



# ***Construction Industry Scheme***

30 SEPTEMBER 2025



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ICAEW's Continuing Professional Development (CPD) Regulations have changed. Members are now required to do a minimum number of CPD hours per year.

This webinar could contribute to up to 1 hour of verifiable CPD, so long as you can demonstrate that the content is relevant to your role.



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ICAEW Webinar  
**Construction Industry Scheme (CIS)**

30 September 2025

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## Introduction to the team Who We Are



**Jim Boylan**  
Partner

Jim leads our London Employment Tax business advising organisations on all aspects of employment tax matters including HMRC reviews, salary sacrifice, expenses and benefit reviews, National Minimum Wage audits and IR35 legislation, and CIS.



**Ian Prescott**  
Associate Director

Ian is an Associate Director based in our Manchester office with over 30 years of experience in Employment Taxes. His specialist areas include CIS, off payroll working, salary sacrifice and due diligence.



**Jack Rooney**  
Associate Director

Jack is an Associate Director based in London. He advises our clients on all aspects of Employment Taxes with a sector focus on Financial Services and Real Estate.

1 October 2025

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## ICAEW Webinar Construction Industry Scheme (CIS)

30-minute complimentary consultation

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After this webinar you will be sent a survey to provide your feedback. Within the survey you will be asked if you would like a 30-minute complimentary discussion with the Forvis Mazars Employment Tax team. If you answer yes to this question, your contact details will be shared, and someone from Forvis Mazars will contact you shortly.



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## Agenda

### 1. Overview

- What is CIS?
- Who is a contractor and subcontractor?
- What works are in scope?
- What exemptions are available?

### 2. Managing Compliance

- How to stay compliant
- Consequences of non-compliance
- Domestic Reverse Charge
- What does my business need to consider?

### 3. HMRC CIS Compliance Reviews

### 4. Did You Know?

### 5. Questions

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# 1

## Construction Industry Scheme Overview

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## ICAEW Webinar Construction Industry Scheme (CIS)

### What is the Construction Industry Scheme?

- The Construction Industry Scheme, or CIS, is a UK withholding scheme that was brought into tax law in 1971
- Designed to stop tax evasion among self-employed construction workers
- The basic idea of CIS is to act as an advance payment to cover the income tax and NIC eventually due when individual construction workers file their tax returns
- For sole-traders and partnerships, HMRC retains the CIS withholding amount until the individual's tax return is due
- For incorporated entities, a credit is given against the entity's monthly RTI payments which is recorded at the point of submission.
- This system means subcontractors are:
  - a) paying their taxes
  - b) spreading their tax payments throughout the year (which can make it easier for subcontractors to manage their finances).



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## ICAEW Webinar Construction Industry Scheme (CIS)

### Who is a contractor?

#### Two types of contractor



#### Mainstream Contractor

- These are businesses where the principal business activity is:
  - Carrying out construction work; or
  - Supplying labour to undertake construction work.
- They include:
  - Construction businesses (including those based overseas)
  - Property developers or speculative builders. This does not include property investment companies but these can still be deemed contractors (see right)
  - Gang leaders organising labour for construction work
  - Labour agencies who subcontract labour on to personal service companies
- Mainstream contractors must register for CIS within a month of making their first payment to a subcontractor

#### Deemed Contractor

- These are any businesses that
  - do not undertake construction work as their main business activity, but spend more than £3m on construction operations within a rolling 12-month period
- Deemed contractors must register for CIS in the month after passing the £3m threshold
- Exemptions:
  - Charities and trusts
  - Schools (if payments made on behalf of a local education authority)
  - Individual construction contracts worth less than £1,000 excluding materials – exemption for each contract must be approved by HMRC

**N.B. For groups, each individual entity within the group must consider whether it is a contractor required to register for CIS**

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## ICAEW Webinar Construction Industry Scheme (CIS)

### Who is a subcontractor?

- A subcontractor is any business or sole trader that is paid by a contractor to perform construction work under a contract (written or verbal) either directly or indirectly via third parties.
- **Registration for CIS is not mandatory for subcontractors.** However,
- **Contractors must deduct 30% CIS withholdings rate from payments of labour to subcontractors who are not registered with HMRC.**
- **This is reduced to 20% for those who are registered with HMRC.**
- The subcontractor can offset the CIS withholdings from their income tax/corporation tax liabilities when these are reported and paid.



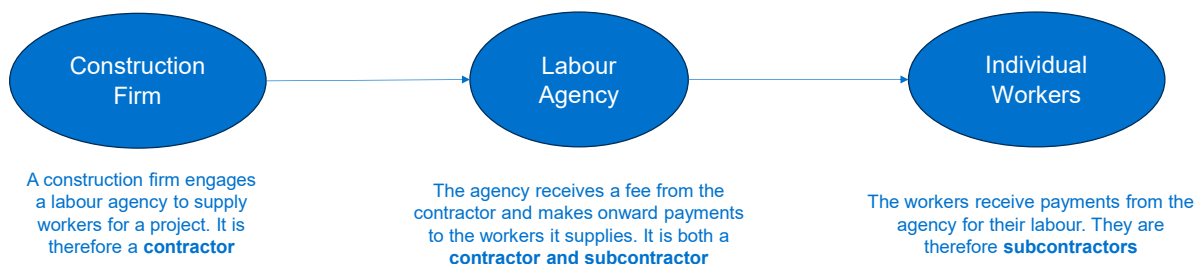
**N.B. You can be both a Contractor and a Subcontractor where receiving and making onward payments in scope of CIS**

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## ICAEW Webinar Construction Industry Scheme (CIS)

It is possible to be both a contractor and subcontractor at the same time. Example...



**Both transactions are in scope of CIS and are potentially subject to separate deductions depending on the CIS status of the labour agency and the workers respectively**

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## ICAEW Webinar Construction Industry Scheme (CIS)

### Gross Payment Status

Subcontractors can also obtain gross payment status, where the contractor is not required to withhold CIS deductions, if they meet the following conditions:

- They can prove they are a construction business run through a bank account
- They have made no previous late payments of tax or National Insurance
- They have achieved construction turnover in the last 12 months exceeding a certain threshold (excluding materials and VAT). The threshold differs depending on the type of business:
  - Sole traders - £30,000
  - Partnerships - £30,000 per partner, or £100,000 in total
  - Companies - £30,000 per director, or £100,000 in total



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## ICAEW Webinar Construction Industry Scheme (CIS)

### Works Covered by CIS

#### Construction Work

CIS covers most construction work to:

- a permanent or temporary building or structure
- civil engineering work like roads and bridges

#### Examples of Construction Work

For the purpose of CIS, construction work includes:

- preparing the site - for example, laying foundations and providing access works
- demolition and dismantling
- building work
- alterations, repairs and decorating
- installing systems for heating, lighting, power, water and ventilation
- cleaning the inside of buildings after construction work
- Project Management

#### Exceptions

The following work falls outside the scope of CIS:

- architecture and surveying
- scaffolding hire (with no labour)
- carpet fitting
- making materials used in construction including plant and machinery
- delivering materials
- work on construction sites that's clearly not construction - for example, running a canteen or site facilities

**N.B. Only payments relating to the supply of labour for the above activities are in scope of CIS. The purchase of identifiable materials is out of scope.**

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## ICAEW Webinar Construction Industry Scheme (CIS)

### Works Covered by CIS – the devil is in the detail!

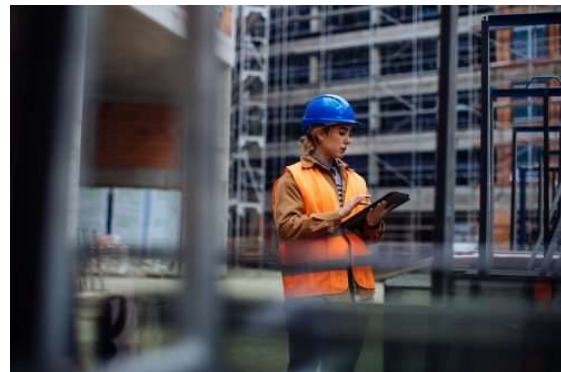
In Scope	Out of Scope
Fitting lino or vinyl flooring	Fitting carpets
Installing fixed furniture	Installing freestanding furniture
Tree surgery to clear space for new building	Tree surgery for any other purpose
Hiring equipment from an operator who is also performing construction work for the same project (mixed contract)	Hiring equipment from an operator not involved in construction works
Cleaning during construction	Cleaning after construction is complete
Scaffolding including erection/dismantling	Scaffolding hire
Landscaping as part of the construction of a new building	Landscaping as part of the maintenance of an existing structure

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## ICAEW Webinar Construction Industry Scheme (CIS)

### Works Covered by CIS – Mixed Contracts

- Sometimes, a subcontractor may supply a mixture of services under the same contract that are both inside and outside the scope of CIS
- However, HMRC consider that if any part of the contract includes construction operations, **CIS applies to all payments under the contract**, regardless of the activity they relate to
- Some subcontractors may attempt to circumvent this through “invoice splitting” (i.e. issuing separate invoices in relation to activities inside and outside of scope). **In these instances, contractors should take care not to get caught out and ensure all payments made under the contract are subject to appropriate deductions for any elements considered and reported on their CIS returns!**
- It is important to note the rules on mixed contracts **do not apply to contracts where a mixture of labour and materials is supplied**. As long as the payments relating to each element can be clearly separated contractually, only payments relating to labour are subject to CIS



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## ICAEW Webinar Construction Industry Scheme (CIS)

### Exemptions – Regulation 22 (deemed contractors only)

#### Regulation 22 (REG 22)

This exemption applies where:

- Construction work is being undertaken on a property that the contractor intends to use solely for the purpose of its own business (e.g. an office whether owned or leased); and
- does not intend to sell, let or hold the property as an investment.

It is important to note that it is the payment that is exempted by SI2005/2045 reg 22. It does not exempt the business itself, nor does it exempt the construction contract.

Where Reg 22 appears to be in point, it is recommended that HMRC are approached for written confirmation that Reg 22 applies and there is no requirement to register and administer CIS. HMRC can levy a penalty for non-registration of CIS.

**N.B. The exemption does not apply where the contractor sublets part of the property (e.g. where a business sublets unused floor space in an office building to another organisation)**

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## ICAEW Webinar Construction Industry Scheme (CIS)

### Exemptions – Regulation 20A (landlord payments to tenants)

#### Regulation 20A

This exemption was introduced on 6 April 2024 and is intended to cover most landlord payments made to tenants in connection with construction operations on the property the tenant occupies. It applies where the following conditions are met:

- The payment is made by or on behalf of the landlord;
- The person receiving the payment is a tenant or prospective tenant of the landlord;
- The payment relates to construction operations being delivered in connection with the lease;
- The tenant will carry out the works themselves or subcontract a third party to do so; and
- The construction works are primarily for the benefit of the tenant that occupies the property.

It should be noted that:

- The exemption covers leases that have not yet not been entered into, so long as there is an enforceable agreement in place for the lease to take effect. It also covers leases that are varied or extended.
- The exemption does not extend to works on the “core” or “shell” of the building that are necessary for the landlord to let it out (e.g. foundations, plumbing, walls and roof), as HMRC deems that the landlord benefits from these works at least as much as the tenant.

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## Managing Compliance



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### ICAEW Webinar Construction Industry Scheme (CIS)

#### Staying Compliant As A Contractor

##### 1. Registration

If a business meets the criteria for being a contractor or deemed contractor under CIS, they must register with HMRC using the online service.

##### 2. Subcontractor Verification

Before paying any subcontractor, you must verify their CIS status using HMRC's online system.

This determines the correct deduction rate:

- 0% for subcontractors with gross payment status
- 20% for registered subcontractors
- 30% for unregistered subcontractors

Where tax deductions are withheld from labour elements, it is mandatory to provide a payment and deduction statement to the subcontractor. This is optional for payments made to subcontractors holding gross tax payment status.

##### 3. Deduction and Payment

Deduct the appropriate amounts of tax from subcontractor payments (labour only) and pay it over to HMRC by the 22nd of each month (or 19th if paying by post).

These tax deductions count as advance payments towards the subcontractor's tax and National Insurance liabilities.

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## ICAEW Webinar Construction Industry Scheme (CIS)

### Staying Compliant As A Contractor

#### 4. Submit Monthly CIS Returns

File a CIS return by the 19th of every month, detailing:

- All subcontractors paid and their CIS status
- Amounts paid and deducted (this includes amounts paid gross)
- Any subcontractors you've stopped using
- If no payments were made in a month, you must still file a nil return.

#### 5. Subcontractor Verification and Deductions

You must continue submitting monthly returns until:

- You formally de-register as a contractor, or
- You submit an inactivity request (valid for up to 6 months)

**Failing to submit returns, even nil ones, can result in penalties**

#### 6. Keep Accurate Records

Maintain records for at least 3 years after the end of the tax year they relate to, including:

- Subcontractor verification details
- Payment and deduction statements
- Monthly returns and correspondence with HMRC
- Penalties can be levied where inadequate records kept

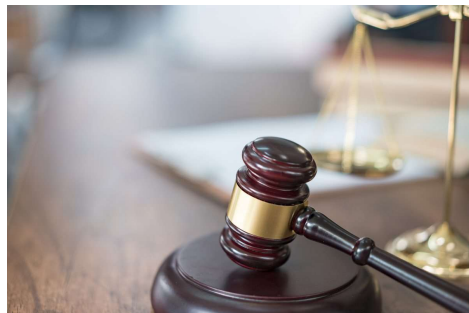
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## ICAEW Webinar Construction Industry Scheme (CIS)

### Consequences of Non-Compliance

- HMRC can also raise a maximum penalty for failing to file a CIS return of £3,000, or 100% of the CIS deductions not shown on the return, if higher.
- Accumulating penalties for late CIS returns – charged on a per return basis:
  - £100 if return deadline missed
  - £200 if more than two months late
  - Higher of £300 and 5% of liability if more than six months late. Same penalty charged again if more than 12 months late
  - Higher penalties for deliberate errors (higher of £1,500 or 100% of liability)
- Interest accruing on late payments – HMRC interest rate is currently 8.25%
- Knock on impacts for audits, transactions etc. if large liabilities accrue from failure to register and file returns
- May invite additional scrutiny from HMRC into other tax areas
- Loss of gross status



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# ICAEW Webinar Construction Industry Scheme

## Domestic Reverse Charge for Construction Services

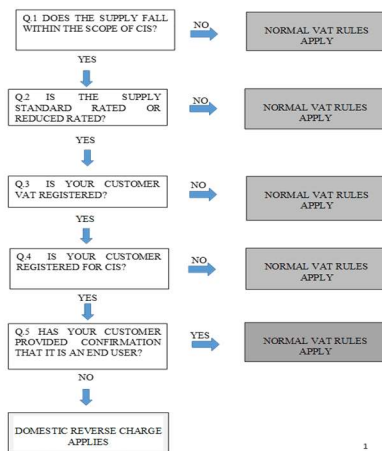
- The VAT domestic reverse charge ('DRC') must be used for most supplies of building and construction services. The charge applies to standard and reduced rate VAT services:
  - for businesses who are registered for VAT in the UK
  - reported within the Construction Industry Scheme ('CIS')
- The domestic reverse charge does not apply to supplies made to the final consumer ('end user', e.g. the owner of a newly developed property). However, notification must be obtained from the customer that they are the end user before the DRC can be disapplied.
- Invoices for services subject to the DRC should include all of the information on a normal VAT invoice. However, they must specify which amounts are subject to the DRC and make clear the fee payer is responsible for accounting for the VAT and paying it to HMRC.
- If the fee payer is not VAT registered, the DRC does not apply.



**The Construction Industry VAT Domestic Reverse Charge (DRC) is a VAT anti-avoidance measure that applies to business-to-business construction supplies.**  
**Under the CIS DRC, it is the customer, and not the supplier who accounts for the supplier's output VAT.**  
**This applies to the supply of construction work from 1 March 2021.**

# ICAEW Webinar Construction Industry Scheme

## Domestic Reverse Charge for Construction Services



## ICAEW Webinar Construction Industry Scheme (CIS)

### What does my business need to consider?

#### Registration

Does my business carry out construction work as a core activity?

Are there any significant construction projects planned where spend could exceed £3m?

Are any exemptions available?

Am I part of a group that is paying subcontractors for construction work? If so, have all entities within the group that should register done so?

Are works complete? If so, do we need to de-register?

If my business is a subcontractor, have I registered and checked if I am eligible for gross payment status to ensure my receipts will be subject to the minimum withholding rate possible?

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#### Compliance

Are we ensuring our procurement processes identify suppliers carrying out works in scope of CIS?

Have we considered employment status/IR35?

Have we verified the CIS status of all subcontractors to ensure the correct withholdings are deducted?

Do we have any mixed contracts? If so, are we reporting all payments on our CIS returns?

Are we ensuring that all labour costs are being identified and correctly reported?

Are returns being filed each month even where no payments to subcontractors have been made?

#### Other Considerations

Are we providing any funding that the recipient intends to spend on construction works? If so, has the initial transaction been considered in relation to being within scope of CIS?

Are there any intra group transactions relating to construction? Again, CIS would apply to these

Are there any overseas entities in the same group paying for construction work in the UK? Non-UK resident businesses still need to register for CIS where this is the case

Are we responsible for accounting for VAT under the DRC? Do the invoices we have issued account for the DRC where required?

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## HMRC CIS compliance reviews



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## ICAEW Webinar Construction Industry Scheme

### HMRC CIS Compliance review

#### It's that moment.....

The one when the letter from HMRC arrives, warning of an impending Construction Industry Scheme (CIS) compliance review.

- Whilst you are almost certain everything has been done correctly, there is always that slight doubt nagging at the back of your mind.
- HMRC do not normally decide to carry out a CIS compliance review for no reason, they normally carry out such reviews for one of two reasons. Either
  - Your business was unlucky enough to be in the very small number of random checks carried out each year, or
  - HMRC's in-house compliance review system has spotted a discrepancy, or a high-risk factor is worthy of a closer review.
- HMRC Compliance teams have a sophisticated review system to help select potential review cases. This pulls data from a number of sources, including the various information and tax returns (personal or CT) your business makes and from an increasing number of external public sources such as websites, news feeds and more recently from social media.

It is therefore best to assume that when HMRC does come calling, there is a genuine reason, and they have something they are looking for within your records.

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## ICAEW Webinar Construction Industry Scheme

### HMRC CIS Compliance review

#### 1) Materials

Where you engage subcontractors who provide materials, you will almost certainly exclude the cost of those materials from the amount liable to CIS deductions.

HMRC will want to stress test how you check that the amount you are excluding from "labour costs" is not excessive. They have legal precedent to support a very strict approach on this point. If you are unable to demonstrate that the amount you have accepted as the cost of materials is accurate then HMRC will seek to recover CIS on the amount they believe should have been deducted

#### Section 61(1) Finance Act 2004

- A deduction made under the scheme should only be applied to that part of the payment representing the direct cost of materials to the subcontractor (FA04/S61 (1)). 'Direct cost' means what the subcontractor can demonstrate what they directly paid for the materials.

Best evidence would be to have a copy of the subcontractor's invoice. If you are unable to obtain this, there are other methods that HMRC may be willing to accept but they need to be rigorous and capable of withstanding HMRC scrutiny (normally an email trail will suffice). The days of accepting the subcontractor's word or applying a standard percentage are unfortunately gone!....

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### HMRC CIS Compliance review

#### 2) Subcontractor owned equipment

Ownership of materials is another area critically reviewed by HMRC. The most common example of this is scaffolding, but other items such as plant/machinery/generators etc are also areas of risk.

A subcontractor cannot claim the cost of supplying equipment unless he actually incurs a cost in so doing. A scaffolding company can only make a claim for materials if they hire in additional scaffolding to deliver the work.

In most cases subcontractors will be using equipment which they already own and there is therefore no additional cost involved, so no deduction allowed, and CIS is due against the full charge for providing and installing, as the provision then falls to be considered as labour.

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## ICAEW Webinar Construction Industry Scheme

### HMRC CIS Compliance review

#### 3) Paying for accommodation, travel and subsistence

Where you have engaged subcontractors to work on a project away from their normal base/home, it would only be right to pay for their accommodation and travel and subsistence. That's correct.....isn't it?

Actually, paying for it is fine but excluding it from CIS deduction is another thing entirely.

The CIS compliance rules are very clear the only items you can exclude from deduction are "materials" or other consumables such as, plant hire and fuel for plant, and the cost of manufacturing prefabricated components.

Where you pay for subcontractors' accommodation or the costs of getting to a site or where food or drink is paid for or reimbursed whilst at the work site, then this is also liable to CIS deduction.

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## ICAEW Webinar Construction Industry Scheme

### HMRC CIS Compliance review

#### 4) Mixed contracts

The exclusion for any plant hire costs can be brought back within the scope of CIS tax deduction, if the contract includes the driver of mobile plant like excavators and diggers. This because any contract which includes any service liable to CIS tax deduction brings all services provided under that contract with scope of CIS for deduction. These fall within 'mixed contracts'.

The solution is simple; the subcontractor should enter into two separate contracts one for the CIS liable services and one for the excluded service. Separate invoices are not considered sufficient; the contracts must be separate as well.

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## ICAEW Webinar Construction Industry Scheme

### HMRC CIS Compliance review

#### 5) Failure to register under the scheme

It may seem obvious to a mainstream contracting business, but not all businesses are involved in mainstream construction. It is those businesses who are at risk of being brought into 'construction' without understanding that there are special rules to operate, and they have failed to comply with CIS legislation.

##### Example

A landscape gardener whose normal work is outside of the scope of the CIS. While laying out a garden at a hotel he was asked to assist with the laying of paths and, as he had no experience of laying concrete, he hired an experienced subcontractor to help.

The work he asked the subcontractor to do was within the scope of the scheme and HMRC argued that CIS should have been deducted from payments and sought interest and penalties on the under deducted amount, along with penalties for failure to make returns.

Similar situations can arise for other businesses on the fringes of construction, for example, businesses who normally only supply goods, are asked to undertake supply and fit, with the "fit" being outsourced to an appropriate subcontractor.

In both cases there would be "contractor registrations" required

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## ICAEW Webinar Construction Industry Scheme

### HMRC CIS Compliance review

#### What should you do if HMRC contacts you to undertake a CIS compliance review?

**Seek specialist help.** Specialists can review your operation of CIS and identify any problem areas and advise on how to deal with them.

If HMRC are about to undertake a compliance visit, then a disclosure of any errors will potentially allow a reduction in penalties.

Specialists may even be able to convince HMRC that your view was correct, and CIS is not in scope, or you have dealt with compliance obligations correctly.

Think about reviewing CIS compliance even if you have not had notification of a visit as a voluntary disclosure will usually result in no penalty being charged.

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# 4

Did you know?

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## ICAEW Webinar

### Construction Industry Scheme

#### Did you Know?

- CIS covers UK land mass, plus water within 12 nautical miles
  - For those interested – 12-nautical miles is; 13.8 miles, or 22.2 kilometres
  - Off-shore wind farms within 12-nautical miles are caught within UK CIS
  
- What is required to be considered first from a “status perspective”? CIS or IR35? **Answer: IR35, then CIS**
  
- Astro-turf/synthetic surfaces (football pitches or children’s playgrounds) – often referred to as “carpeting”. Not considered “carpet” in legislator terms CIS (FA20043/s74/(2)(e))
  - Astro-turf and synthetic surfaces therefore fall within CIS
  
- Prefabricated structures/modular elements – offsite design and build can be caught within UK CIS (complete house structures built off-site and hooked up to utilities at site.
  
- Temporary construction/event sites – can be excluded from CIS by HMRC concession (temporary is defined as up to 2-months). Exclusion would need to be agreed with HMRC.
  
- Installing industrial plant – normally considered “works forming part of the land or structures” (FA04/S74(2) (a) & (b)) – so within CIS
  - However, installation of separate machine tools such as lathes, milling machines and other production machinery only superficially attached to the fabric by being screwed or bolted to the factory floor – are considered outside of CIS

The devil is in the detail!

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## Questions

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## ICAEW Webinar Construction Industry Scheme

### How Forvis Mazars Can Help

1. Registration for CIS
2. Preparation and submission of monthly CIS returns
3. Preparation of payment and deduction statements
4. Subcontractor analysis to determine CIS status, including verification checks with HMRC
5. Advice on whether works are in scope of CIS, including reviews of potential mixed contracts
6. Cost and invoice analysis to identify amounts that are in scope of CIS and separate labour and materials
7. Filing of deregistration and inactivity requests
8. Bespoke client workshops
9. Disclosures to HMRC

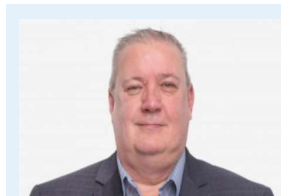


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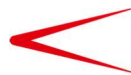
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**Questions**



**CPD**

Scan the QR code to record your CPD

## ***Future events***

4 November	Extension of the single place of VAT registration across the EU
12 November	The move to real time reporting for businesses that operate across the EU
28 November	Tax Faculty Autumn Budget update

For further details on the above visit [icaew.com/events](https://www.icaew.com/events)

## ***Thank you for attending***

- Please take the time to fill out our short survey
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