

Companies and directors – gainful self-employment

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Universal Credit claimants trading through a limited company who are in a position similar to a sole trader, are treated as self-employed for Universal Credit purposes.

Any claimant trading through a limited company must attend a gateway interview. This includes claimants who:

- register their business as a company
- make themselves a director
- pay themselves as an employee of the company, through shares and dividends, or by other means

The gateway interview is used to determine that the claimant:

- effectively operates as a self-employed person carrying on a business on their own
- has very few shareholders, significant influence over the company and a significant say on the day to day running of the business
- is not restricted on how they use any profits, such as a through a Community Interest Company (CIC) asset lock which ensures income generated by its activities is primarily used for the benefit of the company, not rather than the individual

If a company director meets the above tests, they are considered to be self-employed for Universal Credit purposes and the work coach should determine if they are in gainful self-employment.

If they are, the minimum income floor or start-up period must be applied in the normal way.

As for other gainfully self-employed claimants:

- business assets that are being used for trading, and the value of the claimant's shares in the company, are ignored as capital
- business profit (net profit after allowable deductions) is treated as the claimants self-employed earnings
- pay as an employee or director of the company is separate, and may show on the Real Time Information feed, but should also be taken into account as employed earnings for Universal Credit

Claimants who trade through a limited company and are not in a position similar to a sole trader are employed earners for Universal Credit purposes. The earnings and capital of the business are not treated as their own and should not be reported as self-employed earnings.

Any pay as an employee or director will be taken into account as employed earnings, and any dividends they receive will be taken into account as capital.

Exceptions

Care is needed with the treatment of property businesses. The above rules only apply to a company which carries on a trade, such as a hotel or bed and breakfast. In these cases, the company structure is ignored and the usual gainful self-employment tests apply.

A company which just owns a small number of buy-to-lets or holiday properties that produce rental income is not carrying on a trade, in tax legislation, and the above rules do not apply.

This means that the assets of the company are treated as the claimant's personal capital. If they are valued over £16,000 there is no entitlement to Universal Credit, if they are valued below £16,000 tariff income is applied in the usual way.

Special rules also apply to claimants with income paid to them:

- as a worker by an intermediary company
- from a managed service company

These workers are employees for Universal Credit and tax purposes.

A person who is a director of a company which has a large number of shareholders would not meet the test of being a sole owner or one of few partners / shareholders and is an employee.

A person who owns shares in a company alongside a large number of other shareholders is an investor and Universal Credit capital rules would apply. See Treatment of capital.

Reporting income and earnings

A company director may pay themselves a salary using the pay as you earn system. All earnings processed through pay as you earn are reported automatically through the Real Time Information (RTI) feed.

Claimants must also declare any additional self-employed earnings generated by their business - on a cash-in and cash-out basis. This must be done at the end of each assessment period in exactly the same way as any other self-employed claimant. See Self-employed earnings.

Business deductions must be incurred reasonably, wholly and exclusively for the purpose of the business. See Self-employed earnings, permitted expenses.

Any money paid to the claimant as an employee or director of the company can be deducted from any net profits, so that it is not counted twice, as both PAYE and self-employed earnings.