Directors Income Support Scheme: MP Briefing

THE BACKGROUND

Scale - 2 million actively trading limited companies in the UK which are micro and small companies and collectively they employ 7.5 million people.

Furlough - Many company directors found themselves unable to furlough as this would prevent them from working, and this could have meant the demise of their small business. Some were actively excluded due to running an annual payroll with RTI submission date after 19th March. For those that could furlough the payments were low as based on PAYE earnings excluding dividends.

Grants - Many micro and small businesses have received no grant funding, without commercial premises options were extremely limited, and discretionary grants were a postcode lottery.

Impact - Employees have been protected by furlough, but those running the business - business owners - have been forced into debt and many are now struggling to stay afloat. The £55Bn spent on furlough will have been wasted if there are no companies for staff to return to in Spring.

THE CONSEQUENCES

Without the small and family businesses of the UK our economy will struggle to recover, there are up to 7.5 million jobs at stake, plus a decrease in funding for public services, reduction in tax revenue and a potentially huge burden on the welfare system and NHS. Billions of pounds of furlough support will have been wasted.

THE SOLUTION

A coalition of small business leaders, tax experts and company directors have mapped out the measures needed to address the situation. Stakeholders are: ForgottenLtd Campaign, ACCA, FSB and Rebecca Seeley Harris of Re Legal Consulting.

The Directors Income Support Scheme (DISS) has been developed to provide the government with a viable method of support for company directors. The assumption is that it will be run on the same parameters as the Self-Employed Income Support Scheme (SEISS). The scheme is based on the trading profits of the company, which are contained in the corporation tax return.

Any verification can be self-certified because unlike the self-employed, the director of a limited company has certain duties in law. If a director makes a false or misleading statement, then this can have very serious consequences.

The director would only be able to claim for one directorship in the entity which they have the greatest income. The director must declare that they intend to continue to trade and either, are currently actively trading but have been impacted by reduced demand due to coronavirus; or were previously trading but are temporarily unable to do so due to coronavirus.

We believe that DISS is not open to fraud, any more than SEISS, and would not be labour intensive for HMRC.

Scenario
There are one or more company directors who are working directors in the actively trading company where they are a Person with Significant Control (PSC). A PSC is someone who has more than 25% shares in the company and more than 25% voting rights and the right to appoint or remove the majority of the Board. This means that DISS would be limited to companies with not more than 4 directors. This company is a small actively trading company.

With the entity trading profits capped at the level of SEISS - it is estimated that with eligible profits, directorship and PSC, eligibility would be at 70%. **With an estimate of 4 million directors** at 70% eligibility (2.8 m) and 75% take-up levels (2.1m) and claiming the average £2,900, the **cost would be circa £6 bn**.