KNOWLEDGE HUB

CIS for Contractors

A simple guide for businesses that pay subcontractors for construction work

Surrey Hills Accountancy · October 2026

The short version

You are generally a CIS contractor if you pay subcontractors for construction work, including builders, developers and property businesses.

You must **register as a CIS contractor through PAYE**, even if you have no employees.

Before paying a new subcontractor, you must **verify them with HMRC** and deduct the correct amount of CIS.

CIS returns are due monthly by the 19th, with deductions paid to HMRC by the 22nd.

You must give subcontractors a **monthly statement** showing their payments and CIS deductions.

CIS is generally deducted from **labour and other relevant costs**, but not VAT or genuine materials purchased for the job.

If you are VAT registered, the **domestic reverse charge** will often apply when paying VAT-registered subcontractors.

It is important to check that subcontractors are **genuinely self-employed** and that your supply chain is legitimate.

You must keep **CIS records for at least 3 years** and late returns can result in significant penalties.

Surrey Hills Accountancy can help with **CIS registration, subcontractor verification, monthly returns and statements.**

Do I count as a contractor?

You are a contractor if you pay subcontractors to do construction work. This includes builders, developers and property companies, and anyone who is a subcontractor on one job but takes on their own subcontractors.

Businesses outside construction also count once they spend over **£3 million** on construction work in 12 months.

Homeowners don't count. If a private individual pays you for work on their own home, CIS doesn't apply to that payment.

Getting set up

- **Register as a contractor.** This is done through a PAYE (payroll) scheme, even if you have no employees. We can set this up for you.

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- **Check they really are self-employed.** If someone works only for you, on your hours, using your tools and under your control, they may be an employee. Getting this wrong can mean a penalty of up to £3,000, plus the tax and National Insurance you should have paid.
- **Agree how invoices will work.** Ask each subcontractor to show labour and materials separately, so you can work out the right deduction.

What you do each month

CIS runs on **tax months**, from the 6th of one month to the 5th of the next.

1. **Verify new subcontractors** with HMRC before their first payment. You'll need their name, UTR, and National Insurance number or company number. You don't need to re-verify anyone you've included on a return in this or the last two tax years.
2. **Take off the right amount** when you pay them: 20% if registered, 30% if not, or nothing if they have Gross Payment Status.
3. **Give each subcontractor a statement** showing what you paid and what you took off, within 14 days of the end of the tax month.
4. **File your CIS return** by the 19th. You also confirm that none of your subcontractors should be employees.
5. **Pay the deductions to HMRC** by the 22nd (or the 19th if you pay by cheque). If you run payroll, this is paid together with your PAYE.

Example Key dates for one tax month

What	Deadline (for 6 May to 5 June)
Tax month ends	5 June
CIS return due	19 June
Statements to subcontractors	19 June
Payment to HMRC	22 June

Working out the deduction

Take the tax off everything **except VAT and the cost of materials** the subcontractor bought for the job. Their mark-up on materials, travel and other expenses all count as labour.

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Invoice line	Amount
Labour	£2,000
Materials (at cost)	£500
Invoice total (before VAT)	£2,500
20% taken off the labour	(£400)
You pay the subcontractor	**£2,100**
You pay HMRC	**£400**

If a subcontractor won't tell you their materials cost, or the figure looks too high, you can ask for receipts or make a **reasonable estimate** yourself. If HMRC checks and finds too little was deducted, they can ask **you** to pay the difference.

Monthly returns and penalties

You must file a return every month, even if you paid no subcontractors (a "nil return"). If you know you won't pay anyone for a while, tell HMRC in advance, and you can stop filing until you do.

Penalties for late returns build up quickly, and apply to each late month:

How late	Penalty
1 day	£100
2 months	A further £200
6 months	A further £300 or 5% of the CIS due, whichever is higher
12 months	A further £300 or 5%, and up to 100% in serious cases

What about VAT?

This applies if you're **VAT registered**. When a VAT-registered subcontractor does CIS work for you, they won't charge you VAT. Instead, their invoice will say the **reverse charge** applies, and you deal with the VAT yourself.

How it works on your VAT return

You add the VAT on the invoice to your VAT return as if you'd charged it, then claim it back in the same return. For most businesses, the two cancel out, so there is **no cost**. You just need to record it correctly.

When subcontractors should charge you VAT as normal

- **You are an end user.** That means you're keeping the work for yourself, not charging it on to a client. For example, refurbishing a building you own, or fitting out your own offices. You must **tell your subcontractors in writing**, for example in the contract.
- **The work is zero-rated**, such as building a new home, or isn't covered by CIS.
- **The subcontractor isn't VAT registered.**

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If you're a main contractor charging your client for the work, you're not an end user, so the reverse charge applies. Your own invoices to your client may also need the reverse charge if they're a VAT-registered contractor, so check before you invoice.

If a subcontractor charges you VAT when they shouldn't (or the other way round), ask them for a corrected invoice before you pay.

Checking your subcontractors are genuine

HMRC expects contractors to take reasonable steps to make sure their supply chain is genuine. If HMRC decides you knew, or should have known, about fraud, you can lose your own Gross Payment Status straight away and face penalties.

- Verify every subcontractor and keep the verification reference.
- Check the VAT number on invoices is valid (you can do this free on GOV.UK).
- Be wary of new subcontractors with no track record, unusually low prices, or requests to pay a different business.

Records to keep

Keep these for at least **3 years** after the end of the tax year they relate to:

- each subcontractor's details and verification reference
- invoices, showing labour and materials
- what you paid and deducted, and copies of the statements you gave
- your monthly returns and payments to HMRC
- any end user notices you've sent

Your getting-started checklist

- ☐ Register as a CIS contractor (or ask us to)
- ☐ Check each worker is genuinely self-employed
- ☐ Verify every new subcontractor before you pay them
- ☐ Ask for labour and materials to be shown separately on invoices
- ☐ Diary the 19th (returns and statements) and 22nd (payment) of every month
- ☐ If VAT registered, decide whether you're an end user and tell subcontractors in writing

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We're here to help

Surrey Hills Accountancy can register you, verify subcontractors, file your monthly returns and send your statements, so you can get on with the job.

Call us on **01483 970 410** or speak to your usual contact.

This guide is a simple overview based on HMRC guidance as at October 2026. It is not professional advice for your situation, so please speak to us before acting on it.

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