

Building and Trades Accounting for CIS Deductions

The Construction Industry Scheme applies primarily to registered building contractors and registered sub-contractors. The system is set up so that if a sub-contractor is working in the building trade they cannot do so without a CIS registration.

In the building trade the contractor will receive an invoice from a verified sub-contractor which gives details of materials and labour (+ VAT if applicable). The contractor pays in full the materials and VAT, but deducts 20% from the labour element. The contractor will then issue to the subcontractor a CIS payment slip/invoice showing the sum of the invoice/invoices in the period (NET of VAT) with the amount paid over to the Inland Revenue as tax deducted. Where a subcontractor cannot be verified the deductions must be made at 30%.

Once a sub-contractor has this payment slip they can claim relief for the tax deducted through the self assessment tax return, even if the contractor does not make any payment to the Inland Revenue.

There are many ways to record CIS deductions in the books and account for the 20% deduction; below are some suggestions:

In the Contractors' books the initial entries are:

Enter the total invoice to Credit the **Suppliers' Account**
Enter the net invoice to Debit the **subcontractor costs**
Enter the VAT to Debit the **purchases vat account**

There are now two possible methods of treatment for the payment:

Pay the subcontractor a cheque less the 20% deductions leaving a balance on the **Suppliers' Account** of the 20%
Pay the Inland Revenue a cheque equal to the 20% and enter against the subcontractor **Suppliers' Account** to clear the balance

Prepare a Journal to Debit the **Suppliers' Account**
Credit a **Subcontractors' Tax Deduction Account** for the 20% deducted
Make two cheques as above, but entering them against the two Credit Accounts

In the Sub-Contractors books the initial entries are:

Enter the total invoice to Debit the **Customers' Account**
Enter the net invoice to Credit the **Sales Account**
Enter the VAT to Credit the **sales vat account**

When the cheque in settlement is received from the contractor less 20% for labour:

Enter the cheque amount against the Credit to **Customers' Account**

Prepare a Journal to Credit the **Customers' Account** with the amount of 20% deduction to clear the invoice and the balance on the account
Debit the Journal entry to a **Deduction of 20% Tax Account**

The balance on the **Deduction of 20% Tax Account** represents payment in advance of the proprietor (self employed or partners) personal tax liability, and can be transferred to sole trader or partners **drawings**.

When preparing the accounts the gross totals received as cash banked will not equal the amounts invoiced in the period, due to the CIS deductions. To reconcile these. The deductions should be added back to sales banked to match against sales invoiced.

From April 2007 the CIS voucher system has been replaced by a new monthly contractors return which consists of either a paper or online version.

There will be 3 levels of deduction in the new system:

NIL Gross Payments
20% Standard rate
30% Higher rate

A summary of the latest information outlining the new proposed system can be found at [Latest Updates CIS system](#)