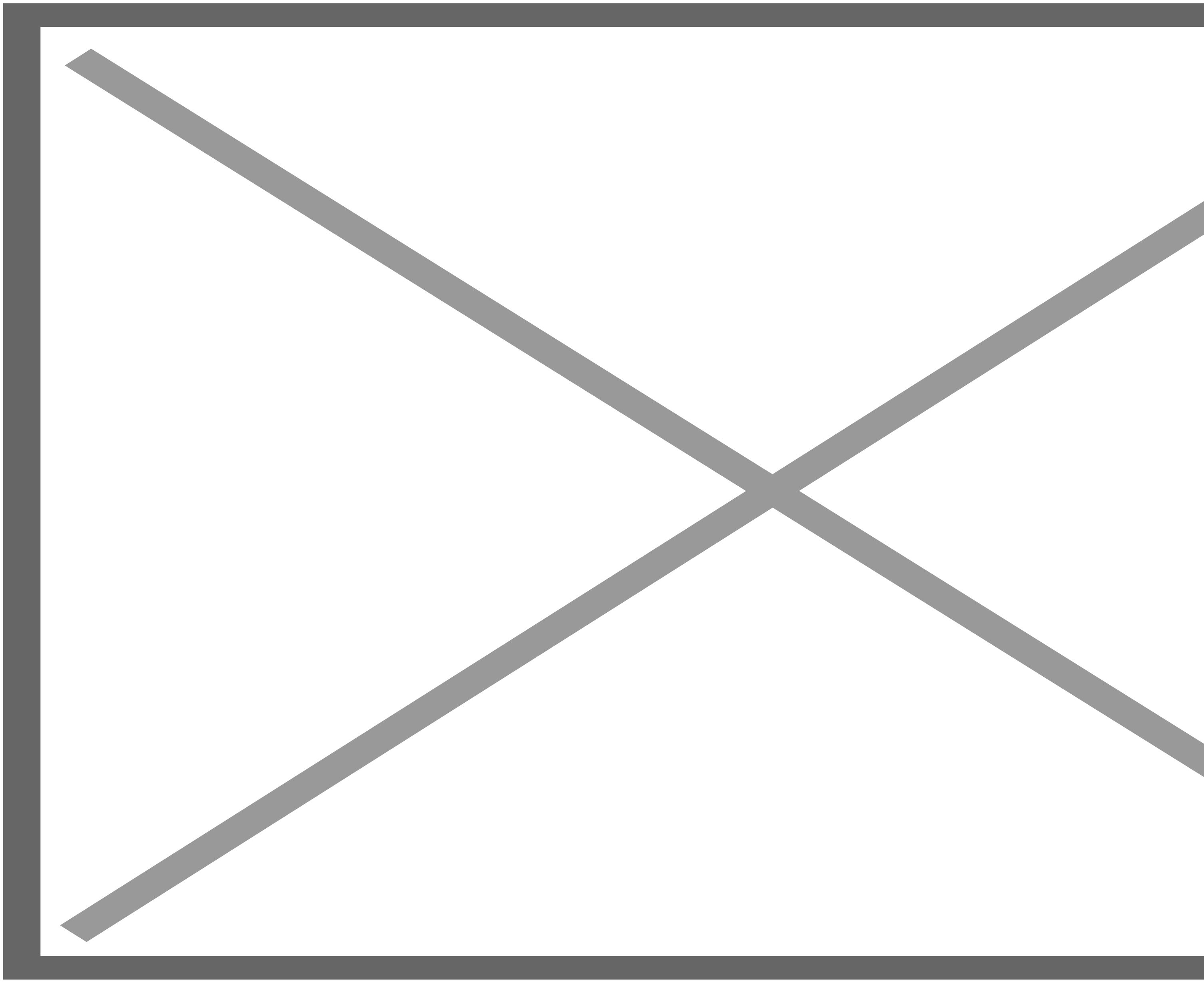
Missing out

Management of taxes OMB



02 March 2021

Bill Dodwell asks how many people have been unable to access the Self Employed Income Support Scheme

On 15 February, the Treasury Committee published its third report looking at the tax and economic effects of Coronavirus (see bit.ly/3bkqcAi). The paper urged the government to extend assistance to ‘those missing out, including limited company directors and freelancers’.

Limitations of the SEISS

The Institute for Fiscal Studies (IFS) published analysis of the Self Employed Income Support Scheme (SEISS) in April 2020 (see bit.ly/3uadg8r), revealing that 5.1 million people reported positive self-employment income in 2016/17 (the most recent year for which detailed data are available). The IFS stated: ‘Among the 3.8 million people who receive more than half of their income from self-employment, we estimate that roughly 675,000 (18%) will be ineligible for the SEISS.’

An update by the IFS in January 2021 (see bit.ly/2OOvaxt) gave more detail on the groups of self-employed people who might be adversely affected by the pandemic but are not eligible for government support under SEISS:

‘These groups are:

- people who have self-employment profits of more than£50,000 per year (around 225,000 people);
- self-employed people who have less than 50% of their income coming from self-employment (around 1.3 million);
- self-employed people who were making losses prior to the pandemic (around 500,000); and
- people who have entered self-employment since April 2019 (around 200,000).’

This latter group should have filed tax returns with HMRC by 31 January 2021, which might give them the potential to be included in future SEISS rounds.

The group with less than half their income from self-employment includes about 40% with employment income and about 20% with pension income as their main source. This will include people who are employed and self-employed at the same time, as well as some who switched to self-employment part way through the tax year. The IFS also estimates that ‘more than half of them have personal incomes below £25,000 per year, meaning that extending SEISS to include this group would target many people on low and moderate incomes. The data also suggest that more than half of this group have profits of less than £5,000 per year.’

This data highlights the growing level of people who are both employed and self-employed, or who are supplementing pension income with self-employment.

The design of the SEISS can also mean that some self-employed people are better off. Unlike the employee scheme, which covers 80% of salary whilst employees are not working, the SEISS is not limited to income lost, no doubt as this would be impossible for HMRC to estimate. A self-employed person able to work, even at a reduced level, could receive more than 100% of normal income as SEISS automatically pays out 70% to 80% of previous earnings.

Company owner-managers

People who are company owner-managers are not eligible for the SEISS scheme.

In limited cases, they might qualify for the Coronavirus Job Retention Scheme for employees. However, this would be based on their employment income and in most cases would be much lower than their total income. It is common for individuals in this position to pay a modest salary (either just below the national insurance threshold or at the minimum wage level) and top up their income with dividends. As national insurance contributions are not paid on dividends, this route reduces the effective tax cost to the owner-manager. It is estimated that there are about 700,000 companies with a sole director and a further 1.1 million with two directors.

The Treasury Select Committee heard from the ACCA about a Directors' Income Support Scheme, which it had developed with consultant Rebecca Seeley Harris (see bit.ly/3u6Aa0C). The scheme envisaged self-certification from the directors, combined with information held by HMRC on the company's profits using the CT600 corporation tax return. Permanent Secretary Sir Tom Scholar wrote to the Committee to say that: 'The government's assessment of the Directors' Income Support Scheme is that the scheme as proposed is unworkable, because it is intrinsically reliant on self-certification by owner-managers of companies. The effect of this reliance on self-certification is potentially to open the scheme up to an unacceptable level of fraud and abuse, and perhaps even criminal activity.'

Caroline Miskin from the ICAEW commented on the Directors' Income Support Scheme: 'We do not think that it would be possible for HMRC to identify those taxpayers who are potentially eligible for support, and to calculate the value of an associated grant, based solely on data held on HMRC's systems. While information from CT600 corporation tax returns is held, it cannot be readily linked to information about directors and shareholders which would be required to establish eligibility' (see bit.ly/3djnDRu).

Perhaps one of the lessons we can draw is that we need to think broadly when defining the information on tax returns. Maybe if the corporation tax return had included dividends and links to the directors and shareholders (persons of significant control), a workable scheme could have been devised.