

IPSE submission to Treasury Select Committee call for evidence on Government's coronavirus financial package

Executive Summary

- **IPSE is deeply concerned that the self-employed risk being left behind in the government's economic response to the coronavirus.**
- **While there has been bold, rapid action for firms and employees, the solutions identified so far for the self-employed will not be sufficient.**
- **We believe there must be a dedicated source of direct income support to compensate the self-employed for the amount they might reasonably expect to earn, were it not for the COVID-19 crisis.**
- **IPSE, in partnership with dozens of other organisations representing freelancers and the self-employed, has been calling on the government to implement a temporary *Income Protection Fund* specifically for the self-employed. Our petition calling for this currently has over 100,000 signatures.**

Concerns with current proposals for the self-employed

As a result of the coronavirus crisis, large sections of the UK economy have slowed to a halt. The government has so far unveiled a number of funds, schemes and guidance to help individuals and businesses access loans, defer payments and replace their incomes. For employees, the government has pledged to deliver grants that will cover 80% of the salary of retained workers up to a total of £2,500 a month.

In the case of the self-employed, the postponement of IR35 and the changes to the welfare system – particularly the removal of the minimum income floor for Universal Credit – have been welcome moves. Other steps such as the 'Time to Pay' arrangements and tax deferrals also appear sensible.

However, we are yet to see a bespoke solution for replacing the incomes of the self-employed in the same way employees are being supported through the crisis. Our members and the wider self-employed community across the country have contacted us in huge numbers about their work and projects being delayed or cancelled altogether. This drop-off has touched on several industries, from construction to the creative sectors. Many self-employed people are seeing their incomes drop to zero almost overnight. We have also heard concern from those self-employed professionals whose work involves entering homes and premises, such as cleaners, carers and tradespeople, that they face a choice between losing their income and risking the health of themselves and others.

We are concerned that improving the accessibility and generosity of the welfare system – where Universal Credit has been increased to a rate equivalent to Statutory Sick Pay, around £94.25/week – will simply not be enough to cover the dramatic losses in freelancers' incomes. More broadly, Universal Credit and 'new-style' Employment and Support Allowance are difficult to navigate and not well-suited to delivering rapid financial assistance.

Similarly, the government's bold package of business support measures will undoubtedly help many small and large firms but they are not well-tailored to the self-employed, who need fast cash flow support and not long-term debt liabilities.

IPSE's proposal for a temporary income protection fund

The basic principle behind IPSE's proposal is that all people – whether employed or self-employed – should receive the same level of support from government for the duration of the crisis. For the self-employed this will mean some kind of assessment of their expected earnings will need to be made. IPSE believes this should be based on the individual's previous earnings – evidenced by tax returns.

Inevitably given the volatile, sometimes seasonal nature of many self-employed people's incomes and the impact that taking time off for children may have had on earnings in past years, this will not

necessarily be comprehensive. However, it is the best way to find a 'rough and ready' number that will ensure a broad level of coverage. Where there is no previous tax return to refer to, alternative checking procedures could be used such as income history evidenced by bank statements.

This scheme would be available to all self-employed people including sole traders and those who operate through their own limited company (sometimes referred to Personal Service Companies).

Other European countries have put in place similar schemes, e.g. Norway has guaranteed temporary income protection of 80% of average self-employed earnings from the past 3 years up to NOK 600,000 (£48,000).

How the fund could work

We propose an initial government fund of at least £15bn¹ to provide all self-employed workers a monthly income matching their average existing earnings over the past three years:

- The minimum monthly income to be the Real Living Wage after the basic rate of income tax (£1100 a month approx.)
- The maximum monthly income to be average UK earnings after the basic rate of income tax (£2000 a month approx.)

It is possible that consideration in the calculated amount could also be given for those who have had to take leave (e.g. maternity) and provisions for those who have also been employed to make a full and fair claim.

This fund would operate as follows:

- Backdated to start of crisis period – March 1st
- With the self-employed submitting tax-records, where available
- For an initial period of 3 months with the potential of extension and further money if necessary
- The amounts payable should be subject to ongoing review to maintain the most appropriate level of support for freelancers at this difficult time

How this could be delivered

We recognise there are significant administrative and technical challenges to delivering this income protection assistance to the self-employed.

There are different views as to how the delivery of money to self-employed people could be achieved. One view is that this could be done through the payment on account system, set up for bi-annual business reporting. This is worth exploring but we are concerned it will take time and resources that we do not currently have.

A more straightforward option might be for each individual to apply for a grant, administered by the DWP and BEIS.

This would involve some basic eligibility criteria and forms of certification/verification (e.g. evidence of business activity, previous tax self-assessments and NI contributions, Unique Taxpayer Reference etc.) as part of the application process. We would stress these must, necessarily, be brief if the scheme is to have full effect.

¹ This is an estimate predicated on 3 million self-employed taking out an average of £5,000 over 3 months, or around £1,600 per month. From the 5 million self-employed in the UK, it is reasonable to assume that a sizable proportion may not need access to the grant, due to a combination of other government provision and their own finances. Some self-employed people may also still be able to work. With amounts likely to vary greatly between the minimum and maximum, this initial figure should be subject to ongoing review.

One risk of adopting this approach is that some self-employed people may not be aware of the grants. But with aggressive promotion – particularly if it is flagged at the outset to potential Universal Credit applicants who are self-employed – and awareness-raising by government and industry bodies such as IPSE, we believe this has a good chance of reaching those most in need.

We understand that given the current systems in place, the method for administering income support for the self-employed may harbour operational difficulties. However, given that 15% of the workforce is self-employed, adding £305bn to the UK economy last year alone, there are 5 million people out there who need support through this tough period.

IPSE looks forward to working with government to draw up a system which can support the self-employed, and be easy to implement for the government in this unprecedented period. We remain at the service of government for any help they may need in setting up, overseeing and delivering the scheme.

About IPSE

IPSE - the Association of Independent Professionals and the Self-Employed - is the representative body for the UK's self-employed community, including freelancers, contractors, consultants and independent professionals. With more than 78,000 members and representing the views, concerns and skills of some 4.9 million of the UK's self-employed, IPSE is the largest organisation of its kind in Europe.

Contact

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