

Universal Credit and the Self Employed

Introduction

Universal Credit is the new benefit system being gradually introduced, replacing most existing benefits. Described by the Department of Work and Pension as "... a new single payment for people who are looking for work or on a low income" it is likely to affect everyone of working age who receives state help of any description - including Tax Credits.

The process;

When a person makes a new claim and declares that they are self-employed, they will be invited to a work-focused interview (also referred to as a 'Gateway Interview') to ascertain whether they are in 'gainful self employment' - The first step will be to decide if they are self-employed at all - as opposed to employed or pursuing a hobby, for instance. the business activity will be assessed and they will need to supply evidence of self-employment. This "*may include diaries of appointments, lists of customers and suppliers, proof of tax registration with HMRC, marketing materials..., a business plan, receipts for stock purchased, order and sales records and bank statements*"

Capital Limit

If personal capital is £16,000 or over, the claimant will fail the financial conditions and will not be entitled to claim Universal Credit at all. Business assets are disregarded – both at the time, and after a person ceases to be self-employed. The value of home (and related capital) are disregarded. If the claimant has capital between £6,000 and £16,000 they are entitled to claim Universal Credit, but will be deemed to receive income from the capital (£4.35 for each £250 over £6,000).

Assessment period

Self-employed earnings will be calculated on the basis of an assessment period of one calendar month. Reporting the income for that month - including any payments received for past and future work, less any expenses paid out that month. The remainder will be treated as 'income'. You cannot carry forward any business revenue, even if you have regular, foreseeable expenditure coming up in the future. Seasonal fluctuations in income are not taken into account for the purpose of calculating self-employed earnings. If the expenses for that month are greater than the income, the loss cannot be carried forward to a future month.

Reporting

Claimants will be required to report earnings between 7 days before and 14 days after the end of each assessment period. Accounts may be used as evidence of earnings, calculated on a cash flow basis, supported by evidence of the actual receipts and expenses paid. It is intended that reporting will be online only or, if this is not possible, by telephone.

Expected hours

Universal Credit calculations and certain classifications are based on your 'expected hours' which are the number of hours claimants are expected to work or be available for work. The standard number is 35 hours per week, but this may be reduced depending on circumstances. If the claimant has a 'physical or mental impairment' it may be fewer, if they have a child under 5 it is 16 hours, and if they have children between 5 and 12 (under 13) the hours may fit in with school hours.

Minimum Income Floor

Claimants in 'gainful self-employment' but not making much money will be deemed to be earning the equivalent of the minimum wage for their 'expected number of hours. Their award will reflect this. If a claimant has some employed income, this will be added to the self-employed earnings before calculating the MIF. If the earnings are "consistently" below the minimum income floor the claimant may be called back and considered no longer to be gainfully self-employed. The self-employed 'moved onto Universal Credit' will not be subject to the minimum income floor for the first six months.

New Starts

New businesses will have 12 months to set up during which period the minimum income floor will not apply.

Who will the new rules affect?

In general it is likely to affect anyone who works long hours for low income, or who is working a low number of hours and is unable to increase these.

Single parents (i.e. mostly mothers) who can tuck in a bit of self-employment around childcare and home-care responsibilities, maybe sitting at your computer at 1am selling things on eBay.

Sole traders - your income is inextricably linked to your business, and you will be expected to live off the money that comes in rather than spend it on the business, even if you know for certain in advance that you will need to spend it for business purposes.

Farmers - who characteristically work long hours irrespective of income per hour, who cannot 'choose' hours.

Freelance writers and journalists - who work for long periods of time without getting paid at all, then get it all in one lump.

Artists - who spend a lot of time on their work but may not receive much money, whose work is therefore not considered to be their 'main employment'.

eBay and Amazon sellers - whose income is dependent on the market not on the hours they put in, and who have other obligations that mean fitting in their work intermittently here and there,

Those with disabilities - who benefit from setting their own hours and creating their own work environment.

Tourism industry - hotel proprietors and seasonal workers whose expenditure may occur in the winter and income in the summer.

Seasonal industries - growers, horticulturists, festival workers.

The Current Situation

- 910,000 households on Tax Credits received some income from self-employment
- 310,000 families in the UK on Tax Credits have income from self-employment only
- It is estimated there will be around 600,000 households in the UK on Universal Credit with at least one individual whose main employment is self-employment (it is estimated 20% will declare zero income or less than £5000 per annum)

Why does this concern us?

A greater % of economically active people are self employed in rural areas;

District	Economically Active	% Self Employed	Numbers Claiming WTC#
West Devon	23,122	23.6	1200
Torrige	27,145	23.2	1385
Plymouth	112,830	8.8	2184

#Based on 22% of self employed claiming WTC

Impact

- Universal Credit as planned will impact significantly on the self employed and by fact of numbers this impact will hit the rural areas most.
- The reporting process will be onerous for many sole traders

In rural areas many families combine both employment and self employment; often the self employment tops up either low wages or 16 hour contracts but may be viewed under Universal Credit as a non viable business yet is critical to the families income.