Written evidence submitted by IPSE (Association of Independent Professionals & the Self-Employed)

Executive Summary

- **Data from several studies has highlighted that the self-employed have been one of the hardest hit groups in the economic fallout caused by coronavirus**
- **The government's Self-Employment Income Support Scheme (SEISS) has provided vital financial relief to over two million self-employed people but many have been left without any support since March**
- **IPSE believes financial support for the self-employed should be adapted to address the gaps in support and be maintained for the duration of the covid-19 crisis**
- **Longer term, IPSE believes the coronavirus raises questions about the tax and employment system – the government should commit to a review of the tax system and the self-employed**
- **It is hard to forecast the direction of the economy however there are some reasons to suggest that, long-term, self-employment will recover and remain an important feature of the labour market – provided government supports this form of employment**

Updated: economic impact of coronavirus on the self-employed

Since the outbreak of the coronavirus and the beginning of lockdown, several studies have been undertaken by IPSE and other organisations on the economic impact of the crisis on the self-employed. We have summarised some of the key findings of these surveys below:

- At the end of 2019, the number of self-employed workers was above 5 million, accounting for over 15% of the workforce – this has dropped significantly since the start of the crisis. ONS jobs data has shown a significant drop in the number of people who are self-employed, with the latest figures showing the number is now down to 4.54 million.

- IPSE research has found that freelancers' average quarterly earnings declined by 25 per cent from £20,821 in Q1 2020 to £15,709 in Q2 2020. This was driven by a record fall in the average number of weeks freelancers worked this quarter. Between March and June, the average freelancer went 5.5 weeks out of 13 without work. There was only a minor recovery in Q3, with freelancers' average quarterly earnings at the second-lowest level on record after Q2.

- Research by the LSE found that between April and August, the self-employed experienced little economic recovery, with hours and incomes being significantly lower than the same time last year, and 58 per cent reporting having less work than usual in August. One fifth of workers consider it likely that they will leave self-employment, with the figure rising to 59% for younger workers. Reports by the Resolution Foundation and the Standard Life Foundation have similarly found the self-employed have been amongst the worst hit in the crisis.

- The SEISS has been a vital source of support, with over 2.6 million people benefiting – but its eligibility criteria has left many with support: the new or recently established self-employed, those with less than half of their income from self-employment or a mix of PAYE and freelance income, those with trading profits above £50,000 on average, and limited company directors

IPSE believes the lack of widespread support for the self-employed is a factor in the ongoing fall in self-employment numbers.

Assessment of government support schemes for the self-employed

The government has unveiled a wide-ranging package of support for businesses since the onset of the crisis. We provided a summary of these, and our overall view of the package, in our previous submission to the committee.

The SEISS has been a vital lifeline for many self-employed individuals. As of 31 October, after the deadline for the first two SEISS grants passed, HM Treasury figures show that two over million SEISS claims have been submitted, worth a total of £13.5 billion. This demonstrates the vital need that existed for the scheme. International comparisons also show that the UK has developed one of the more generous programmes of support for self-employed people.[1] Feedback IPSE has received from eligible self-employed individuals suggest the system has been easy to use and the money has been delivered quickly to people's bank accounts. On the whole, particularly given the impressive logistical achievement of delivering the scheme ahead of schedule, the SEISS has been a successful policy initiative.

However, there are distinct groups that have been excluded from support due to the eligibility criteria the government have determined for the SEISS. NAO's recent report provides a clear breakdown of which self-employed groups missed out on financial support. These include:

- Less than 50% income from self-employment - 1.4 million
- Self-employment was loss-making - 0.5 million
- Income more than £50,000 – 0.2 million
- Newly self-employed - 0.2 million
- Limited company directors (the SEISS is based on 'earned' income and therefore this group, who often pay themselves primarily via dividends along with a smaller portion as a PAYE salary, are not included – they can access the Job Retention Scheme but only for the PAYE element of their income) – 0.7 million

IPSE raised concerns about these oversights when the scheme was being developed and we have continued to highlight them since April. The government has given several justifications for why these groups were not able to access support. Some were always intentional. The decision to introduce the £50,000 profit cap for SEISS, for example, was based on the government's argument that the average self-employed person earning above £50,000 had annual profits of over £200,000, meaning giving support to this group would not be well-targeted.

The newly self-employed who began their business after April 2019 were also unable to make use of SEISS as the government said they did not have a 2018/19 tax return which could be used to calculate their claim. Company directors who draw dividends for their income, similarly, have been unable to access support. The government has said this is because HMRC cannot distinguish between dividends earned from the individual's company and from other sources, such as an investment portfolio.

IPSE has disagreed with several of these points. In particular, we argued for a "pay now, claw back later" model to support company directors by including dividend income and this was supported by the Treasury Select Committee - however the Government said it would be too "resource intensive" to implement in its response.

While many of these challenges and decisions were reasonable back in March, given the need to deliver new schemes at pace, we are disappointed that there has been little in the way of creativity or willingness to address some of these oversights since then. Thousands of self-employed people have thus been left without meaningful financial support since March. Our concerns have been echoed by the IFS and the Resolution Foundation.

Self-employment – both in composition and concentration – varies widely across the UK but it is undoubtedly true that many freelancers work in sectors that are currently closed or heavily restricted, such as the creative industries. In our view, the recent rise in cases and the reintroduction of strict social distancing measures has only enhanced the need for a rethink in support so that those who have not received any thus far can be helped. Just as government took the difficult decision to change its public health policy, it should adjust its economic one too.

Policy recommendations and implications for the future

The coronavirus crisis has highlighted many of the complexities of the modern labour market, from the question of employment status and the tax system, to what an appropriate safety net for the self-employed should look like. While these debates are important, it is clear that they must be dealt with once the immediate economic challenges have been addressed.

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[1] https://read.oecd-ilibrary.org/view/?ref=119_119680-di6h3qgi4x&title=Covid-19_SME_Policy_Response

We are making the following recommendations:

1. Maintain "fair, flexible, focused" support for the self-employed for the duration of the covid-19 crisis

We believe that financial support should be made available for the duration of the current crisis – with positive developments regarding vaccines and testing improvements there is no reason to withdraw help now. Government could provide improved targeted support for those self-employed groups who need it most by making support 'fair, flexible and focused':

- **Fair** by opening SEISS eligibility to excluded groups such as the newly self-employed, by allowing them to use their latest tax return to access the fourth SEISS grant; and government could also adopt one of the several proposals, such as IPSE's 'pay now, claw back later' idea, to get help to company directors.
- **Flexible** by keeping SEISS accessible 'on and off' in specific circumstances, such as for self-employed individuals who are: operating in areas affected by local lockdowns; test positive for COVID-19; are advised to self-isolate by NHS Test and Trace; and
- **Focused** by keeping the scheme open to individuals who, due to the guidelines on social distancing, work in sectors experiencing sustained economic distress such as the creative industries, events, and aviation

2. Include dividend income in government support to help Limited Company Directors:

Unlike employees, sole traders, SMEs and even larger businesses there has been little appropriate financial support for Ltd Co Directors. They were excluded from the SEISS, primarily because dividend income was seen as too difficult to account for when calculating earnings. While company directors are eligible for the Job Retention Scheme (JRS), this is currently ineffective because it only covers their PAYE salary, not dividends (the majority source of their income), and many are also experiencing technical barriers in the application process.

While IPSE understands the administrative challenges in separating out different types of dividends, which can likely only be done via a manual check, we believe HMRC should adopt a 'pay-now, claw-back later' principle. This would enable HMRC to retrieve funding that was inappropriately provided, once the crisis is over. To fast-stream the process, HMRC should also consider putting a question into the online application form which simply asks what proportion of a Director's total dividend comes from their company's profits. We urge government to look again at this proposal.

If the government cannot extend the JRS to this group, it should consider a bespoke approach with action at the next Budget, such as a targeted tax break (e.g. Corporation Tax or a generous increase in the personal allowance.

3. Extend the SEISS scheme to the newly self-employed by letting them file an early tax return

One of the big groups to miss out on SEISS are those new to freelancing, who began before they could submit a 2018/19 tax return. These are the entrepreneurs of the future. To make them eligible for the SEISS, the guidance for the scheme could be changed for the fourth grant to allow those who submit their tax returns for 2019/20 to receive support. This would also benefit those who built their business up in the last year or transitioned to having self-employment as their main source of income.

4. Introduce a taper above the £50,000 salary threshold for the SEISS

Currently, if your previous average profits are over the cap, you get no financial support under SEISS, creating a harsh cliff-edge. This is different to the employee Job Retention Scheme, where no such upper salary band is in place. IPSE believes the cap should be removed, or a taper system put in place where the benefit slowly diminishes as the earnings increase beyond £50,000.

5. Review the tax system to deal with longstanding confusion over the status of the self-employed

The crisis, and indeed the very nature of the SEISS, has highlighted that self-employment encompasses a huge range of activities and business structures, which has implications for their employment status and the amount of tax they pay. This has meant it is difficult to target public policy to those who need support within this group, and in the case of company directors has meant they have been excluded altogether.

In his speech announcing the SEISS, the Chancellor suggested that a tax rise on sole traders may be forthcoming as the 'quid pro quo' for government support. We believe linking a future tax rise to a temporary injection of support in the midst of a global health and economic crisis is not the right way forward. Instead, the government should take pause and seize the opportunity to rethink the tax and employment system in the long term. This would help clear up ongoing confusion and longstanding complexities, notably the IR35 legislation and the intended rollout to the private sector in April 2021, that have led to the current situation. The review should look to deliver a fair deal on taxation for the self-employed that recognises the additional risk this group takes on.

6. Install a Freelance Commissioner within government and launch a Future Workforce Commission

IPSE has recently written a joint letter to the Chancellor urging him to install a Freelance Commissioner and Future Workforce Commission to champion the sector. We suggest the Future Workforce Commission could operate like existing industry existing industry Councils: co-chaired by government ministers and convening freelance representatives across all UK nations, regions and industries. The pandemic has shone a light on the self-employed and the varied way they work – a Commissioner could help co-ordinate policies that might impact on them across departments, act as a liaison point for the self-employed community and act as a vocal champion for their interests as well.

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. IPSE is the largest freelance membership organisation of its kind in Europe and seeks to represent the views and concerns of the UK's self-employed workforce.

December 2020