Universal Credit for self-employed: Work and Pensions Committee report

Personal tax

01 July 2018

The Work and Pensions Committee has now published its report on Universal Credit (UC) and self-employment making a number of recommendations that echo those made by LITRG in our October 2017 report and in written and oral evidence to the Committee.

LITRG have been raising some serious concerns with both Parliament and government about the treatment of self-employed claimants under UC since 2010. Although some changes to the rules have been made since then, many of the major concerns remain. At present, the system does not work well for self-employed claimants who have fluctuating income and/or expenses, or who have a large, one-off business expense in a particular month, nor does it give people long enough to establish and grow their business. In addition, the universal credit assessment period is one month as against one year for tax, definitions of income and profit from self-employment differ for universal credit and tax, and universal credit operates a cash basis which diverges from the cash basis option for tax.

The importance of getting the system right for the self-employed is made clear in the report: ‘The Department’s ability to adapt Universal Credit for the large and growing self-employed workforce will be a key determinant of its success. But UC was not designed with the self-employed in mind, and the Department’s new rules are uncharted territory. Their impact is highly uncertain. They could affect the cost of Universal Credit substantially – in either direction.’

The report also highlights one of the most concerning areas of the system identified by LITRG – the lack of recognition that the self-employed often have fluctuating incomes and that this is entirely normal. The Committee observes that under the current rules ‘Self-employed people risk missing out on important support not because their income is inadequate, but because it is volatile – varying from month to month'. They go on to note that due to this the Minimum Income Floor (MIF) represents a real risk to supporting entrepreneurship and economic dynamism.

As a result, the Committee supports LITRG's previous recommendation that averaging of income be allowed over a period of up to one year which would go some way to ensuring the system treats the self-employed more fairly when compared to employees. However, the Committee did not go as far as recommending (or indeed considering) that the MIF be adjusted so as to take account of pension contributions made by self-employed claimants. Without this change, there would remain disparity between the self-employed and employed with similar circumstances in respect of income and pension contribution levels.

The Committee also recommended that the start-up period, which is the period during which self-employed claimants are paid UC based on their actual income rather than the artificial MIF, be extended to three years at the discretion of UC work coaches. This would be accompanied by a tapered introduction of the MIF at the end of year one, increased to full MIF by the end of year three. LITRG welcomed the recommended extension but we have some concerns that doing it in the way the Committee suggests would place additional burdens on already stretched work coaches and create further complexity for both claimants and DWP.

Part of the report focuses on UC and its links with the tax system. This is something that in LITRG's experience is often overlooked. The Committee recommended that work coaches be encouraged to discuss the links between tax and UC which would include asking if the claimant would like to set-up a budget payment plan and signposting towards further information. This would be a good starting point for better alignment between the two systems. In the longer term the Committee recommended HMRC and DWP explore opportunities for harmonising their approaches to collecting data from the self-employed.