

COVID – 19

**The Coronavirus Job
Retention Scheme:
Furlough
Guidance**



Sole Directors and the Coronavirus Job Retention Scheme

There are over a million sole director/shareholder owner-managed limited companies in the UK who don't qualify as self-employed individuals (although they will complete an income tax self-assessment return).

Typically, they take some remuneration through PAYE by way of salary, usually at a level just above the NIC threshold, with the remainder taken as dividends. So can these directors make use of the Coronavirus Job Retention Scheme? The simple answer is yes, but only to the value of their PAYE salary.

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What can I claim?

You can claim a grant of up to 80% of your 'regular wage' or £2,500 (whichever is lower). This claim can be backdated to 1 March 2020. The scheme will last for at least three months. Dividends are not included as part of the amount that can be claimed

By when does my PAYE scheme need to be in place?

The employers' PAYE scheme must have been created and started by 28 February 2020 and you must also have a bank account in the UK. You must be on the payroll as at this date.

Can I claim if I work part-time in the business?

Yes, full-time and part-time directors on the payroll can claim.

What if my salary is paid annually?

Our current understanding is that this should be acceptable.

What if I just reduce my hours or pay?

If the director is still working, even for reduced hours or pay, they will not be able to claim via this scheme.

How do I calculate my 'regular wage'?

Your regular wage is the higher of the same month's earnings from the previous year or the average monthly earnings from the 2019-20 tax year.

How to claim

You might need to take legal advice on this, but as a minimum we suggest that the company writes a letter advising the director that they have been 'furloughed' and a copy of this should be kept on the file to support any claim. Wages must continue to be paid (along with tax and NI) to directors at least until the portal is up and running to make the claim for the grant at a minimum of 80% of their regular wage or £2,500 per month.

How is the grant accounted for in the company's books?

This income is subject to corporation tax

Illustration -1

X Ltd employs Mr A at an annual salary of £24,000, so £2,000 per month. Mr A has opted out of auto enrolment.

Each month, Mr A currently receives net pay of £1,655 which is after deducting PAYE of £191 and employees NIC of £154. On this salary, the employer pays employers' NIC of £177.

The available grant for the employer is the lower of

- (a) 80% of £2,000, and
- (b) £2,500

Plus employers' NIC on this amount

So X Ltd claims a grant of £1,600 plus £122 = £1,722.

The net amount of cash required by X Ltd to furlough Mr A based on maintaining the existing salary is £2,000 + £177 - £1,722 = £455 per month.

Illustration -2

X Ltd employs Mr B at an annual salary of £42,000, so £3,500 per month. Mr B has opted out of auto enrolment.

Each month, Mr B currently receives net pay of £2,675, which is after deducting PAYE of £492 and employees NIC of £333. On this salary, the employer pays employers' NIC of £383.

The available grant for the employer is the lower of

- (a) 80% of £3,500 = £2,800, and
- (b) £2,500

Plus employers' NIC, £245, on this amount

So X Ltd claims a grant of £2,500 plus £245 = £2,745.

The net amount of cash required by X Ltd to furlough Mr B based on maintaining the existing salary is £3,500 + £383 - £2,745 = £1,138 per month.

If the individual is still under contract, Mr A/B can expect to receive his salary in full. The grant paid to X Ltd should not be taken as the new maximum cost of employment to the employer unless the contract has been redrafted.

It is a matter for employment law whether the employer is actually required to pay this top up (i.e 20%). Employees and employers can agree to a different arrangement during their furlough.

Subject to the employment contract and any amendment, the salary which the employer actually pays the employee during the furlough period may be different to the pay in the reference period and upon which the grant figure is based. However, the employer must pay at least the amount of the grant.

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