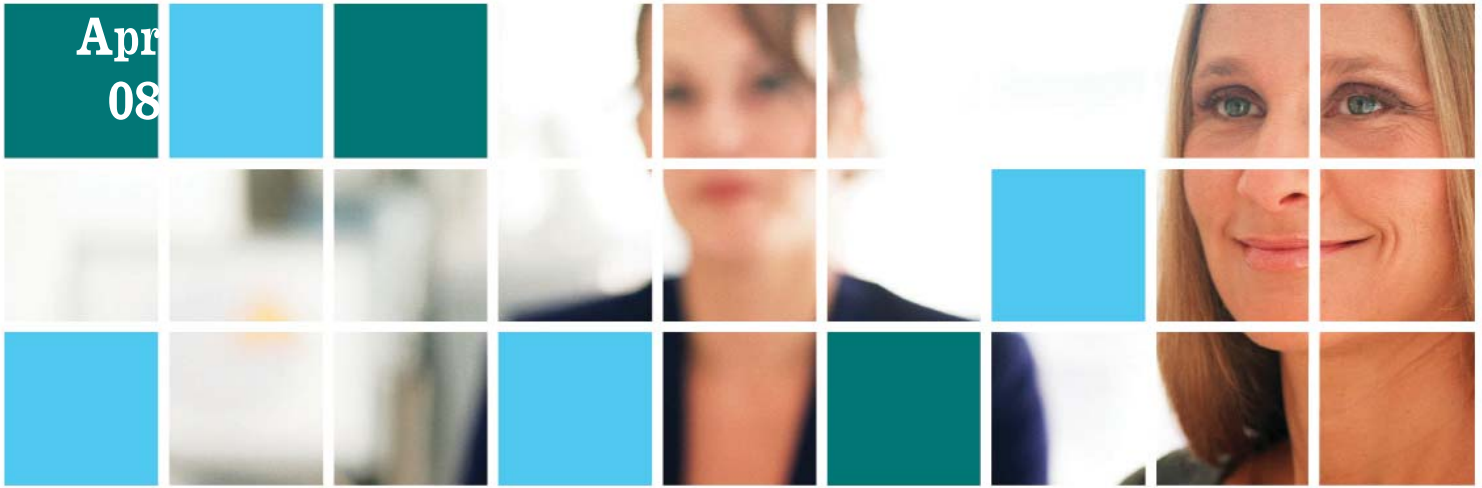


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Construction Industry Scheme Withdrawal Of Gross Payment Status by HMRC

With the CIS having completed its first year under the new rules, we are now unfortunately starting to see a number of cases of where the Revenue, having conducted their compliance test review on a business, are revoking the gross payment status of the subcontractor. Naturally this can be very bad news because of the potential impact on the cashflow of the business.

In order to qualify for the gross payment status, your business needs to ensure that not only are the turnover tests met, but also that all its compliance affairs are up to date. This applies not only for the business, but the individual participators as well (i.e partners / directors). The Revenue will seek to review a business' compliance over a 12 month period at least once a year, and if there is a major failure (see below) then the gross payment status will be revoked.

When looking at the business' compliance, the Revenue will need to see that the business and participators satisfy the following:

- ◆ Completed and filed all tax returns that are due;
- ◆ Provided information that has been requested by the Revenue;
- ◆ All taxes are paid by the due date, which include:
 - All personal and business taxes;
 - All personal National Insurance;
 - All business PAYE and National

Insurance; and

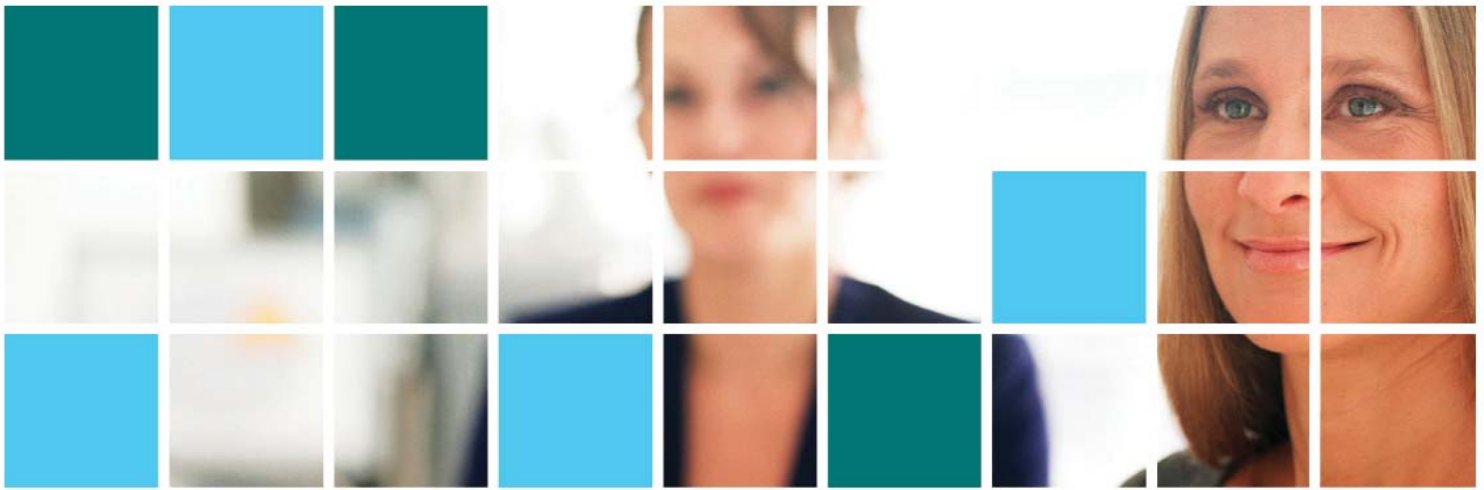
- All CIS deductions payable to HMRC.

However, the Revenue has advised that there are certain events that they will ignore in determining whether a business has failed the compliance test.

Failures the Revenue indicate will be overlooked

- ◆ Three late submissions of the contractor's monthly return CIS300 - up to 28 days late;
- ◆ Three late payments of CIS/PAYE deductions – up to 14 days late;
- ◆ One late payment of Self Assessment tax – up to 28 days late;
- ◆ Any employer's end of year return P35 submitted late;
- ◆ Any late payments of Corporation Tax – up to 28 days late, including where any shortfall in the payment has incurred an interest charge but no penalty;
- ◆ Any Self Assessment return made late;
- ◆ Any failures classed as 'minor and technical' in respect of obligations preceding 6 April 2007 where these are still within the twelve month qualifying period.

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Construction Industry Scheme / Continued Withdrawal Of Gross Payment Status by HMRC

What the Revenue will not overlook (i.e. major failures)

The Revenue indicate that they cannot overlook the following failures involving obligations falling due in the qualifying period (12 months prior to review)

- ◆ Four or more late submissions of the contractor's monthly return CIS300 where they were less than 28 days late ;
- ◆ Any submission of the contractor's monthly return made later than 28 days after the due date ;
- ◆ A contractor's monthly return already due but remaining outstanding at the date of application ;
- ◆ Four or more late payments of CIS/PAYE deductions up to 14 days late ;
- ◆ ***Any payment of CIS/PAYE deductions made later than 14 days after the due date – it is very easy to fail this test, so please be careful***
- ◆ Any payment of CIS/PAYE deductions already due but remaining unpaid at the date of application
- ◆ Two or more payments of a participator's tax, paid less than 28 days after the due date
- ◆ Any payment of Corporation tax made more than 28 days after the due date.
- ◆ Any payment of participator's tax already due but remaining unpaid at the date of application

- ◆ Any payment of Corporation tax already due but remaining unpaid at the date of application.
- ◆ Any participators tax return due in the qualifying period but outstanding at the date of application
- ◆ Any failure not classed as 'minor and technical' preceding 6 April 2007 but within the 12 months prior to the application.

It is very important that businesses ensure that they do not fail any of the above tests, otherwise the Revenue will almost certainly withdraw the gross payment status. Once withdrawn, the business will have to wait at least 12 months before it is able to obtain its gross payment status again, which could have a very detrimental impact on the cashflow of the business.

For further help and assistance contact Brett Bennett on 01228 530913 or email brett@doddaccountants.co.uk.

www.doddaccountants.co.uk