

Contractor Doctor: Can I claim Job Seekers Allowance if I have a limited company?

Dear Contractor Doctor,

My contractor limited company has been getting very little work as a result of the current economic downturn.

As a result, I have been receiving Job Seekers Allowance when I am between contracts, and not claiming when I am working on a contract.

Should I be claiming Job Seekers Allowance if I have my own limited company? Are the benefits I receive going to cause me problems at the end of the tax year?

Thanks

TJ

Contractor Doctor says:

The Job Seekers Allowance (JSA) is designed to be a temporary measure to help people without work to get back on their feet and find a job. This is equally true for contractors who [contract through their own limited company](#) or who are in a partnership or self-employed.

However, there are strict rules regarding eligibility for the JSA and a range of conditions must be met by the contractor before they qualify. The allowance is also counted as taxable income and so impacts on contractors' tax affairs.

Can limited company contractors claim?

The short answer is yes, a limited company contractor who is a company director and shareholder can claim JSA. They must meet the eligibility requirements and ongoing conditions in the 'Jobseekers Agreement' that has been agreed with Jobcentre Plus, which administers the JSA scheme.

Full details of eligibility conditions and how to claim JSA can be found in the [PCG comprehensive guide](#); you do not have to be a PCG member to download it.

The key point for limited company contractors to bear in mind is that their limited company's business assets will be considered 'capital' and added to their personal assets and capital when they are means tested. Until combined funds and capital in the business and held personally fall below £16,000, the contractor will not be able to claim JSA.

In addition, if the contractor regularly pays large [dividends](#), these and any cash in the business will be considered part of the contractor's savings limit of £16,000. So Jobcentre Plus will want to see detailed company accounts and financial records, and may wish to access the contractor's accountant when making any eligibility assessments.

For contractors who are sole traders or in a partnership, business assets are not considered as part of their savings or capital.

JSA is taxable income

Although it is a state benefit, JSA is still taxable income, as HMRC confirms in its [EIM00002 Employment Income Manual](#). But under some circumstances, not all JSA is counted as taxable income, and [HMRC provides guidance](#) on how to calculate how much JSA is taxable.

So, contractors will find that having claimed JSA as a taxable income in a given tax year does complicate their tax affairs. But this need not cause problems as long as the contractor asks their accountant to take JSA payments into account when completing personal tax returns.

And the good news is that contractors don't have to [shut down their limited company](#) with all the attendant costs and hassle. That's because they can continue to earn a small amount in addition to their benefit payments, although earnings above a certain threshold will be deducted from their weekly JSA payment.

Good luck with your contracting!

Contractor Doctor

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