Inquiry into the future of self-employment

Final report • February 2021

commissioned by:
The self-employed make up approximately 15% of the UK workforce and are many of the most highly skilled, entrepreneurial and creative individuals in the UK. Their work supports the UK's fastest growing and innovative industries, such as in science, engineering, healthcare, the arts, entertainment, the media, and the delivery of other important services across the country. Their flexibility and dynamism are demanded across all sectors of the economy in times of both growth and recovery, which has contributed to the UK's standing as one of the world's most dynamic economies.

History has shown us that a properly supported self-employed workforce can reverse a nation's economic fortunes after a downturn. In the immediate aftermath of the 2008/9 recession, self-employment made up approximately ninety percent of all jobs created. This rapid increase in self-employed workers and small business owners played a notable role in the UK's economic recovery. And a supported self-employed workforce can do the same in helping the UK 'build back better' as it recovers from the Coronavirus pandemic.

Despite its clear value to the economy as a driver of growth post-recession, it appears there is a gulf in understanding about the nature of self-employment among policymakers - particularly the different forms it takes and why the vast majority choose to enter it. The self-employed are often viewed with suspicion because the Government does not have clear sight of their finances in the way it does for employees on PAYE. Seeing self-employed workers through the framework of concern about potential fraud has inhibited the Government's ability to provide truly comprehensive financial support to millions of self-employed workers during the coronavirus pandemic, resulting in millions finding themselves ineligible to receive funding from the Government's self-employment support scheme and loans schemes.

The impact of this lack of support during the pandemic has caused millions of self-employed workers to face tangible hardship and fundamentally reconsider this employment type at a time when the UK needs them the most. The outcome of an exodus of self-employed workers would cause many industries to lose key talent, experience reduced diversity and ultimately recover slower as a result. Reducing the attractiveness of self-employment in the long-run may also reduce the economy's flexibility and dynamism.

A survey of self-employed workers in September 2020 for this Inquiry found 64% were either “less likely” or “unsure” they wanted to be self-employed or freelance workers in the future.

We believe that while a lot of attention has been paid to attempting to rationalise the tax treatment for self-employed workers, far less time has been spent examining whether the balance of risk taken by these workers is really appropriate and whether more can be done to support them at work. The existential shock of the pandemic offers the opportunity to reassess this balance, and to analyse the gaps exposed as Government and businesses have sought to adjust. This report is intended as an opening contribution to that debate.
Our recommendations

Immediate pandemic support

These are policy recommendations aimed at providing short-term support for self-employed workers during the pandemic.

We have recommended a Self-employment Stabilisation Scheme that would include:

• Allow tax returns for 2019-20 to be included in SEISS claims
• Widen eligibility for the SEISS to those earning under 50% of the income from self-employment
• Extend the SEISS to those with pre-Covid trading profits of £50k-£100k with a taper
• Introduce a Directors Income Support Scheme (DISS)
• Extend the suspension of the Minimum Income Floor in Universal Credit until the end of the year
• Create Freelancers Funds in sectors with high proportions of freelance workers to distribute hardship grants to PAYE freelancers
• Introduce a Kickstarter loans scheme for those looking to restart their business
• Boost the New Enterprise Allowance to overcome hesitancy among potential new starters.

In addition, we recommend that the Government commissions an independent Inquiry into the exclusions from the pandemic support schemes, including the impact on wellbeing and livelihoods, to enable learning and develop best practice for the future.

Strengthening the safety net for the self-employed

Beyond the pandemic, we recommend a series of policies and reviews that can help to reduce the risk taken by self-employed workers and will close vital holes in the safety net that these workers can often fall through.

Rights and benefits

• Commission a review of the support offered to self-employed workers through the benefits system, including Universal Credit and the minimum income floor, Access to Work and the New Enterprise Allowance
• Extend Section 44 of the Employment Rights Act (1996) to cover self-employed workers
• Strengthen blacklisting provisions relating to self-employed workers who raise health and safety concerns
• Extend the right to health and safety representatives at work to cover self-employed workers where appropriate
• Explore extending Statutory Sick Pay to self-employed workers
• Introduce the right to Statutory Sick Pay and paid parental leave from day one of a contract
• Explore extending paid parental leave, including adoption pay, paternity and maternity pay, to self-employed workers.

Savings

• Review the incentives provided by Government for pension saving among self-employed workers
• Pilot a Government-backed Sidecar Pension scheme for the self-employed.

Skills

• Make the cost of training and skills development tax deductible for the self-employed.

Status, structures, and understanding

We recommend a series of steps to improve Government understanding around self-employment, clarify categories of self-employment, and improve Government coordination.

Categories of self-employment

• Delay the introduction of IR35 until next year to avoid damaging uncertainty
• Commission a review into PAYE freelancers to improve Government understanding
• As part of forthcoming review into employment status, review the scope of the Government definition of ‘self-employment’ to include company directors and PAYE freelancers
• Consider how to improve understanding of contracts and legal status among the self-employed.

Government coordination

• Examine how Making Tax Digital can assist with simplifying the tax system for the self-employed and aiding Government data gathering
• Introduce a new Commissioner for Freelancers and the Self-employed to drive change in Government and ensure that policies are proofed against discriminating against the self-employed
• Commissioner to review cross-departmental coordination on issues affecting the self-employed.
About the Inquiry into the future of self-employment

Purpose

The increase in the number of self-employed workers is one of the most significant, recent developments in the UK labour market. Despite this, the voice of self-employed people in society and politics is not as strong as it should be. It has become clear through the crisis that the understanding of policy makers of the professional freelance and self-employed sectors is worryingly low.

This commission seeks to address these issues, developing recommendations for policy makers to take into consideration as we move through the economic recovery and into the post-COVID world. Ahead of the Spring Budget, now is an excellent opportunity to explore in detail current and future employment of freelancers and self-employed workers, to make sure that they are treated justly and that their huge talents are harnessed for the good of our economy and society.

The commission produced an interim report in December 2020, reporting on a series of interim findings and recommendations, which fed into this final report.

Launching the Inquiry, Mike Clancy, General Secretary of Prospect, said:

“The Coronavirus pandemic has brought tens of thousands of self-employed workers in the UK to the brink. Jobs and livelihoods at risk, and whole sectors such as the creative industries, are facing an uncertain future as their workforce have been left with little or no support from the Government.

“The Government needs to react fast to halt the stampede away from self-employment and give people confidence that if they opt to be self-employed, they will be supported when times get tough.

“I hope that the team of experts we have assembled can arrive at solutions to these issues and persuade the Government to sit up and take notice of the plight of the self-employed in Britain.”

Roy Rickhuss, General Secretary of Community, said:

“The self-employed workforce contributes huge amounts to our country both to our economy and in our communities. Despite this, as it stands Government policies, practices and support put self-employed people at a disadvantage.”

“The plight that has faced thousands of self-employed people throughout this pandemic is unacceptable and highlights the fragility of the situation for so many of the UK’s self-employed.”

“Our self-employed community has grown significantly over recent years and - as a result of the impact of the pandemic on our economy – we will likely see more people seek out new ways of working. As this shift continues to build, it is time to get this right, to ensure self-employed people are on a level playing field with employees and that no one is left behind.”

Terms of Reference

The Inquiry aimed to explore a comprehensive range of the most pressing policy issues affecting the self-employed, with a view to examining the issues from a short, medium and long-term perspective where possible.

The Inquiry was keen to engage with self-employed workers to help policy makers better understand the role self-employment plays in the economy and the range of experiences that self-employed people experience.

The future tax regime for freelancers and self-employed

While some self-employed people have been able to access Government support through the Covid-19 pandemic via the Self-Employment Income Support Scheme (SEISS), the Chancellor has made it clear that in exchange the Government intends that in return the self-employed workers this support offered by Treasury and DWP, and what can be done to ensure a robust safety net for self-employed workers in the future which ensures these issues do not arise again. The Inquiry in particular explored how greater income protections and future saving models can be encouraged for self-employed workers.

• Which ‘gaps’ in support for self-employed workers exist, and which have been most pronounced during COVID?

• What policies or reforms would you like the Government to implement to increase the security of the self-employed?

Job security and employment rights for contractors and freelancers on PAYE contracts

The pandemic cast a new light on the unequal rights enjoyed by self-employed or freelance workers compared to their employee colleagues. This is particularly acute for PAYE freelancers who can work identical jobs to employees with inferior rights. With issues such as health and safety at work, when to come into the office, or remote monitoring of workers rising up the agenda, it is more important to understand and address the gaps that exist in rights for these groups of workers.

• What can be done to reduce the disparity in rights for self-employed or freelance staff and PAYE freelancers?

• Is it right to give freelance workers the same rights as full-time employees, and if so, in what areas?
Improving Government understanding of the self-employed and freelance landscape

The Government’s approach to support of self-employed and freelance workers during the pandemic has brought renewed focus on long-running concerns by these workers on the departmental processes and the quantity of resource the UK Government has allocated towards supporting the self-employed workforce. The Inquiry therefore examined how the Government and Government departments could allocate more time, resource and knowledge into supporting the needs of self-employed and freelance workers.

- What changes are needed in Government to prioritise self-employment and freelance issues?
- What measures are needed to avoid gaps in Government support and inequalities in scheme delivery, such as during COVID?

Inquiry methodology

The Inquiry appointed an independent, expert-led and cross-party panel of commissioners to conduct the Inquiry.

The commissioners, along with their respective organisations, provided oral and written evidence to the Inquiry, along with having an important role as panelists on the Inquiry’s expert-led oral evidence sessions, which took place in November 2020.

- Mike Clancy, General Secretary, Prospect
- Roy Rickhuss CBE, General Secretary, Community
- Sophie Wingfield, Director of Policy at the Recruitment and Employment Confederation (REC)
- Rakesh Patel, Director of Client Relations and Talent, previously lead for employment rights and an employment litigator, Thompsons Solicitors
- Martin McTague, National Vice Chair of the Federation of Small Businesses (FSB)
- Abena Oppong-Asare MP, Shadow Exchequer Secretary to the Treasury; MP for Erith and Thamesmead
- Rt. Hon Anne Milton, former Minister of State for Apprenticeships and Skills at the Department for Education; former MP for Guildford (Conservative 2005-2019, Independent 2019)

The Inquiry conducted two oral evidence sessions via Zoom, hearing from the below witnesses as follows:

First Oral Evidence Session (9 November 2020)
- Emelia Quist, Senior Policy Manager, Federation of Small Businesses
- Andy Chamberlain, Director of Policy, Association of Independent Professionals and the Self-Employed
- Hannah Slaughter, Economist, Resolution Foundation
- Philippa Childs, Head of Bectu

Second Oral Evidence Session (17 November 2020)
- Sonali Joshi, Co-founder, Excluded UK
- Georgina Broadhurst, Co-founder, ForgottenLtd, accompanied by Jo Stevens, campaign team member
- Sam Evans, Co-founder, #OneVoiceCampaign, accompanied by Co-founder, Andrew Staples
- Ellie Phillips, presenter and journalist, campaigner for ForgottenPAYE

The witnesses provided important insight to Inquiry, bringing both lived experience of self-employed work in different sectors prior to and during the coronavirus pandemic, as well as policy expertise from leading, independent policy organisations with specialisms in self-employment policy.

The Inquiry ran a detailed survey of self-employed and freelance workers between September and November 2020. It received over two thousand responses from self-employed workers across a broad range of sectors.

The survey was promoted by Prospect and Community unions, as well as MoneySavingExpert Founder, Martin Lewis. It asked respondents a broad range of questions, including the industry they operate in, the amount their incomes had been affected by the coronavirus pandemic, what types of support they applied for and were eligible to receive, as well as their views on the levels of rights and benefits they receive from their workplaces and the Government during the pandemic. It also sought their views on whether they wanted to remain self-employed or freelance workers in future. The survey received 2,247 responses from self-employed workers, of which 39% were trade union members. Several of its findings can be found in the Inquiry’s interim report, published in December 2020, with full findings of the survey available in the survey findings section of this report.

The Inquiry issued a call to evidence in August 2020 and received written submissions from the following organisations:

- Association of Chartered Accountants
- Association of Independent Professionals and the Self-Employed
- Chartered Institute of Taxation
- Creative Industries Federation
- Federation of Small Businesses
- Institute of Economic Affairs
- Institute of Chartered Accountants in England and Wales
- Institute for Employment Studies
- Manchester Metropolitan University
- Resolution Foundation
- The Fabian Society
- UK Music
Executive summary

This Inquiry has originated because of the experience of self-employed workers during the pandemic, especially the problems that these works had in accessing direct Government financial support, and the apparent unwillingness or inability of Government to respond to some of the challenges facing specific groups of self-employed workers. Events such as pandemics can act as catalysts for change in our economy and our society, and we believed that this pandemic might spark a change in attitude about the balance of risk borne by self-employed workers and the attitude that Government takes towards them. Our survey evidence appears to demonstrate that there is some foundation to this belief.

In some senses self-employed workers have fallen between gaps in Government categorisation, treated as businesses by one department, as taxpayers by another, but very rarely looked at in the round. This inability to clearly perceive the reality of self-employment in the UK is at the heart of many of the issues faced by these workers in the relationship to Government.

Much works has already gone into discussing the tax status of the self-employed, and dealing with issues that they face in their role as businesses, whether that is chasing late payments or interacting with HMRC. This Inquiry is not an attempt to recreate that work. We hope to add something different by looking at an attempt to recreate that work. We hope

Our recommendations fall into three main categories:

1. A series of proposals aimed at dealing with the immediate financial problems faced by self-employed workers, notably the ongoing exclusions from the support schemes.

It was not clear when this Inquiry started whether by the date of publication we would be beyond the point at which such recommendations would be useful.

At the time of writing (ahead of the Budget in March 2021) the Government are yet to clarify the terms of the fourth round of the Self-employment Income Support Scheme (SEISS) and we are evidently facing months of ongoing restrictions on economic activity. We have therefore proposed a package of measures that we call a Self-employment Stabilisation Scheme, aimed at closing the gaps in the existing support packages and ensuring that we have a thriving self-employed sector at the end of the crisis. Alongside these measures we recommend a full Inquiry into the exclusions to facilitate learning in Government and to provide much needed answers to those workers who were excluded.

2. The second group of recommendations looks at how to provide greater security to self-employed workers in the future.

We looked at the possibility of extending some employment protections currently enjoyed by employees to self-employed workers, notably in the field of health and safety, sick pay and parental leave. All of these recommendations are intended to strengthen the safety net that self-employed workers can fall back on if something goes wrong in their work.

In addition we propose a series of measures on issues such as pension saving and the benefits system, this is a highly complex area of policy with few easy answers, so we have focused on calling for Government to conduct reviews and examine a range of possible solutions.

3. Finally our review has a number of recommendations focused on the organisation, processes and structure of Government itself.

We are calling for the introduction of a new Commissioner who can help to coordinate Government policy work between BEIS, DWP, the Treasury and HMRC in this area, alongside work on areas such as tax policy. This section also deals with issues surrounding the categorisation of different forms of self-employment. We recommend delaying the introduction of the IR35 regulations that risk causing further uncertainty to self-employed workers, and we call for Government to look into the status of PAYE freelancers who have been particularly hard hit by ambiguity about their employment status.

This is not an exhaustive list of recommendations, but we hope they will go some way towards creating a more stable foundation for self-employed workers in the future, and ensure that the voices of self-employed workers themselves are central to the debate about the future direction of policy. At this point it is worth addressing the issues of taxation and the financial contribution of the self-employed.

Chancellor Rishi Sunak reignited this debate on launching the SEISS scheme when he declared that

“If we all want to benefit equally from state support we must all pay in equally in future. It is just an observation that there is currently an inconsistency in the tax treatment of the employed and self-employed.”

As previously stated, this report is not an attempt to answer the question of whether the burden of taxation on the self-employed is appropriate, nor do we propose a simple quid pro quo of exchanging higher tax contributions for greater protection. We believe our recommendations stand on their own merits regardless of any future changes in taxation. However, based on the evidence we have received from self-employed workers, we would note that if the Government believes that moving towards more equal tax treatment of employees and the self-employed is desirable, then it is essential that this is done on conjunction with a more holistic view of the support offered to both sets of workers.
The impact of the Coronavirus pandemic on self-employed workers

Prior to the COVID-19 pandemic, there were 5 million self-employed people in the UK, about 15% of all those in work. Their numbers had been growing steadily for the last decade. Since the early part of the year, however, the number of active self-employed has fallen sharply. Between January-March 2020 and June-August 2020, their numbers fell by almost 400,000. For most of the period since March 2020 the Inquiry believes that more than half of all self-employed workers were earning less than before the crisis and that by April 2020, three in ten were receiving no pay at all.

Data from the April 2020 wave of the Understanding Society survey showed that almost half of self-employed people reported losing work in the early stages of lockdown, whether for economic reasons, such as a lack of demand, limited access to supplies, or lockdown restrictions - or because of health or caring reasons, including self-isolation, shielding, and childcare.

A Resolution Foundation survey, fielded in September 2020, found that self-employed workers have been much harder hit in terms of pay than employees, and the impact has persisted throughout the crisis to date.

Between April and June 2020, more than three-in-five workers were experiencing some reduction in pay, and at the height of the crisis in April 2020, three-in-six self-employed workers were not working at all. By contrast, the share of employees whose pay was lower than before the crisis peaked at 23% in May 2020 (including 4% whose pay decreased to zero because they were not working), falling from 30% in April 2020 to 17% in September 2020. But even by September 2020, one-in-six self-employed workers (17%) were still not working at all, and more than half were still experiencing lower pay than before the crisis.

The self-employed have experienced a slower recovery than employees, as well as being hit harder.

There are big differences between different groups in the likelihood that self-employed workers have stopped working entirely. One-in-four self-employed workers (24%) with only A Levels or below have stopped working, compared to 14% of those with a degree, and a quarter (25%) of formerly self-employed 18-34-year-olds were still receiving no self-employment earnings in September.

Worryingly, the youngest self-employed workers have seen very little improvement in the share whose pay fell to zero since the peak of the crisis. While the initial severe impact on the self-employed was felt relatively broadly across most demographic groups, the lasting impact has been much more unequal as some groups of self-employed workers have been able to bounce back much more quickly than others.

One-in-ten previously self-employed workers now class themselves as out of work.

Data from the Labour Force Survey found 472,000 fewer people were self-employed in the three months to August 2020 than at the beginning of the year, while falling self-employment has been the biggest driver of unemployment among men. Survey evidence from the Resolution Foundation suggests that those who were self-employed before the crisis have been more than twice as likely as employees (10% vs 4%) to class themselves to be unemployed or economically inactive, rather than temporarily riding out the storm. In addition, more than one-in-six self-employed workers (12%) have taken on an employee job since the crisis began, either in place of (9%) or alongside (3%) their self-employed work.

This could reflect those who looked for new opportunities when self-employed work dried up, or a desire to pass the risk inherent in self-employment, thrown into sharp relief by the pandemic, onto an employer.

Government support for the self-employed during the crisis

To support the self-employed, the Government launched the Self-Employment Income Support Scheme (SEISS), through suspending the Minimum Income Floor for self-employed Universal Credit claimants, and through access to Government-backed loans. However, according to submissions to the Inquiry, including the Institute of Economic Affairs, these schemes were “rushed out to meet an urgent need” and have been “poorly targeted”.

The Resolution Foundation claims that one in six recipients of SEISS grants had not in fact suffered a fall in earnings: on the other hand the Institute for Fiscal Studies estimates that 38% of those with any self-employment and 18% of those for whom self-employment counts for more than half their income have been ineligible for Government support. To be eligible for SEISS support self-employed workers must have submitted a 2018-19 tax return (excluding 5% of the self-employed who are recent entrants to the status), have more than half of a person’s income from self-employment, and have profits less than £50,000 in the relevant tax year.

This scheme was only open to ‘sole traders’ and not to self-employed workers operating under different models. Broadly speaking these models fall into two categories. The first are those operating as Limited Company Directors. These workers contract their labour out though a limited company of which they are often the sole director. Their income is often paid as a mix of a small salary paid through PAYE, with the majority of their income taken as dividends (once corporation tax has been levied on profits). People choose to operate in this model for a number of reasons, and in our Inquiry we heard that many do not choose it at all but are effectively compelled to set up in this manner as a term of hire in their industry. For example Bectu told us that it is common in the film industry for studios to refuse to hire workers who are not working through limited companies, for reasons of simplicity and to avoid the possible accrual of employment rights by the workers.

The other main category we will look at here are those self-employed workers commonly referred to as PAYE Freelancers. For the purposes of this report we will define this group as those workers who work a series of short-term fixed-contract jobs through the year in a particular industry and are not attached to one specific employer. They pay tax at source through PAYE, but do not think of themselves as employees because of the lack of a regular engager. The contracts they work are sometimes informal and rarely result in any notable employment protection. It is worth noting that many PAYE freelancers also receive income that is not taxed at source and will therefore submit a tax return as a sole trader for a portion of their income.
Inquiry into the future of self-employment

Why were workers excluded?

The reasons that many self-employed workers were excluded from the SEISS schemes are complicated and have been widely discussed. Some were as a result of deliberate choices from the Treasury, designed to exclude workers who they believed should not be entitled to support. This included those who were over the £50,000 profit limit and those who earned under 50% of their income as a sole trader.

Others were exclusions based on issues of categorisation. For those discussing the issue with Treasury in the early days of the pandemic, it quickly became apparent that they did not really consider either Limited Company Directors or PAYE freelancers to be ‘self-employed workers’ at all. The latter were considered to be employees and Government suggested they should be furloughed under the Coronavirus Job Retention Scheme. This betrayed a poor understanding of these workers, as evidence from Bectu demonstrated that only 2% of PAYE freelancers in the creative industries were furloughed by their employers, with 47% ineligible because of strict cut-off dates in the CJRS.

Limited Company Directors were excluded because they took their income as dividends and Government claimed they were unable to distinguish between those who gaining dividend income from their own business and those received dividends on investments. Despite a number of workaround solutions being suggested to Treasury, they have continued to argue that the risk of fraud is simply too high and the issues involved are not possible to solve technically.

Finally, there are those that were excluded because they were new starters, and therefore did not have sufficient evidence of their income from self-employment, or those who took breaks from self-employment due to sickness or to become parents and therefore lacked the relevant tax return information.

Immediate improvements are needed to the SEISS in order to extend support to the self-employed until the economy reopens

The immediate priority for assisting the self-employed to recover from this crisis is to fix the gaps in the Government’s income support schemes. This is essential in order to safeguard the long-term viability of self-employment in the UK. Therefore, we argue for maintaining the levels of the SEISS grant at 80% of average monthly profits, capped at £7,500. Access could easily be widened to previously excluded workers if Government committed to allowing tax returns for 2019-20 to be eligible for access the fourth round of SEISS. There is little risk of fraud in this approach, as the deadline for submissions has already passed, and this is not inconsistent with the previous Government position. The stricter eligibility in the SEISS around requiring proof of loss of income will also mitigate the risk of any fraudulent claims.

Next we recommend removing the £50,000 profit limit in the SEISS and replacing it with a taper from £50,000-100,000. The current limit creates are harsh cliff edge where someone who prior to the pandemic earned £50,000 can claim the maximum available SEISS support (nearly £30,000 in total), while someone who received £50,001 is ineligible. Such a harsh cliff edge is indefensible, and expecting someone with an income of just over £50,000 to be able to live with no income for nearly a year is unacceptable.

Equally, someone with 51% of declared income from self-employment can claim the maximum support from the scheme, while someone with 49% is ineligible to receive support. This excluded many PAYE freelancers, and we believe those who are excluded in this way are extremely unlikely to have been furloughed (as the Government claims). Extending the eligibility criteria to SEISS to those who received less than 50% of their income through self-employment prior to crisis is a reasonable remedy and would be relatively cheap to implement as the sums of money involved are not large. Again the requirement to demonstrate loss of income will act as a safeguard against misuse.

A scheme is required to support self-employed company directors who are currently ineligible for support

The UK currently has hundreds of thousands of self-employed workers who are registered as directors of limited companies. They operate similar to regular self-employed or freelance workers, however pay themselves a salary topped up with company dividends and are ineligible to SEISS. They can furlough themselves through the Job Retention Scheme, but can only claim for loss of PAYE income and not dividends, despite paying both corporation tax and dividend taxation before they are taken.

We recommend the creation of a Company Director’s Income Support Scheme, to support Directors of limited companies who have lost income during the pandemic. Eligibility for the scheme will be measured by their dividend payments, rather than their salary. The delivery of these recommendations could take the form of providing direct income support for Directors’ lost dividends, creating an expanded grant scheme for businesses which have been unable to claim grants attached to physical premises - but continue to experience high fixed costs; earmarking a portion of local authority hardship funds and discretionary grant schemes for Directors in need, and considering a student loan-style approach to the repayment of Bounce Back Loans for those in distress in future. A model for this has already been suggested to Treasury by FSB.

Immediate pandemic support

Equally, someone with 51% of declared income from self-employment can claim the maximum support from the scheme, while someone with 49% is ineligible to receive support. This excluded many PAYE freelancers, and we believe those who are excluded in this way are extremely unlikely to have been furloughed (as the Government claims). Extending the eligibility criteria to SEISS to those who

Solutions and recommendations
PAYE freelancers need bespoke support due to their diverse working arrangements

PAYE freelancers are commonly found in a number of sectors of the economy, but they were almost universally excluded from Government pandemic support schemes. While a tiny minority were able to be furloughed, many others were either let go or were ineligible because of strict rules around cut off dates. It can be difficult to include these workers in either the CJRS or SEISS schemes due to patterns of work. The Government does however have access to self-employed workers’ tax history, which would be helpful for verification purposes in relation to the two schemes.

We therefore suggest the creation of hardship funds, called Freelancer Funds, for sectors with large proportions of PAYE freelancers, for example the creative industries, which would be administered by sectoral bodies such as Arts Council England. The funds would be jointly supported by Government and employers (perhaps through match-funding) with employers and unions helping in the verification process for eligible freelancers. The funds would distribute small grants aimed at helping freelancers stay afloat and remain available to re-join the industry as it reopens.

Extending the suspension of the Minimum Income Floor in Universal Credit to support the self-employed during the pandemic would help many once profitable business, return from suspended animation. The loans could be repayable once the business becomes profitable and does not affect the recipient’s entitlement to social security.

In addition, increased Government investment in the New Enterprise Allowance (NEA) to help those who want to enter self-employment but may lack other skills and experience necessary to start their business, will support thousands of burgeoning small businesses.

Finally, we recommend that the Government commissions a full review of the experience of excluded workers in this pandemic, including the impact that their exclusion from support has had on wellbeing and livelihoods. This review is needed to ensure that Government learns the right lessons in case similar support has to be extended in the future.

We recommend a Self Employment Stabilisation Scheme that would:
- Allow tax returns for 2019-20 to be included in SEISS claims
- Widen eligibility for the SEISS to those earning under 50% of the income from self-employment
- Extend the SEISS to those with pre-Covid trading profits of £50k-£100k with a taper
- Introduce a Directors Income Support Scheme (DISS)
- Extend the suspension of the Minimum Income Floor in Universal Credit until the end of the year
- Create Freelancers Funds in sectors with high proportions of freelance workers to distribute hardship grants to PAYE freelancers
- Introduce a Kickstarter loans scheme for those looking to restart their business
- Boost the New Enterprise Allowance to overcome hesitancy among potential new starters

In addition, we recommend that the Government commissions an independent Inquiry into the exclusions from the pandemic support schemes, including the impact on wellbeing and livelihoods, to enable learning and develop best practice for the future.
2. Strengthening the safety net for the self-employed

Beyond the immediate issues of short-term financial assistance, a major theme that has emerged from our conversations with self-employed workers and their representatives has been a renewed sense of dissatisfaction with the precariousness of self-employment.

Not only do these workers feel that they Government’s support schemes offered too little support, but there were a lack of other mechanisms to support the self-employed when times got tough. This is reflected in our survey findings, with 64% saying they were “less likely” or “unsure” whether to remain self-employed in the future.

The survey findings also reveal a dissatisfaction with the value for money that self-employed workers received from the Government in return for their tax contribution, with 88% saying they felt that the level of support on offer was not commensurate with the tax they paid.

Creating a better safety net for the self-employed is a difficult challenge, not least because many of protections traditionally offered to employees are clearly inappropriate for self-employed workers. Nevertheless the recommendations below are an attempt to square this circle and offer some solutions to the challenge of how to offer a more robust set of rights and protections for self-employed workers.

The levels of rights and benefits the self-employed receive needs to be rebalanced to account for the increased risks they take.

The Coronavirus pandemic brought a renewed focus on the breadth of rights and levels of support for the self-employed, with a particular focus on Statutory Sick Pay, workplace health and safety, as well as maternity and paternity rights. In addition to the increased scrutiny of rights and benefits, the Inquiry identified the pandemic had brought to the surface many long-running concerns by a growing number of self-employed workers who no longer believed the levels of rights and benefits they receive fairly equate to the risks they take as self-employed workers.

Self-employed workers are not entitled to rights to health and safety representatives at work for example, nor protection from detriment if they complain about health and safety or remove themselves for dangerous situations at work. In the context of the Coronavirus pandemic and the expected greater focus on workplace health and safety after the pandemic, the Government would be wise to explore the extension of health and safety protections to self-employed and freelancer workers, such as through:

- The extension of Section 44 of the Employment Rights Act which gives protection from detriment for workers who withdraw their labour due to immediate health and safety risk
- Strengthening blacklisting protection for self-employed workers who raise health and safety concerns
- Extending the rights to have health and safety representative at work for self-employed workers

The next series of recommendations are more difficult because they involve a financial safety net usual provided by employers in the form of sick pay and paid parental leave. It is clear that there is a desire among self-employed workers to have access to these benefits, and Prospect and Community in particular believe that there may be an appetite for a contributory model.

There are evidence flaws with the current new style ESA, for example the need for evidence of long-term national insurance contributions, that make it simply too blunt and bureaucratic to work for the self-employed. The Inquiry therefore recommends the Government examine options to extend Statutory Sick Pay and paid parental leave to the self-employed.

Which of the following areas do you think is the priority for improving rights for freelancers and self-employed workers?

- Health and safety: 29%
- Holiday and sick leave: 26%
- Pensions: 26%
- Pay and contracts: 13%
- Other: 6%

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<th>Area</th>
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<td>Health and safety</td>
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<td>Other</td>
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Has your experience during the pandemic made you less likely to want to be self-employed or freelance in the future?

- Yes: 46%
- No: 36%
- Unsure: 18%

Do you believe that the level of support self-employed and freelance workers received during the pandemic is a fair reflection of their tax contribution?

- Yes: 10%
- No - too much support: 26%
- No - too little support: 88%
Innovative saving and pensions schemes for the self-employed now, will prevent a time-bomb later

The financial precariousness often faced by self-employed workers in their working lives has knock on effects after they retire. The proportion of the self-employed now saving into a pension is at record low levels. Given the expansion in the number of self-employed workers in the economy in recent years, this is potentially storing up a huge problem for the future. There are no easy solutions to this issue, but it is clear that the current structure of incentives and products on offer simply are not working.

Partly we believe that this is because of the reluctance of self-employed workers to lock their money into products where it may be hard to access it in an emergency. The experience of the pandemic will only heighten this apprehension.

The pension system for self-employed workers needs to be comprehensively reviewed, particularly in the ways the Government can raise awareness and incentivise self-employed workers to save towards their retirement in the absence of an employed contribution.

On model that could be attractive to self-employed workers is the sidecar pension where some money is set aside in a rainy-day fund that can be accessed in an emergency. We recommend that the Government explore this model of saving with the aim of rolling out a Government-backed trial among self-employed workers.

A narrowing of the gap in workplace training opportunities between the self-employed and employed would benefit all

With so many jobs in flux across the economy, the pandemic has refocused attention on the issue of training and skills. A strong economic recovery necessitates businesses and individuals taking the opportunity to grow their expertise and becoming more highly skilled, which will be particularly important for young people facing a challenging job market with greater competition than before the outbreak.

There is a notable gap in the amount of training and skills support the self-employed are entitled to compared to those who are employed, particularly in relation to the co-funding of training and skills support in workplaces for the self-employed.

As a first step, we recommend making training and skills investment tax deductible for self-employed workers.

Rights and benefits

- Commission a review of the support offered to self-employed workers through the benefits system, including Universal Credit and the minimum income floor, Access to Work and the New Enterprise Allowance
- Extend Section 44 of the Employment Rights Act (1996) to cover self-employed workers
- Strengthen blacklisting provisions relating to self-employed workers who raise health and safety concerns
- Extend the right to health and safety representatives at work to cover self-employed workers where appropriate
- Explore extending Statutory Sick Pay to self-employed workers
- Introduce the right to Statutory Sick Pay and paid parental leave from day one of a contract
- Explore extending paid parental leave, including adoption pay, paternity and maternity pay, to self-employed workers

Savings

- Review the incentives provided by Government for pension saving among self-employed workers
- Pilot a Government-backed Sidecar Pension scheme for the self-employed

Skills

- Make the cost of training and skills development tax deductible for the self-employed
3. Status, structures, and understanding

Improved understanding of the different types of self-employment will enable better policy by Government and greater clarity for businesses and the self-employed.

Currently there exist many ambiguities in the definition, and popular understanding, of what constitutes self-employment. This is demonstrated by the widespread confusion over IR35 (when it should and shouldn’t apply) and in high profile court cases over employment status, particularly in the gig economy in recent years. Legal distinctions become still more opaque when examining the distinctions between self-employment types.

We believe that more clearly defined employment status rules are needed both to help self-employed workers to access their entitlements and to ensure that firms are not simply using self-employed workers to avoid their responsibilities as employers, and thus to guard against disguised or ‘fake’ self-employment.

IR35 was intended to help solve this problem, but its introduction could not have come at a worse time when there is already so much flux for the self-employed. The rollout of IR35 needs to be delayed until the uncertainties of Coronavirus pandemic have ended and when the numbers of self-employed workers in the UK has stabilised. This will make the rollout of the policy more effective in the long run whilst reducing uncertainty and confusion to the self-employed in the meantime.

Improvements to the Government’s Making Tax Digital system, such as making it easier for self-employed people to access mortgages and pensions, and greater alignment in data gathering and tax administration with HMRC will revolutionise the way taxes are paid and administered for the self-employed. We recommend that the Government examine ways of exploiting the opportunity of Making Tax Digital to tackle long-running problems facing the self-employed.

Finally, it has become evident through our Inquiry that PAYE freelancers play an essential role in the UK labour force, especially in certain sectors such as the creative industries. These freelancers consider themselves to be self-employed and often welcome the freedom that it brings, but they are often denied rights such as Statutory Sick Pay and Maternity and Holiday Allowances. Many PAYE Freelancers are also deceived by employers into mistakenly signing zero-hours contracts, with limited agency within their organisations to protest or have their contract changed to what they intended to sign. On paper these workers may look similar to employees (albeit ones who sign short-term contracts) but it is clearly wrong to conceive of them in this way given their clear similarities to the self-employed. At the moment this group are in the worst of all worlds, paying tax as employees but with rights resembling the self-employed. Government should urgently conduct a review to examine the role of PAYE freelancers in certain sectors and explore how the balance of risk and reward can be set more fairly for these workers.

A reinvigorated approach by Government to issues affecting the self-employed will be mutually beneficial.

One constant theme of this Inquiry has been the lack of knowledge and understanding in Government with regards to the reality of self-employment in the UK. The design of the SEISS scheme, with its many exclusions, is perhaps the clearest sign of a Government that lacks the capacity to even quantify issues, let alone solve them. It does not help that policy in this area is split between three departments, with Treasury, BEIS, and DWP all interacting at different points with the policy issues raised so far in this Inquiry.

In order to devise and implement the world’s leading policies for the self-employed, the UK Government will need to reorganise its internal processes and reprioritise its focus on supporting these workers. More coordination is essential if we are to realise the potential of self-employment as the economy recovers from the pandemic.

We believe that appointing a Commissioner for Freelancers and the Self-employed would be a good step on this path. Such a commissioner would help join up Government thinking as well as ensuring that new policy developed by BEIS, DWP, the Treasury and HMRC was checked for its applicability to self-employed workers. We also recommend a renewed effort by the Civil Service to improve cross-departmental communication when examining and implementing self-employment policy, along with encouraging greater first-hand knowledge and experience of self-employment issues among officials, which will aid the quality of policies produced by Government.

Categories of self-employment

- Delay the introduction of IR35 until next year to avoid damaging uncertainty
- Commission a review into PAYE freelancers to improve Government understanding
- As part of forthcoming review into employment status, review the scope of the Government definition of ‘self employment’ to include company directors and PAYE freelancers
- Consider how to improve understanding of contracts and legal status among the self employed

Government coordination

- Examine how Making Tax Digital can assist with simplifying the tax system for the self-employed and aiding Government data gathering
- Introduce a new Commissioner for Freelancers and the Self-employed to drive change in Government and ensure that policies are proofed against discriminating against the self employed
- Commissioner to review cross-departmental coordination on issues affecting the self-employed
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Findings

1. Immediate pandemic support

The Government’s Self-Employment Income Support Scheme

The coronavirus pandemic shone a light on the fragile safety net many self-employed workers have, particularly those who are lower paid. The Self-Employment Income Support Scheme (SEISS) was an unprecedented intervention by the Chancellor. The payment of 80% and then 70% of a self-employed worker’s average monthly profits in its initial rounds was generous by global standards and offered a lifeline to over 2.7 million self-employed workers. However, it should be noted that some international governments have a history of the state supporting creative freelancers. For example, before the pandemic France ran a payment scheme for artists between work (intermittents du spectacle), which helped millions of creatives continue their valuable work.

The Government’s current proposals for SEISS means someone who prior to the pandemic earned £50,000 can claim the maximum available SEISS support, while someone who received £50,001 is ineligible. Equally, someone with 51% of declared income from self-employment can claim the maximum support from the scheme, while someone with 49% is ineligible to receive support. While the Inquiry appreciates a cut-off point must exist for any Government support scheme, evidence suggests this line is too sharp and excludes too many to make the wider objective of the scheme (to support the wider self-employment industry), universally worthwhile. Extending the eligibility criteria to SEISS to those who received less than 50% of their income through self-employment prior to crisis is a reasonable remedy as is and increasing earning eligibility prior to the pandemic to £50k-£100k through a carefully designed taper rate designed to achieve the best value for the tax pound.

Since the creation of SEISS, there have been significant concerns over eligibility to the scheme for several important groups. The main groups which were excluded from support – the newly self-employed; those with historic earnings above the £50,000 threshold, those who earnt less than 50% of their total income from self-employment, and those who work through their own limited company. The latter were also unable to make full use of the Job Retention Scheme as many receive the majority of their income by way of dividends, which were not counted. Securing fairness in the benefits and social security for self-employed workers, and incentivising and enabling entrepreneurs to start their own portfolio and business, is crucial and these groups must therefore be supported.

Eligibility issues have led to as many as two-thirds of creative freelancers being unable to claim under SEISS. The Government has stated that 64,000 out of 99,000 eligible self-employed creatives accessed the scheme, equating to 64%. However, including the 88,000 freelancers from the arts, entertainment and recreation deemed ineligible (such as the newly self-employed), shows only 34.2% of total creative freelancers were supported (close to the 38% eligibility estimated by the Musicians Union).

Furthermore, although the Government is right to state that when assessed by income 95% of self-employed sole traders are in theory covered by the SEISS, this estimate does not include the other reasons a worker may be ineligible. It is critical that the varied nature of self-employment is considered when making assessments.

Restrictive criteria put in place to distinguish eligibility for the Scheme has meant that SEISS has proved more difficult to access than the employee-focused Job Retention Scheme (JRS) in numerous ways. For instance, the requirement to have filed a 2018-2019 tax return by April 2020 to be eligible for SEISS immediately barred anyone who had joined the sector in the previous 12 months.

Conversely, for the JRS, any employee who had a tax event with HMRC by March 2020 was eligible. Despite a cap of £7,500 and then £6,250 per grant, those with trading profits of above £50,000 were also excluded from SEISS, unlike high earning JRS claimants who could be paid up to the cap. Other groups who were ineligible for the scheme were those on zero-hours contracts and those with portfolio incomes.

According to UK Music’s submission to the Inquiry, these are common in the music sector, with 34% of musicians having a second job. An example of the impact this has had comes from the testimony of a member of the Musicians’ Union (MU) who cited in a submission to the House of Commons Digital, Culture, Media and Sport Select Committee.

“[They] had three zero-hour sessional music teaching contracts, on PAYE, with two music services and a conservatoire, as well as gigging on a self-employed basis. They have been told by all three employers that they will not be getting any more work but will not be furloughed. As this work makes up over 50% of their income, they cannot apply for SEISS and therefore do not qualify for any Government support.”

Other international schemes such as the Australia’s JobKeeper Payment scheme are more flexible and therefore better able to capture the complexities of self-employment.

A further issue among those who are eligible for SEISS is that some can only do so at a very reduced rate. Those who have recently taken maternity leave or are on long-term sick leave are penalised as SEISS draws on a three-year average of monthly trading profits when determining payments, with no way to discount periods of enforced inactivity. This is particularly iniquitous to self-employed new parents. They are getting reduced support while attempting to navigate a pandemic with a young child. They also cannot share parental leave with their partner as their employed peers can. In contrast, the JRS is linked to the employee’s salary.

Universal Credit and the Minimum Income Floor

The backbone of the UK welfare system – Universal Credit – was simply not designed with the self-employed in mind. Leading experts on self-employment policy such as IPSE have been critical of how the employment status of self-employed applicants to Universal Credit works against them. In particular, the system does not take into consideration the ‘start-up period’ it takes for businesses to become profitable, and ‘Minimum Income Floor’ (MIF) which does not take account of freelancers’ often volatile incomes.

At the outset of the pandemic, the Government rightly chose to suspend the MIF for self-employed applicants.
The suspension of the Minimum Income Floor has been a vital source of support for the freelance workforce during COVID-19 given the sudden impact on incomes and revenues. In order to maintain the long-term resilience of the self-employed within the economy, Government should start to consider removing the minimum income floor on a permanent basis. However, in the meantime, we would recommend the following changes to the operation of Universal Credit:

- Extend the start-up period where the Minimum Income Floor is suspended from the current 12 months to 3 years, on the basis it normally takes 3 years for a business to get up and running and generate profit.
- Change the Minimum Income Floor assessment to be carried out on a quarterly basis. This will enable the system to work for those whose monthly income is more volatile and who are not paid regular or fixed amounts every month in arrears.

Self-employed Limited Company Directors

The UK currently has hundreds of thousands of self-employed workers who are registered as directors of limited companies. They operate similar to regular self-employed or freelance workers, however pay themselves a salary topped up with company dividends and are ineligible to SEISS. They can furlough themselves through the Job Retention Scheme, but can only claim for loss of PAYE income and not dividends, despite paying both corporation tax and dividend taxation before they are taken.

Limited company directors currently experience a dilemma that whilst essentially self-employed, they are not eligible to claim grants under SEISS, and whilst eligible to self-furlough. If they are a small micro-business, this would mean no corporate activity would be legally allowed to take place which could cause the business to “die” through it being “mothballed”. The problem is that self-employed sole traders who were eligible to receive SEISS grants could legally still operate under the scheme and therefore, if operating in the same sector as the limited company director, potentially take clients and sales away from the business if the director chose to self-furlough.

During the Inquiry’s oral evidence sessions it was made clear by witnesses who were self-employed directors of their own limited companies that they felt the Government treated self-employed workers who received their incomes in the form of dividends “with suspicion” or “as a tax dodge” and that this suspicion needed to be dispelled. It was made clear during the evidence sessions how a lack of Government support for limited company directors will not only damage existing businesses, but have a detrimental impact on entrepreneurialism in the UK as many entrepreneurs establish their businesses this way.

The creation of a Company Director’s Income Support Scheme, to support Directors of limited companies who have lost income during the pandemic. Eligibility for the scheme will be measured by their dividend payments, rather than their salary. The delivery of these recommendations could take the form of providing direct income support for Directors’ lost dividends; creating an expanded grant scheme for businesses which have been unable to claim grants attached to physical premises - but continue to experience high fixed costs; earmarking a portion of local authority hardship funds and discretionary grant schemes for Directors in need, and considering a student loan-style approach to the repayment of Bounce Back Loans for those in distress in future.

PAYE freelancers

It can be very challenging for many businesses to reach their full potential without dedicated business support (incorporating mentoring, grants and advice). This is a particular barrier for the self-employed who do not have the luxury of a large team to help them plan the development of their business. Such challenges can be exacerbated within certain sectors such as the creative industries where a combination of intangible IP and a frequently innovative rather than demand led business model can make it difficult to access finance or investment.

Given the lack of dedicated options for the self-employed among existing Government sources of business support, it is vital that a new programme is created to guide the self-employed workforce to recovery from the severe impacts of COVID-19. In doing so, Government should work with bodies representing freelancers across the economy to help ensure that business support is not only enhanced but is made accessible to freelancers who may often lack the time and resources to engage with these services. Targeted business support can make a significant difference in enabling the self-employed to boost the UK’s economic recovery and ensure that there is not only business growth but also the development of resilience to future risks.
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2. Strengthening the safety net for the self-employed

Rights and benefits in relation to taxation

The Coronavirus pandemic brought a renewed focus on the breadth of rights and levels of support for the self-employed, with a particular focus on Statutory Sick Pay, workplace health and safety, as well as maternity and paternity rights. In addition to the increased scrutiny of rights and benefits, the Inquiry identified the pandemic had brought to the surface many long-running concerns by a growing number of self-employed workers who no longer believed the levels of rights and benefits they receive fairly equate to the risks they take as self-employed workers.

At its heart, the appeal of hiring self-employed workers is through their relative flexibility, reduced bureaucratic and financial outlay compared to full time employees. Therefore there is a fine balance to be had when deliberating whether self-employed workers would want to see benefits and rights equalised in exchange for increased taxes. There are clearly essential aspects of self-employment that do entail lower levels of security than that which employees should expect, and the agility and responsiveness of the self-employed workforce is part of what makes this model of work attractive to many people. Despite this we have found a clear sense from self-employed workers that there may need to be some rebalancing in the direction of greater security.

It was made clear to the Inquiry during its consultation that the question of whether self-employed workers would be happy to pay more tax and wider contributions in return for enhanced employment rights and Government support is far from straightforward. It observed an extremely large number self-employed workers only entered self-employment in order to secure work, which spans across all sectors of the economy. People enter self-employment at different stages of life, in different professions and therefore require different levels of support in relation to pension support, sick pay and holiday pay and maternity support. This in turn muddies the waters in deliberating an effective ‘one size fits all’ balance. It was also concluded potential increases in National Insurance contributions from both employers and the self-employed would also potentially deter people from becoming self-employed.

Shared parental leave, maternity and paternity support

The Inquiry received submissions critiquing the Government’s current approach to Shared Parental Leave and maternity and paternity leave for the self-employed more broadly. The Inquiry can conclude the current system at least disincentives parents looking to have a child, and at worst penalises them for doing so. Efforts nationally, such by campaigning group Pregnant Then Screwed, are testament to the ill-feeling many, particularly working mothers, have towards current Government rules maternity support.

Those using Maternity Allowance (MA) have no income protection prior to childbirth and cannot split MA to return to work for a short period to support activity that may be vital to their career or business. Given the prevalence of one-off engagements in the sector this flexibility is needed. The current structure of MA entirely places the burden on one parent to take an extended career break, with no way to split this with their partner. It is easy to see the impact this would have on a self-employed mother who has just had a child. They are disadvantaged because unlike their partner or employed peers who, if they want to have a child, they are compelled to take a lengthy career break.

UK Music provided statistics to the Inquiry from their 2020 Diversity Survey, which found a clear gender divide in career progression. Its survey found the proportion of women fell from entry to senior level positions in the music sector, with 49.6% female v 48.8% male split at entry positions and 40.39% female v 56% male in senior posts. Furthermore, according to research from Parental Pay Equality in 2018, by the time a child is one-year-old, only 3% of self-employed mothers have reached their pre-baby earnings compared to 20% of employed mothers.

A critical part of rectifying this is encouraging partners to play an active role in providing childcare. Allowing both parents to play this active role was an important aim of the reform in leave for employed parents, the then Business Minister Jo Swinson noted that the reform militated against “gender bias” in child care arrangements.

Allowing partners the time off that they would be unable to take without Government support has a number of benefits beyond the main care giver. It allows partners to be more involved in their children’s lives at a critical stage in development. This benefits both them and the child – meaning this simple change would be a positive for the entire family and society. Yet, as it stands, a bias against having two parents involved in childcare is hardwired into the Maternity Allowance for self-employed parents.

UK Music, along with other organisations representing self-employed workers, provided submissions to the Department of Business, Energy and Industrial Strategy Parental leave and pay: Supporting parents and achieving equality that Government “should cover the cost of paternity and maternity pay ... to an extent which makes it financially viable for both mothers and fathers to take time off work”. The first step in achieving this in a self-employed context is building in flexibility to MA to allow a partner to also take paid time off and/or extending Shared Parental Leave as a package to the self-employed. Other measures that could be taken include day one rights to the Maternity Allowance or reformed Paternity Leave for the self-employed.

Given 72% of the sector’s workers are self-employed, this issue has a profound impact on workers in the sector. While the career gap is not monocausal, the inability to share parental leave with a partner is a disadvantage for many women and non-binary people working in the industry. A disadvantage that was noted and corrected for employed parents five years ago. Therefore, rectifying this would be a simple step forward that would provide direct support to self-employed parents.
The pandemic exposed the importance of sick pay in enabling workers to be supported during periods of illness or enforced isolation. Statutory Sick Pay (SSP) is paid by the employer and is therefore unavailable to self-employed workers. Self-employed workers have access to new style Employment Support Allowance (ESA). This is a bureaucratic system which presents many barriers for workers seeking to claim this benefit. For example, the requirement to have two full years of National Insurance Contributions in order to be able to claim. This is a requirement that does not suit the reality of self-employment, where there are often gaps between projects, and does not work for the newly self-employed, who are often the most financially precarious and most in need of support.

SSP is also frequently unavailable to PAYE freelancers as they rarely work contracts of sufficient length to accrue this right. The Taylor Review included a recommendation to make SSP available from day one of a contract, this would benefit PAYE freelancers who often work short contracts and are unable to accrue the right to access SSP currently. We would like to see this recommendation taken up.

**Workplace health and safety**

During a global pandemic, the importance of workplace health and safety is paramount, and yet many rights that are available to workers to keep them safe in the workplace simply do not apply to self-employed workers. Chief amongst these is Section 44 of the Employment Rights Act (1996) which protects employees from suffering detriment if they take reasonable steps to protect themselves and colleagues from dangerous situations at work, including removing themselves from the workplace. This right does not extend to self-employed workers, who could face a situation of termination of contract if they took similar steps to protect their own health. The situation with self-employed workers is clearly less straightforward for employees; we believe they should be equally able to avail themselves of this protection. We therefore propose that the Government extend this right to self-employed workers, protecting them from termination of contracts if they take reasonable steps to protect their safety, and strengthen blacklisting provisions so that workers who raise health and safety concerns are not discriminated against when seeking contracts in the future.

In addition, the 1977 Safety Representative Regulations confers the right to appoint legally recognised health and safety representatives in the workplace who are able to investigate possible hazards and must be consulted on matters to do with health and safety. There is an exception in this legislation for members of Equity or the Musicians Union, recognising there are situations in which it would be inappropriate for self-employed workers to have access to safety representatives. This exception should be extended to all situations in which large numbers of self-employed workers are regularly contracted by the same engager.

**Reviewing how the self-employed save for uncertainty and retirement**

Greater financial resilience is vital for the self-employed to support themselves against future economic shocks and in managing the intermittent nature of specialist freelance, project-based work, particularly in sectors such as the creative industries.

The Coronavirus pandemic, like any economic shock, has brought renewed focus on the number of self-employed who have savings and how much they have in savings both to mitigate against economic downturns like we are currently experiencing, and the more long-run objective of saving towards retirement.

It was unlikely during the pandemic many of the self-employed will have been saving into their pension schemes. Whilst for employees under the Job Retention Scheme, employers still had to contribute into employee’s pension, this wasn’t happening for the self-employed, with these workers may be curtailing their savings goals during this period.

Perceptions towards pensions also changes depending on the age of the self-employed individual. For example, slightly older individuals may have a defined-benefit pension scheme and may have also purchased a property, but for younger workers their experience will differ. In the scenario, a younger worker who has been auto-enrolled and saving into a pension scheme, but then decides to become self-employed, is then unable to access the money they have been saving into.

There are calls therefore by organisations such as the Federation of Small Business, which want the Government to recognise people have been auto-enrolled and are able to look back at the auto-enrolment savings and transfer them and benefit from them in self-employment when they retire.

Auto-enrolment had been a great success for employees, but as we experience a larger proportion of those who work in self-employment. Notwithstanding 2020, it begins to diminish the effectiveness of policy because the system cannot be replicated for the self-employed, which the Government has looked into. The Institute for Fiscal Studies conducted research which sort to answer the right moment at which to target the self-employed to contribute to their pensions.

More creative models of saving could be implemented that would be attractive to the self-employed, which incorporate concerns such as volatile incomes. Research published by the IFS in October 2020 observes that in 1998, 48% of the self-employed contributed to a private pension, and by 2018 this had declined to just 16%.

This is at the same time that employee pension saving has been boosted by auto-enrolment. Clearly current pension products are not working for self-employed workers. One reason could be that self-employed workers value having savings that are accessible in case of unexpected drops in income. Another could be that the lack of an employer contribution makes pension saving significantly less attractive as a model. The result is that the UK now has a large self-employed workforce who are not saving for retirement, potentially storing up huge policy problems for the future.

One option for dealing with the first of these issues is the Sidecar Pension model which would enable workers to have access to ‘rainy day’ pots and therefore be able to access cash at short notice. This model has been widely discussed and is currently being trialled by NEST’s Insight Unit, albeit among employees rather than the self-employed. We believe that Government should back the development of a sidecar model aimed at self-employed workers, and explore how else to incentivise pension saving amongst these workers.

Enhanced Government communications and incentives for freelancers to open a pension or start to increase their pension contributions would make a significant difference to freelancers’ income security and the long-term health of the UK’s public finances.
Examining skills and training for the self-employed

The pandemic refocused attention on the issue of training and skills. A strong economic recovery necessitates businesses and individuals taking the opportunity to grow their expertise and becoming more highly skilled, which will be particularly important for young people facing a challenging job market with greater competition than before the outbreak. It is vital that the self-employed do not miss out as part of this renewed focus on training and skills. New skills and qualifications are a gateway to higher earnings and career progression for the self-employed but finding the time and money to undertake training is difficult.

There is a notable gap in the amount of training and skills support the self-employed are entitled to compared to those who are employed, particularly in relation to the co-funding of training and skills support in workplaces for the self-employed. The Inquiry also identified the Government’s skills and apprenticeships system has traditionally been overly focused on traditional employees and does not account for the training needs of the self-employed. Research shows only 12% of the UK’s solo self-employed have received job-related training in the last three months, compared to 26% of employees. One way in which this can be achieved is to make the cost of training and skills development tax-deductible for the self-employed. This would enable freelancers, particularly in sectors where demand has slowed or disappeared, to gain new skills and adapt their business offer to new markets.

3. Status, structures, and understanding

Categories of self-employment

Currently the rules on what is, and what is not self-employment are opaque. This is demonstrated by the widespread confusion over IR35 (and when it should and shouldn’t apply) and in high profile court cases over employment status – particularly in the gig economy in recent years. To ensure that firms are not simply using self-employed workers to avoid their responsibilities as employers, and thus to guard against disguised or ‘false’ self-employment, more clearly defined employment status rules are needed. There are also questions over how Government departments distinguish between the different types of self-employed and freelance worker in relation to legal entities, such as the difference in liability between sole traders with directors of private limited company directors.

The Inquiry believes a set of clear rules should be developed which would enable individuals, hirers and HMRC to see whether the appropriate employment and tax status is being applied in every case. A statutory definition of self-employment with an agreed upon set of rights and obligations flowing from this, we believe, would help improve this situation.

Clients that rely on the flexibility of freelancers should recognise that this can often mean the self-employed are in a more precarious position. This is truer than ever during the pandemic, particularly if freelancers need to self-isolate or lose work as a result of the economic impact. We would hope that clients engage constructively with their freelance workers and their trade unions to put appropriate arrangements in place to minimise health risks and financial disruption. This means engaging flexibly on contracts - not terminating them at short notice - and being flexible where possible in requiring contractors to return to work sites. With the rollout of IR35 next year, we would also like to see more companies undertaking proper status determinations rather than forcing their contractors inside IR35 without due consideration.

One particular issue where, at present, Government policy does not do enough to encourage a secure working relationship between freelancers and their clients is on payment practices. IPSE research has shown two-thirds of freelancers have experienced late payment, and they spend an average of 20 days a year chasing unpaid invoices. The recent Government consultation on the powers and remit of the Small Business Commissioner is very welcome. The Inquiry believes that to reset the imbalance of power between freelancers and their clients, the Commissioner’s role should be given more resources and powers, including fines and the power to see whether the appropriate employment and tax status is being applied in every case. A statutory definition of self-employment with an agreed upon set of rights and obligations flowing from this, we believe, would help improve this situation.

IR35

Many contractors who operate via a limited company have been affected by the off-payroll working rules known as ‘IR35’, which are due to come into effect in the private sector in April 2021. Rather than devising a tax system that fits with the way people want to work, these rules are forcing people to work in a way which
The debate has been brought into greater focus during the pandemic due to the complexities of the tax system which has caused many hundreds of thousands of self-employed workers to be ineligible to Government support schemes such as the Flagship Self-Employment Income Support Scheme (SEISS). When launching the benefit in May 2020, Chancellor of the Exchequer, Rishi Sunak MP, clearly aware of this, said that it was "now much harder to justify the inconsistent contributions between people of different employment statuses'. These comments underline the phenomenon known as the "three person problem" whereby Government policymakers are trying to appropriately balance the levels of taxation three different groups of worker have: those who work as an employee, those who work as a sole trader, and those who work by their own limited company or incorporated structure.

Whilst it is unclear how much discussion around taxation for the self-employed took place during the coronavirus pandemic, before the pandemic, policymakers within Government had been in discussion around policing the boundaries between some of these tax statuses. This is because they can prove problematic for the Government, such as policing those who are bogus self-employed, or are fully self-employed where someone is either claiming to be self-employed incorrectly because they perceive that they would get a tax advantage, or someone else is forcing them to be self-employed because they themselves get a tax advantage. There is also the problem of companies filing employees as self-employed, so that they don’t have to give that person the same level of rights that they would if they were directly employed.

During the Inquiry’s oral evidence sessions, concerns were raised over how Government departments distinguish between different types of self-employed and freelance worker. This is in relation to taxation and tax status, legal/regulatory rights, and the potential negative impacts this could have on areas including eligibility criteria for Government support schemes such as SEISS, as well as the lack of support for these workers on maternity, sick pay and pensions support, workers’ rights and general exploitation of workers.

It was also identified in the evidence sessions the sometimes large disparity in taxable contributions between employed and self-employed workers causes some workers to become self-employed when it may not be in their overall interest to do so. This includes the harms caused by “bogus self-employment” where there are minimal tax advantages and all the downside risks in terms of lost rights and support for these workers.

It was also identified that there are often negative and unfair attitudes towards self-employed workers by the public, media and in parliament that can be as extreme as self-employed workers being considered “tax avoiders” and “fraudsters” and generally as a group who do not require much support from the Government, which is factually incorrect.

HMRC and Making Tax Digital

HMRC’s Making Tax Digital programme aims to make the UK’s tax system digital to make it more efficient, more effective, and easier for taxpayers to get their tax right.

Opportunities for the Government from this work include access to better real time data, allowing the Government to assess changes to the economy in real time, driving up innovation and productivity, and reducing compliance action.
The Government has already rightly identified a number of advantages for businesses, and in particular small businesses, including a reduced risk of errors, due to lost or incorrectly recorded invoices, an easier process for businesses to share records with their agents, and more up to date understanding of and certainty around their tax position.

The Government has also recognised the likelihood that HMRC will take a more central role ‘UK national resilience and crisis response’. The success of using PAYE to administer the furlough scheme exemplifies this point. Clearly a significant lesson from the pandemic is that if HMRC had better and more regularly updated records on earnings and tax payments for the self-employed, it could have more easily determined eligibility for the SEISS, and the number of excluded groups would have been reduced.

The Inquiry identified a number of areas where the Government should explore the potential to add value through the increased digitalisation of the tax system for the self-employed. Primarily, making tax digital should make it easier for it to provide benefits for the self-employed in real time. It should avoid the number of difficulties that we saw with the SEISS such as people being over the threshold at their last tax return, or the recently self-employed losing out.

In addition, MTD could make it easier for people to access mortgages and other financial products by facilitating data sharing in real time to product providers.

There are wider opportunities from having integrated systems and offering wider services from the tax system. HMRC should explore opportunities such as how making tax digital could facilitate payment of pension contributions, and if more frequently update earnings data might be used to calculate eligibility for key components of a safety net for the self-employed such as Statutory Sick Pay.

More broadly, through better records/quarterly reporting, self-employed people will have better understanding of their tax liabilities so are likely to have more confidence in how much they can set aside for savings and pensions, helping to address the issue of low contribution rates already discussed.

The taxation debate

The Chancellor’s comments in Spring 2020 hint that a review of taxation of the self-employed is a distinct possibility in the near future. The Inquiry believes the difference between the taxation of different forms of employment status is less than many perceive it to be, particularly since recent increases in the taxation of dividends. According to the Chartered Institute of Taxation, depending on the exact nature of the freelance work, the tax savings between being self-employed and being an employee can actually be relatively small – although due to misconceptions about how the tax rules work (especially expenses), there is often a perception that it is more beneficial to be self-employed.

Research from the Resolution Foundation emphasises this point. In a 2020 study it found if someone is earning £30,000 per year the total taxable contribution from both the employee and employer was approximately £7,500 per year in tax, and for self-employed workers it was approximately £5,500. This strong difference creates incentives to classify yourself as self-employed when in some instances it was not in their best interest to do so.

A differential has been identified in relation to National Insurance Contributions, which has historically reflected differences in access to publicly funded benefits. However, over time this has changed so that the difference in benefit entitlements is now smaller. There is also a question over whether the differential is well targeted in supporting entrepreneurship. It seems widely accepted that there is a case for reform here.

In 2017, the Institute for Fiscal Studies calculated the amount of tax generated by employees, self-employed sole traders, and company owner managers at different income points. The figures provided would be marginally different if calculated using today’s tax rates, but the example remains illustrative.

The meaningful difference, in terms of what the Exchequer collects, is accounted for by Employers’ National Insurance contributions. This is what the Exchequer misses out on when a firm engages the services of a self-employed business (either incorporated or unincorporated) rather than employing someone to do work. Any policy reform must take the distorting factor of employers’ NI into account, rather than bluntly increasing tax on the self-employed individual, if it is to be perceived as fair and equitable by the taxpayer. IPSE have previously called on the Government to consider an ‘Engagers’ Tax’ that would shape Employers’ NI, in that it would be paid by the firm that hires the self-employed individual and calculated as a percentage of the total amount paid to the self-employed individual.
The Inquiry believes a small advantage in the tax system for the self-employed should be maintained, because the self-employed take on risk and lack the security of income enjoyed by employees. This additional risk taken on by the self-employed, along with requirements to purchase their own insurance, dealing with administrative functions (such as filing tax returns), dealing with being paid late or not at all by clients, should be reflected in the tax system. By taking on this risk, the self-employed also de-risk their clients (who might otherwise have to employ them directly), making them more agile, better able to cope with peaks and troughs in demand and ultimately providing the UK with a competitive advantage over other countries. There is also copious academic research such as studies led by Professor Andrew Burke which found that those working for themselves, particularly in highly skilled roles, accrue numerous benefits for the economy and the companies that use them.

Moreover, not all self-employed people have benefitted from the Government’s COVID support packages. Many, particularly company directors and the newly self-employed, have struggled through the pandemic with little support. It is hard to justify a tax increase that targets these groups, whether that be sole traders through a NICs increase or changes to dividend rates or Corporation Tax that will ultimately provide the UK with a competitive advantage over other countries. There is also copious academic research such as studies led by Professor Andrew Burke which found that those working for themselves, particularly in highly skilled roles, accrue numerous benefits for the economy and the companies that use them.

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The Inquiry received a large amount of feedback from concerned self-employed PAYE freelancers, who shared their experiences and the impacts to the wider economy of this type of self-employment classification. The Inquiry heard that PAYE freelancers are ineligible to both Government support schemes (SEISS and JRS), and many workers who believe they are on freelance contracts, had actually been misled by their employers and had instead been put on zero-hours contracts, making them effectively PAYE freelancers, not acknowledged by Government statistics. The Inquiry was encouraged to call on the Government to help PAYE freelancers better understand the consequences of the employment contracts they sign, and what rights they are or are not entitled to under different self-employment contracts.

The Inquiry heard that many individuals who begin working for companies under a short-term self-employed PAYE contract who wish to ultimately become fully employed or on a long-term self-employment contract are unable to do so due to not meeting many of their requirements. This is particularly in relation to meeting the criteria of working regular shifts for at least two years, with companies being able to, with no recourse, deliberately altering shifts, effectively rendering the possibility of the contract ‘upgrade’ to take place. The Inquiry received feedback that an “overwhelming majority” of PAYE freelancers are “too scared” to speak out about the unfair or illegal treatment they had experienced due to their dependence on work from these companies and the risks associated with being a “whistle-blower”, including the potential loss of future work with the company and companies in the sector. This dependence on receiving work from their company also leads to issues such as racism and discrimination to go unreported due to similar concerns related to loss of work or redundancy if these workers speak out or complain.

Wider concerns over the impacts PAYE freelancing has on diversity across the economy were also raised to the Inquiry. The Inquiry received evidence that the current system of PAYE freelancing reduces diversity across all sectors due to the lack of support that exists around this type of employment, particularly in relation to lack of eligibility to sick, holiday and maternity support. It was explained that the knock-on effects of this means those who are more privileged in terms of support networks and on higher incomes can afford to sustainably operate in this employment type, whilst those with fewer resources cannot. It was concluded that the precarious nature of self-employment, particularly when starting out and during periods of volatile or zero income in particular sectors, but particularly the creative industries, means diversity will also diminish due to only the most privileged being able to afford to remain operating in the industry. The Inquiry received evidence suggesting large numbers of capable self-employed workers in the media and television industry are leaving due to the pressures self-employment contracts.

Government coordination

It is clear the Government’s definition of self-employed differs from the experience of workers. PAYE freelancers clearly think of themselves as self-employed, as do many limited company directors, yet the Government does not. The result was the total exclusion of these workers from the SEISS. This exposes the risk that other policies aimed at self-employed workers in the future may also exclude these groups. A renewed effort by both the Government and the Civil Service is therefore required in order to better understand this group. Increasing their consultations and engagement with self-employed workers in order to acquire more first-hand knowledge and experience of self-employment issues will aid the quality of policies produced by Government.
In order to better understand the issues affecting self-employed and freelance workers, the Inquiry ran a detailed public survey of self-employed and freelance workers between September and November 2020. It was promoted by Prospect and Community unions, as well as MoneySavingExpert Founder, Martin Lewis.

The survey received 2,247 responses from self-employed and freelance workers, of which 39% were trade union members.

It asked respondents a broad range of questions, including the industry they operate in, the amount their incomes had been affected by the coronavirus pandemic, what types of support they applied for and were eligible to receive, as well as their views on the levels of rights and benefits they receive from their workplaces and the Government during the pandemic. It also sought their views on whether they wanted to remain self-employed or freelance workers in future.

64% of respondents stated they were less likely or unsure they wanted to be self-employed or freelance workers in the future. Nearly half (46%) of respondents had a less favourable view on a future in self-employed or freelance work.

The Inquiry believes this is due to a combination of reduced earnings from the pandemic; lack of eligibility to Government support schemes; inadequate Government support once eligible and uncertainty over the Government’s future plans on taxation, rights and support measures - which has had a demoralising effect on these workers. There are also concerns industries previously oriented around self-employed and freelance workers, such as the entertainment and performing arts industries, may not sufficiently rebound and be able to afford the services of the same number of workers they did before the pandemic.

Respondents comments include:

Hayley, sole trader, Belfast: “I love being self-employed but the risks and lack of protection is overwhelming.”

Jerry, PAYE freelancer, Essex: “I like some of the freedom BUT if your whole industry stops then what.”

Chloe, both PAYE Freelance and Self-employed worker, Nottingham: “I love my job but this situation has been dire for me and my family. I’ve had 6 months of stress and no income or support.”

HL, limited company director, London: “I chose to be a freelancer due to the wider variety of work, and I fear a step back in my career if I was to reverse this. I will only do this if I am left with no choice, and then I will fear for my mental health (being in a position I am unhappy with).”

Has your experience during the pandemic made you less likely to want to be self-employed or freelance in the future?

- Yes 46%
- No 36%
- Unsure 18%

Has your experience during the pandemic made you less likely to want to be self-employed or freelance in the future?
Over 50% (53%) of respondents had lost between 60-100% of their household income since the start of the coronavirus pandemic. Over a third (33%) of respondents had lost between 81-100% of their household income.

The Inquiry found the household income of self-employed and freelance workers across all industries had been negatively impacted by the pandemic. The majority of these workers were operating financially sound, viable businesses, with high demand for their skills. However, these workers found themselves in the majority of instances facing reduced or no income and were operating financially sound, viable businesses, with high demand for their skills. However, only 11% of respondents were against the creation of a Government scheme providing them a stronger income support safety net in return for contributions from their wages – however 38% were uncertain of this proposal due to concerns over how much the contributions would be.

Nearly 90% (88%) of respondents did not believe the level of support self-employed and freelance workers received during the pandemic was a fair reflection of their tax contributions. Nearly 80% (79%) of respondents did not support being asked to pay the same level of National Insurance contributions as regular employees. However, only 11% of respondents were against the creation of a Government scheme providing them a stronger income support safety net in return for contributions from their wages – however 38% were uncertain of this proposal due to concerns over how much the contributions would be.

The Inquiry found many self-employed and freelance workers did not believe they were receiving enough support from the Government, particularly during the pandemic, to justify the amount of tax they pay. A clear majority would therefore not support tax increases or new requirements that would increase their contributions with the current level of support they receive from the Government. Only 11% of respondents were against the notion of receiving more income support from the Government in exchange for some contributions. Over a third were unsure of these proposals due to how much the contributions may be for the scheme.

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What percentage of your household income has been lost during the pandemic?

The Inquiry found many self-employed and freelance workers did not believe they were receiving enough support from the Department for Work and Pensions, including Universal Credit.

73% of respondents were unable to access support from the Department for Work and Pensions, including Universal Credit.

The Inquiry found many self-employed and freelance workers were unable to receive Universal Credit due accountancy and financial reporting issues, as well as personal savings towards their healthcare and pension being falsely attributed with liquid assets which often exceeding eligibility criteria to receive the benefit.

Were you able to access DWP support, e.g. Universal Credit?

The Chancellor, Rishi Sunak, has suggested that after the pandemic, self-employed workers may be asked to pay the same level of National Insurance contributions as regular employees. Would you support this?

If in future a scheme was set up to give freelancers and the self-employed a stronger income safety net in exchange for some contributions out of their wages, would you support this?
Respondents comments include:

Simon, sole trader, London: “Why apply a 50,000 cap to the self-employed but not employees. It is grossly unfair.”

Shirley, limited company director, London: “This Government has totally abandoned us. I have paid more in taxes than most employees earn in a year, they get a 9 month paid holiday, we get NOTHING?”

Nancy, partner in a business partnership, Chelmsford: “After paying tax for over 30 years I feel let down and terribly disappointed about being left out of the Government help scheme. It seems some have done very well and others like me are left in the cold.”

Sukh, limited company director, Bristol: “As a small business very little has been made available in terms of support yet the large firms have been able to access funding and number of different programs to help them during this period.”

Other important survey findings included:

Only 38% of respondents were able to access support from SEISS during the coronavirus pandemic so far (November 2020).

Respondents comments include:

Catja, sole trader, London: “No, I had not been self-employed long enough to be eligible (only one previous year which included PAYE work”).

Hanna-Maria, limited company director, Chingford: “No, I am single company director, I have profits just over the £50k mark, and I have no premises as I use client’s premises (service product).”

Nathan, sole trader, Manchester: “No, as until January I had a PAYE job that accounted for 55% of my income.”

Sarah, sole trader, Guildford: “No because my self employed income was just under 50% over 3 years (largely due to my having a well paid PAYE job prior to going self-employed). This felt like a double kick in the teeth as I had paid lots of tax but was then called fraudulent and given no help.”

60% of respondents were unable to access support or advice from HMRC on its Self-Employment Income Support Scheme (SEISS) (the Government’s primary support scheme for self-employed workers).

72% of respondents believed the Government should have responsibility for providing a safety net for self-employed workers. Only 5% thought this should be the responsibility of the private sector.

Other form of support

| Yes - Furlough Scheme | 9% |
| Yes - Self Employed Income Support Scheme (SEISS) | 38% |
| Neither | 45% |
| Other | 8% |

Were you able to access support and advice from HMRC eg Self-Employment Income Support Scheme (SEISS)?

Yes 15%
No 75%
Unsure 10%

Have you been able to access Government income support during the Covid-19 pandemic?

75% of respondents did not believe self-employed and freelance workers have sufficient rights in the workplace compared to regular employees. Holiday and sick leave, pay and contracts, and pensions were seen as their main priorities for rights if more were given by Government.

Which of the following areas do you think is the priority for improving rights for freelancers and self-employed workers?

Health and safety 26%
Holiday and sick leave 26%
Pensions 13%
Pay and contracts 13%
Other 20%