorporate all the functionality to handle CIS as an integral part of the Accounts Payable functions. Such systems will be best suited to medium to large Contractors.

Organisations using packaged payments software should be consulting their business software supplier now, to find out if their systems will support the changes needed, or if there is no direct line of contact, representatives from IT must be fully briefed to represent the business. Many businesses will find that an upgrade for the new CIS is available only with the latest version of the integrated business system. As a consequence the Contractor may have to upgrade or change its whole business system in order to meet the requirements of the new CIS.

The ability to verify subcontractor CIS tax credentials online is being promoted and actively encouraged by HMRC. Contractors intending to use this facility should have plans in place for IT departments to build the necessary infrastructure to ensure that communications work.

## Registration for CIS Online Filing

Even if a Contractor is presently registered to submit data to HMRC, the company and designated employees must be registered specifically for CIS. The CIS registration is used to authenticate electronic and online CIS transactions with HMRC. BASDA recommends that registration for online CIS should be provided to more than one person to allow for holidays, sickness and meetings – existing PAYE logins will not work! Either the credentials must be shared amongst trusted individuals or the Government Gateway Users and Assistants functionality can be used to set up additional users. Registration for CIS online starts in April 2007.

## Resources in the business

Not all Contractors will have tax experts to hand, but the detailed knowledge required to run CIS must be disseminated. Accounts staff will need education to use new facilities and should be briefed thoroughly about the new CIS. **From October 2007, penalties for non-compliance are automatic and punitive.** Organisations should view training as an insurance policy and an investment, rather than just cost.

Operational Managers may see CIS as a back-office problem, but before issuing a contract to a subcontractor, whether formally or informally, it is vital to understand whether the subcontractor has acceptable tax credentials, because business and business relationships will to suffer if payments received do not meet expectations.

It may seem obvious to the majority, but it is imperative that the business understands when they are treating a worker as an employee. From a legal viewpoint, this complex area is full of subtleties, but should a tax official dispute the status of a subcontractor, contracting companies may become liable for tax and NI on payments made.

Rigorous testing of any new systems and procedures is vital. It is important to consider all of the scenarios covered by the new CIS whether individual to a specific Contractor or not, and to ensure that they can be accommodated by modified CIS compliant processes. This inevitably requires that a Contractor must plan to test new systems as well as doing their "day job".

## Tax Treatment and Qualification Test (TTQT)

As part of the new CIS, subcontractors will be subjected to a Tax Treatment Qualification Test (TTQT). The purpose of the TTQT is to determine whether a subcontractor is entitled to beneficial 'Gross' tax treatment or liable to be paid only after deductions have been made at a standard basic rate on the labour charges. The deduction rate will be at a higher rate for 'unmatched'/unregistered subcontractors. TTQT will be initiated when a subcontractor applies for registration and at least once a year in the new CIS for all subcontractors who are registered for 'Gross' payment.

## Preparation

### Data integrity

In November 2006 and March 2007 contractors will receive a list of subcontractors (on form CIS333) from HMRC containing details of subcontractors that they have paid in the last two tax years. This data is provided to help contractors identify subcontractors who will not need (re) verification and this data should be matched

against the details held in payment systems for subcontractors. Inconsistencies with payment systems are inevitable: it is incumbent upon contractors to liaise with subcontractors to ensure that their systems store the same information as HMRC.

For confidentiality reasons, the list will not include any subcontractors whose personal details have changed since the last payment where there is no evidence to show that the subcontractors had made the contractor aware of the change. For example, if the last payment made to a subcontractor was in June 2005 and that subcontractor lost their gross payment certificate in January 2006, their name will not appear on the list.

Larger contractors (with over 125 subcontractors on file for the last two years) will receive the CIS333 data on CD, otherwise the list will be sent on paper.

In particular, contractors will need to ensure that personal and trading names, NI Numbers and Company Registration Numbers match with the data that HMRC supply. If a contractor fails to supply a correct reference for their monthly return, this may raise a compliance warning to be internally investigated by HMRC, and in some circumstances (i.e. if the reference is an invalid format) the return may be rejected, resulting in disruption and possibly a fine.

A subcontractor may trade under many names, but HMRC systems only recognise one trading name. This is the trading name that new CIS systems should use.

Contractors must also act upon the tax treatment listed against each subcontractor.

Businesses that regularly trade with partnerships should ensure that systems and data reflect the true payment relationships, either to the firm or a specific partner.

The March CIS333 will be based on CIS23, CIS24 & CIS25 voucher data for periods up to February 2007 (at the latest), so any new subcontractors engaged in the early part of the year should be cross-checked against the CIS333. Any subcontractors that start after February, 2007 will almost certainly not be on the list, though they will not need to be verified. (See 'To verify or not' opposite.)

All of this will require effort from both the business and IT: more planning now will pay benefits when the new scheme starts.

### Data Protection Act

If an automated system is used to verify subcontractors, Contractors should review their Data Protection Registration to cover all of the information stored about their suppliers. Payments to a nominee require that their tax credentials are verified as well, so the registration will also need to cover personal details for third parties.

### Closing off the 2006-07 Tax Year

Contractors have until 19 April 2007 to present their 2006-07 CIS payment to HMRC and generate the final CIS23 & CIS25 vouchers. They have until 19 May 2007 to validate and file the (final) annual CIS36 return.

Contractors that struggle to do this in good time under normal circumstances should expect that staff working hard to get to grips with the new scheme and changes to payments systems will need extra help to close the old year on time. Resources and workload must be planned carefully and as far in advance as possible.

It is important to reconcile and document the 2006-07 year closing position in as much detail as possible. It will not be possible to make compensating adjustments across the schemes, so it is vital that the cut-over from the old year to the new CIS is as clean as possible. It will save time in the long run.

## Monthly Subcontractor Payment & Deduction Statement

Instead of sending paper CIS25 vouchers every month, contractors must now send a statement to each subcontractor paid under deduction, that is, if they have had any deductions made from their payment during the tax month. These statements will not be a feature of general payment systems as they contain information beyond a typical remittance.

HMRC regulations allow the subcontractor statement to be sent electronically, but only where the subcontractor has agreed to this. Otherwise subcontractors must be provided with a written statement, which is deemed to include a fax.

To ensure that subcontractors can receive their statements, it is important to communicate with them in advance of the start of the scheme. If they do not respond, follow up with another letter or a phone call to make sure that data is correct.

It is important to ensure that the subcontractors consent for electronic delivery of statements is kept on file, and that the consent specifies the email address to which communications must be sent.

Common sense suggests that it is incumbent upon the subcontractor to notify their Contractors if their contact details change. However, this should be put in writing so that the subcontractor cannot be critical if they fail to do so. A subcontractor "self-service" portal will move the initiative to make the changes onto the subcontractor.

## Starting the new CIS

### To verify or not

Subcontractors that already have a relationship with a contractor will probably not need to be verified for some time after the start of the new scheme. These subcontractors will be listed on the CIS333 list (Construction Industry Scheme. Subcontractors you do not have to verify for payment in new C IS).

Any new subcontractors taken on after 5 April 2007 will need to be verified with HMRC before payment is made. In the first year of the new scheme, subcontractors who have been paid by a contractor since 6 April 2005 do not need to be verified if, when they were paid, they provided evidence of one or more of the following:

- registration card, CIS4(P)
- temporary registration card, CIS4(T) with an expiry date of 04/2007 or later
- tax certificate CIS5 or CIS6, with an expiry date of 04/2007 or later

Any subcontractors not on the CIS333 list who provide up to date credentials before 6th April 2007 can be paid according to the tax treatment that would have applied under the old scheme.

Although many systems have the ability to do so, blanket verification of subcontractors is discouraged. When a contractor verifies a subcontractor they are confirming with HMRC, either implicitly or explicitly, that "a tender is accepted / contract agreed / order placed for all of the subcontractors to be verified". If this is not the case, then the subcontractor should not be verified! Remember that the verification process is recorded against the subcontractor's tax records: HMRC should not be led to believe that the subcontractor might be paid if there is no good cause.

Just as importantly, HMRC systems may not be able to meet the demand for this workload, especially at month end when returns will also be submitted electronically.

### Implications for accounting

Where payment systems have been changed to cater for new CIS, business procedures will also need to be updated. For example, any cheques cancelled in the new tax year will need to be treated

with care. If they relate to the previous tax year, the Payments team will need to make sure that repayment is not counted again, and contractors should not try to adjust the new monthly returns to compensate.

The processing of credit notes also needs to be carefully reviewed. Credit notes may be netted off against new invoices to reduce the payments due, typically for faulty workmanship or materials. But refunds, as such, are not allowed, and never have been. The rules forbid this – HMRC views this as the contractor refunding tax. Credit notes can reduce the value of a payment not yet made, but refunds against an invoice that has already been settled and reported, must be notified to HMRC by mail or telephone, to effect an adjustment to a previous return. (There is currently no electronic means to perform this transaction).

### Technology considerations

HMRC are unable to present live data to the HMRC CIS Gateway until 6 April 2007. This makes testing of systems and more importantly contractors' data somewhat difficult.

Contractors will certainly wish to make sure that electronic verification works, but will have to wait until 6 April 2007 to do this on their own data. Most will have completed a number of the pre-packaged test scenarios, but they will not be able to check the integrity of their data until after then.

BASDA recommends that Contractors ensure that their systems and security are working and that data is validated to the required standard by submitting a small, selected sample of subcontractors for verification some time after 6 April 2007. As many organisations will be doing this, no-one should submit more than 25 subcontractors and include a mix of individual subcontractors and a small batch.

Between 6 April 2007 and 19 May 2007, Contractors must make sure that everyone they intend to pay has been correctly set up in their systems so that when their return is submitted on 19 May, all of the information is correct. If the CIS333 data has been implemented correctly, the return should be accepted. However, if the data is not consistent and there are invalid formats, the return may be rejected. Contractors should ensure that they have successfully applied for all of the live passwords or digital certificates needed to communicate with the Government Gateway.

### The new processing timetable

Superficially, the timetable for processing CIS will be little different from the old timetable. The basic deadlines are the same.

All deductions must be paid to reach HMRC by the 19th of the month following the end of the tax month to which the deductions relate or by the 22nd where payment is made electronically. Where the 22nd is a weekend or public holiday, the payment must be received by HMRC on the banking day prior to 22nd.

Contractors must also issue statements to subcontractors under deduction by 19th of the tax month to which payment relates.

HMRC is making some allowances for the scale of the changes and will not apply penalties initially. To give systems some time to bed in, penalties (based on the number of subcontractors employed) for late returns will not be introduced until October 2007.

During the first few months, BASDA recommends that additional time is set aside to quality assure systems, processes and returns.

# 3. IMPLEMENTATION OF THE NEW CONSTRUCTION INDUSTRY SCHEME

In this section we highlight the different ways in which business software will be affected by the new CIS, and how IT can be used to reduce the administrative burden. The findings apply to all Contractors that have to comply with the scheme, whether considering implementing business software for the first time, or upgrading an existing system.

## Record-keeping

Contractors are responsible for keeping records of their registered subcontractors, the payments that they have made to them and the payment deductions made under CIS. The government also keeps records, but up until now they have been held in disparate systems, with different data held in different systems for the same entity. The 3 government databases (used for Self Assessment, Corporation Tax filing and the current CIS scheme) are now being brought together to provide a single record for each CIS contractor and subcontractor.

After the introduction of new CIS the data held by HMRC and the data held by contractors must match. If there are significant discrepancies that do not meet the CIS Data Quality standard then the monthly returns will be rejected. See Section 4 below for the potential data issues that may arise from this exercise.

Some key information needs to be kept for each registered subcontractor:

- Registered name
- Unique tax reference: UTR
- National Insurance Number: NINO
- Company Registration Number: CRN
- Registered trading name
- Partner's name (for partnership subcontractors)
- Partner's UTR or NINO (or CRN if a company)

Contractors may be holding all this information already, in spreadsheets or in disparate business systems. The implementation of the new scheme provides an ideal opportunity to bring all systems together, and replace spreadsheets with suitable Business Software.

## Communication between HMRC, contractors and subcontractors

One of the most significant changes as far as IT systems are concerned is the way in which communications will be handled between the contractor, subcontractor and HMRC. IT systems can be used to streamline the process, with various tools being available to handle the different elements.

- New subcontractors should be verified against the HMRC records.
- Contractors will be required to provide a monthly statement to those subcontractors paid under deduction.
- Contractors have to submit monthly returns to HMRC, with details of the payments and deductions made to each registered subcontractor. These replace the existing vouchers.
- HMRC will provide information to subcontractors directly. In particular CIS 313.
- Contractors will be notified of any changes in tax status of the subcontractor. 30 days' notice of the change will be given to contractors (90 days' notice to subcontractors), but it can be

disputed by the subcontractor. Systems should be able to respond to the following details when received from HMRC:

- the effective date of any change in tax status
- if the change is under dispute
- if the change is no longer under dispute
- the change of tax status (for example, gross to net)

Note: there is no longer a requirement for contractors to submit an annual return to HMRC.

## Verification

Verification is the process used to ensure that subcontractors have the correct deduction rate made on their payments.

Broadly speaking, there are three steps to verification:

- The contractor provides HMRC with details of the subcontractor.
- HMRC checks the subcontractor is registered with them.
- The contractor is given a rate of deduction to apply, if any.

Remember that, from 6 April 2007, Contractors do not have to verify any subcontractors if they have already included them on any monthly return in that tax year, or have paid them in the previous two tax years.

In any other case, contractors must verify the subcontractor. This has to be done before a contractor is able to make any payment to them.

### The information required about the Contractor is:

1. Contractor's name
2. Contractor's Unique Tax Reference (UTR)
3. Contractor's HMRC Accounts Office reference
4. Contractor's HMRC employer's reference.

### The information required about the subcontractor is dependent on the type of business entity as follows:

#### 1. Sole trader:

- a. Registered or trading name
- b. UTR
- c. NINO (if known)

#### 2. Partnership:

- a. Partnership's registered or trading name and UTR, and
- b. If the partner is an individual – partner's UTR or NINO
- c. If the partner is a company – company's UTR or company registration number.

#### 3. Company

- a. Registered or trading name of company
- b. company's UTR
- c. company's registration number (CRN)

HMRC records are checked to see if the subcontractor is registered with them and contractors are instructed to pay the subcontractor either:

1. gross – no deductions taken
2. net – with a deduction at the standard rate
3. net – with a deduction at the higher rate, in cases where there is no record of that subcontractor's registration, or they are unable to verify them for any other reason.

Note that the rate applies on the date that the payment is made, not the invoice date. This is the same rule as in the current scheme.

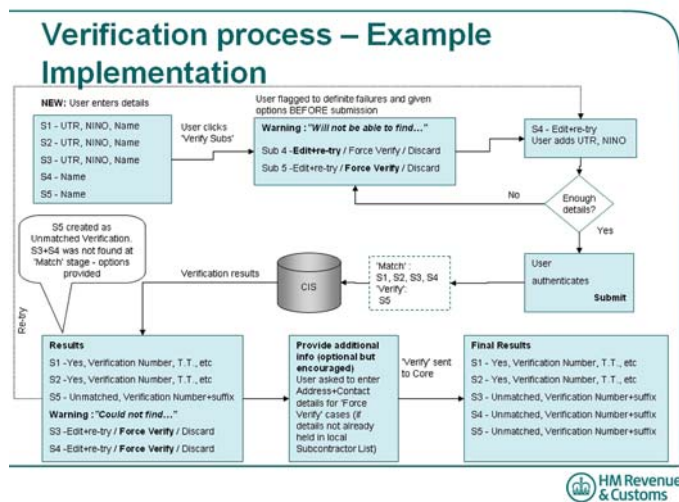
A Verification Reference Number will be issued for each subcontractor that is verified at the same time. If it is not possible to verify a subcontractor, one or two letters are added to the end of the number making it unique to that subcontractor.

In the case of the electronic submission in a third party software application, this is done by a process of matching and verification.

The following chart gives an indication as to how this might be done online, behind the scenes via the government gateway, thus simplifying the process for the user.

Verification can be undertaken over the phone or on the HMRC CIS website: [www.hmrc.gov.uk/new-cis](http://www.hmrc.gov.uk/new-cis). There is a limit of 10 subcontractors that can be verified directly at any one time over the phone. If a contractor wants to verify more than 10 subcontractors by phone, HMRC will ring the contractor back within 24 hours. There is also a 100 subcontractor limit on the website.

Contractors with a large number of subcontractors or a high turnaround will find it more efficient to use the electronic communication method. This allows the business software to send a message to the Government Gateway. On successful match and verification, HMRC will return a Verification Reference Number.



## Subcontractor Payment & Deduction Statement

This can be printed either monthly or for each payment made.

Details to be included in the statement are as follows:

- Contractor's name
- Contractor's address\*
- Contractor's employer's reference
- Tax month to which the payments relate (or the date of the payment)
- Subcontractor's name
- Subcontractor's 10 Digit UTR
- Subcontractor's 'verification number' – but only where deductions are made at the higher rate
- Total gross amount paid – excluding VAT
- Cost of any materials incurred by subcontractor – excluding VAT
- Total amount liable to deduction\*
- Total amount deducted from subcontractor's payments
- Any other amounts and adjustment\*
- Amount actually payable to subcontractor\*

\*optional – BASDA recommended best practice

## Monthly Returns

Contractors must complete a monthly return to reach HMRC within 14 days of the end of the tax month of all payments made to all subcontractors in the scheme in that tax month. The return is for all subcontractors whether or not they were paid gross, paid net of the standard deduction or paid net of the higher deduction.

A Monthly Return can be made by one of three ways:

- Electronically using third party software to submit XML via the Government Gateway or EDI
- Internet web-submission: [www.hmrc.gov.uk/new-cis](http://www.hmrc.gov.uk/new-cis)
- Paper Return by post.

Contractors choosing to use paper returns will receive return forms partially completed by the last day of the tax month that is by the 5th of the month. The names and taxpayer references of all of the subcontractors that the contractor has previously returned or newly verified within the last three months will be pre-printed on the forms.

Contractors are required to check the pre-printed names and UTR numbers and leave blank entries for subcontractors they have not paid in the month, adding names and UTRs of additional subcontractors to whom payments have been made in the month. Additionally, verification numbers need to be added for subcontractors where higher rate deductions have been made. Details of the amounts paid to each subcontractor and details of materials allowed and deductions made from those subcontractors not entitled to receive gross payments must all be entered.

Monthly returns need to be signed and if submitting electronically, by confirming the declarations about verification and the subcontractors' employment status.

Nil returns will be required from Contractors who have not paid any subcontractors in a month and can be submitted in four ways:

- Electronically using third party software to submit XML via the Government Gateway or EDI
- Internet website: [www.hmrc.gov.uk/new-cis](http://www.hmrc.gov.uk/new-cis)
- Phone: 0845 366 7899
- Monthly return: by completing the section on the monthly return and returning by post.

N.B. Contractors may notify HMRC of up to 6 months of NIL returns in one submission.

Needless to say the process of submitting a return is made significantly easier by using the electronic submissions options available in the form of third party software applications and by EDI for the larger contractor.

There are other issues surrounding the submission of returns associated with any incorrect entry of details on the return; subcontractors underpaid or overpaid in error and correcting these errors – but these are beyond the scope of this document and are covered in detail in the Contractor's packs issued by HMRC (and in information available on the HMRC website [www.hmrc.gov.uk/new-cis](http://www.hmrc.gov.uk/new-cis)).

## Monthly Returns: Electronic Submission

There are two ways of submitting information to HMRC electronically: either automatically using purpose built application software or directly through an internet site.

If a contractor is managing a large number of subcontractors the easiest method of submitting monthly returns is by using a packaged software application that can communicate directly with HMRC which will be in one of two ways:

- Using XML and the Government Gateway. This method is being used currently for PAYE returns and so is now well established as a secure and accurate method of communication. It requires the contractor to register with the Government Gateway. Messages are encoded and sent directly to HMRC by the application software.

- Using EDI. This was the traditional method used for electronic data exchange but is not widely used today. It is suitable only for organisations processing a particularly large amount of data as it is expensive to set up and maintain. Few software developers are supporting an EDI method of submission.

If a Contractor is only managing a small number of subcontractors, or does not have suitable business software, then it is possible to submit verification requests and monthly returns via the HMRC website, [www.hmrc.gov.uk/new-cis](http://www.hmrc.gov.uk/new-cis). With this method all data has to be keyed manually into online forms, which is likely to be time-consuming!

Contractors are required to register for online submissions via HMRC's website [www.hmrc.gov.uk](http://www.hmrc.gov.uk). Registration will start on 6th April 2007. Even though the Contractor may already be registered for online submissions of other forms e.g. PAYE, they will still need to re-register for new CIS.

All contractors will be sent a pre-populated paper monthly return on 23rd April 2007, irrespective of their intention to file by paper or electronically. The paper return should not be completed if the Contractor files electronically.

## 4. DATA ISSUES

### Introduction

Generally with the new CIS it will be of utmost importance to ensure that the data being held against a subcontractor is not only correct but matches the data held by HMRC on that subcontractor. A failure in the data being sent to HMRC matching to their records could result in the subcontractor having the wrong deductions made from their payments (and a potential disgruntled subcontractor and all that can entail!). The trading name is, potentially, the most likely cause of problems.

The data quality can also cause failures – for example, a space in a personal name field will be invalid, therefore any double-barrelled names in a field will need a hyphen not a space.

### HMRC and Trading Names

In bringing together the new HMRC CIS database, HMRC has linked to data from a number of different databases, perhaps the two most important being as follows:

For self-employed subcontractors HMRC data is from its Self Assessment database. This comprises 5 fields:

1. Salutation
2. First name
3. Second name
4. Surname / Family Name
5. National Insurance Number (NINO)

For registered companies the HMRC data is from its Corporation Tax database. This comprises 3 fields:

1. Registered company name
2. Trading name
3. Company Registration Number (CRN)

For electronic verification and the CIS300 Monthly Return, Contractors have to provide three data items, usually the Unique Taxpayer Reference (UTR), subcontractor Name and NINO/CRN. For verifications ALL three items must agree with the HMRC database for a full match. For CIS300 Monthly Returns where a full match cannot be made, a partial match, based on UTR and NINO/CRN, will be made. Failing that, further combinations are attempted such as UTR and Name, Name and NINO/CRN etc.

A full match can only be achieved if the subcontractor name sent can be matched to that held on the HMRC database. Even the

partial match includes a search on a name held by HMRC which may not match any name held on the Contractor's database. Delays in processing will be inevitable where partial matches are required, so achieving full matches the majority of the time is a sensible objective.

Subcontractors registering on new CIS will be allowed to specify two names; their Taxpayer name and a separate Trading Name. The Taxpayer name is not held on new CIS but is simply checked against the existing known taxpayer name (held on Corporation Tax or Self-Assessment systems as appropriate).

The Trading Name is held locally on New CIS. On current (Live) CIS, HMRC hold the CIS Record Holder (CRH) Name and an optional Trading As Name. Currently only 13% of subcontractors have nominated a Trading As Name. Where a Trading As Name is not provided the Card Name (the name printed on the subcontractor's card) is usually a shortened version of the CRH unless the subcontractor has nominated a different card name.

#### For example:

CIS Record Holder (CRH) = MR J MCLAUGHLIN  
CIS CARD NAME = J MCLAUGHLIN

Or CRH = MR J SMITH  
CIS CARD NAME = JAMES SMITH (nominated name)

Or CRH = JOHNSONS ROOFING & CLADDING LTD  
TRADING AS NAME = JOHNSONS  
CIS CARD NAME = JOHNSONS ROOF & CLAD LTD  
(nominated name)

The information held on the Self Assessment and Corporation Tax databases will be brought together for HMRC's new CIS database and as part of the migration from current CIS to new CIS, HMRC will, as a general rule, be populating the Trading Name field with either the Trading As Name or (where no Trading As Name exists) the Card Name (where this is different from the CRH Name). Subcontractors who register from 6th April 2007 will receive a notification following registration (CIS313). This will confirm their registered tax treatment and the details they need to pass to the contractor to allow them to be verified. This notification will give their UTR, NINO/CRN and a registered name.

### So, what does that mean in practice?

Under the existing CIS for manually produced vouchers (handwritten or printed) returned to HMRC, the name recorded in the computer system to pay subcontractors and that used in the production of the vouchers is not critical because any mismatch can be dealt with manually. Those companies currently sending this data via EDI may already have encountered the thorny problem of matching the information required for the voucher with that stored in their software. In the new scheme, matching will extend to every Contractor, whether they make returns electronically or not, because the information for the monthly return will be based on the subcontractor's UTR, name and NINO/CRN held by HMRC. If the return cannot be matched by HMRC this has compliance implications for the individual subcontractor by changing their tax status and, in the near future, financial penalties levied on the contractor for failing to file accurate returns on time. **Initially, matching will be based on two out of the three items but eventually may be changed to all three.**

The details used to set up the account in the business system will not necessarily be the same as the limited information held by HMRC. For subcontractors starting with a contractor after 5th April 2007 great care will be required when creating a subcontractor account to ensure that the UTR, NINO/CRN and HMRC registered name is entered correctly, as well as the name the payment is to be made to if it is different. The CIS-specific element is not standard Purchase Ledger or Employee Record information, so any business

software choice will have to be one that is not only CIS orientated, but new CIS compliant as well.

Unless existing subcontractor records were set up and updated adhering strictly to the CIS4/5/6 Card details, the bulk of the problems will be encountered when trying to match those records with the information appearing on the pre-printed paper CIS 300 Monthly Return produced by HMRC or its electronic equivalent.

## Don't despair — Help is at hand!

Fortunately, HMRC have been prevailed upon by BASDA to send all contractors a subcontractor List (CIS333) showing subcontractors paid by them in the last two tax years. This will allow them to check their existing records and, where necessary, update them before April 2007.

For confidentiality reasons, the list will not include any subcontractors whose personal details have changed since the last payment where there is no evidence to show that the subcontractors had made the contractor aware of the change. For example, if the last payment made to a subcontractor was in June 2005 and that subcontractor lost their gross payment certificate in January 2006, their name will not appear on the list.

Larger contractors (defined by HMRC as having more than 125 subcontractors over the two-year period) will receive a CD which can be compared electronically with their data to produce an exceptions report identifying those records that require amendment.

Two mailings of the subcontractor list are scheduled, one in November 2006 with the final update in March 2007.

The data that will be provided in CIS333 will be:

1. Subcontractor's Unique Tax Reference (UTR)
2. Subcontractor's name, (up to 28 char)
3. Subcontractor's NINO/CRN,
4. Tax Month last paid
5. Tax treatment (Gross or Net).

N.B. HMRC only records the first 28 characters of the subcontractors name – it will have truncated longer names. The longer names can still be used for returns to HMRC.

The CIS333 will have an asterisk (\*) in front of each subcontractor's trading name – the asterisk is for information purposes and should be ignored.

Sounds straightforward enough, but remember the subcontractor name being quoted is the one held by HMRC not necessarily the trading name recognised by the contractor, making it highly likely it will be different from what is recorded on the contractor's system. Sensibly, the verification search criteria will have to be based on the UTR.

Where differences are identified the Contractor cannot notify HMRC direct, only the subcontractor can initiate changes to HMRC's database. Thankfully, confirmation of the data held on an individual subcontractor will be sent to both the subcontractor and the Contractor. Until then, the name HMRC recognises for the subcontractor (or longer than 28 char where applicable) must be recorded for use on any monthly return that might be due. If using the pre-printed CIS 300 Monthly Return – no amendments can be made to the pre-printed items.

**In March 2007, as well as the mailing to contractors, HMRC will be sending confirmation of details held on their files directly to subcontractors.** Contractors would do well to make their subcontractors aware of this and how important it will be to note the details HMRC will be using.

New subcontractors taken on from October 2006 should have their vouchers returned to HMRC as early as possible to ensure they are included in the March 2007 mailing; they almost certainly will not

appear in the November 2006 one. Subcontractors taken on in February 2007 will not appear in the final mailing in March. For these subcontractors it would be sensible for Contractors to ask to see their HMRC confirmation letter before April 2007 to ensure information held in their records will allow HMRC to verify their tax treatment for new CIS, otherwise it may be expedient to verify their tax status and include the verification number in the first return of the new CIS.

## What else can go wrong with the data?

Unfortunately, there is another aspect of 'data cleansing' to be considered. To take full advantage of the time saving element of this new scheme, contractors will naturally want to send the CIS 300 Monthly Return electronically. Those already making end of year returns electronically from their payroll will already be aware how sensitive the system is to the quality of the data being sent. In fact, currently, there is a 54 page document – the CIS Data Quality Standard – which details (amongst other things) mandatory fields, maximum field size, validated formats and invalid characters.

Returns not complying with the standard are rejected. A quality standard has been produced for the new CIS which covers everything from the Contractor's own UTR and Accounts Office Reference number to the subcontractor first name, surname, NINO/CRN and UTR. Again, far sighted software companies will have incorporated the means to validate existing data in advance of April 2007. Failing that, contractors will have to trawl through all their records manually to try and spot anything that will fail the standard. Not such an easy task, because something as simple as having a space as the first character of a mandatory field will cause all the data to be rejected (not just an individual item) yet will not be that obvious to the person doing the checking.

The temptation will be to 'hope for the best' and deal with problems as they arise on the first return after April 2007. OK if one or two are returns are problematical but not so good where there are substantial numbers, and that strategy will also rely on the quality of the information coming back from HMRC on which subcontractor has been rejected and why. Ask your colleagues in the Payroll Department how 'user friendly' HMRC's error message system is!

## 5. CONTRACTORS' BUSINESS SYSTEM INFRASTRUCTURE

When implementing business software (or changing existing business software) to cope with the new CIS, the factors which need to be considered are similar to those for any other IT system implementation. These factors can be grouped under four headings:

1. **Hardware**
2. **Software**
3. **Data**
4. **Users**

Successful IT implementation projects are those which give appropriate priority to each of these. Failure to deal adequately with any one of these four areas can lead to a failure of the system implementation as a whole. All four areas require forward planning in order to avoid problems and delays. Remember that depending on the scale of your organisation, implementing change may take several months, so it is wise to check what changes may be required.

The detail of what is required is dealt with in other sections of this document. In this section there are some simple checklists of factors to consider under each of these four headings. The amount of time and effort which needs to be spent on each item will vary between organisations dependent on the size and complexity of the organisation. However, these checklists are generally applicable to all contracting organisations that pay a sufficient number of subcontractors to consider computerised operation of the new CIS.

## 1. Hardware

In some cases no change may be required to computer and communications systems, but the areas listed below should be reviewed.

- **Server:** The server on which the system will run (this will often be an existing server but a system upgrade or replacement may sometimes require a new server).
- **Communications:** Connectivity between the server and the internet to allow access to the Government Gateway (this may have already been established for payroll year-end returns or may need to be a new connection).
- **Peripherals:** PCs and printers for users with access to the server (these will generally be existing equipment unless the requirements of a system upgrade or replacement dictate otherwise).

Electronic communication with HMRC for subcontractor verification and for monthly returns is not mandatory. However, for Contractors who pay a significant number of subcontractors, it may prove to be more practical.

If new equipment needs to be procured then there may be a lead time involved, so do not leave this too late. Before committing to the purchase of any hardware, compatibility with software and with other hardware needs to be carefully considered.

## 2. Software

There will be action required under this heading for nearly every Contractor who regularly pays a number of UK subcontractors.

- **Upgrade:** Existing business software (which could be a subcontractors ledger, payroll or Accounts Payable) will generally require upgrades, patches or fixes to be applied to operate the new CIS scheme (contact your software supplier to check for availability).
- **Replacement:** If existing business software cannot be suitably upgraded, it may require replacement with an alternative
- **Operating System:** Check whether new or upgraded business software will require upgrades to operating system software on the server or on users' PCs.
- **Compatibility:** Check whether new or upgraded business software will be compatible with other linked software such as BACS or fax software.
- **Manual operation:** If you currently operate the CIS outside of your accounting software (manually or in spreadsheets), you need to consider very carefully whether this will continue to be a practical option for the new CIS. This is only likely to prove practicable for very low volumes of subcontract transactions.
- **Non-UK subcontractors:** If you also pay subcontractors outside of the UK, you will need to ensure that your existing or proposed accounting software can simultaneously handle the rules for each jurisdiction. This is particularly likely to be an issue for contractors in the Isle of Man and also Northern Ireland who have contracts both in the UK and in Eire.
- **Installation & Configuration:** Software needs to be installed and configured appropriately. Your business software supplier should provide details of any configuration and setup required.

- **Testing:** Software needs to be tested to ensure that it is correctly installed and operating as required.
- **Test environment:** Testing of software may require the use of a separate copy of the software and data so that testing can cover all relevant scenarios without interfering with live operation of the existing scheme or live data relating to the new scheme.

If new software needs to be procured then there may be a lead time involved in implementation, so do not leave this too late. In this case, remember to also consider the appropriate issues related to Hardware, Data and Users as there are some differences under these headings for new systems compared to upgrading existing systems.

It would be advisable to ensure that new or upgraded systems are installed and working at least three months (and preferably longer) prior to the start of the new scheme in April 2007. This will give adequate time for testing and staff training. It will also provide a contingency if implementation is unavoidably delayed.

## 3. Data

Both static data (such as subcontractor name and address records) and transactional data (such as payment details) will need to be considered for nearly every Contractor who regularly pays a number of UK subcontractors.

- **Volumes:** The volume of data will be an important factor in planning for the transition to the new scheme. This could affect the choice of hardware and software required as well as the amount of work involved in handling the data issues. Start by gathering statistics on the number of subcontractors that are paid each month and how many new subcontractors are engaged each month. This will give an idea of the size of your monthly return and the number of subcontractor verifications which will be required on a regular basis.
- **Transitional Data:** Consider how you will handle transitional data at the start of the new CIS. You will need to check your existing records against details provided by HMRC in November 2006 and March 2007. One of the main areas to be addressed is the potential mismatch between the subcontractor names held on your business system and the trading names used by HMRC. The CIS333 details provided by HMRC will be in electronic format for contractors paying more than 125 subcontractors or on paper for those paying fewer than this.
- **Data Transfer:** If new business software is being implemented, consider how the initial data will be transferred into it (electronic conversion or manual re-input). This will depend on a number of factors including data volumes, data quality, compatibility of formats, etc.
- **Quality:** System testing needs to include testing the quality of the data. This is particularly important because the data is electronically communicated to HMRC and data errors could ultimately result in penalties.
- **Input:** Consider the responsibility for ongoing data input. Remember to include both maintenance of static data (e.g. subcontractor names and addresses) and input of transactional data (e.g. payments). Do not assume that these responsibilities can remain the same as under the current scheme: because of the change from viewing physical certificates and registration cards to telephone and/or electronic verification of new subcontractors this may need to be different from current responsibilities.
- **Security:** When considering the security of data, remember to consider the backup and recovery routines for the database which will include the CIS scheme data. Also consider the measures to prevent unauthorised access to the data and your responsibilities under data protection legislation.

Data issues frequently receive insufficient attention in system implementation. It is wise not to underestimate the amount of time and effort required to cover these. There is no need to delay addressing data issues – start as early as possible: no later than November 2006 when you will receive details of your existing subcontractors from HMRC.

## 4. Users

There will be action required under this heading for every Contractor who regularly pays a number of UK subcontractors.

- **Scheme training:** Users need to be trained in the requirements of the new CIS so that they understand what HMRC expects and what the implications of non-compliance are.
- **Software training:** Users need to be trained in how to operate the new CIS within the business software.
- **Procedural training:** Users need to be trained in company procedures related to the new CIS. This will normally include authorisation procedures for new subcontractors and for monthly returns, also filing of paperwork, etc.
- **Training environment:** Training of users may require the use of a separate copy of any software and data so that they can be trained in all relevant scenarios without interfering with live data.
- **Security rights:** Users need to have the necessary security rights within the software to operate the scheme, while unauthorised users are prevented from such access.
- **Responsibilities:** Users need to know who within the organisation is responsible for the various aspects of compliance with the scheme (because of the change from viewing physical certificates and registration cards to telephone and/or electronic verification of new subcontractors this may need to be different from current responsibilities).
- **Help contacts:** Users need to know who to contact for help with different aspects of the operation of the scheme (this may be a mixture of internal staff, HMRC help lines, IT infrastructure supplier and software supplier).

Training may be provided internally within the contracting organisation, by software suppliers, by HMRC or by third party training organisations. Different types of training may be provided separately – in this case planning and co-ordination are required to ensure that all relevant areas are covered.

Training for users should not start too early so that it is still fresh in their mind when they start to operate the new scheme. February 2007 would be the ideal time for training. However training will need to be planned and booked well in advance depending on the number of users involved. Between three and six months before the main training, staff should be made aware of the forthcoming changes and how they are being dealt with in outline.

The above checklists can be used both initially when starting to plan for compliance with the new CIS, and later to help review progress.

## 6. CUSTOMER TEST FACILITIES

Before focusing on the new CIS reforms, it is important to check the new upgraded system. Whether the system is large or small, test the upgrade thoroughly – in the case of the CIS reforms, it would be prudent to ensure any 3rd party applications (such as internet gateways and e-mail systems) are functioning as expected. If difficulties are encountered contact the system provider(s) immediately.

Once you have tested that your business software and any third party applications are working correctly, and users have become

familiar with the user interface changes or enhancements (however subtle), it's important to then focus on a number of items relating to the system and the new CIS reforms.

The quality of data must be considered paramount. Prior to the 6th April 2007, there is the opportunity to ensure that the application is recording details relating to subcontractors correctly.

A Desktop Checker will be made available for Software Developers and in turn their customers to test the quality of data against the pre-determined business rules as determined by HMRC.

Below is a list of areas that are critical for the successful compliance with the new CIS.

### Configuration

- Assuming your business software is configured to be operating as a 'Contractor' system, ensure that the system has been updated within its general systems configuration to accommodate the Contractor references (such as the UTR).
- Ensure that all the appropriate subcontractors and their details are correct.
- Produce a sample subcontractors Statement,
- If filing online, ensure that the online registration has been completed and it is possible to generate a test submission (the level of test submission options will vary between systems) of the new monthly return.
- From 6 April 2007, companies will be able to submit verifications online which will provide confidence that their systems are set up correctly, credentials are working properly, their data is valid and communications are functioning between the Government Gateway and HMRC. It will be critical to complete registration as close to the 6 April 2007 as registration will take up to 5 days to process prior to being able to send test submissions.
- If online submissions are not applicable, then produce a facsimile of a monthly return and ensure the information contained within the report is correct.

### Accuracy of information

It is critical that the Trading name and supporting information regarding subcontractors are correct within the system.

- Ensure that the correct UTR is correct for each subcontractor, and is appearing on the monthly return and subcontractors statement
- Ensure that the NINO is correct for each subcontractor, and is present on the monthly return and subcontractor's statement.
- Ensure that the correct verification status has been applied to each of the existing subcontractors within the system.
- Ensure that any 'new starter' has been applied for a verification status, and the appropriate verification number has been recorded against their record within the system.
- Check to ensure that any payments made that are applicable previously to the CIS reforms are not included on either the monthly return or subcontractors statement.

Throughout the transition to the CIS reforms, and indeed the ongoing compliance with the scheme, the quality of the data that the return is based on should be validated on a regular basis. Should inaccuracies of data be present, the HMRC has the powers within its remit to levy financial penalties.

## What to do if the tests highlight a problem

Should difficulties be encountered with any of the recommended tests listed above, it is imperative that the appropriate system provider is contacted immediately.

If difficulties are encountered, the source of the issue could relate to any one of the number of distinct types of providers of your IT environment. The providers are:

- HMRC
- Business software provider
- Reseller of business software
- Infrastructure provider
- Subcontractor
- Internal / External IT support

Typically the following examples of difficulties will help determine the appropriate provider.

### Contact HMRC for difficulties such as:

- No response from the Government Gateway
- Online registration information has been rejected

### Contact your Business Software provider or reseller for difficulties such as:

- Inaccurate information being reported on the monthly return
- No subcontractor payments are present on the monthly return

### Contact the Infrastructure provider for difficulties such as:

- It is not possible to connect to Internet
- It is not possible to connect to your network environment
- The printer is off line

### Contact your subcontractor:

- If HMRC does not recognise the subcontractor during verification
- Subcontractor not recognised in the monthly return
- If the subcontractor's details are different to those supplied by HMRC

### Contact your Internal / external IT support:

- " If online service not available
- You are having printer difficulties

**Please also consider user error!**

## 7. RISK ANALYSIS

### Overview of Risk Analysis

The following should be considered in any risk analysis exercise:

- Data problems
- Inadequate testing
- Poor training
- Jeopardising tax status
- Penalties for late filing and data quality – full scale tax enquiry
- Upsetting subcontractors
- Sheer scale of the changeover – impact on business systems such as BT
- Internet connections – firewalls – security

### Risk exposure with new CIS

Contractors need to be able to identify the risks and benefits early on and be able to monitor the risks as an upgrade or replacement business software project develops. The more work undertaken to identify where the risks are, the higher the likelihood that the project will be delivered within the timescales set, to the right level of functionality and quality, but with the bonus of minimum disruption to the business.

In the planning process all areas of the business affected by a new system should be analysed and any risks, or the potential impact of the new system, measured. It may be that the system is being installed into two areas within the business – one which is already computerised and the other which is moving from a manual process.

The most effective way to measure the impact is to devise a rating system such as a 0-5 scale or a simple Low, Medium, High. The criteria can range from No Impact right through to Severe Impact.

### Risk reduction

Once identified you need to reduce your risk exposure on any new CIS projects. This can be achieved in a number of ways such as avoiding the risk (by changing the requirements, for example), passing on or transferring the risk and finally taking responsibility for that risk. The risk should then be prioritised and this is achieved through ranking and ordering the risks using the rating system.

### Risk monitoring

Every area of the project that has some element of risk attached to it needs to be monitored and tracked to make sure that progress is being made in resolving the risk and that corrective action is being taken where necessary.

### Risk Management Plan

The most effective way to manage risk is through a proactive plan. This will allow you to identify, analyse, prioritise and track the risks within your implementation and make it easier for you to manage any issues as they occur.

The plan will make you focus on the high risk issues first and monitor the others as they progress.

Following these recommendations will minimise the number of problems occurring with any new system or upgrade implementation associated with new CIS and make sure projects fulfil business requirements. It will also have a positive effect on staff who are the ultimate users of the system, as you will have taken their needs and requirements into consideration from the outset and their acceptance levels will be greatly increased.

## CIS Risk Assessment

This list of potential risks to an organisation that arise with the introduction of the new CIS has been compiled by experienced members of the software industry, and can be used as part of the implementation plan to justify investment in resource and as a check list to a full risk management plan.

As a reminder of the importance of achieving a successful implementation of the new scheme it should be remembered that from October 2007 HMRC has the power to apply financial penalties automatically for late returns!

RISK FACTOR	OUTCOME	IMPACT	MITIGATION
Contractor's new CIS software is not implemented correctly on 6 April 2007	<ul style="list-style-type: none"> <li>Errors in the monthly submission to HMRC</li> </ul>	<ul style="list-style-type: none"> <li>Penalties from HMRC</li> <li>Negative impact on company's tax status.</li> <li>Upset subcontractors</li> </ul>	<ul style="list-style-type: none"> <li>Implement automated software from reputable supplier (e.g. member of BASDA)</li> <li>Timely testing of new software.</li> <li>Follow instructions from software supplier carefully</li> </ul>
The organisation is not ready to go live on the new scheme on 6th April 2007	<ul style="list-style-type: none"> <li>Monthly returns are submitted late</li> <li>Incorrect deductions are made from subcontractors</li> </ul>	<ul style="list-style-type: none"> <li>Penalties from HMRC</li> <li>Negative impact on company's tax status</li> <li>Upset subcontractors</li> <li>Stressed staff</li> </ul>	<ul style="list-style-type: none"> <li>Make sure adequate resource is assigned to the project at the cut over</li> <li>Include sufficient time for staff training</li> </ul>
Subcontractors are not ready to go live on the new scheme on 6th April 2007	<ul style="list-style-type: none"> <li>Additional hassle for Accounts Payable staff and project managers from subcontractors queries</li> </ul>	<ul style="list-style-type: none"> <li>Upset subcontractors.</li> <li>Stressed staff</li> </ul>	<ul style="list-style-type: none"> <li>Keep subcontractors informed about the plans to introduce the new scheme</li> <li>Ensure they know what changes they will expect to see in the way they interact with the contractor</li> </ul>
IT policy does not allow access to the internet for validation and monthly returns	<ul style="list-style-type: none"> <li>Validation and monthly returns will have to be completed manually</li> </ul>	<ul style="list-style-type: none"> <li>Additional resource needed to complete paper forms manually</li> <li>Increased likelihood of errors</li> <li>Increased cost to the business of compliance</li> </ul>	<ul style="list-style-type: none"> <li>Involve IT at an early stage in the implementation plan</li> <li>Make sure that adequate firewall protection is installed to protect systems</li> </ul>
Existing subcontractor information held does not correspond to HMRC data	<ul style="list-style-type: none"> <li>Monthly returns will be rejected</li> </ul>	<ul style="list-style-type: none"> <li>Penalties from HMRC</li> <li>Negative impact on company's tax status</li> </ul>	<ul style="list-style-type: none"> <li>Check records in November 2006 against the subcontractor list provided by HMRC</li> <li>Check records again when updated list is provided in March 2007</li> <li>Contractors should make sure that they send in the vouchers for new subcontractors taken on after October 2006 as early as possible to ensure that they are on the subcontractor list sent out in March</li> </ul>
The scale and impact of the changes are underestimated	<ul style="list-style-type: none"> <li>Cost overrun and missed deadlines</li> </ul>	<ul style="list-style-type: none"> <li>Stressed staff</li> <li>Incorrect returns</li> <li>Incorrect deductions</li> </ul>	<ul style="list-style-type: none"> <li>Plan the transition carefully</li> <li>Take advice from a reputable software supplier or IT consultant</li> </ul>

DATE	HMRC	CONTRACTORS/ SUBCONTRACTORS	BASDA RECOMMENDED ACTIONS
September 2006	Invitations sent to Business Support Team (BST) presentations		<ul style="list-style-type: none"> <li>• Contractor Review of subcontractor Listings</li> <li>• Contractor review of Software, Hardware &amp; Resource Requirements</li> </ul>
October 2006	Publicity to Media about the changes	Business Support Team Presentations start	<ul style="list-style-type: none"> <li>• Start of release of CIS updated business software from Software Providers</li> <li>• Construction Industry News event: 26 October, Barbican, London</li> </ul>
November 2006	<ul style="list-style-type: none"> <li>• Mailing to contractors with details of subcontractors who do not have to be verified. If Contractors have over 125 then this will be sent on CD</li> <li>• Desk Checking Tool available for testing of registration and validation processes</li> </ul>		Contractors comparison and updating of subcontractor details against HMRC listings
December 2006			Contractors upgrade/replace business software and Testing of CIS changes
January 2007	Contractor Guidance Pack mailed to all registered contractors with forms & posters		Contractors upgrade/replace business software and Testing of CIS changes
February 2007	Second 'burst' of publicity to Media		<ul style="list-style-type: none"> <li>• Contractor System Testing</li> <li>• Start Contractor Employee Training</li> </ul>
March 2007	<ul style="list-style-type: none"> <li>• Second mailing to contractors with details of subcontractors who do not have to be verified. If Contractors have over 125 then this will be sent on CD</li> <li>• Subcontractors mailing with confirmation of the details held on the HMRC database</li> </ul>		<ul style="list-style-type: none"> <li>• Contractor System Testing</li> <li>• Contractor final comparison of subcontractor details against HMRC listings</li> <li>• Contractor online registration for online monthly returns</li> </ul>
April 2007	Final Media Advertising	<p>6 April – Contractor trial verification up to 25 records.</p> <p>6 April – Go Live of online registration and verification service</p> <p>19 April – Final day for submission of 2006-07 payments to HMRC</p>	<ul style="list-style-type: none"> <li>• Contractor Test in Live</li> <li>• Contractor Verification for subcontractors not used prior to April 2005 or new subcontractors added after February 2007</li> </ul>
May 2007		<p>19 May – Final day for validation and filing of CIS36</p> <p>19 May – Final day for returns</p> <p>19 May – Final day for payment of deductions made for April if manual</p> <p>19 May – First subcontractor statement production</p> <p>22 May – Final day for payment of deductions made to HMRC if payment electronic</p>	Receipt of first Monthly Statement
October 2007		<b>HMRC Penalties implemented</b>	

# 9. GLOSSARY OF TERMS

## Key HMRC Document Terms

Document	Description
CIS300	HMRC form reference for Contractor's Monthly Return, also communication routing name of EDI Monthly Return message
CIS313	Subcontractor notification of registered Tax Treatment. This document will also contain the subcontractor individual UTR, NINO/CRN and registered name.
CIS333	Listing provided to each Contractor detailing subcontractors paid within the previous two years.
CIS340	The HMRC Guide for contractors and subcontractors setting out the operation and rules for CIS.

## Glossary of Terms

Term	Meaning
Accounts Office Reference/Employer Reference No	This is an HMRC reference number for the contractor which must be quoted on monthly returns and verification requests. It is made up of two separate numbers: <ol style="list-style-type: none"> <li>1. The Tax office – numeric – range 110-999</li> <li>2. The employer number – alpha numeric – up to 7 char</li> </ol> E.g. 123/AZ12345
CIS	Construction Industry Scheme
Construction Operations	The scheme covers payments for construction operations which are defined in paragraphs 2.41 to 2.44 and Appendices A and B of CIS340.
Contractor	A contractor is a business or other concern that pays subcontractors for construction work. Defined in CIS340, paragraph 2.4.
Contracts	A contract means any legally binding agreement or arrangement under which one individual or business does work or provides services for another individual or business. See CIS 340 paragraph 2.40 for details.
CRH	CIS Record Holder (name) e.g. F J Smith
CRN	Company Registration Number e.g. 1234567
Deductions	A deduction is the amount that a contractor has to withhold from a payment made to a subcontractor.
Deemed Contractor	Under the new CIS, some organisations outside the construction industry which carry out or commission construction work are deemed to be contractors if their average annual expenditure on Contractors exceeds £1 million. See CIS340 paragraph 2.6 for details.
EDI	Electronic Data Interchange – this was the traditional method of electronic transfer which is still an alternative to the internet as a means of communicating electronically between a contractors system and HMRC. However, this is no longer supported by most commercially available CIS software packages.
Employer's Reference No/Accounts Office Reference	This is an HMRC reference number for the contractor which must be quoted on monthly returns and verification requests. It is made up of two separate numbers: <ol style="list-style-type: none"> <li>3. The Tax office – numeric – range 110-999</li> <li>4. The employer number – alpha numeric – up to 7 char</li> </ol> E.g. 123/AZ12345
Employment Status	For a contract to be within the new CIS, it must not be 'a contract of employment'. This means that the Scheme applies to workers who are self-employed under the terms of the contract, and who are not employees subject to Pay As You Earn (PAYE). Contractors are required to declare on their monthly return to HMRC that the employment status of all subcontractors has been considered.
Government Gateway	Centralised registration service for e-Government filing services allowing the exchange of electronic data.
Higher Rate	The rate of deduction required to be made from unmatched subcontractors

HMRC	Her Majesty's Revenue and Customs – the government department responsible for collecting taxes combining the former Inland Revenue and HM Customs & Excise
IR-Mark	A cryptographic message digest algorithm using Canonicalised XML – means of proving that the data sent was the data received – non-repudiation.
Matching	Matching is similar to verification, but for those subcontractors who are unmatched no unique verification number will be issued (and no payments may be made). This gives the contractor the opportunity to check the details before resubmitting for matching or verification.
Monthly Return	Each month, contractors must send HMRC a complete return of all payments made to all subcontractors within the Scheme in the preceding tax month. This can either be sent electronically or on paper. Nil returns will be required.
NINO	National Insurance Number – format AANNNNNNA.
P35	Employer's Annual Return to HMRC which must include the total of deductions from subcontractors under CIS as well as from employees under PAYE.
Payment and Deduction Statement	The contractor must provide a written statement to every subcontractor from whom a deduction has been made within 14 days of the end of each tax month. There is no set format but certain information must be included. The statement can either be provided for each payment or monthly to cover all payments in the month.
Payments	A payment is anything paid out by the contractor to the subcontractor under a contract for construction operations. This applies whether or not the payment is made directly to the subcontractor. See CIS 340 paragraph 2.34 for details.
Standard Rate	The rate of deduction from matched (registered with HMRC) subcontractors who are liable to deduction
Subcontractor	A subcontractor is a person or body that has agreed to carry out construction operations for a contractor on a self-employed basis. See CIS 340 paragraph 2.24 for details.
Subcontractor Statement	Monthly statement produced by the contractor detailing all payments made to all subcontractors for the previous Tax Month – nil returns not required.
Tax Month	A HMRC designated period for taxation purposes spanning from 6th of one month to the 5th of the next month.
TTQT	Tax Treatment Qualification Test: the test by which HMRC determines the tax status of the subcontractor (Gross or Net).
Tax Year	HMRC Tax year runs from 6th April to the 5th April the following year.
UTR	Unique Taxpayer Reference. The contractor and subcontractor will each have a UTR which needs to be recorded within the contractor's records. This will be a ten-digit number.
Verification	Verification is the process whereby a contractor checks the tax status of a subcontractor with HMRC. If the subcontractor details are matched, this will result in the contractor being informed that payments should be made either gross or net of deductions at the standard rate. If the details are unmatched the contractor will be given a unique verification number for the subcontractor under which payments must be made at the higher rate of deduction. See also <i>Matching</i> .
XML	eXtensible Markup Language – the open standard for the exchange of data over the Internet. This is an optional standard to be used for communication with HMRC.

## USEFUL CONTACTS

CIS Helpline **0845 366 7899**

CIS website [www.hmrc.gov.uk/new-cis/](http://www.hmrc.gov.uk/new-cis/)

Pegasus CIS [www.pegasus.co.uk/cis](http://www.pegasus.co.uk/cis)

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