



BRIEFING PAPER

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Coronavirus: Self-Employment Income Support Scheme

By David Hirst

Summary

To support the self-employed through the coronavirus outbreak the Government has announced the [Self-employment Income Support Scheme \(SEISS\)](#). This will pay cash grants worth 80% of total profits, up to £2,500 per month over a three-month period starting from March 2020.

The [Office for National Statistics \(ONS\) estimates](#) that just over 5 million people (15% of the UK workforce) are self-employed. The Government says the SEISS will cover 95% of people who get the majority of their earnings from self-employment. The Institute for Fiscal Studies (IFS) estimates that just 62% of all self-employed individuals will be covered.

[HMRC has issued guidance on the Scheme](#) that says:

- The scheme targets self-employed people or members of a partnership who have lost trading/partnership trading profits due to Coronavirus outbreak.
- This scheme will pay direct cash grants to self-employed workers worth 80% of their profits, up to £2,500/month for three months, and may be extended “if necessary”.
- You cannot apply for this scheme yet. HMRC will contact individuals it ascertains as being eligible for the scheme. They will then be invited to apply online. The Government has asked that people not contact HMRC to enquire about this support at this stage, as this will likely slow down the overall process.
- The cash grant will be paid in a lump sum (worth up to £7,500) for the three months.
- Eligibility is limited to those people:
 - who are currently self-employed
 - submitted a tax return for 2018/19
 - make the majority of their income (over 50%) from self-employment
 - whose average earnings are less than £50,000 in the years in which they traded in the period 2016-19
- The scheme will not apply to those who operate under a company structure and take dividends. The IFS says there are around 2 million of these owner-managed companies.

1. Coronavirus (Covid-19) outbreak: Government actions

The Chancellor has “promised to do whatever it takes to support our economy through this crisis” and has announced plans for a [£330+ billion package of support for businesses](#). For information on these wider support measures, many of which may be relevant to the self-employed, please see the Commons Library Briefing on [Support for businesses during the coronavirus \(covid-19\) outbreak](#).

Wider background information about coronavirus and the response to it is available from the [Commons Library Coronavirus page](#).

Timeline of announcements

- In [Budget 2020](#), the Chancellor set out plans for a £12 billion package of “temporary, timely and targeted measures” to support public services, individuals and businesses through the economic disruption caused by coronavirus.¹
- On 17 March, the [Chancellor set out a package of additional financial measures worth £330 billion](#) (“equivalent to 15% of GDP”) and “promised to do whatever it takes to support our economy through this crisis.” The Chancellor went on to say “if demand is greater than the initial £330 billion [for loans] I’m making available today, I will go further and provide as much capacity as required. I said whatever it takes – and I meant it.”²
- On 20 March, the [Chancellor provided an updated statement on coronavirus](#). This provided both new measures and updated information on those measures already announced, including “unprecedented” measures for the Government to “step in and help to pay people’s wages.”³
- On 26 March, the [Chancellor announced the Government would pay direct cash grants to self-employed individuals](#) worth 80% of their profits, up to £2,500 per month. This scheme mirrors the job retention scheme.⁴

2. Coronavirus Self-Employment Income Support Scheme

The [Office for National Statistics \(ONS\) estimates](#) that just over 5 million people – 15% of the UK workforce – are self-employed.⁵ Following the announcement of the Government’s Job Retention Scheme, there were calls for similar support to be provided to self-employed individuals. Frances O’Grady, General Secretary of the Trades Union Congress, told the BBC’s Today programme that the lack of measures put in place for the self-employed “will cause real hardship unless we get to grips with it.”⁶

On 26 March, the Chancellor announced the Government would launch an income support scheme for the self-employed. Announcing details of the Scheme, Chancellor Rishi Sunak said:

Self-employed people are a crucial part of the UK’s workforce who’ve understandably been looking for reassurance and support during this national emergency.

¹ HM Treasury, [Budget 2020](#), 11 March 2020, para 1.83

² HM Treasury, [Chancellor of the Exchequer, Rishi Sunak on COVID19 response](#), 17 March 2020

³ HM Treasury, [The Chancellor Rishi Sunak provides an updated statement on coronavirus](#), 20 Mar 2020

⁴ HM Treasury, [Chancellor gives support to millions of self-employed individuals](#), 26 March 2020

⁵ ONS, [Labour market economic commentary: March 2020](#), 17 Mar 2020

⁶ BBC, [Coronavirus: Self-employed need financial help, unions warn](#), 21 March 2020

The package for the self-employed I've outlined today is one of the most generous in the world that has been announced so far. It targets support to those who need help most, offering the self-employed the same level of support as those in work.

Together with support packages for businesses and for workers, I am confident we now have the measures in place to ensure we can get through this emergency together.⁷

[HMRC has published guidance on the scheme](#)⁸, which explains:

- The scheme targets self-employed people or members of a partnership who have lost trading/partnership trading profits due to Coronavirus outbreak.
- This scheme will pay direct cash grants to self-employed individuals worth 80% of their profits, up to £2,500 per month for the three months March, April and May, and may be extended "if necessary".
- You cannot apply for this scheme yet. HMRC will contact individuals it ascertains as being eligible for the scheme. They will then be invited to apply online. The Government has asked that people not contact HMRC to enquire about this support at this stage, as this will likely slow down the overall process.
- The income support scheme will cover the period March, April and May. The cash grant will be paid in a lump sum (worth up to £7,500) for the three months in June.

3. FAQs

Who is eligible for the scheme?

Government guidance says the scheme will be available for self-employed individuals who:

- Make more than half of their income from self-employment, up to £50,000 in profit per year.
- Have submitted a tax return for the tax year 2018-19 (they now have until 23 April to do so), and traded in the tax year 2019-20
- Are trading in 2020-21 when they apply (and/or intend to continue to trade in the 2020/21 tax year) and have been financially adversely affected by the Coronavirus outbreak.

Who is not eligible?

The Chancellor has said "95% of people who are majority self-employed will benefit from this scheme."⁹ There are, however, some people who will not be eligible to apply:

- The scheme will not apply to those who operate under a company structure and take dividends. However, the scope of the **Coronavirus Job Retention Scheme** will extend to owner/managed companies – although HMRC [guidance on the Scheme](#) does not explicitly address the mechanism by which someone would be furloughed, while continuing to undertake any ongoing corporate responsibilities as the company's director.
- Those who became self-employed after April 2019 will not have a tax return and therefore will not qualify for the scheme. The income support scheme will only be provided for people who have a tax return for 2018/19.

⁷ HM Treasury, [Chancellor gives support to millions of self-employed individuals](#), 26 March 2020

⁸ HM Treasury, [Chancellor gives support to millions of self-employed individuals](#), 26 March 2020

⁹ HM Treasury, [Chancellor outlines new coronavirus support measures for the self-employed](#), 26 March 2020

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- Those who made less than 50% of their income from self-employment in 2018/19. The qualifying 2018/19 tax return must show that an individual made the majority of their income (over 50%) from self-employment during the year.
- Those who made more than £50,000 each year from self-employment. However, HMRC will take average profits over the time period. This means that so long as average profits across the three years fall below £50,000, you will be eligible for the scheme.

The Institute for Fiscal Studies (IFS) estimates that in total around 2 million people with some self-employment income (38% of them) will not have it covered by the scheme.¹⁰ The Government's assertion of 95% coverage is only for those who get the majority of their earnings from self-employment.

What if I have fewer than three years' worth of tax returns?

The [Government guidance says](#) for those individuals who started trading between 2016-2019, HMRC will only use those years for which they filed a Self-Assessment tax return. This means HMRC will look at one year's earnings (2018/19) if that is all an individual has. If they have two years of returns, they will average the monthly earnings across that period. If they have three, they will do the same but across three years.

Can I continue to trade or get a second job?

The scheme does not disincentivise people from continuing to work, either in their original trade or by taking a new job.¹¹

- Self-employed individuals may find they are able to continue to trade during the coronavirus outbreak. Continuing to trade would not prohibit that person from being eligible for the grant. However, the grant is intended for persons whose trade has been affected by the coronavirus outbreak.
- For those self-employed persons whose trade is heavily impacted by coronavirus, it is possible to take on a different job. Though it is important to stress that eligibility for the scheme does require that self-employed persons are trading when you apply, or would be except for coronavirus, and that they intend to continue to trade in the tax year 2020-21.

The SEISS differs from the Coronavirus Job Retention Scheme in that grants paid under the SEISS will not cover actual loss of earnings. Rather, the SEISS will pay out at a level calculated based on past earnings. So, even if a self-employed individual only sees a small reduction in their profits they will still get a full grant. The Institute for Fiscal Studies estimates some self-employed workers will therefore be financially better off than they would have been without the crisis.¹²

I need money now, what can I do?

The Government anticipates that grants will be paid out to eligible self-employed individuals in early June. Between now and June, self-employed workers may be facing economic hardship owing to the coronavirus pandemic. To support these people, the Government:

- Suspended the minimum income floor for the self-employed which means they can access, in full, Universal Credit at a rate equivalent to Statutory Sick Pay for

¹⁰ Stuart Adam, Helen Miller, Tom Waters, [Fast choices by government provide generous income support to most workers, but leave some with nothing and others with too much](#), 2 April 2020

¹¹ Stuart Adam & Helen Miller, [Help is coming for \(most of\) the self-employed](#), *IFS*, 26 March 2020

¹² Stuart Adam, Helen Miller, Tom Waters, [Fast choices by government provide generous income support to most workers, but leave some with nothing and others with too much](#), 2 April 2020

employees (See the Commons Library Insight: [Coronavirus: Claiming welfare benefits \(update\)](#) for further information).

- Provided for self-assessment tax deferrals, which it anticipates should provide much-needed cash flow for self-employed individuals between now and June when the cash grants will start to be paid out.

The Commons Library Brief: [Support for businesses during the coronavirus \(covid-19\) outbreak](#) provides further information on the various business support measures announced by the Chancellor.

I have been contacted about the scheme – is this a scam?

HMRC has warned people to be wary of scammers targeting the various support measures that have been announced. It has provided [examples of HMRC related phishing emails and bogus contact](#).

Presently, it is not clear how or when HMRC will contact self-employed workers about this.

If you are contacted by email, phone or text by someone claiming to be from HMRC at this time offering you the income support grant, tax refund or any other financial help, this is likely to be a scam. General advice on what to do if you think something is a scam is available on [Gov.uk](#).

My immigration status is listed as “no recourse to public funds” can I still apply to the Scheme?

Grants under this scheme are not listed as [“public funds” in the Immigration Rules](#). Therefore, a person who has “no recourse to public funds” status should not be automatically ineligible for them on that basis.

The Home Office hasn't issued comprehensive guidance for all visa categories (as of 8 April 2020) on whether applying to such schemes, or other changes to an individual's work/pay due to the coronavirus crisis, would affect a person's ability to satisfy other conditions attached to their visa, or future immigration applications they may make.

The Commons Library briefing: [Coronavirus: Calls to ease No Recourse to Public Funds conditions](#) sets out the general position. If specific advice is needed, a suitably qualified professional should be consulted. The Immigration Law Practitioners' Association publishes a [list of specialist practitioners](#), and the GOV.UK website pages on [‘Find an immigration adviser’](#) and [‘Legal aid’](#) may also be helpful.

Where can I get further information?

[IPSE](#) (the Association of Independent Professionals and the Self Employed) provides information on the coronavirus business support measures, as well as further help and guidance for the self-employed. The [Federation of Small Businesses \(FSB\)](#) also provides information on the various schemes.

4. Responses to the Scheme

Many welcomed the measures set out by the Chancellor. Speaking to the BBC following the announcement, the Federation of Small Business, welcomed the intervention, saying “Although the deal is not perfect, the government has moved a very long way today.”¹³

¹³ As quoted in: BBC, [Coronavirus: UK government unveils aid for self-employed](#), 26 March 2020

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Labour's shadow chancellor John McDonnell also spoke to the BBC expressing his concerns the money would come "too late for millions":

People need support in the coming days and fortnight... there is a real risk that without support until June the self-employed will feel they have to keep working, putting their own and others' health at risk.¹⁴

Institute for Fiscal Studies (IFS) analysis

The [IFS published analysis of the coronavirus income support schemes](#) on 2 April.¹⁵ This looked at both the self-employed support scheme and the employee support scheme.

The IFS report that "the temporary measures are not as well targeted as we would expect in normal times." Specifically, the IFS found many self-employed people will be financially better off as a result of the schemes:

On average these are very generous schemes, replacing more than 80% of net family income for both employees and the self-employed, but there is a lot of variation. **Many of the self-employed will be left financially better off as a result of this crisis, while some will get no support at all.**¹⁶

However, between March and June, the IFS reports that self-employed families will on average lose around 40% of their normal income. Further, IFS report a quarter of these families do not have liquid assets to cover the three months' lost earnings, and 15% do not have enough to cover a single month. The IFS therefore stress the importance of the "quick delivery of other mechanisms for the self-employed to access cash in the short term."¹⁷

Owner/managed companies paid in dividends

One particular group not comprehensively covered by the Scheme is owner/managed companies. The IFS estimate that there are around 2 million people running their own company (as opposed to an unincorporated business, i.e. self-employment).¹⁸ These people are eligible for the job retention scheme – that pays out 80% (up to £2,500 cap) of a furloughed worker's salary.

However, the Institute for Fiscal Studies states that, largely as a way of minimising tax payments, many owner-managers pay themselves a very small salary and take the rest of their income in dividends. This means that the job retention scheme will cover only a small part of their actual income.¹⁹

Following on from the Chancellor's statement and publication of HMRC's guidance, the *Financial Times* was contacted by "tens of thousands" freelancers working in the UK's creative industries. These people said they would lose out under the Scheme, because they trade via a limited company set up.²⁰ Those freelancers say that the industry requires that they operate as a limited company.

Caroline Norbury MBE, CEO of the Creative Industries Federation and Creative England, has said she welcomed the support for self-employed workers, but was "seeking urgent

¹⁴ As quoted in: BBC, [Coronavirus: UK government unveils aid for self-employed](#), 26 March 2020

¹⁵ Stuart Adam, Helen Miller, Tom Waters, [Income protection for the self-employed and employees during the coronavirus crisis](#), 2 April 2020

¹⁶ Stuart Adam, Helen Miller, Tom Waters, [Fast choices by government provide generous income support to most workers, but leave some with nothing and others with too much](#), 2 April 2020

¹⁷ Stuart Adam, Helen Miller, Tom Waters, [Fast choices by government provide generous income support to most workers, but leave some with nothing and others with too much](#), 2 April 2020

¹⁸ Stuart Adam, Helen Miller, Tom Waters, [Fast choices by government provide generous income support to most workers, but leave some with nothing and others with too much](#), 2 April 2020

¹⁹ Stuart Adam, Helen Miller, Tom Waters, [Fast choices by government provide generous income support to most workers, but leave some with nothing and others with too much](#), 2 April 2020

²⁰ BBC, [Coronavirus: UK government unveils aid for self-employed](#), 26 March 2020

clarity for those creative workers who may be most in need and fall between these schemes” including those “paid in dividends”.²¹

Prospects for future tax reform

Outlining the support measures, the Chancellor commented that:

...I must be honest and point out that in devising this scheme – in response to many calls for support – it is now much harder to justify the inconsistent contributions between people of different employment statuses.

If we all want to benefit equally from state support, we must all pay in equally in future.²²

Reporting on the announcement, BBC economics editor Faisal Islam described this as the “Sting in the tail” for these support measures.²³

Different tax treatment self-employed and employees

Employees pay income tax and primary Class 1 NICs on their earnings, deducted at source by their employer under PAYE. Their employer will be liable to pay secondary Class 1 NICs on the employee’s earnings. By contrast, self-employed persons providing their services to clients will receive any payments gross of tax, and be responsible for paying income tax and NICs on their annual profits. Individuals who are self-employed are liable to pay both Class 2 NICs, a weekly flat-rate charge, and Class 4 NICs, based on a percentage of their annual profits.

There is a significant financial advantage to individuals working as self-employed rather than as employees. The rate of NICs that the self-employed pay is lower than the rate paid by employees (9% vs 12%), and the self-employed face no equivalent to employer NICs (charged at 13.8%). Employers also have incentives to engage self-employed workers, rather than take on employees: the absence of employer NICs on the payments they make, and the absence of employment rights which employees have.

Over the last decade there has been a significant growth in the numbers of self-employed persons, as well as the numbers of individuals providing their services through a limited liability company that they run as a company owner-manager. While these two groups are often considered together, there are important differences in their treatment by tax and legal systems. In the case of incorporated companies, the profits the company makes are liable to corporation tax, while its employees will be liable for income tax and NICs on their earnings. Company owner-managers may choose to pay themselves dividends to realise a further tax saving as dividend income is subject to income tax but not NICs.

In 2017 the Institute for Fiscal Studies published some analysis to illustrate the tax drivers to self-employment and incorporation.²⁴ For a person generating £40,000 of income per year, the total tax liability, taking into account both employer and employee NICs as well as the individual’s income tax, would be £12,146 if that person worked as an employee. The tax liability would be £8,713 if this income was earned through self-employment, and £7,358 someone provided their services through a company, and paid themselves dividends rather than wages.²⁵

Although the Chancellor did not give discuss a time frame for any review, several commentators picked up on this part of his statement.

Paul Johnson, director of the IFS, tweeted, “Note Rishi Sunak also said quid pro quo for this support for self-employed now will be a review of the tax/NI they pay in future. They

²¹ Creative Industries Association, [The Federation responds to the Chancellor’s statement on self employed workers and freelancers](#), 26 March 2020

²² HM Treasury press notice, [Chancellor outlines new coronavirus support measures for the self-employed](#), 26 March 2020

²³ BBC, [Coronavirus: UK government unveils aid for self-employed](#), 26 March 2020

²⁴ [Tax, legal form and the gig economy](#), Institute for Fiscal Studies, February 2017; and, Helen Miller, “Tax in a changing world of work”, *Tax Journal*, 21 April 2017. These estimates are for 2017/18.

²⁵ For further analysis see, Institute for Fiscal Studies, [Lack of employment rights doesn’t justify lower taxes for the self-employed](#), June 2018; Office for Budget Responsibility, [2017 Fiscal Risks report](#); Cm 9459, July 2017 (see in particular [para 5.54-80](#)); [National Insurance Contributions \(NICs\) and the self-employed](#), Commons Briefing paper CBP7918, 21 December 2018.

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currently pay much less than employees. This package is more generous to them than to employees. An issue for another day, but welcome commitment.”²⁶

Judith Freeman, Oxford Professor of Tax Law, tweeted, “Help rightly announced for self-employed but point made clearly that if they want help from the state they will need to pay the same contributions to the state in future as employees do. I really hope this is the beginning of serious, radical reform.”²⁷

Andy Summers, Professor of Law at LSE, tweeted, “Brave and sensible for [the Chancellor] to seed this now, even just as 'in principle' observation.”²⁸

²⁶ <https://twitter.com/PJTheEconomist/status/1243229884446650371>

²⁷ <https://twitter.com/JudithFreedman/status/1243223947048558593>

²⁸ https://twitter.com/Summers_AD/status/1243232843679047683

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