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FREE GUIDE · 2026/27 · UPDATED OCTOBER 2026

The Construction Industry Scheme (CIS)

A guide for contractors and subcontractors: registering, deductions, monthly returns and gross payment status

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If you work in construction, the Construction Industry Scheme affects how you pay and how you get paid. Contractors must deduct tax from subcontractors' payments and report them to HMRC every month. This guide explains how CIS works, the 2026 changes, and how to stay compliant.

> *"I started Zen to make finance feel calm and clear for business owners. I hope this guide answers your questions, and if anything doesn't quite fit your situation, I'm always happy to talk it through with you."*
>
> **Ann Williams**
> Founder, Zen Bookkeeping & Advisory

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01 Who does CIS apply to?

Contractors

- Businesses that pay subcontractors for construction work
- Some non-construction businesses that spend over £3 million a year on construction
- Must register, verify, deduct and report

Subcontractors

- Businesses that carry out construction work for a contractor
- Should register to avoid the 30% deduction rate
- Claim deductions back against their tax

CIS covers most construction work on buildings and structures, including site preparation, alterations, repairs, decorating and demolition. Some work, such as architecture, surveying and carpet fitting, isn't covered.

02 Deduction rates

20%
registered subcontractors

30%
unregistered subcontractors

0%
subcontractors with gross payment status

Deductions are taken from the **labour** element of the payment only, not from materials, VAT or equipment hire. Contractors must give subcontractors a payment and deduction statement each month.

03 Contractors: your monthly duties

1. **Verify new subcontractors**
   Check each subcontractor with HMRC before paying them, to find the right deduction rate.
2. **Make deductions**
   Deduct tax from the labour part of each payment at the rate HMRC gives you.
3. **File your monthly return**
   Submit your CIS return by the 19th of each month, covering the tax month to the 5th.
4. **Pay HMRC**
   Pay the deductions with your PAYE by the 22nd (electronic payment).
5. **Give statements**
   Provide each subcontractor with a payment and deduction statement.

> **! Changes from April 2026**
> Contractors must file a monthly return even when no subcontractors were paid, unless they've told HMRC in advance. Late returns attract penalties from £100, even if only one day late. HMRC also has stronger powers to remove gross payment status where it suspects fraud in the supply chain.

04 Subcontractors: getting your money back

CIS deductions are payments on account of your tax and National Insurance:

- **Sole traders and partners** claim them through their Self Assessment tax return, often resulting in a refund.
- **Limited companies** offset them against the PAYE they owe each month through their payroll submissions, and can claim a repayment if there's a surplus.
- Keep every payment and deduction statement: you'll need them to claim.

Gross payment status

With gross payment status, you're paid without deductions, which helps cash flow. To qualify you must pass three tests:

Test	What it means
Business test	You do construction work in the UK and run your business through a bank account.
Turnover test	Construction turnover (excluding VAT and materials) of at least £30,000 for a sole trader; £30,000 per partner or director, or £100,000 in total, for partnerships and companies.
Compliance test	Your tax returns and payments, including VAT, have been made on time.

05 Your CIS checklist

- [ ] Registered as a contractor and/or subcontractor.
- [ ] Every subcontractor verified before payment.
- [ ] Deductions taken from labour only.
- [ ] Monthly returns filed by the 19th (including nil returns unless HMRC has been told).
- [ ] Statements given to subcontractors.
- [ ] Deductions reclaimed through your tax return or payroll.
- [ ] All tax returns filed and paid on time to protect gross payment status.

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How Zen can help

We handle CIS registration, verification, monthly returns and reclaims, so you can focus on the job.

- CIS registration
- Subcontractor verification
- Monthly CIS returns
- Reclaiming CIS deductions
- Gross payment status applications
- Bookkeeping for builders

Book a free, no-obligation call

Tell us about your business and we'll explain how we can help, with a tailored fixed-fee quote for just the services you need.

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