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HM Treasury

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Caroline Lucas MP
House of Commons
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Dear Caroline Lucas,

Thank you for your correspondence dated 28 May regarding the Self-Employment Income Support Scheme. The Treasury has received unprecedented amounts of correspondence since the start of the coronavirus outbreak in the UK and I am sorry for the delay so far in replying. The Chancellor of the Exchequer has asked me to write to you directly.

The Self-Employment Income Support Scheme (SEISS) helps those adversely affected by COVID-19. The Chancellor of the Exchequer announced an extension of the scheme on 29 May and eligible individuals may now qualify for a second and final grant. This means the UK continues to have one of the most generous self-employed COVID-19 support schemes in the world as the economy reopens.

The SEISS opened for applications on 13 May, ahead of schedule, and it remains open for applications for the first grant until 13 July. Self-employed individuals, including members of partnerships, are eligible if they have submitted their Income Tax Self Assessment tax return for the tax year 2018-19, continued to trade, and have been adversely affected by COVID-19. To qualify, their self-employed trading profits must be no more than £50,000 and at least equal to their non-trading income. Individuals can continue to work, start a new trade or take on other employment including voluntary work, or duties as an armed forces reservist. Around 95 per cent of those with more than half their income from self-employment in 2018-19 may be eligible for this scheme.

Eligible individuals can at present claim a taxable grant worth 80 per cent of their average monthly trading profits, paid out in a single instalment covering three months' worth of profits, and capped at £7,500 in total. The money is paid into their bank accounts within six working days of completing a claim.

By midnight on 28 June, 2.6 million individuals had claimed grants worth £7.7 billion in total.

Those who pay themselves a salary through their own company are eligible for the Coronavirus Job Retention Scheme (CJRS). The CJRS is available to employers, including owner-managers, and individuals paying themselves a salary through a PAYE scheme are eligible. Where furloughed directors, including companies with a sole director, need to carry out particular duties to fulfil their statutory obligations, they may do so provided it is no more than would reasonably be judged necessary for that purpose.

Dividends are not covered by the SEISS or the CJRS. Income from dividends is a return on investment in the company, rather than wages. Under current reporting mechanisms it is not possible for HM Revenue and Customs (HMRC) to distinguish between dividends derived from an individual's own company and dividends from other sources, and between dividends in lieu of employment income and as returns from other corporate activity.

The Government has worked with stakeholders and carefully considered the case for providing a new system for those who pay themselves through dividends. However, targeting additional support for those who pay their wages via dividends is much more complex than existing income support schemes. Unlike announced support schemes, which use information HMRC already holds, it would require owner-managers to make a claim and submit information that HMRC could not efficiently or consistently verify to ensure payments were made to eligible companies, for eligible activity.

The Government has heard the suggestion made that HMRC could adopt a 'pay now, clawback later' approach. However, such an approach would be highly resource-intensive to ensure appropriate compliance, and there is a high risk that incorrect or fraudulent payments could not be recovered, ultimately at the cost of UK taxpayers.

Unfortunately, it has not been possible to include those who began trading after the 2018-19 tax year in the SEISS. This was a very difficult decision and it was taken for practical reasons. As the Chancellor highlighted when announcing the SEISS, in order to ensure that the scheme is deliverable, only those who are already in self-employment and had a tax return for 2018-19 are able to apply.

Unlike for employees, self-employed income is not reported monthly, but at the end of each tax year on the individual's Income Tax Self Assessment return. This means that the most reliable and up-to-date record of self-employed income is from the 2018-19 tax returns. The Government recognises that those who started trading more recently will not have submitted a tax return for the 2018-19 tax year, and it has considered alternative approaches. This included using tax returns for 2019-20, now these can be submitted to HMRC.

However, there would be significant risks for the public purse if the Government relied on these returns for the SEISS. The newly self-employed can file returns for 2019-20, but this creates an opportunity for fraudulent activity through returns where no trading activity has taken place, where trading profits have been inflated to increase the size of the grant, or where trading profits have been reduced to below the £50,000 threshold in order to become eligible. Unfortunately, HMRC would not be able to distinguish genuine self-employed individuals who started trading in 2019-20 from fake applications by fraudulent operators and organised criminal gangs seeking to exploit the SEISS. The Government cannot expose the Exchequer to these risks and the extension of the SEISS does not mean these concerns have been reduced.

The design of the SEISS, including the £50,000 threshold for average trading profits, means it is targeted at those who need it the most, and who are most reliant on their self-employment income. The self-employed are very diverse and have a wide mix of turnover and profits, with monthly and annual variations even in normal times, and in some cases with substantial alternative forms of income too: for example, those who had more than £50,000 from trading profits in 2018-19 had an average total income of more than £200,000. Around 95 per cent of those with more than half their income from self-employment in 2018-19 could be eligible for this scheme.

The self-employed are very diverse and have a wide mix of turnover and profits, with monthly and annual variations even in normal times, and in some cases with substantial alternative forms of income too. The design of the SEISS, including the eligibility requirement that an individual's trading profits must be no more than £50,000 and at least equal to their non-trading income, means it is targeted at those who need it the most, and who are most reliant on their self-employment income.

The extension of the SEISS now means that eligible individuals whose businesses are adversely affected by COVID-19 will be able to claim a second and final grant when the scheme reopens for applications in August. This will be a taxable grant worth 70 per cent of their average monthly trading profits, paid out in a single instalment covering three months' worth of profits, and capped at £6,570 in total. This is in line with changes to the Coronavirus Job Retention Scheme as the economy reopens and the eligibility criteria remain the same for this final grant. An individual does not need to have claimed the first grant to receive the second grant: for example, they may only have been adversely affected by coronavirus in this later phase.

The Chancellor of the Exchequer has said there will be no further extension or changes to the SEISS. However, other support is available as SEISS continues to be just one element of a comprehensive package of support for individuals and businesses.

To support those on low incomes who may need to rely on the welfare system, the Government has announced a significant package of temporary measures. This includes a £20 per week increase to the Universal Credit standard allowance and Working Tax Credit basic element and a nearly £1bn increase in support for renters through increases to the Local Housing Allowance rates for Universal Credit and Housing Benefit claimants. Taken together, these measures and those announced at Budget provide over £6.5bn additional support through the welfare system for people affected by COVID-19. These changes will benefit all new and existing claimants. Anyone can check their eligibility and apply for Universal Credit by visiting: www.gov.uk/universal-credit.

A Universal Credit payment is made up of a standard allowance and any extra amounts that apply to you, for example if you have children, have a disability or health condition which prevents you from working or need help paying your rent.

To support renters, the Government has implemented legislation that prevents landlords from being able to start proceedings to evict tenants until 23 August 2020. This applies to private and social renters. The Government is sending a clear message to landlords that they should do everything possible to avoid evictions, and the Government will provide them with guidance to help them understand what this legislation means in practice. Mortgage lenders will also offer a three-month payment holiday for those customers struggling with their finances as a result of COVID-19.

The Government has also agreed measures with the energy industry to protect the domestic energy supply of those most in need during the disruption caused by COVID-19. There has been a freeze on energy disconnections for those on regular credit meters. For those with prepaid meters who are unable to top up due to self-isolation, suppliers may offer postal delivery of top-up credit or automated addition to accounts. Energy firms are also offering forbearance to vulnerable customers on a voluntary basis. Within the household water sector, water companies have stepped up action to support vulnerable customers struggling to pay their water bills due to COVID-19. This includes actively offering payment breaks and adjusting existing payment plans, simplifying the process for customers to access additional support, and stopping enforcement visits.

More information about the full range of support measures is available at: www.gov.uk/government.

I hope this is helpful. If you have any questions about this reply, please email public.enquiries@hmtreasury.gov.uk quoting reference MC2020/22538.

Yours sincerely,

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