



Work and Pensions Committee

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From the Chair

7 November 2017

Rt Hon David Gauke MP
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Universal Credit and self-employment

In our 1 May 2017 report into *Self-employment and the gig economy* we noted that the Minimum Income Floor (MIF) system in Universal Credit (UC) could leave self-employed workers much worse off than employees with identical annual incomes. We also found that it could have the unintended effect of stifling entrepreneurship. We concluded:

There are three different categories of employment status in the UK. Universal Credit (UC) takes into account two, but focuses on one—employees. The self-employed are a large and growing component of the UK workforce. Taking urgent action to ensure that UC is appropriate to support them should be a priority for the incoming government.

The Department is seeking to support entrepreneurship without subsidising unprofitable self-employment. The existing Minimum Income Floor in UC does not get this balance right and risks stifling viable new businesses. The incoming government should commission an independent review of the MIF with a view to improving its sensitivity to the realities of self-employment. Until this is complete, the MIF should not apply to self-employed UC claimants.¹

In our report we highlighted a number of options for MIF reform:

- Extending the Start-up Period, or tapering the MIF up over a longer period than one year to avoid producing a cliff-edge at the end of year one;
- Applying the MIF on an annual or quarterly basis to help avoid penalising claimants with volatile incomes;

¹ Work and Pensions Committee, *Self-employment and the gig economy*, Thirteenth Report of Session 2016–17, HC 847, 1 May 2017, paras 33–34



- Basing the MIF on turnover and evidence of future profit, rather than income; and
- Removing the MIF altogether. The requirements of claiming UC as a self-employed person may be sufficiently onerous to put off people who might view self-employment as an easy way of avoiding UC conditionality. This would imply that a key purpose of the MIF—discouraging unprofitable self-employment—is redundant.²

A recent Low Incomes Tax Reform Group report found that “there is a very real possibility that people will be discouraged from starting self-employment and existing claimants may be forced to give up their work”.³ In our self-employment inquiry we heard that this is a particular problem for self-employed people with often unavoidably volatile incomes. This has been reflected in recent media coverage of concerns that UC could unfairly penalise farmers, whose income is dependent on the seasonal sale of stock.⁴

Those same concerns have been repeatedly conveyed to on our online forum for our ongoing inquiry into the rollout of UC. Freelancer Sam Welborne wrote:

I was accepted as self employed but having traded for just over 12 months the MIF was imposed. This destroyed my cash flow and I had to sell equipment. We have had to spend savings and are looking into leaving the country. It's sad that the 1% of workers who do specialist freelance things are being treated so badly. Variable or seasonal income is being handled with no respect. It is not possible to plan if the rent payment a) varies constantly and b) is determined just before rent day.

Daryn Manchip, who runs a small vegetable box company in West Wales, said that the MIF was not compatible with the realities of self-employment in a relatively deprived region. Robert Petch, a full-time single parent and self-employed taxi driver from Newcastle, told us that UC had forced his business out of operation. Rachel Whittaker told us:

Work hard setting up my business, two years in profit but seasonal. 8 months a year I will be above MIF & get any extra money taken off me at 63p in the pound and for 4 months of the year I will be below MIF & receive a pittance if anything at all. [...] All this seems designed to not encourage people to go self employed [...].⁵

In your letter of 28 September regarding outstanding Government responses to the Committee’s reports, you explained:

² Work and Pensions Committee, *Self-employment and the gig economy*, Thirteenth Report of Session 2016–17, HC 847, 1 May 2017, para 31

³ Low Incomes Tax Reform Group of The Chartered Institute of Taxation, *Self-employed claimants of universal credit – lifting the burdens*, October 2017

⁴ See, for example, The Sunday Times, 29 October 2017, *Low-paid farmers to be uprooted by universal credit*, by Nicholas Hellen

⁵ <http://www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/web-forum-universal-credit-rollout/>. See also concerns from self-employed claimants in the Annex of evidence from the m Institute of Revenues Rating and Valuation (UCR0122) and the submission from Equity trade union (UCR0046)



there are recommendations in the Committee's report of Self-employment and the Gig Economy that are within the remit of the Taylor Review. The Government will respond to those recommendations in its forthcoming response to Matthew Taylor's Review later this year. We intend to provide a separate response to recommendations not covered by the Taylor Review shortly after conference recess.⁶

The Taylor Report makes clear:

The changes to the benefit system underway through the move to Universal Credit are complex and outside the remit of the Review.⁷

We are, however, still waiting for a Government response to our recommendation on the MIF. I hope and assume it is under consideration ahead of the Budget. I would be grateful, however, if you could confirm.

With best wishes and I look forward to hearing from you,

Rt Hon Frank Field MP
Chair

⁶ [Letter from Secretary of State to the Chair](#), 28 September 2017

⁷ [Good Work: The Taylor Review of Modern Working Practices](#), July 2017, p99