KNOWLEDGE HUB

CIS for Subcontractors

A simple guide for anyone new to the Construction Industry Scheme

Surrey Hills Accountancy · October 2026

The Short Version

CIS is a way of paying tax as you earn – contractors deduct tax from your payments and pay it to HMRC on your behalf.

If you are **CIS registered, the standard deduction is 20%**. If you are not registered, it is **30%**.

CIS is generally deducted from **labour, not genuine materials costs**, provided materials are shown separately and supported by receipts.

CIS deductions are **credited against your tax** – for sole traders through Self Assessment and for limited companies against PAYE/NIC.

Once established, you may be able to apply for **Gross Payment Status**, meaning contractors pay you without deducting CIS.

If you are **VAT registered**, the **domestic reverse charge** may apply when working for another VAT-registered CIS contractor.

Keeping your **CIS statements, invoices and receipts** is important to ensure you receive the correct tax credit and can support your records.

What is CIS?

CIS (the Construction Industry Scheme) is how HMRC collects tax from people working in construction. When a builder or contractor pays you, they keep back some of the money and pass it to HMRC on your behalf.

This isn't an extra tax. Think of it as paying your tax as you go. At the end of the year, it's taken off what you owe, and if too much was taken, you get it back.

How much is taken off?

If you are...	They take off
Registered for CIS	20%
Not registered	30%
Approved for "gross payment" (see below)	0%

Registering is free and stops you losing an extra 10%. We can do it for you, or you can do it online with HMRC. You'll need your UTR (tax reference) and National Insurance number.

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The link to register is below:

https://www.gov.uk/what-you-must-do-as-a-cis-subcontractor/how-to-register

What is it taken off?

Only your **labour**. Materials you've bought for the job are left alone, as long as you show them on your invoice at **what you paid for them**.

If you add a mark-up to materials, that extra bit counts as labour and is taxed. Keep your receipts in case your contractor asks to see them.

A quick example

Invoice line	Amount
Labour	£2,000
Materials (what you paid)	£500
Invoice total	**£2,500**
CIS – (20% taken off the labour)	(£400)
You receive	**£2,100**

Don't want your customer to see your materials cost?

That's common. You have three options:

- **Add your mark-up to labour.** Show materials at what you paid and put your mark-up in the labour line. You pay exactly the same tax, and this is usually the simplest fix.
- **Send a separate note.** Give your contractor a note of your materials cost instead of putting it on the invoice.
- **Show one total.** You can lump everything together, but expect more CIS to be taken off. Your contractor may take 20% off the whole amount, estimate your materials cost themselves, or query it with you. You'll get any extra back eventually, but you'll be waiting for your money.

How do I get the tax back?

- **Sole trader:** it's taken off your tax bill on your Self Assessment tax return. If more was taken than you owe, HMRC sends you a refund. File early (from 6 April) to get it sooner.
- **Limited company:** it's taken off the company's payroll (PAYE / NIC) bill each month. Any leftover at the end of the tax year can be refunded.

Either way, you'll need the **monthly statements** your contractor gives you. Send them to us as they arrive.

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Can I be paid without deductions?

Yes, once you're more established. This is called **Gross Payment Status**. You're paid in full, and you pay your own tax at the end of the year (so put money aside).

To qualify, you generally need:

- at least £30,000 a year of construction work, not counting materials or VAT (more for companies with several directors)
- a business bank account
- a good record of filing and paying all your taxes on time, including VAT

HMRC can take it away if you fall behind, and since April 2026 you then have to wait five years to reapply. Talk to us when you think you're ready.

What about VAT?

This only applies if you're **VAT registered**. If you're not, you can skip this part.

When you work for another VAT-registered builder or contractor under CIS, you usually **don't add VAT** to your invoice. Your customer works out the VAT and pays it to HMRC themselves. This is called the **domestic reverse charge**.

When the reverse charge applies

Use the reverse charge when **all** of these are true:

- you are VAT registered
- your customer is VAT registered **and** registered for CIS
- the work falls under CIS and would normally have 20% or 5% VAT
- your customer hasn't told you they are an end user (see below)

If even one of these isn't true, charge VAT in the normal way. Work that is zero-rated, such as building a brand-new home, doesn't use the reverse charge either.

What your invoice should look like

A reverse charge invoice still shows the VAT rate, but the VAT is not added to the total. It must include a note such as: *"Reverse charge: customer to pay the VAT to HMRC."*

Invoice line	Normal VAT invoice	Reverse charge invoice
Labour and materials	£2,500	£2,500
VAT at 20%	£500	Reverse charge applies (VAT due £500)
Total to pay	**£3,000**	**£2,500**

CIS is always worked out on the amount **before** VAT, so the reverse charge doesn't change how much CIS is taken off.

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What is an "end user"?

An end user is a VAT and CIS-registered business that is **keeping the work for itself** rather than selling it on. For example:

- a property company refurbishing a building it owns and lets out
- a business having its own offices or shop fitted out
- a developer building something it will keep, not sell

A main contractor who charges their client for your work is **not** an end user, so the reverse charge applies to them.

End users must **tell you in writing** (an email, letter or a line in the contract) that they are an end user. Once you have this, charge VAT as normal and keep a copy on file. The same goes for businesses connected to the end user, such as a landlord and its tenant, or companies in the same group.

When you charge VAT as normal

- Your customer is a homeowner, or isn't VAT registered.
- Your customer isn't registered for CIS.
- Your customer has confirmed in writing that they are an end user.
- The work isn't covered by CIS, or is zero-rated.

How it affects your VAT return and cash flow

You don't pay HMRC the VAT on reverse charge sales, because you never collected it. You can still claim back the VAT you pay on materials and tools as usual.

This means many subcontractors end up **getting money back** from HMRC on their VAT returns. If that's you, switching to monthly VAT returns can get the money back sooner. If you use the Flat Rate Scheme, it may no longer be the best choice for you. We can check both for you.

Not sure whether a job needs the reverse charge? Ask your customer before you invoice, or give us a call.

Your getting-started checklist

- ☐ Register for CIS with HMRC (or ask us to)
- ☐ Give each contractor your exact name and UTR
- ☐ Show materials at cost on your invoices and keep the receipts
- ☐ Keep every monthly statement and send them to us
- ☐ If VAT registered, check whether each job needs the reverse charge

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We're here to help

Whether you're just starting out or want to apply for Gross Payment Status, Surrey Hills Accountancy can take care of it for you.

Call us on **01483 970 410** or email hello@sha.uk

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

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