

CORONAVIRUS: SELF-EMPLOYED INCOME SUPPORT SCHEME

Millions of self-employed individuals will receive direct cash grants through a ground-breaking UK-wide scheme to help them during the coronavirus (COVID-19) outbreak.

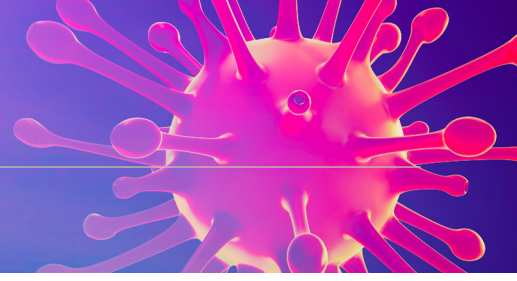
The 26 March 2020 announcement laid out comparative support to that provided to employees under the Coronavirus Job Retention Scheme (CJRS). More specifically, the package comprises:

- Direct cash grants to qualifying self-employed persons at a level of 80% of their average profits earned over the past three years, up to £2,500 per month
- Paid for at least three months
- Allowing the self-employed to continue to work while receiving this payment
- The level of payment and eligibility will be calculated by reference to past self-employed earnings disclosed in tax returns held by HMRC
- Payments will start at the beginning of June 2020 and will be paid in one instalment direct to individual's bank account
- Self-employed persons include partners and members of LLP partnerships.

ELIGIBILITY

The scheme will be open to those who:

- Submitted an Income Tax Self-Assessment tax return for the tax year 2018-19
- Traded in the tax year 2019-20
- Are trading when they apply, or would be, were it not for COVID-19
- Intend to continue to trade in the tax year 2020-21
- Have lost trading/partnership profits due to COVID-19
- Had declared to HMRC that they had a personal income from self-employment that was either:
 - Less than £50,000 in 2018-19, or
 - An average trading profit of less than £50,000 from 2016-17, 2017-18 and 2018-19.
- If a person started trading between 2016-19, HMRC will only use those years for which they filed a Self-Assessment tax return.



INELIGIBLE PERSONS

Persons that were not self-employed and do not meet these criteria will not qualify. Neither will persons who derived less than 50% of their total income from self-employment in these periods. If now employed, they may qualify for income support under the CJRS scheme.

Director and shareholders of companies who pay themselves a salary and dividends through their own company are not covered by the scheme either, but their salaries are covered by the CJRS if they are operating PAYE schemes. Directors that elected not to take a salary and pay PAYE, but draw payments on account of past or future dividends, will not qualify.

THINGS TO CONSIDER

Ensure your tax affairs are up to date. If a tax return has not been filed in January and due tax not paid, the position on payment is unclear, but the July 2020 payment is already deferred to January 2021.

If tax was due and unpaid, you should seek a 'time to pay' arrangement with HMRC. It is essential to file any missing tax returns for the periods up to 2018-19 - you have until 23 April 2020 to do it (different criteria may apply when assessing late returns - re fraud etc).

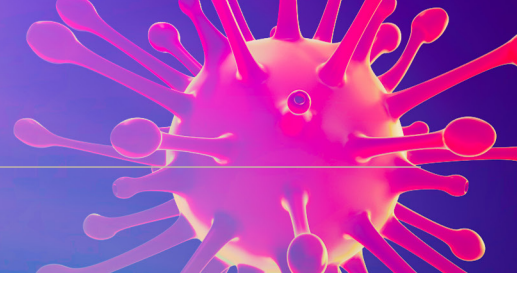
You cannot apply for these grants yet - HMRC will assess eligibility from information they now have and they warn that contacting them could add delay.

Eligible people will be contacted and invited to apply online and, once they have done so, the sums payable will be calculated by HMRC.

More details will follow the announcement in the next few days and weeks.

Unlike the CJRS, higher earners will not receive any payments (even if capped). But how any hardship criteria due to coronavirus is to be assessed is not clear, nor is it clear that trade must have been stopped. There is no clear equivalence of 'furloughing' or cessation of trade.

The position of persons who only became self-employed after 2016-17 - 2018/19 is also unclear at this point.



THINGS TO CONSIDER

According to Government statistics¹, in 2016-17 there were circa 5.5m persons with self-employment income of less than £50,000 (around the same number in 2017-18). Of those, 2.7m people derived more than 50% of their income from self-employment (2.9m in 2017-18). This would seem to indicate the scale of support this may offer to the self-employed.

Many self-employed persons who may have earned over £50,000 in those periods will secure no support through this scheme. Some of these businesses may have traded without the benefit of limited liability. These can be substantial businesses (e.g. trading partnerships), which are now facing greater risks from any substantial liabilities.

As part of these announcement, the Chancellor also suggested some tax breaks previously provided to the self-employed, such as lower national insurance, may end in the future.

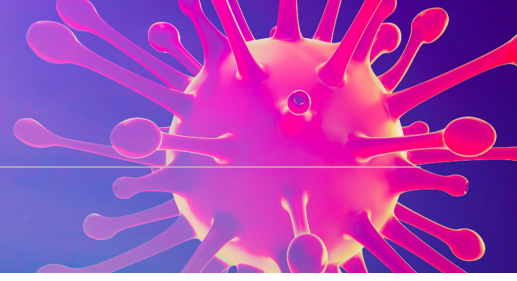
SMALL OWNER MANAGED ENTERPRISES (SMES) - COMPANIES

The position of many SME companies is that many will have adopted a policy of paying low salaries to shareholders employed in the company (often around £8,600 per annum), who then receive distributions of profits as dividends.

These businesses may derive little support through the CJRS and no support from this scheme as they fail to qualify in any substantial way as an employee or as self-employed.

Had their business been established as an LLP or partnership, they would more likely have qualified for this self-employed scheme.

¹ <https://www.gov.uk/government/statistics/income-of-individuals-with-self-employment-sources-2010-to-2011>



RECOMMENDED ACTIONS

Any businesses that include self-employed people (that may have been holding out for support), and find themselves in difficulty, should seek advice from specialist accountants and solicitors. They can help manage businesses through crisis and work to avert formal insolvency proceedings, or help the business seek relief from liabilities.

Contact a member of the Restructuring and Insolvency team to understand your options.



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