



From: NR
Team: Personal Tax
DD: Suzy Kantor
Date: 20 May 2020

New support scheme– company owner-managers and dividend income

1. You have expressed interest in providing further support for company owner-managers (COMs) for the portion of their income paid via dividends in lieu of salary, noting this would need to be a new scheme, delivered outside the SEISS and CJRS.
2. HMRC estimate there are c.1.2m ‘close company directors.’ Of these, c.300,000 have no income or only PAYE income; c.850,000 have both dividend and PAYE income; and c.50,000 have only dividend income. The number of COMs supported would depend on the design of the scheme; however, this means that most COMs who have dividend income may also benefit from the CJRS. This is in addition to further business support already in place, such as Bounce Back Loans, and further support under consideration, such as Discretionary Grant Funds.
3. Although COMs are a vocal and organised group, other groups have a more compelling case for further support, such as the newly self-employed; those who changed jobs and so were not eligible for CJRS; and those on maternity or shared parental leave.
4. The rationale for supplementing dividend income is also not the same as for supporting wages or trading profits through other schemes. Dividends are fundamentally a distribution of profits; COMs can choose how and when to pay them. Therefore, the level of dividends paid at any point is unlikely to reflect a company’s profitability, making a scheme designed on this basis poorly targeted. In a 2019 paper using data from 2014-15, the IFS noted that COMs have higher average incomes than the self-employed, and are earning more than they pay themselves, as they have strong incentives to retain profits above a certain level.
5. You would need to consider the feasibility and timing of implementing a new scheme alongside other commitments. The extension and wind-down of both the CJRS and SEISS will create new pressures for HMRC through to the autumn. While you are still considering the exact design of the scheme extensions, and we will need to revert with further advice on cumulative capacity, at this stage our assessment is that HMRC will be unable to deliver a new scheme for COMs alongside these priorities. You would also need a persuasive narrative on why support for this group has been prioritised above others [please see Annex].
6. There are therefore fundamental questions about whether COMs should be given further support; whether there is a coherent rationale for supplementing dividend income paid to COMs; and the priority of delivering this scheme over other commitments.
7. There are also considerable pragmatic barriers which limit the extent to which this scheme could meet the policy intent. Any scheme would be more complex, less targeted, and more open to abuse than the SEISS. This is because:
 - There is no statutory or generally agreed definition for a ‘COM.’ Any support will require a proxy definition, which will be imprecise and may include many for whom there is no rationale for support to be provided or exclude others.
 - ‘Dividends paid’ do not correlate to a company’s profitability; we would need a more complex set of eligibility criteria to ensure we target support