

Coronavirus self-employed scheme

The self-employed income support scheme (SEISS) was announced on 26 March, and now we have more details of how this scheme will work in practice.

HMRC will pay a taxable grant to self-employed individuals and partners equivalent to 80% of their average trading profits for three months, capped at £2,500 per month.

Who gets what?

It is difficult for HMRC to determine how much self-employed individuals earn in real time, in order to replace their lost income with government support. If MTD for income tax had already been in place, reporting self-employed income on a quarterly basis, the calculation of the support needed for each person may have been much easier.

The government has therefore chosen to base the amount of grant for each taxpayer on the average of their trading profits as reported in their last three tax returns for the years: 2015/16 to 2018/19. If the taxpayer started trading within this three year period the monthly average of profits will be calculated from the periods in which they were trading.

The taxpayer (or their tax agent) does not need to provide any figures at this stage. HMRC will arrive at the taxpayer's average earnings by totalling up the reported profit for the three tax years (or shorter period as applicable) and divide by three to arrive at a typical average year. One quarter of that average annual profit will then form the basis of the SEISS grant awarded – at the 80% rate.

The number of months covered by a SEISS grant may be extended beyond three months if the coronavirus shutdown continues beyond the end of June.

Who doesn't qualify?

The SEISS grant will not be payable to anyone who meets any of these conditions:

- has average annual profits of £50,000 or more – those taxpayers will get nothing
- has not submitted a tax return for 2018/19
- receive less than half of their annual taxable income from self-employed profits
- has already ceased trading permanently.

If the taxpayer has not submitted their 2018/19 tax return, they have until 23 April 2020 to submit it in order to qualify for the grant. Penalties for late filing and late payment of tax will apply as normal.

Those who started trading on or after 6 April 2019 are not eligible for the SEISS grant. This seems harsh, but HMRC has to draw the line somewhere.

The purpose of the SEISS grant is to help traders through the coronavirus crisis. To qualify for the grant the business must have traded in 2019/20 and would still be trading if it hadn't been for the interruption to business due to the coronavirus. If the trader has taken the decision to cease trading completely, no grant is payable.

Property letting businesses are not regarded as a trade, so landlords will not qualify for the SEISS grant even if more than half of their taxable income is from rental income.

Similarly, the letting of furnished holiday accommodation is not strictly a trade, although it is treated as a trade for certain pensions and CGT purposes. HMRC are unlikely to consider income from furnished holiday lets as qualifying for the SEISS grant, although these landlords will be among the hardest hit of all "self-employed".

How will the grant be delivered?

HMRC will contact those taxpayers who are eligible for this grant and will invite them to apply for the payment online. It is not clear if this contact will be made by letter, but it certainly won't be by email or text message.

HMRC warns taxpayers not to be taken in by scammers who email, text, or call, offering money from HMRC then ask for the business bank details to be confirmed. Warn clients not to click on a link in an email, or reply to a text, purporting to be from HMRC.

The taxpayer may need to confirm to HMRC that they were trading in 2019/20 and expect to continue to trade in 2020/21. Some indication of the business turnover for 2019/20 may have to be provided at that point.

When will the money arrive?

The SEISS grant for three months will be payable in one lump sum into the taxpayer's bank account, but the money will not be available until early June.

The grant will be treated as taxable income, and will have to be reported on tax returns for 2020/21. Taxpayers in receipt of working tax credits or universal credit will have to treat the SEISS grant as part of their self-employed income for 2020/21.

Claim a grant through the coronavirus (COVID-19) Self-employment Income Support Scheme

Use this scheme if you're self-employed or a member of a partnership and have lost income due to coronavirus.

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This scheme will allow you to claim a taxable grant worth 80% of your trading profits up to a maximum of £2,500 per month for the next 3 months. This may be extended if needed.

Who can apply

You can apply if you're a self-employed individual or a member of a partnership and you:

- have submitted your Income Tax Self Assessment tax return for the tax year 2018-19
- traded in the tax year 2019-20
- are trading when you apply, or would be except for COVID-19
- intend to continue to trade in the tax year 2020-21
- have lost trading/partnership trading profits due to COVID-19

Your self-employed trading profits must also be less than £50,000 and more than half of your income come from self-employment. This is determined by at least one of the following conditions being true:

- having trading profits/partnership trading profits in 2018-19 of less than £50,000 and these profits constitute more than half of your total taxable income
- having average trading profits in 2016-17, 2017-18, and 2018-19 of less than £50,000 and these profits constitute more than half of your average taxable income in the same period

If you started trading between 2016-19, HMRC will only use those years for which you filed a Self-Assessment tax return.

If you have not submitted your Income Tax Self-Assessment tax return for the tax year 2018-19, you must do this by 23 April 2020.

HMRC will use data on 2018-19 returns already submitted to identify those eligible and will risk assess any late returns filed before the 23 April 2020 deadline in the usual way.

How much you'll get

You'll get a taxable grant which will be 80% of the average profits from the tax years (where applicable):

- 2016 to 2017
- 2017 to 2018
- 2018 to 2019

To work out the average HMRC will add together the total trading profit for the 3 tax years (where applicable) then divide by 3 (where applicable), and use this to calculate a monthly amount.

It will be up to a maximum of £2,500 per month for 3 months.