

Self-employment Income Support Scheme update

(Lecture P1193 – 13.00 minutes)

Overview

The self-employed will be able claim a non-repayable grant, initially for 3 months, worth 80% of trading profits up to a maximum of £2,500 a month. Any grant received will be taxable as part of self-employment income and so could affect Universal Credit claims.

On 14 April 2020, HMRC updated their guidance on this scheme, stating that once the online system is ready, they will contact taxpayers by mid May 2020, aiming to make payments by early June 2020.

HMRC plan to invite eligible taxpayers to claim using the GOV.UK online service that they are developing. Those who cannot claim online will be given an alternative method but as yet, we have no further information on this.

HMRC has said that if an individual receives texts, calls or emails claiming to be from HMRC, offering financial help or a tax refund and asking them to click on a link or to give personal information, it is a scam.

Who is eligible?

The self-employed and members of a partnership are eligible provided their business has been adversely affected by COVID-19 and they:

- have submitted their 2018/19 tax return (or do so by 23 April 2020);
- traded in the tax year 2019/20;
- are trading when they apply, or would be except for coronavirus;
- intend to continue to trade in the tax year 2020/2021;
- have lost trading profits due to coronavirus.

Unlike the Coronavirus Job Retention Scheme, individuals can continue to work or take on other employment as well as voluntary work.

Trading profits must not exceed £50,000 and half of total income for either:

- tax year 2018/19; or
- average of the tax years 2016/17, 2017/18, and 2018/19.

Trading profits

The taxable grant will be based on average trading profit over the 3 tax years: 2016/17, 2017/18 and 2018/19.

Trading profit will be the profit reported on the tax return for each of these years, before deducting both losses carried forward from previous years and the taxpayer's personal allowance.

Where an individual has more than one trade, the results of these trades will be added together or, where one trade is profitable and the other loss making, netted off.

Averaging profits

To work out the average trading profit HMRC will add together all profits and losses for all tax years and divide by the number of years of trading.

Example 1

Trading results for a sole trader were as follows:

2016/17 £60,000 profit

2017/18 £55,000 profit

2018/19 £25,000 loss

The average annual trading profits are: £30,000 $(£60,000 + £55,000 - £25,000)/3$

Limited trading

Where the individual has not traded for three years, but has only one or two year's results, HMRC will base calculations on either:

- 2017/18 and 2018/19; or
- 2018/19 only.

Example 2

Trading results for the sole trader were:

2017/18 £25,000 of profit

2018/19 £45,000 of profit

The average annual trading profits are: £35,000 $(£25,000 + £45,000)/2$

Amending tax returns

Where a tax return is submitted after 26 March 2020, any changes will not be taken into account when working out eligibility or amount of the grant.

Loans covered by loan charge

The self-employed who have received payment for work in the form of a loan covered by the loan charge, may be able to claim the grant, but eligibility and average trading profits will be based on either the:

- average of 2016/17 and 2017/18;
- 17/18 if not self-employed in 2016/17.

Farmer averaging relief

HMRC will use the amount of profit before the impact of the farmer's averaging claims.

This information was as given by HMRC by 15 April 2020. We will be sure to update you as and when more information becomes available.

Big unanswered question!

The guidance so far says that traders must have lost trading profits due to coronavirus. None of the worked examples from HMRC to date show how this will work in practice if a trader is able to continue trading but has reduced income rather than a total closure.

Consider this example. Rosie has worked out that she has average profits (from 2016/17, 2017/18, 2018/19) from running her restaurant of £2,300 per month. Although she has been forced to close her restaurant, she is able to generate £1,000 per month by switching to supplying 'meals to the door' and food boxes to people in the local community.

How will the grant be calculated?

Will it be for £1,840 (£2,300 x 80%) for each of the three months? If that is the case, her monthly income is now £2,840 (£1,000 + £1,840) which is more than her averaged monthly amount. This cannot be right but there are no details to say otherwise.

It would seem likely that the grant should ultimately be restricted to her **loss** of £1,300 (£2,300 - £1,000) but how this would be achieved, we do not know. It could be affected at the time of the application, but at that stage Rosie would not know her relevant actual profits. Alternatively there could be some kind of a claw back in a later tax return. We will just have to wait and see.

<https://www.gov.uk/guidance/claim-a-grant-through-the-coronavirus-covid-19-self-employment-income-support-scheme-history>