

Self Employment Accounting for CIS Vouchers

The Construction Industry Scheme applies to registered building contractors and registered sub-contractors.

A contractor receives an invoice from a verified sub-contractor which gives details of materials and labour (+ VAT if applicable). The contractor pays in full for the materials and VAT, but deducts 20% from the labour element (30% of the sub contractor is not verified). The contractor will then issue to the subcontractor a CIS payment slip 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.

Once a sub-contractor has this voucher he 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 vouchers in the books and to 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 deductions should be added back to sales banked to reconcile against sales invoiced.