UK - Construction Industry Scheme (CIS) Withholding - Localisation
Functional Overview
Ellipse EAM®9.0
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Contents

Introduction .................................................................................................................................................. 4
Purpose ................................................................................................................................................... 4
Business Benefits .................................................................................................................................. 4
Business Rules ........................................................................................................................................ 5

Process Overview ........................................................................................................................................ 6
Ellipse Client Must Register for CIS before taking on the first subcontractor ......................... 6
Set up Add Tax Codes that will be assigned to UK CIS Contractors ........................................ 7
Maintaining Subcontractors via Ellipse Supplier Application ...................................................... 10
  Maintaining Ellipse Supplier Global Information: ................................................................... 10
  Maintaining Ellipse Supplier Business Information: ............................................................... 11
Processing Purchase Requisitions/Orders ..................................................................................... 15
Receipt of Services .............................................................................................................................. 15
Processing Invoices ............................................................................................................................. 16
  Enter Invoice Header Details ....................................................................................................... 17
  Enter Invoice Item details ............................................................................................................ 18
  Enter Labour Amount for UK CIS Withholding ......................................................................... 19
Paying Invoices Subject to UK CIS Withholding ....................................................................... 20
  View the Invoice Record via MSO263 – Review Invoice after it has been paid .................... 21

Component Differences in Ellipse 9.0 ................................................................................................... 24
  New Components .......................................................................................................................... 24
  Modifications to Existing Components ...................................................................................... 25
    MSM200C – Create/Modify Supplier Classifications .............................................................. 25
    MSM20DA – Create/Modify Supplier Business Information .................................................. 26
    MSE200 – Review Suppliers Classification Tab ....................................................................... 28
    MSE203 – Review Supplier Business Information – Tax Details tab ..................................... 29
    MSM26JA – Enter Tax Details ................................................................................................. 30
    MSM26KA – Review Invoice Taxes ....................................................................................... 31
 Obsolete Components .................................................................................................................. 32

How to Configure ...................................................................................................................................... 34
  Modules ............................................................................................................................................. 34
  System Control File ...................................................................................................................... 34
  District Control File ....................................................................................................................... 35
Enable UK CIS Withholding Localisation via MSECFG – Localisations ................................ 36
Define UK CIS Withholding codes via MSO018 – Maintain Add Tax Code .......................... 37
Data Conversion .................................................................................................................................. 39
Security ................................................................................................................................................. 39
Definitions, Acronyms and Abbreviations ....................................................................................... 40
References ............................................................................................................................................ 40
Introduction

Purpose

The purpose of this functional overview is to provide an explanation of the localisation developed in Ellipse 9.0 to cater for the UK Construction Industry Scheme (UK CIS).

This localisation has been developed as part of core Ellipse but must be enabled using the MSECFG – Localisations.

Business Benefits

The following business benefits are available to Ellipse clients with the introduction of the UK CIS localisation into core Ellipse 9.0:-

- Agreed localisation functionality is in core Ellipse code and is fully supported by ABB Enterprise Software Development
- Ease of enabling localization
- Compliance of core Ellipse functionality to local statutory regulations.
Business Rules

The following business rules apply to the UK CIS localisation that has been added to core Ellipse:-

- The localisation is enabled by individual district

- The localisation has been developed to meet a specific country's statutory requirements, in this case the UK Construction Industry Scheme. However, this localisation can be enabled for other clients outside the nominated country. If a client decides to enable these localisations, they do so at their own risk.

- Ellipse Additional Tax (Add Tax) is the tax functionality that will be employed to comply with VAT calculations and UK CIS withholdings relating to purchases from or payments to suppliers.

- Ellipse Withholding tax functionality will not be used for UK CIS withholding processing.

- Since Ellipse Add Tax is being employed to manage the UK CIS withholding, it will be the client’s responsibility to define and maintain the Add Tax codes. Examples will be provided as part of this Functional Overview to assist.

- Add Tax is applied at time of invoice processing. With the introduction of the UK CIS withholding, there is no longer any requirement for Purchase Orders to be amended to cater for identification of amounts subject to UK CIS withholding. Purchase Orders can be itemized to best suit the procurement and costing process. The UK CIS withholding solution does not require an extra line item to be added to purchase requisitions/orders being raised for sub-contractors.
Process Overview

In the UK CIS Withholding process, the focus is to provide a solution that uses as much of standard Ellipse functionality and minimises manual intervention in order to support an efficient and timely procure to pay process for sub-contractors.

The solution provides controls over the Supplier Business information when a Supplier is flagged as a sub-contractor. These controls will minimise sub-contractors being paid without having appropriate amounts withheld.

The main design decision with the proposed solution is based on the feedback received that the clients do not need to break out sub-contractor purchase requisitions/orders into labour and materials for accounting or procurement control purposes. The only reason the existing custom solution automatically split a sub-contractor requisition line item was for the calculation and processing of labour withholding.

This solution does not require an extra line item to be added to purchase requisitions/orders being raised for sub-contractors. The Ellipse Add Tax functionality will be used to identify the labour costs that may be subject to amounts to be withheld from invoice payment. Since Add Tax is being used to calculate and process the withholding, this is all done at time of invoice processing. Thus in the UK CIS Withholding solution there is no impact on staff requisitioning, approvals of requisitions, purchase order processing or receipting (if receipt of services stays enabled against ABB Brisbane’s recommendation). Furthermore, with the defaulting capability of Add Tax, Ellipse will automatically prompt AP Staff for the required variables to ensure accurate and timely processing of invoices.

Ellipse Client Must Register for CIS before taking on the first subcontractor

This is done outside of any Ellipse functionality. This has probably already been done in the past for Ellipse clients. If required, Ellipse provides the ability to store the PAYE Reference Number against the District Address (field is titled ABN) via MSM00HA – Maintain District Address Details.
**Set up Add Tax Codes that will be assigned to UK CIS Contractors**

UK CIS Contractors require deductions to be taken from amounts paid to them. The rate that is required to be deducted from a Supplier's payment will be communicated when the Supplier is verified.

Standard Ellipse Additional Tax functionality will be able to process the deductions from the appropriate Supplier's payments. This will be used rather than the Ellipse Withholding Tax functionality.

To cater for current UK CIS Withholding regulations at least three Add Tax Codes will be required to be set up via MS0018 – Maintain Add Tax. These will represent the following deductions:

- 20% for Registered Subcontractors
- 30% for Unregistered Subcontractors
- 0% for Gross Payment Subcontractors

The Add Tax Codes set up for the above deductions **must** be configured as follows (using standard Ellipse functionality).

- They will be set up so that they are applied at the Invoice Header only – ‘Default to Invoice Item = N - No’.
- They will be set up so that the Add Tax calculation is ‘View at Invoice Load = Y - Yes’
- They will be set up to deduct from payments made to the Supplier, ‘Deduct = Y - Yes’.
- They will be set up to account for the deduction at time of invoice payment.

The rest of the Add Tax code definition can be based on the client’s business requirements. Here is a screen shot example of an Add Tax code set up for the withholding of sub-contractors labour items.
Note: you must define the General Ledger Account that the amount deducted from payment to the Supplier will be processed into. This is the Credit Account. This is the account you will eventually use to account for the amounts you have withheld when remitting to the Government.
Extra Add Tax Codes must be defined to calculate and process VAT. The Add Tax codes that have been set up to calculate standard VAT will need the following configuration settings as a minimum:-

- The Add Tax Code is set to default to invoice item ‘Default to Invoice Item = Y – Yes’. This is pretty standard set up for VAT taxes as some invoice items may be exempt from VAT or some items may be recoverable and others not etc.
- It is also suggested that to avoid confusion when invoices are being processed that VAT Add Tax codes are set up not to be viewed at invoice load ‘View at Invoice Load = N – No’

The other Add Tax settings will be based on the standard VAT configuration.

Here is an example of a standard recoverable VAT Add Tax Code.

It is unlikely that an existing Ellipse client would need to amend their current Add Tax codes used to calculate and process VAT.
Maintaining Subcontractors via Ellipse Supplier Application

The legislation requires that before contractors can be paid out of Ellipse, they need to be ‘verified’ with HM Customs and Revenue Department.

While Ellipse will not verify the contractors automatically, as part of the UK CIS Withholding localisation development, controls have been built to prevent a contractor from being paid until they have been ‘verified’.

Maintaining Ellipse Supplier Global Information:-

The following functionality has been added to Ellipse Create/ Maintain Suppliers functions to assist in this when the UK CIS localization has been enabled:-

- A new mandatory field will appear on the MSM200C – Maintain Supplier Global Business Information screen within the ‘Classifications’ Tab. This new field ‘Sub Contractor for UK CIS’ will have a Y – Yes or N – No response.

  If N – No is entered no further special processing is required for the Supplier.

  If Y – Yes is entered then further information will be required to be entered at the Supplier Business Information level.

  This field would default to blank and would require to be populated when a supplier is created.
Maintaining Ellipse Supplier Business Information:-

- Where a Supplier has been nominated as being a Sub Contract as per UK CIS on their global information, the following will appear on the MSM20DA - Modify Supplier Business Information on the ‘Tax Details’ Tab:-

  - Government ID field – enter the Supplier’s UTR (Unique Tax Reference number)
  - A new mandatory field will appear - **UK CI Tax Verification** which will have a response of ‘Y –Yes or N – No’. This field will default to N- No.
If Supplier has been not been verified as a Sub-Contractor

- If **UK CI Tax Verification** is set to N – No – the following validation occurs
  - On the Purchasing Details Tab - ‘Payments Allowed’ field is set to ‘N – No’

Purchasing Details tab is updated automatically to prevent payment Supplier until it has been verified:-

If Supplier has been verified as a Sub-Contractor
If **UK CI Tax Verification** is set to Y – Yes – the following validation occurs

- On the Purchasing Details Tab – ‘Payments Allowed’ field is set to ‘Y – Yes’
- A new field ‘**UK CIS Registration Status**’ will need to be populated from drop down. Valid entries will be 1 – Registered, 2 – Unregistered or 3 – Gross Payment
- On the **Tax Details Tab** Ellipse will validate that the **Additional Tax Defaults Invoice Header field and Add Tax Default Invoice Item** has been populated. It will be up to the user to select the appropriate Add Tax Code that has been defined in Ellipse. There will be no system validation between the entry on the ‘UK CIS Registration Status’ and the percentage on the Add Tax Code selected/ entered.

- Please note the above fields can be populated when the **UK CI Tax Verification** field is set to N – No, its just that they will be mandatory when the **UK CI Tax Verification** field is set to Y – Yes.

- Until the Supplier Business Information has the **UK CI Tax Verification** set to – ‘Y – Yes’, Ellipse will not select any invoices for payment for the nominated Supplier even if they are fully approved and due for payment.
Processing Purchase Requisitions/Orders

With this localization, Purchase Requisitions/Orders will be processed and approved as per standard core Ellipse functionality.

There will not be any system insertion of an extra line for a purchase requisition/order created for a Supplier nominated as a sub-contractor.

Users will create and approve Purchase Requisition/Orders based on how they wish to order and cost work from sub-contractors. There will be no requirement to split labour from materials unless the users wish to cost them separately to different accounts/project/work order/equipment.

Receipt of Services

ABB Ellipse Development recommends that the Receipt of Services functionality is disabled and not employed.

The Approvals Manager functionality in Ellipse 9 is a lot more user friendly for approving service order invoices than the approval functionality available in Ellipse 5 or Ellipse 6.

However, if the client chooses to continue with Receipt of Services, the proposed localisation does not impact this process. The user will receive based on the Purchase Order Item the service is for, as there has been no system insertion of an extra line on the purchase requisition/order.
Processing Invoices

This localization for processing the invoices for Suppliers subject to UK CIS Withholding does impact Accounts Payable’s processing of invoices for Suppliers flagged as subcontractors only.

All other suppliers’ invoices will be processed as per standard core Ellipse functionality.

Basically, this solution requires that the AP Clerk will enter the value of the cost of labour that the invoice is being processed as part of the data entered when loading the invoice into Ellipse.

Ellipse will then automatically deduct and generate the appropriate accounting transactions based on the Add Tax Code defaulted from the Suppliers Business Information’s Invoice Header Default Add Tax Code.

Please note this localization will apply to any invoice type entered against a Supplier that has been flagged as a Sub-Contractor for the purposes of the UK CIS Withholding. It is the Header Add Tax Code that is applied to an invoice that controls whether a labour amount subject to withholding is prompted by the invoice entry screen in Ellipse.

The proposed invoice processing will be as follows.

AP Clerk loads an invoice for a Supplier that is flagged as a sub-contractor (invoice could be service, goods or non order type). For this example I am using a Service Order invoice.

The details are as follows:-

A Service Order for a single item for $1800 worth of maintenance was been processed against a supplier flagged as a sub-contractor in Ellipse.

UKC1 is the Add Tax code set up for UK CIS Withholding of 30%
UKV1 is the Add Tax code set up for UK VAT of 20% recoverable

Invoice Total Value = $2160 of which $1800 is for services/goods provided and $360 is VAT at 20%.

The Supplier has been set up to as a Sub-Contractor who is registered and is subject to 30% withholding on labour.

On the invoice the Supplier nominated that $600 was labour.

Receipt of services is enabled and $1800 worth of services has been received.
Enter Invoice Header Details

With the UK CIS Withholding localization the invoice header and items are entered as per normal.

Access MSO260 – Enter Invoice entry screen

Some points to note about values on the above screen:-

- **Invoice Amount** - will be the total amount as shown on the invoice received from the Supplier. There is no need to account for possible withholding amount.
- **Add Tax Amount** – will be the total amount of VAT as shown on the invoice received from the Supplier. There is no need to account for possible withholding amount.
- **Add Tax Code** – the Supplier has the Add Tax code defined to cater for UK CIS Withholding as default Invoice Header Add Tax code on the Tax Details tab as maintained via MSM20DA – Modify Supplier business Information screen.

Select submit and continue
Enter Invoice Item details

For this example, receipt of services has been enabled, so it is standard matching invoice with receipts/order. If receipt of services not enabled or if it was a different invoice type ie goods/field release/non order invoice you would continue to enter item information as per normal.

Some points to note about the values on the above screen:-

- Add Tax Code – since we are now processing the Invoice Item, the Supplier has the Add Tax code defined to cater for UK VAT as default Invoice Item Add Tax code on the Tax Details tab as maintained via MSM20DA – Modify Supplier business Information screen. This defaulted automatically as soon as the Match to Receipts/Order screen is displayed.

Process the invoice item as per normal – in this case I click on ‘Match Receipts to an Invoice’ action.
Enter Labour Amount for UK CIS Withholding

Assuming that the only Add Tax code I have set up to ‘View at Invoice Load’ via MSO018 – Maintain Tax Definitions is the Add Tax Code created to manage UK CIS Withholding – in this case the header tax code of UKC1, then the next screen that will be displayed for entry is the MSM26JA A - Enter Tax Details for the total invoice/invoice header. This is where I will enter the Labour component from the invoice that is subject to withholding.

Some points to note about the above screen:-

- **Labour Amt** – this is the field that you must enter the value of labour from the invoice that is subject to withholding. Entry is mandatory and if there is no labour component for the invoice then enter 0 in this field. In this example $600 of the invoice related to labour. This value is for the entire invoice and is not entered by line item.

Please note: if you have also set up your Add Tax Codes for the VAT calculations to display at invoice load the MSM26JA A – Enter Tax Details for Line items will appear BEFORE the tax screen for the Invoice Header. The line item add tax screens will not have a field to enter a Labour Amount.

Press submit and the invoice will be loaded.
Paying Invoices Subject to UK CIS Withholding

Please note from this point onwards standard Ellipse functionality will occur. The UK CIS Withholding Amount as defined via application of the Add Tax Code UKV1 to the above invoice will take place when the invoice is paid. Accounting transactions for the withholding on the $600 labour component entered will be generated when the invoice is selected for payment and the MSB289 - Update Invoices as Paid is executed.

Once the above invoice has been paid, the transactions generated at time of payment are as follows:

Some points about the above payment transaction listing:

- The value that the payment is originally being base on is the amount as per invoice ie $2160 ($1800 service plus $360 VAT). This is what Accounts Payable has been reduced by.
- The amount calculated to be withheld at payment is $180 (30% as per UKC1 tax code by the $600 labour amount entered on the MSM26J - Invoice Header Tax Details screen
- Settlement Discount has been calculated as 5% of full invoice value (VAT included) and not adjusted for Withholding amount. When you define the Add Tax Codes via MS0018 - Maintain Add Tax you can define how add tax calculations are treated when Settlement Discount is taken.
View the Invoice Record via MSO263 - Review Invoice after it has been paid

Review the Invoice Header record:

Tax values that have been applied to the total invoice are shown on the Invoice Header record:

- Header Tax Code UKC1 for -$180 is shown detailing that $180 was withheld from payment to the supplier.
- In the Total Invoice section the total Add Tax applicable to the invoice is detailed. In this example it is $180 (VAT $360 + CIS Withholding -$180)
View the invoice item:-

- Item Tax Code UKV1 for $360 is shown detailing that $360 tax was applied to this item.
Component Differences in Ellipse 9.0

New Components

No new components have been developed as part of the UK CIS Withholding localisation.
Modifications to Existing Components

The following components have been modified as a result of this development item:

MSM200C – Create/ Modify Supplier Classifications

If the UK CIS Withholding localisation has been enabled via MSECFG – Localisation application a new field ‘Sub-Contractor for UK CIS’ displays in the Classifications tab.

This new field is so a supplier can be identified as a sub-contractor and subject to UK CIS Withholding regulations.

If Y – Yes is entered additional mandatory fields and logic will appear against the Supplier’s Business Information that must be completed before any invoices can be paid to the Supplier.

If N – No is entered, then the supplier is not treated as a sub-contractor and no additional fields will appear against the Supplier’s Business Information that requires completion before their invoices can be paid.
MSM20DA – Create/ Modify Supplier Business Information

If a supplier has been flagged as a ‘Sub Contractor for UK CIS’ on their global supplier file via ‘MSM200C – Create/ Maintain Supplier Classifications’ the following additional fields and logic will apply when maintaining their Supplier Business Information via MSM20DA – Create/ Modify Supplier Business Information.

MSM20DA – Create/ Modify Supplier Business Information – Tax Details Tab

On this screen the following changes have been introduced:-

- **UK CI Tax Verification** – this is a mandatory field if the Supplier has been flagged as a Sub-Contractor for UK CIS. Valid entries are Y – Yes or N – No. If this field is set to N – No, then the Payments Allowed field on the Purchasing Details tab on this screen will be updated by Ellipse to N – No. This will prevent any invoices being paid to the Supplier until the Supplier has been verified per the regulatory requirements.

Once the UK CI Tax Verification field is updated to – Y- Yes, then Ellipse will automatically update the Payments Allowed field on the Purchasing Details Tab to Y – Yes. This will allow invoices approved for payment will be able to be paid.

- **UK CI Tax Status** – this is the field that the CIS status of the Supplier can be recorded. This is for information purposes. The valid options are:-
  - 1 - Registered
  - 2 - Unregistered
  - 3 - Gross Payment

The UK CI Tax Status appropriate to the supplier must be recorded in this field for record and audit purposes.
The value on this field will be used by the end user maintaining the Supplier to select the appropriate Additional Tax Default for the Invoice Header Code. This Invoice Header Add Tax code nominated as the Supplier's default will be used by Ellipse to calculate and process the withholding.

Please note: it is up to the user maintaining the Supplier record to select the appropriate default add tax codes for a supplier. There is no inbuilt logic within Ellipse.

Additional Tax Default – Invoice Header and Invoice Item Codes are now mandatory when the supplier has UK CI Tax Verification set to Y – Yes.
MSE200 - Review Suppliers Classification Tab

The MSE200 – Review Supplier Classification tab has been updated to display the ‘Sub Contractor for UK CIS’ field if the UK CIS Localisation has been enabled via MSECFG – Localisations.
MSE203 - Review Supplier Business Information - Tax Details tab

The MSE203 – Review Supplier Business Information - Tax Details tab has been updated to display the ‘UK CIS Tax Verification’ and ‘UK CI Tax Status’ fields if the Supplier has been flagged as a Sub Contractor for UK CIS on the Suppliers global information.
MSM26J A - Enter Tax Details

If the UK CIS Withholding localisation has been enabled via MSECFG – Localisation application a new data column ‘Labour Amt’ appears in the grid of this screen for Add Tax Codes that have been defined with the following set up via MSO018 – Maintain Add Tax Codes:

- Default to Invoice Item is set to N – Add Tax Code Not Defaulted from Invoice Header
- View at Invoice Load is set to Y - Yes

For Add Tax Codes that have been set with the above, when MSM26J A – Enter Tax Details screen appears with an extra column titled Labour Amount in the grid:

This field represents the total value of labour on the invoice as per UK CIS regulations that is subject to withholding of payment to the Supplier.

It is mandatory that an amount is entered. If there is no labour amount to be subject to withholding then simply enter 0.

The above localisation change to the MSM26J A – Enter Tax Details will only for header taxes. If you have item taxes set to display then the standard MSM26J A – Enter Tax Details screen will appear.
MSM26KA - Review Invoice Taxes

If the localisation for UK CIS Withholding has been enabled and an invoice has been processed with a Invoice Header Add Tax Code, the MSM26KA - Review Invoice Taxes screen has been updated to display the Labour Amount entered at time of invoice entry.

This is the value entered from the sub-contractor’s invoice that is subject to withholding at time of invoice payment.
Obsolete Components

The UK CIS Withholding localisation is a new development for Ellipse 9.0 onwards and as such there has been no obsolescence of any core Ellipse functionality.

However, the existing customisation developed for the pre Ellipse 9 application will not be available.

Nor will Ellipse Withholding Tax functionality (employed using codes as defined on the WH - Withholding Tax) be used any longer to calculate and process UK CIS Withholding amounts for Suppliers flagged as sub-contractors within the Ellipse Supplier File.
How to Configure

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**Modules**

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<th>Module Name</th>
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<td>Accounts Payable</td>
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<td>3280</td>
<td>Payment Processing</td>
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**System Control File**

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<th>Screen</th>
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</thead>
<tbody>
<tr>
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<td></td>
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</tbody>
</table>
District Control File

Additional Tax functionality must be enabled via the General Tab on MSO00BA - Modify District Control information:

Please note: standard Add Tax codes can be used for the main district defaulting. The important control is that the Invoice Header Add Tax Code/s set up to manage UK CIS Withholding are set up as Header Default codes against the individual supplier records in Ellipse.
Enable UK CIS Withholding Localisation via MSECFG - Localisations

A new localisation entry has been added to the MSECFG – Localisation application in Ellipse for the UK CIS Withholding functionality. This must be enabled by District for the amended functionality to apply.

To enable the localisation simply access MSECFG – Localisation for the selected district and enable the UK_CI_TAX localisation (simply click on the ‘>' to the left of the entry and select enable).
Define UK CIS Withholding codes via MS0018 - Maintain Add Tax Code

Using standard Ellipse Add Tax Code functionality, the appropriate withholding calculations can be defined and then linked to the relevant Suppliers default Invoice Add Tax Code.

This overview is not prescribing the full definition of what is required for UK CIS Withholding calculations but is highlighting what needs to be set up in the codes in order for them to be processed correctly. This is using standard Add Tax definitions, no programming changes have been introduced with this localisation.

For the Add Tax Code to process the UK CIS Withholding correctly the following must be defined for the codes set up to process the withholdings:-

- **Default to Invoice Item - must be set to N - No.** The Withholding Amount being calculated is for the full invoice not by invoice item.

- **View at Invoice Load - must be set to Y - Yes.** This is so the MSM26J – Enter Tax Details screen appears to the AP Clerk so they can enter the value of labour for the invoice that will be subject to withholding.

- **Exception Processing - must be set to N - No.** It is irrelevant what account the invoice has been costed to for UK CIS Withholding purposes.

- **Deduct - must be set to Y - Yes.** The value is being deducted or withheld from payment to the Supplier.

- **Tax at Invoice - must be set to P - Payment.** If you do not want the withholding value calculated at time of invoice load set field to P – Payment. If you set it to Invoice Load it
will still calculate the same but you will have to include the expected value of the withholding amount as part of the Total Add Tax amount entered on the invoice header. It is recommended that you set this field to P – Payment and that way the only tax total needed to be entered on the Invoice Header is the total of the VAT for the invoice.

- **Include - must be set to N – No.** This is a Withholding calculation that is deducted not added to the invoice item price.

- **Recoverable - leave blank** as it is a withholding calculation not a VAT calculation.
Data Conversion

All existing Suppliers will require to have the ‘Sub Contractor for UK CIS’ field populated with a Y – Yes or N – No indicator as this is a mandatory field.

It is recommended that this can be updated via SQL.

Security

Standard Ellipse security and access settings apply. No changes have been introduced with this localisation.
### Definitions, Acronyms and Abbreviations

<table>
<thead>
<tr>
<th>Definition</th>
<th>Description</th>
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<tbody>
<tr>
<td>UK Construction Industry Scheme (UK CIS)</td>
<td>Under the UK Construction Industry Scheme (CIS), contractors must deduct money from a subcontractor’s payments and pass it to the UK HM Revenue and Customs Dept.</td>
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<tr>
<td>Withholding</td>
<td>The amount withheld from payment to Supplier that is passed on to a third party normally a Government Tax Office</td>
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<tr>
<td>Add Tax</td>
<td>The tax engine in Ellipse that can be used to calculate VAT taxes and also be used to calculate withholdings to deduct from supplier payments.</td>
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### References

<table>
<thead>
<tr>
<th>Document</th>
<th>Location</th>
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<tr>
<td>UK Construction Industry Scheme – Contractor Instructions</td>
<td><a href="https://www.gov.uk/what-you-must-do-as-a-cis-contractor">https://www.gov.uk/what-you-must-do-as-a-cis-contractor</a></td>
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