

Directors Income Support Scheme (DISS) Policy proposal

This is a proposal to assist the government in how to provide limited company directors with assistance during the Coronavirus Pandemic. It does not seem to be possible to use dividends as a method of quantifying government assistance so another method might be to look at the trading profits of the company. This would put it on equivalent footing with the SEISS scheme.

The Scheme should not be too labour intensive for HMRC nor open to fraud because the information can be evidenced. At a rough estimate, the scheme could cost between £2 bn and £6 bn depending on how many directors the government decided to help.

Summary

The scheme would be based on the CT600 trading profits of small actively trading companies for the benefit of the directors (s). The grant would, however, be paid into the company so, would be taxable income. The CT600 trading profits would need the director's remuneration added back in to make it the equivalent of the trading profits of the self-employed individual using the SEISS scheme.

This scheme would cover an eligible individual who was an executive director and a Person of Significant Control (PSCs). The eligible individual could be a sole director/shareholder in a non-employing company of which there are 946,000¹ or one of several working directors or PSCs in a micro-entity, of which there are 1,157 million or an actively trading small company, of which there are 2 million. The company needs to be actively trading and not an investment or property company.

The scheme would be verified either by an accountant or self-certified by the director of the company, which is protected from fraud by the director's duties.

1. Basis

The scheme would be based on the trading profits as evidenced by the CT600. The CT600 shows the trading profits of the company, whatever size they are. The only problem would be that the director's remuneration is included in the trading profits, whereas drawings are not included in the trading profits of the self-employed. So, for both figures to be equivalent, director's remuneration would have to be added back into the CT600 figure. Both these figures are available from records of the company held by HMRC.

2. Scope

The scheme would mirror the same provisions as the Self-employed Income Support Scheme (SEISS). The support would be paid into the company and form part of its taxable profits. It would not be paid to the director as an individual but, could be used as taxable income or for cash flow, for example.

The SEISS scheme that runs from November is based on those self-employed individuals that have claimed previously. When they claimed previously, they had to prove three years worth of accounts, the DISS scheme would be on the same basis.

¹ <https://www.gov.uk/government/statistics/business-population-estimates-2020>

It should run from:

November 2020/date of adoption of the policy – 31 January 2021

The Government will provide a taxable grant calculated at 80% of 3 months average monthly trading profits, paid out in a single instalment and capped at £7,500 in total.

February 2021 – April 2021

On the same basis as the fourth grant for SEISS.

If it is in a company with more than one working director, the limit would increase to accommodate each director in proportion.

The government is also urged to backdate the DISS scheme to equal the payments from the SEISS scheme. If the director has been claiming CJRS during that backdated period, that amount would be deducted from the DISS scheme amount.

3. Verification

Verification will mirror the SEISS scheme and be in two parts.

Trading profits

There are two routes to verification of the CT600² trading profits and the director's remuneration, either:

Self-certification

As the individual is a director, under the director's duties they will be committing an offence if they lie about the figures. So, it would be quite easy to verify the facts.

Accountant verification

An accountant verifies the figures but only based on a simple extraction from the CT600, they are not required to form an opinion. This will probably speed up the process and prevent accountants from charging too much for the verification.

Coronavirus Declaration

The director must declare that they intend to continue to trade and either:

- are currently actively trading but are impacted by reduced demand due to coronavirus
- were previously trading but are temporarily unable to do so due to coronavirus

4. Eligible individual

Director

The scheme may be limited to executive statutory directors with a significant shareholding and/or a PSC. This should exclude those directors who finance the business but, don't work in it.

Person with Significant Control (PSC)³

Most PSCs are those who hold:

- more than 25% of shares in the company

² <https://www.gov.uk/government/publications/corporation-tax-company-tax-return-ct600-2015-version-3>

³ <https://www.gov.uk/guidance/people-with-significant-control-pscs>

- more than 25% of voting rights in the company
- the right to appoint or remove the majority of the board of directors

This PSC must be an individual, not a trust.

By using the PSC, the scheme would be limited to a small actively trading company with four directors or less. This is because of the 25% holding criteria.

A director with a significant shareholding could:

- only claim for one directorship in the entity in which they have the greatest income;
- be made by a director referencing their UTR on behalf of the company;
- not claim if they are also claiming for CJRS from the company.

5. Company size

The scheme would be based on a company that was actively trading, so not a property or investment company, with three years of accounts. It is intended to apply to all small companies but could be limited to either:

- Non-employing companies 946,000
- Micro-entities 1,157 m
- Small actively trading companies 2 m

These figures are according to BEIS Business Population Estimate 2020⁴

Non-employing companies

Companies did not employ anyone aside from the owner(s) – the data suggests that there could be more than one director/shareholder in this cohort.

Micro-entities⁵:

- a turnover of £632,000 or less
- £316,000 or less on its balance sheet
- 10 employees or less

Small actively trading company

Generally, your company or organisation is considered to be active for Corporation Tax purposes when it is, for example:

- carrying on a business activity such as a trade or professional activity
- buying and selling goods with a view to making a profit or surplus
- providing services
- earning interest
- managing investments
- receiving any other income

⁴

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/923565/2020_Business_Population_Estimates_for_the_UK_and_regions_Statistical_Release.pdf

⁵ <https://www.gov.uk/annual-accounts/microentities-small-and-dormant-companies>

Costings

	Number of entities	Number of Directors
Non-employing companies	946,000	946,000
Micro-entities	1,157 m	
Small actively trading companies	2 m	4 m (2 Director avg)

The support would range between 946,000 non-employing businesses with one director to 2 million small actively trading companies and 4 million eligible Directors (estimated).

Entity trading profits are capped at SEISS levels. As the profit level is not a publicly quoted figure a cautiously high estimate of eligible companies have been included, with eligible profits, Directorship and PSC being 70%.

Take-up levels for eligible companies are based on the SEISS uptake – 75% and average claim £2,900 <https://www.gov.uk/government/publications/self-employment-income-support-scheme-statistics-july-2020/self-employment-income-support-scheme-statistics-july-2020>

- 3.4 million self-employed individuals were identified as potentially eligible for the SEISS scheme. This means that they met the income and trading activity criteria for the scheme based on Self-Assessment returns from 2018-19 and earlier years. However, some of these businesses will not have continued trading since 2018-19 or will not have been adversely affected by Coronavirus so will not be eligible.
- By 30th June, 2.6 million of the potentially eligible population (75%) had claimed a SEISS grant with the value of these claims totalling £7.4 billion. This compares to 2.4 million claims made and £7 billion claimed by 31st May, as published in the statistics in June.
- The average value per claim was £2,900.
- 4 million directors x 70% x 75% at £2,900 claim = £6 bn
- 946,000 sole directors x 75% (709,500) at £2,900 per claim = £2 bn

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Dated: 19 November 2020