

Second draft of BASDA CIS White Paper

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1. Executive Overview

Juan Anido, Microsoft

In 2007 a new Construction Industry Scheme (CIS) is being introduced. It will not only apply to the construction industry but will include any company that undertakes a contract of over £1m with sub-contractors.

The changes are likely to require significant changes to your Accounts Payable processes and systems. If you don't already have plans in place to implement the changes in good time for April 2007, then you must start to plan as soon as possible as penalties for non-compliance are automatic and not trivial.

This booklet from BASDA brings together issues from just one aspect of the CIS scheme - namely the implications of the new scheme on your IT systems. The main issues to consider are:

Monthly Sub-contractor Payment & Deduction Statement

Instead of sending paper CIS25 certificates every month, you must now send a detailed statement to each subcontractor paid under deduction, that is, if they have had any tax deducted from their payment during the tax month.

HMRC regulations allow you to send this statement electronically, but only where the subcontractor has agreed to this. Otherwise you must produce a written statement, which is deemed to include a fax.

Verification

Any new subcontractors will need to be verified with HMRC before payment. Subcontractors whom you have paid since 6 April 2005 do not need to be verified if, when you paid them, you were provided with evidence of one or more of the following: registration card, CIS4(P) temporary registration card, CIS4(T) with an expiry date of 04/2007 or later tax certificate CIS5 or CIS6, with an expiry date of 04/2007 or later

In November 2006 and March 2007 you will receive a file from HMRC containing details of all of the subcontractors that you have paid in the last two years. You should match this file against the details you have in your database for subcontractors. You are likely to find inconsistencies with your database: it is possible that you may also find errors in the HMRC data.

Monthly Return

This aspect needs mentioning

Technology Considerations

Under the legislation, HMRC are unable to present live data to the HMRC CIS Gateway until 6 April 2007. This makes testing of systems and more importantly your data, somewhat difficult.

You have between 6th April 2007 and 19th May 2007 to make sure that everyone you intend to pay has been correctly set-up in your system.

You will need to ensure that your IT function has successfully applied for all of the live passwords or digital certificates that you need to communicate with the Government Gateway.

Time Line of Events

June 2006	New CIS Update mailed to all registered Contractors
July 2006 (Onwards)	Business Advise Open Days Employer Talks Please see http://www.hmrc.gov.uk/new-cis/cis351.pdf for further information on Business Advise Open Days and locations.
September 2006	Invitations sent to Business Support Team (BST) presentations Publicity to Media about the changes
October 2006	Business Support Team Presentations start
November 2006	Mailing to contractors with details of subcontractors who do not have to be verified. If Contractors have over 125 then this will be sent via a CD Test 'Widget' available for testing of registration and validation processes
January 2007	Contractor Guidance Pack – Mailed to all registered contractors with forms & posters
February 2007	Second 'Burst' of publicity to Media
March 2007	Second Mailing to contractors with details of subcontractors who do not have to be verified. If Contractors have over 125 then this will be sent via a CD Subcontractors mailing with confirmation of the details held on the HMRC database
April 2007	6 th April – Go Live of online registration and verification service. 6 th April – Contractor 'test in live' capability up to 25 records. 19 th April – Final day for submission of 2006-07 payments to HMRC Final Media Advertising
May 2007	19 th May – Final day for validation and filing of CIS36 19 th May – Final day for returns 19 th May – Final day for payment of deductions made for April if manual 19 th May – First subcontractor statement production 22 nd May – Final day for payment of deductions made to HMRC if payment electronic
October 2007	HMRC Penalties implemented

2. Implementation of the new Construction Industry Scheme -

- Adrian, Zeraxis (needs to be re-written in 3rd person – not everyone reading it is a contractor)

Failing to Plan is Planning to Fail

Introduction

Key aspects of the reform of the construction industry scheme are:- (this introductory section needs expanding)

- o No vouchers
- o Detailed records required for all sub-contractors – their payments and tax deducted
- o Monthly return to HMRC – paper or electronic
- o Monthly Sub-Contractor Payment & Deduction Statement
- o Tax Treatment Qualification Test (TTQT)
- o Sub-contractor verification – telephone or electronic

How can IT systems help?

Be it PAYE, VAT, Corporation Tax or Health & Safety, all of your dealings with Government depend upon accurate record keeping. IT systems help you to keep consistent and clear records for your activities.

When it is time to complete your return, you need to be efficient and accurate - time spent chasing paper or keying data into a spreadsheet is time wasted.

Well-managed IT systems give you the assurance of a single view of the truth, and efficient access to your data. Good IT systems that have poor procedures supporting them can only generate best guess figures that may come back to haunt you. Invest in software from BASDA members and invest in getting the procedures supporting them right.

For the security of all parties, HMRC require that each transaction submitted electronically is encrypted and additionally, carries an "IR Mark". This is analogous to a wax-sealed envelope to guarantee that the electronic messages have not been interfered with. Many electronic transactions with Government now insist on this form of security.

What should I look for?

First, you must be clear about the outcomes that you want from a system. Ask yourself how you will measure whether your outcomes have been achieved.

As New CIS will affect many parts of your business, you will need to get "buy-in" for change from the top of your organisation. To do this you will need to define the resources you need and the planned benefits.

You should then search for systems that can deliver the outcomes you have defined. A good place to start is the BASDA web site where a broad range of products is listed see: www.basda.org/CIS.

You need to be clear about what systems you have at the moment that you need your new CIS system to work with. Re-keying information from your Payments system into spreadsheets can introduce errors, so you need to make sure that the both the CIS system and the systems that you already have can talk to each other. Don't make any assumptions - work closely with your supplier to make sure nothing is missed.

Make sure that you know what hardware and software you will need to run the system - ask your supplier to vet your current set-up so that they are responsible for making sure your new system will work.

Remember that although CIS is not unique to the UK, (many other countries operate a "withholding tax" scheme) the electronic message format will be specific to the UK. So if a system was developed in Thailand, it may not do everything you need it to do.

What difference will a BASDA approved system make?

Using a system from a BASDA member has a number of advantages:-

Members committed to the "BASDA Code of Practice" will ensure that all of their products are fit for purpose and thoroughly tested. The Code of Practice brings benefits aside from peace of mind.

IT Resources

The new CIS being introduced in 2007 is likely to require significant changes to your Payments processes and systems. If you don't already have plans in place to implement the changes in good time for April 2007, then you must start to plan as soon as possible.

You will need to store additional information about your subcontractors, probably than your payments system may presently allow you to, and indeed if you sometimes pay nominees on behalf of your subcontractors, you must also capture and store their credentials.

If you run packaged payments software, you should be speaking to your suppliers to find out if they can support the changes needed, or if you don't have a direct line of contact to them, make sure that your advocate in IT is representing your needs.

The ability to verify CIS tax details on-line is being promoted and actively encouraged by HMRC. If you intend to use this facility, your IT function should be putting infrastructure in place to ensure that your communications work.

Registration for On-line Filing

Even if someone in your organisation is already registered to submit data to HMRC, you will need to register people specifically for CIS. The CIS registration is used to authenticate online CIS transactions with HMRC. To allow for holidays, sickness and meetings you should register more than one person - a PAYE login will not work!

Resources in the business

Not everyone in the business is a tax expert or indeed, knows how to run CIS. Your accounts staff will need education to use the new facilities. They must be thoroughly briefed about the new scheme. Penalties for non-compliance are automatic and not trivial. **Look upon training as an insurance policy.**

Operational Managers see CIS as a back-office problem, but they must be made aware that before issuing a contract to a subcontractor, whether formally or informally, they must understand whether the subcontractor has tax credentials, because if you cannot pay the subcontractor, your business and business relationships are likely to suffer.

Rigorous testing of any new systems and procedures is vital. It is important to consider all of the scenarios covered by new CIS whether individual to your business or not, and make sure that they can be accommodated by your modified CIS compliant processes. This means that the business will need to be testing out new systems as well as doing their "day job".

It may seem obvious, but it is imperative that the business understands when they are treating a subcontractor as an employee. From a legal viewpoint, this complex area is full of subtleties, but should a tax official dispute the status of a subcontractor, your company may become liable for tax and NI on the payments made.

Tax Treatment and Qualification Test (TTQT)

Your subcontractors will, as part of the new scheme, will be subjected to a Tax Treatment and Qualification Test (TTQT). The purpose of the TTQT is to determine whether a sub-contractor is entitled to beneficial 'Gross Tax' treatment or liable to tax deductions - currently at 18% on the labour charges for registered 'net tax' payers, but rising to 30% for unrecognised sub-contractors. TTQT will be initiated whenever a sub-contractor applies for registration and, at least once a year in the new CIS, for any subcontractors who are already registered in current CIS.

Preparation

Data Integrity

In November 2006 and March 2007 you will receive a list (known as CIS333) from HMRC containing details of all of the subcontractors that you have paid in the last two years. You should match this data against the details you have in your database for subcontractors. You are likely to find inconsistencies with your database: it is possible that you may also find errors in the HMRC data.

Larger contractors will receive the CIS333 data on a CD, otherwise you will be sent the list on paper.

In particular, you need to make sure that personal and trading names, NI Numbers and Company Registration Numbers match with the data that HMRC supply. If you fail to supply a correct reference for your monthly return, your return may be rejected, resulting in disruption and possibly a fine.

You must also act upon the tax treatment listed against each subcontractor.

If you regularly trade with partnerships, make sure that your systems and data reflect the true payment relationships. A company may trade under many names, but HMRC systems only recognise one trading name. This is the one you must implement.

Bear in mind that the March CIS333 will be based on CIS25 voucher data from February (at the latest), so any new subcontractors that you take on in the early part of the year should be checked against the list, and any that start after February 5th 2007 will almost certainly need to be verified.

All of this will require effort from both the business and IT: the more you plan, the better chance there is of this happening smoothly.

Data Protection Act

If you are using an automated system to verify your subcontractors, does your Data Protection Registration cover you for all of the information that you are storing about your subcontractors?

Bear in mind that in order to pay a nominee you need to hold their personal information as well.

Closing off the old year

As you close off the old year you need to allow some time for normal business procedures to take their course. Of course, you have until 19th April to present your 2006-07 payment to HMRC and generate the final CIS25s, and until 19th May to validate and file your CIS36.

If you struggle to do this in good time under normal circumstances, can you expect that staff working hard to get to grips with the new scheme and changes in to your systems will be able to close the old year in good time? You must plan your resources carefully.

You should reconcile and document the 2006-07 year closing position in as much detail as you can. You will not be able to make compensating adjustments across the schemes, so it is vital that the old year is as clean as possible. It will save time in the long run.

Monthly Sub-contractor Payment & Deduction Statement

Instead of sending paper CIS25 vouchers every month, you must now send a statement to each subcontractor paid under deduction, that is, if they have had any tax deducted from their payment during the tax month.

HMRC regulations allow you to send this statement electronically, but only where the subcontractor has agreed to this. Otherwise you must produce a written statement, which is deemed to include a fax.

To ensure that subcontractors can receive their statements, there is no substitute for trying to communicate with them using the address in your records, and if they do not respond, you should follow-up with a letter to make sure that your data is correct.

Ensure that you keep the subcontractors consent for electronic delivery of statements on file, and ensure that the consent specifies the email address to which communications must be sent.

Common sense tells you that it is incumbent upon the subcontractor to notify you if their contact details change, but if put in writing, the subcontractor cannot be critical of your processes if they fail to do so. A subcontractor "self-service" portal will move the initiative to make the changes onto the subcontractor.

Starting the New Scheme

To verify or not

Verification of subcontractors that you already have a relationship with will not be needed for some time after the start of the new scheme. They will be listed on your CIS333.

Any new subcontractors will need to be verified with HMRC before payment. Subcontractors whom you have paid since 6 April 2005 do not need to be verified if, when you paid them, you were provided with evidence of one or more of the following:

- registration card, CIS4(P)
- temporary registration card, CIS4(T) with an expiry date of 04/2007 or later
- tax certificate CIS5 or CIS6, with an expiry date of 04/2007 or later

New subcontractors taken on after 6th April 2007 will need to be verified. Any subcontractors not on the CIS333 list who provide up to date credentials before April 6th can be paid according to the tax treatment you would have applied under the old scheme.

Although many systems have the ability to do so, blanket verification of subcontractors is discouraged. When you verify a subcontractor you will be confirming with HMRC, either implicitly or explicitly, that "a tender is accepted / contract agreed / order placed for all of the Subcontractors to be verified". If this is not the case, then the subcontractor should not be verified! You should remember that the verification process is recorded against the subcontractor's tax records. If you have no cause to pay them, HMRC should not be led believe that you might.

Just as importantly, HMRC systems may not be able to meet the demand for this workload, especially at month end when returns will also be submitted electronically.

If your payments system has been changed to cater for new CIS, your procedures will need to be updated. For example, any cheques that you cancel in the new tax year will need to be treated with care. If they relate to the previous tax year, you will need to make sure that repayment is not counted again, and we do not recommend adjusting the new monthly returns to compensate.

The processing of credit notes also needs to be carefully reviewed. Under the old CIS scheme, you may have allowed credit notes to be netted off against new invoices to reduce the payments due to a supplier, typically for faulty workmanship or materials. The new rules forbid this - HMRC view this as the contractor refunding tax. You can allow credit notes to reduce the value of a payment not yet made, but if you allow a credit note against an invoice that has already been settled and reported, you need to telephone HMRC and make an adjustment to a previous return. (There is no electronic means to perform this transaction).

Technology Considerations

Under the legislation, HMRC are unable to present live data to the HMRC CIS Gateway until 6 April 2007. This makes testing of systems and more importantly your data, somewhat difficult.

You will certainly wish to make sure that electronic verification works, but you will have to wait until 6 April 2007 to do this on your own data. You will have completed a number of test scenarios, but you will not be able to check the integrity of your data until after then.

BASDA recommend that you should make sure that your systems and security are working and that your data is to the required standard by submitting a small, selected sample of subcontractors for verification some time after April 6th. As many organisations will be doing this "test-in-live", you should submit no more than 25 subcontractors and include a mix of individual subcontractors and a small batch.

You have between 6th April 2007 and 19th May 2007 to make sure that everyone you intend to pay has been correctly set-up in your system. You need to make sure that when your return is submitted on 19th May, all of the information is correct. If you have used HMRC data, your return should be accepted. However, if your data is not consistent, your return may be rejected.

You will need to ensure that your IT function has successfully applied for all of the live passwords or digital certificates that you need to communicate with the Government Gateway.

Your new processing timetable

Superficially, your timetable for processing CIS will be little different from your old timetable. The basic deadlines will be the same.

You must pay over all deductions to reach HMRC by the 19th following the end of the tax month to which the deductions relate or by the 22nd where payment is made electronically. Where the 22nd is a weekend or public holiday, the payment must be received by HMRC on the banking day prior to 22nd.

You must also issue statements to subcontractors under deduction by 19th of the tax month to which payment relates.

What you must be aware of is that penalties for late returns and incorrect returns are automatic and based on the number of subcontractors you transact with.

Therefore during the first few months, we recommend that you leave additional time to quality assure your systems, processes and returns.

HMRC are making some allowances for the scale of the changes. To give systems some time to bed in, HMRC will not apply automatic penalties until October 2007.

3. What are the implications of the new CIS scheme for IT systems?

– Jo Agresso / Chris Sage

With the introduction of the latest version of the Construction Industry Scheme there are a number of basic questions that organisations will need to answer that are covered in depth by various publications from HMRC such as:

- Do they qualify as a contractor under the new scheme?
- How has the scheme changed?
- Why had the scheme changed?
- Can my existing software handle the new scheme?
- What is the cost of the change?

This booklet from BASDA brings together issues from just one aspect of the CIS scheme - namely the implications of the new scheme on your IT systems. In this first section we have highlighted the different ways in which IT systems will be affected, and how IT can be used to reduce the administrative burden going forward.

Record keeping.

As a contractor you need to keep records of registered subcontractors, the payments you have made to them and the payment deductions made under CIS. The government also keeps records: company returns, PAYE and CIS.

After the introduction of the new scheme all 4 sets of records will be linked together.

Some key information needs to be kept for each registered subcontractor:

- Unique tax reference: UTR
- National Insurance Number: NINO
- Company Registration Number: CRN
- Registered trading name
- Partnership name (for partners)

You may be holding all this information already, in spreadsheets or in your business systems. As part of the implementation of the new scheme you will need to check the information that you are holding and cross check it with HMRC records.

Communication from HMRC

HMRC will provide information to subcontractors directly. In particular:

Existing subcontractors and new subcontractors can be verified against the HMRC records.

The deduction rate to be used will be notified by the HMRC.

10 sub-contractor limit on the phone

50 sub-contractor limit on web-site

Verification can be done over the phone or on the HMRC CIS web-site: <http://www.hmrc.gov.uk/new-cis> . But if you have a large number of subcontractors or a high turnaround then you would find it more efficient to use the electronic communication. This allows you to press a button in your software to send a message to the Government Gateway. HMRC will return a Verification Number on successful match and verification.

Monthly returns to HMRC

Only paper or electronic – no web-site – no spreadsheet – no computer printed stationery – IR Mark.

It will no longer be necessary to submit annual returns. Instead contractors will be required to make monthly returns for all registered subcontractors including nil returns. Contractors will be required to verify the tax status of all newly employed sub-contractors.

With EDI there are 3 significant changes to the process:

- Monthly Return (replacing existing voucher messages)
- Monthly Sub-contractor Payment & Deduction Statement
- Verification Request and Reply (new)

- No end of year return message

In future, Monthly returns can be done:

- manually on HMRC supplied forms. These forms will be pre-printed but the details of new sub-contractors will need to be filled in manually
- via EDI, either EDIFACT or GFF.
- via the internet, (verification only) using the HMRC CIS website. This involves manual entry on screen forms
- by proprietary software application systems through XML verification

IR Mark Quality Standard – this is an encryption / security system used to ensure that data transferred from the contractor to the HMRC arrives precisely as intended and secure.

1. Verification

Verification is the process used to ensure that subcontractors have the correct tax deduction rate made on their payments.

Broadly speaking, there are three steps to verification:

- The contractor provides HMRC with details of the subcontractor.
- HMRC checks the subcontractor is registered with them.
- The contractor is given a rate of deduction to apply, if any.

Before a contractor is able to make any payment to a subcontractor, they will need to verify the subcontractor.

However, if the contractor is paying a subcontractor in the first tax year of the new Scheme, between 6 April 2007 and 5 April 2008, then contractors do not have to verify them if they have already included them on any monthly return in that tax year, or paid them since 6 April 2005.

In any other case contractors must verify the subcontractor.

The information required about the Contractor is:

- Contractor's name
- Contractor's UTR
- Contractor's Accounts Office reference
- Contractor's employer's reference.

And information about the subcontractor is dependent on the type of business entity as follows:

1. Sole-trader – name, UTR, NINO (if known)
2. Partnership
 - i. Partner in a firm - firm's name, partner's name, UTR.
 - ii. Partner is an individual - partner's UTR or partner's NINO
 - iii. Partner is a company - company's UTR or company registration number
3. Company - name of company, company's UTR, company registration number

HMRC records are checked to see if the subcontractor is registered with them and contractors are instructed to pay the subcontractor either:

- gross – no deductions taken
- net - with a deduction at the standard rate
- net with a deduction at the higher rate – reason being here is that there is no record of that subcontractor's registration, or they are unable to verify them for any other reason.

The Verification reference number

This will be the same for each subcontractor that is verified at the same time. If it is not possible to verify a subcontractor, one or two letters are added to the end of the number making it unique to that subcontractor.

In the case of the electronic submission in a third party software application, this is done by a process of matching and verification.

The following chart gives an indication as to how this might be done online, behind the scenes via the government gateway, thus simplifying the process for the user.

2. Monthly return

Contractors must complete a monthly return to reach HMRC within 14 days of the end of the tax month of all payments made to all subcontractors in the Scheme in the preceding tax month. The return is for all subcontractors whether or not they were paid gross, paid net of the standard deduction or paid net of the higher deduction.

A Monthly Return can be made by one of three ways:

1. Internet: <http://www.hmrc.gov.uk/new-cis>
2. Electronically: using either Electronic Data Interchange (EDI) or other third party software
3. Paper Return by Post.

Contractors choosing to use paper returns will receive return forms partially completed by the last day of the tax month. i.e. 5th of the month.

All of the subcontractor's names and taxpayer references that the contractor has previously returned, or newly verified, within the last three months will be pre-printed on the forms.

Contractors are required to check the pre-printed names and UTR numbers and leave blank entries for subcontractors they have not paid in the month, adding names and UTR's of additional subcontractors to whom payments have been made in the month. Additionally, verification numbers need to be added for subcontractors where higher rate deductions have been made. Enter details of the amounts paid to each subcontractor and details of materials allowed and deductions made from those subcontractors not entitled to receive gross payments.

Monthly returns need to be signed and if submitting electronically, by confirming the declarations about verification and the subcontractors' employment status.

Nil returns will be required from Contractors who have not paid any subcontractors in a month and can be submitted by four ways:

1. Internet: <http://www.hmrc.gov.uk/new-cis>
2. Phone: 0845 366 7899
3. Electronically: using Electronic Data Interchange (EDI) or using third party software
4. Monthly return: by completing the section on the monthly return and returning by post.

Needless to say the process of submitting a return is made significantly easier by using the electronic submissions options available in the form of third party software applications and by EDI for the larger contractor.

There are other issues surrounding the submission of returns associated with any incorrect entry of details on the return, subcontractors underpaid or overpaid in error, correcting these errors but these are beyond the scope of this document and are covered in detail in the Contractor's packs issued by the HMRC.

3. Sub-contractor Payment & Deduction Statement

This can be either monthly or per payment made.

Details to be included in the statement are as follows:-

- Name & address of contractor
- Contractors Tax reference
- Names & address of sub-contractor
- Tax Month statement produced (end date of tax month)
- Sub-contractors 10 Digit UTR
- Where relevant verification number – only if tax deducted at higher rate
- Total Gross amount paid – excluding VAT
- Total Less cost of materials – excluding VAT
- Total Amount liable to deduction
- Total tax amount deducted
- Any other amounts and adjustment*
- Amount actually payable to sub-contractor*

*optional – BASDA recommend good practice

4. Data Issues

Introduction

Generally with the new CIS Scheme it is of utmost importance to ensure that the data being held against a subcontract is not only correct but matches the data held by HMRC on the Subcontractor. A failure in the data being sent to HMRC matching to their records could result in the subcontractor being taxed wrongly (and a potential disgruntled Subcontractor and all that can entail!). The trading name is the most likely cause of problems (see detail below).

The data quality can also cause failures, so a space in a name field will be invalid so any double barrelled names in a field will need a hyphen not a space.

HMRC and Trading Names

HMRC holds data on the sub-contractor from various sources:-

For self-employed sub-contractors - from its Self Assessment database – (5 fields) –

- Salutation,
- First name,
- Second name,
- Surname / Family Name
- National Insurance Number (NINO)

For registered companies - from its Corporation Tax database (3 fields) –

- Registered company name
- Trading name
- Company Registration Number.

For the electronic validation and returns Contractors have to be able to return the 4 field version or the 2 field version for an exact match.

Upon registration New CIS will allow subcontractor's to specify two names; their Taxpayer name and a separate Trading Name. The Taxpayer name is not held on New CIS but is simply checked against the existing known taxpayer name (held on Corporation Tax or Self-Assessment systems as appropriate).

The Trading Name is Held locally on New CIS. - On current (Live) CIS HMRC hold the CIS Record Holder (CRH) Name and an optional Trading As Name. Currently only 13% of Subcontractors have nominated a Trading As Name. Where a Trading As Name is not provided the Card Name (the name printed on the card) is usually a shortened version of the CRH unless the Subcontractor has nominated a different card name.

For example:

CRH = MR J MCLAUGHLIN

CIS CARD NAME = J MCLAUGHLIN

Or

CRH = MR J SMITH

CIS CARD NAME = JAMES SMITH (nominated name)

Or

CRH = JOHNSONS ROOFING & CLADDING LTD

TRADING AS NAME = JOHNSONS

CIS CARD NAME = JOHNSONS ROOF & CLAD LTD (nominated name) –

As part of the migration from current CIS to New CIS HMRC will – as a general rule - be populating Trading Name with either the Trading As Name or (where no Trading As Name exists) the Card Name (where this is different from the CRH Name). Subcontractors who register from April 07 will receive a notification following registration (CIS313). This will confirm their registered tax treatment and the details they need to pass to the contractor to allow them to be verified. This notification will give their UTR, NINO/CRN and a registered name.

So, what does that mean in Practice?

Under the existing scheme for manually produced vouchers (handwritten or printed) returned to HMRC, the issue of the name recorded in the software contractors use to pay subcontractors and that used in the production of the vouchers is not critical because any mismatch can be dealt with manually. Those companies currently sending them via EDI may already have encountered the thorny problem of matching the information required for the voucher with that stored in their software. In the new scheme that will extend to every Contractor whether they make returns electronically or not because the information for the monthly return will be based on the subcontractor's UTR, name and NINO/CRN held by HMRC. If the return cannot be matched by HMRC this has compliance implications for the individual subcontractor by changing their tax status and, in the near future, financial penalties levied on the contractor for failing to file returns on time. Initially, matching will be based on two out of the three items but eventually may be changed to all three.

The details used to set up the account in the business system will not necessarily be the same as the limited information held by HMRC. For subcontractors starting with a contractor after April 2007 great care will be required when creating, say, a Purchase Ledger Account to ensure the UTR, NINO/CRN and HMRC verified name is entered plus (where different) the name the payment is to be made to. Providing, of course, their system allows entry of all these details. The CIS specific element is not standard Purchase Ledger or Employee Record information, so any software choice will have to be one that is not only CIS orientated but New CIS compliant as well.

Unless existing subcontractor records were set up and updated adhering strictly to the CIS 4/5/6 Card details, the bulk of the problems will be encountered when trying to match those records with the information appearing on the pre-printed CIS300 produced by HMRC or its electronic equivalent.

Don't despair Help is at Hand!

Fortunately, HMRC have been prevailed upon by BASDA to send all contractors a list of subcontractors they have paid in the last two years allowing them to verify their own records and, where necessary, update them before April 2007. Larger contractors (defined by HMRC as having more than 125 subcontractors) will receive a CD which, hopefully, they will be able to import into their data to produce an exceptions report identifying those records that require amendment.

Two mailings are scheduled, one in November 2006 with the final update in March 2007. The list headings will be the Subcontractor UTR, Subcontractor's name, NINO/CRN, Tax Month last paid and Tax treatment (Gross or Net). Sounds straightforward enough, but remember the subcontractor name being quoted is the one held by HMRC so will be the Registered or Taxpayer name not the trading name, making it highly likely these will be different from what is recorded on the contractors system. Sensibly, the verification search criteria will have to be based on the UTR.

Where differences are identified the contractor cannot notify HMRC direct, only the subcontractor can initiate changes to that database. Thankfully, confirmation of the changes will be sent to both the subcontractor and the contractor. Until then, the Registered/Taxpayer name must be recorded to be used for any monthly return that might be due. If using the pre-printed CIS 300 no amendments should be made to the pre-printed items.

In March, as well as the mailing to contractors, HMRC will be sending confirmation of details held on their files directly to subcontractors. Contractors would do well to make their subcontractors aware of this and how important it will be to waste no time reporting any differences to HMRC.

Remember, subcontractors taken on in October 2006 will not appear in the November mailing, nor will those taken on in February appear in the final mailing in March. For those subcontractors it would be sensible for contractors to ask for sight of their HMRC confirmation letter before April 2007 to verify their records.

What else can go wrong with the data?

Unfortunately, there is another aspect of 'data cleansing' to be considered. To take full advantage of the time saving element of this new scheme, contractors will naturally want to send the CIS300 electronically. Those already making end of year returns electronically from their payroll will already be aware how sensitive the system is to the quality of the data being sent. In fact, currently, there is a 54 page document which details (amongst other things) mandatory fields, maximum field size, validated formats and invalid characters.

Data not complying with this standard is rejected. One will be produced shortly for CIS which will cover everything from the Contractor's own UTR and Accounts Office Reference number to the Subcontractor first name, surname, NINO/CRN and UTR. Again, far sighted software companies will have incorporated the means to validate existing data in advance of April 2007. Failing that, contractors will have to trawl through all their records manually to try and spot anything that will fail the standard. Not such an easy task, because something as simple as having a space as the first character of a mandatory field will cause all the data to be rejected (not just an individual item) yet will not be that obvious to the person doing the checking.

The temptation will be to trust to luck and deal with problems as they arise on the first return after April 2007. OK if only one or two are problematical but not so good if there are substantial numbers and that strategy will also rely on quality of the information coming back from HMRC on which subcontractor has been rejected and why. Ask your colleagues in the Payroll Department how 'user friendly' that system is!

5. Customer Infrastructure

– Jim, COINS

When implementing an IT system (or changing an existing IT system) to cope with the new CIS scheme, the factors which need to be considered are similar to those for any other IT system implementation. These factors can be grouped under four headings:

- Hardware
- Software
- Data
- Users

Successful IT implementation projects are those which give appropriate priority to each of these. Failure to deal adequately with any one of these four areas can lead to a failure of the system implementation as a whole. All four areas require forward planning in order to avoid problems and delays. Remember that depending on the scale of your organisation, implementing change may take several months, so it is wise to check what changes may be required as soon as possible.

The detail of what is required is dealt with in other sections of this document. In this section there are some simple checklists of factors to consider under each of these four headings. The amount of time and effort which needs to be spent on each item will vary between organisations dependent on the size and complexity of the organisation. However, these checklists are generally applicable to all contracting organisations that pay a sufficient number of subcontractors to consider computerised operation of the CIS scheme.

Hardware

This section covers the computer and communications equipment required. In some cases no change may be required, but the areas listed below should be reviewed.

- Server: The server on which the system will run (this will often be an existing server but a system upgrade or replacement may sometimes require a new server).
- Communications: Connectivity between the server and the internet to allow access to the Government Gateway (this may have already been established for payroll year-end returns or may need to be a new connection).
- Peripherals: PCs and printers for users with access to the server (these will generally be existing equipment unless the requirements of a system upgrade or replacement dictate otherwise).

Electronic communication with HMRC for subcontractor verification and for monthly returns is not mandatory. However, for contractors (including deemed contractors) who pay a significant number of subcontractors, it may prove to be the only practicable method.

If new equipment needs to be procured then there may be a lead time involved, so do not leave this too late. Before committing to the purchase of any hardware, compatibility with software and with other hardware needs to be carefully considered.

Software

This section covers the computer software required. There will be action required under this heading for nearly every contractor who regularly pays a number of UK subcontractors.

- Upgrade: Existing accounting software (which could be a sub-contractors ledger, payroll or Accounts Payable) will generally require upgrades, patches or fixes to be applied to operate the new CIS scheme (contact your software supplier to check for availability).
- Replacement: If existing accounting software cannot be suitably upgraded, it may require replacement with a suitable alternative (see list of software suppliers).
- Operating System: Check whether new or upgraded software will require upgrades to operating system software on the server or on users' PCs.
- Compatibility: Check whether new or upgraded software will be compatible with other linked software such as BACS or fax software.

- **Manual operation:** If you currently operate the CIS scheme outside of your accounting software (manually or in spreadsheets), you need to consider very carefully whether this will continue to be a practical option for the new CIS scheme. This is only likely to prove practicable for very low volumes of subcontract transactions.
- **Non-UK Subcontractors:** If you also pay subcontractors outside of the UK, you will need to ensure that your existing or proposed accounting software can simultaneously handle the rules for each jurisdiction. This is particularly likely to be an issue for contractors in Northern Ireland who have contracts both in the UK and in Eire.
- **Installation & Configuration:** Software needs to be installed and configured appropriately. The software supplier should provide details of any configuration and set-up required.
- **Testing:** Software needs to be tested to ensure that it is correctly installed and operating as required.
- **Test environment:** Testing of software may require the use of a separate copy of the software and data so that testing can cover all relevant scenarios without interfering with live operation of the existing scheme or live data relating to the new scheme.

If new software needs to be procured then there may be a lead time involved in implementation, so do not leave this too late. In this case, remember to also consider the appropriate issues related to Hardware, Data and Users as there are some differences under these headings for new systems compared to upgrading existing systems.

It would be advisable to ensure that new or upgraded systems are installed and working at least three months (and preferably longer) prior to the start of the new scheme in April 2007. This will give adequate time for testing and staff training. It will also provide a contingency in case implementation is unavoidably delayed.

Data

This section covers both the static data (such as subcontractor name and address records) and transactional data (such as payment details). There will be action required under this heading for nearly every contractor who regularly pays a number of UK subcontractors.

- **Volumes:** The volume of data will be an important factor in planning for the transition to the new scheme. This could affect the choice of hardware and software required as well as the amount of work involved in handling the data issues. Start by gathering statistics on the number of subcontractors that are paid each month and how many new subcontractors are engaged each month. This will give an idea of the size of your monthly return and the number of subcontractor verifications which will be required on a regular basis.
- **Transitional Data:** Consider how you will handle transitional data at the start of the new scheme. You will need to check your existing records against details provided by HMRC in November 2006 and March 2007. One of the main areas to be addressed is the potential mismatch between the subcontractor names held on your business system and the trading names used by HMRC. The details provided by HMRC will be in electronic format for contractors paying more than 125 subcontractors or on paper for those paying fewer than this.
- **Data Transfer:** If a new system is being implemented consider how the initial data will be transferred into it (electronic conversion or manual re-input). This will depend on a number of factors including data volumes, data quality, compatibility of formats, etc.
- **Quality:** System testing needs to include testing the quality of the data. This is particularly important because the data is electronically communicated to HMRC and data errors could ultimately result in penalties.
- **Input:** Consider the responsibility for on-going data input. Remember to include both maintenance of static data (e.g. subcontractor names and addresses) and input of transactional data (e.g. payments). Do not assume that these responsibilities can remain the same as under the current scheme: because of the change from viewing physical certificates and registration cards to telephone and/or electronic verification of new subcontractors this may need to be different from current responsibilities.
- **Security:** When considering the security of data, remember to consider the back-up and recovery routines for the database which will include the CIS scheme data. Also consider the measures to prevent unauthorised access to the data and your responsibilities under data protection legislation.

Data issues frequently receive insufficient attention in system implementation. It is wise not to underestimate the amount of time and effort required to cover these. There is no need to delay addressing data issues – start as early as possible: no later than November 2006 when you will receive details on your existing subcontractors from HMRC.

Users

This section covers all the staff who will be involved with operating any aspect of the new CIS scheme. There will be action required under this heading for every contractor who regularly pays a number of UK subcontractors.

- Scheme training: Users need to be trained in the requirements of the new CIS scheme so that they understand what HMRC expects and what the implications of non-compliance are.
- Software training: Users need to be trained in how to operate the CIS scheme within the software.
- Procedural training: Users need to be trained in company procedures related to the CIS scheme. This will normally include authorisation procedures for new subcontractors and for monthly returns, also filing of paperwork, etc.
- Training environment: Training of users may require the use of a separate copy of the software and data so that they can be trained in all relevant scenarios without interfering with live data.
- Security rights: Users need to have the necessary security rights within the software to operate the scheme, while unauthorised users are prevented from such access.
- Responsibilities: Users need to know who within the organisation is responsible for the various aspects of compliance with the scheme (because of the change from viewing physical certificates and registration cards to telephone and/or electronic verification of new subcontractors this may need to be different from current responsibilities).
- Help contacts: Users need to know who to contact for help with different aspects of the operation of the scheme (this may be a mixture of internal staff, HMRC help lines, IT infrastructure supplier and software supplier).

Training may be provided internally within the contracting organisation, by software suppliers, by HMRC or by third party training organisations. Different types of training may be provided separately – in this case planning and co-ordination are required to ensure that all relevant areas are covered.

Training for users should not be given too early so that it is still fresh in their mind when they start to operate the new scheme. February 2007 would be the ideal time for training. However training will need to be planned and booked well in advance depending on the number of users involved. Between three and six months before the main training, staff should be made aware of the forthcoming changes and how they are being dealt with in outline.

The above checklists can be used both initially when starting to plan for compliance with the new CIS scheme, and later to help review progress.

6. Customer Testing facilities

- Kevin, Iris

Before focusing on the new CIS reforms, it is important to check your new upgraded system. Whether your system is large or small test the upgrade thoroughly - in the case of the CIS reforms, it would be prudent to ensure any 3rd party applications (such as internet gateways and E-mail systems) are functioning as you would expect.

If you encounter any difficulties contact your system provider immediately.

Once you have confirmed that your system is functioning as you'd expect and you've become familiar with any user interface enhancements (however subtle), it is important to then focus on a number of checks of your system relating to the new CIS reforms.

The quality of your data must be considered paramount. Prior to the 6th April, there is the opportunity to ensure that your application is recording details around your subcontractors correctly.

The following is a list of areas that are critical in your successful compliance with the new scheme.

Configuration

Assuming you are operating as the 'Contractor', ensure that you have updated your general systems configuration statements to accommodate your contractor references (such as the UTR).

Locate and produce a Subcontractors Statement, ensuring that all the appropriate subcontractors and their details are correct.

If you are filing online, ensure that you have completed the online registration and can generate a test submission (the level of test submission options will vary between systems) of your new monthly return.

From the 6th April, a "test-in-live" service will be available for companies who are filing online. This service will enable you to trial your monthly submission with the Government Gateway and HMRC but without officially submitting your return.

If you are not utilising either of the on-line submission routes, then produce a printed copy of the monthly return and ensure the information contained within the report is correct.

Accuracy of information

It is critical that the Trader name and supporting information regarding your subcontractors are correct within your system.

- Ensure that the correct UTR is correct for each subcontractor, and is appearing on the monthly return and subcontractors statement
- Ensure that the NINO is correct for each subcontractor, and is present on the monthly return and subcontractor's statement.
- Ensure that you have applied the correct verification status to each of your existing subcontractors against their records within your system.
- Ensure that you have applied verified any 'new starter' subcontractors and inserted the verification number against their record within your system.
- Check to ensure that any payments made that are applicable previously to the CIS reforms are not included on either the monthly return or subcontractors statement

Throughout your transition to the CIS reforms, and indeed your on-going compliance with the scheme, the quality of the data that the return is based on should be validated on a regular basis. Should inaccuracies of data be present, the HMRC has the powers within its remit to levy financial fines.

What to do if the tests highlight a problem

Should you encounter any difficulties with any of the recommended tests listed above, it is imperative that you contact your appropriate system provider immediately.

If difficulties are encountered, the source of the issue could relate to any one of the three distinct providers of your IT environment. The providers are:

- HMRC
- Software provider

- Hardware provider

Typically you should contact the appropriate provider loosely around the following examples of difficulties you may encounter.

Contact HMRC for difficulties such as

- No response from the Government Gateway
- On-line registration information has been rejected

Contact your Software provider for difficulties such as

- Inaccurate information being reported on the monthly return
- No subcontractor payments are present on the monthly return

Contact your Hardware provider for difficulties such as

- You are unable to connect to Internet
- You are unable to connect to your network environment
- The printer is off-line

7. Risk Analysis

Introduction

Today, the vast majority of businesses rely on technology for the day to day running of systems and automation. Any disruption to these systems can have a severe impact on their financial status and, in some cases, a terminal effect.

Therefore whenever new technology or systems are implemented into a business there can potentially be negative impacts as well as the expected positive ones, and some critical decisions need to be taken.

Without a rigorous method for risk assessment many projects perform poorly or fail because they try to deliver too much given limitations on resources, finances and staff.

Risk Exposure

You need to be able to identify the risks and benefits early on and be able to monitor the risks as the project develops. The more work undertaken to identify where the risks are, the higher the likelihood that the project will be delivered within the timescales set, to the right level of functionality and quality, but with the bonus of minimum disruption to the business.

In the planning process all areas of the business affected by the new system should be analysed and any risks, or the potential impact of the new system measured. It may be that the system is being installed into two areas within the business – one which is already computerised and the other which is moving from a manual process.

The most effective way to measure the impact is to devise a rating system from, for example 0 – 5 or a simple Low, Medium, High. The criteria can range from no impact right through to severe impact.

Risk Reduction

Once identified you need to reduce your exposure on projects. This can be achieved in a number of ways such as avoiding the risk (changing the requirements for example), passing on or transferring the risk and finally taking responsibility for that risk. The risk should then be prioritised and this is achieved through ranking and ordering the risks using the rating system.

Risk Monitoring

Every area of the project that has some element of risk attached to it needs to be monitored and tracked to make sure that progress is being made in resolving the risk and that corrective action is being taken where necessary.

Risk Management Plan

The most effective way to manage risk is through a proactive plan. This will allow you to identify, analyse, prioritise and track the risks within your implementation and make it easier for you to manage any issues as they occur.

The plan will make you focus on the high risk issues first and monitor the others as they progress.

Conclusion

Following the above recommendations will minimise the number of problems occurring with new system implementation and make sure your projects fulfil your business requirements. It will also have a positive effect on your staff who are the ultimate users of the system as you will have taken their needs and requirements into consideration from the outset and their acceptance levels will be greatly increased.

Glossary of Terms

HMRC – HM Revenue and Customs

CIS – Construction Industry Scheme

Term	Meaning
Accounts Office Reference	This is an HMRC reference number for the contractor which must be quoted on monthly returns and verification requests. This will be ??????????????
CIS	Construction Industry Scheme
CIS340	The HMRC Guide for contractors and subcontractors setting out the operation and rules for CIS.
Construction Operations	The scheme covers payments for construction operations which are defined in paragraphs 2.41 to 2.44 and Appendices A and B of CIS340.
Contractor	A contractor is a business or other concern that pays subcontractors for construction work. See CIS 340 paragraph 2.4 for details.
Contracts	A contract means any legally binding agreement or arrangement under which one individual or business does work or provides services for another individual or business. See CIS 340 paragraph 2.40 for details.
CRH	CIS Record Holder (name)
CRN	Company Registration Number
Deductions	A deduction is the amount that a contractor has to withhold on account of tax and Class 4 NICs from a payment made to a subcontractor.
Deemed Contractor	Under the Scheme, some organisations outside the construction industry which carry out or commission construction work are deemed to be contractors if their average annual expenditure on construction operations exceeds £1 million. See CIS340 paragraph 2.6 for details.
EDI	Electronic Data Interchange – this is an alternative to the internet as a means of communicating electronically between a contractors system and HMRC. However, this is not supported by most commercially available software packages.
Employer's Reference Number	This is an HMRC reference number for the contractor which must be quoted on payment and deduction statements. This will be ??????????????????
Employment Status	For a contract to be within the Scheme, it must not be 'a contract of employment'. This means that the Scheme applies to workers who are self-employed under the terms of the contract, and who are not employees subject to Pay As You Earn (PAYE). Contractors are required to declare on their monthly return to HMRC that the employment status of all subcontractors has been considered.
Government Gateway	Centralised registration service for e-Government filing services allowing the exchange of electronic data.
Higher Rate	The rate of deduction from unmatched subcontractors – currently 30%
HMRC	Her Majesty's Revenue and Customs – the government department responsible for collecting taxes combining the former Inland Revenue and HM Customs & Excise
IR-Mark	A cryptographic message digest algorithm using Canonicalised XML - means of proving that the data sent was the data received – non-repudiation.
Matching	Matching is similar to verification, but for those subcontractors who are unmatched no unique verification number will be issued (and no payments may be made). This gives the contractor the opportunity to check the details before

	resubmitting for matching or verification.
Monthly Return	Each month, contractors must send HMRC a complete return of all payments made to all subcontractors within the Scheme in the preceding tax month. This can either be sent electronically or on paper.
NINO	National Insurance Number – format AANNNNNNA
P35	Employer's Annual Return to HMRC which must include the total of deductions from subcontractors under CIS as well as from employees under PAYE
Payment and Deduction Statement	The contractor must provide a written statement to every subcontractor from whom a deduction has been made within 14 days of the end of each tax month. There is no set format but certain information must be included. The statement can either be provided for each payment or monthly to cover all payments in the month.
Payments	A payment is anything paid out by the contractor to the subcontractor under a contract for construction operations. This applies whether or not the payment is made directly to the subcontractor. See CIS 340 paragraph 2.34 for details.
Standard Rate	The rate of deduction from matched subcontractors who are liable to tax deduction – currently 18%
Subcontractor	A subcontractor is a person or body that has agreed to carry out construction operations for a contractor. See CIS 340 paragraph 2.24 for details.
Subcontractor Statement	Monthly statement produced by the contractor detailing all payments made to all subcontractors for the previous Tax Month – nil returns not required
Tax Month	A HMRC designated period for taxation purposes spanning 6 th of one month to the 5 th of the next month
TTQT	Tax Treatment Qualification Test – designed to determine the tax status of the subcontractor – Unregistered, Gross or Net.
Tax Year	HMRC Tax year runs from 6 th April to the 5 th April the following year.
UTR	Unique Taxpayer Reference. The contractor and subcontractor will each have a UTR which needs to be recorded within the contractor's records. This will be a ten digit number.
Verification	Verification is the process whereby a contractor checks the tax status of a subcontractor with HMRC. If the subcontractor details are matched, this will result in the contractor being informed that payments should be made either gross or net of deductions at the standard rate. If the details are unmatched the contractor will be given a unique verification number for the subcontractor under which payments must be made at the higher rate of deduction. See also matching.
XML	eXtensible Markup Language – the open standard for the exchange of data over the Internet.