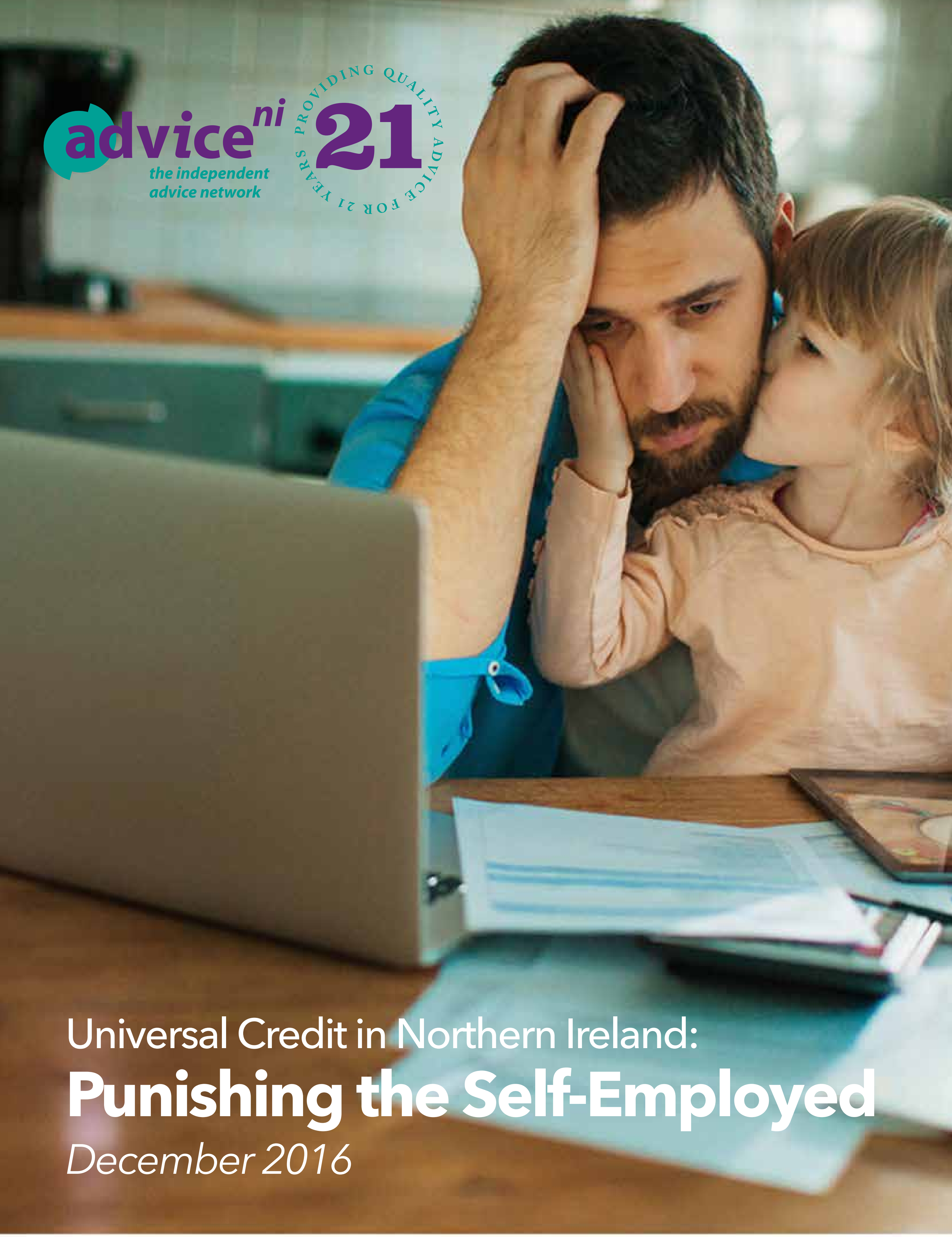

Universal Credit in Northern Ireland:

Punishing the Self-Employed

December 2016

This policy paper has been written by Advice NI in partnership with Rural Support and the Ulster Farmers' Union.

Contents

Background

Advice NI, Rural Support and the Ulster Farmers Union are concerned by the impact that the introduction of Universal Credit will have on self-employed people in Northern Ireland. This paper details how Universal Credit will work for self-employed people; outlines the serious potential issues with this system; and proposes several changes to the way in which the Universal Credit system should treat self-employed people.

Self-Employed People in Northern Ireland

As of June 2015, there were 112,000 self-employed people in Northern Ireland[i]; just under half of these people work in either the agriculture or construction industries[ii].

Self-employed people in Northern Ireland demonstrate two primary characteristics. Firstly, they are a major part of the N.I. economy, constituting 14% of the workforce at the last count[iii]. Secondly, self-employed people are more economically vulnerable than employees, and have been hit harder by the recent credit crunch and recession: from 2006 to 2014, the earnings of the median self-employed worker in the UK have fallen by 20%, compared to a 6% fall in earnings for the median employee. As a result, 'the typical self-employed person now earns 40% less than the typical employed person.' Self-employed people also miss out on many so-called "employee benefits" such as annual leave, corporate pension schemes and sick leave.

The Social Market Foundation[1] has said 45% of the self-employed were being paid below the "national living wage" of £7.20 an hour. It added that 20% of families with self-employed workers were claiming in-work benefits such as tax credits and housing benefits and that when these were replaced by Universal Credit – which is being phased in by 2022 – many were set to be worse off since the amount they could claim would be based on an assumption that they were earning the equivalent of an employee on the national living wage.

Self-employed people take major personal risks in backing themselves to bring their goods and services to market, in the hope of making a living for themselves and their families. These people are, and will remain, a major element of the Northern Irish economy, who make significant contributions to their local markets and communities: they should be encouraged by the State, and be assured that temporary or seasonal downfalls or losses in their business do not result in them losing out on legitimate entitlements, or facing financial hardship. Sadly, these appear to be the primary potential effects in the introduction of Universal Credit for the self-employed in Northern Ireland.

Universal Credit and the self-employed: how will this work?

Universal Credit is a major part of the UK Government's 'Welfare Reform Act', which became law in Great Britain in March 2012. Since this time, the N.I. Assembly debated its approach to Welfare Reform legislation; this process came to a conclusion in 2015 with the Fresh Start Agreement[2] which established a Legislative Consent Process to effect welfare changes. We understand that Universal Credit will begin to be implemented in Northern Ireland in 2017[3].

Universal Credit will replace a broad range of current benefits and tax credits – including Working Tax Credits[4] - and is intended to 'simplify the benefits system' , and encourage claimants and their families to become more independent.

It is our understanding that if you are self-employed and make a claim for Universal Credit, you will be invited to a 'Gateway Interview.'[viii] The purpose of this is to find out whether you are in 'gainful self-employment' – you will need to show that your self-employment is organised, developed and carried out regularly in the expectation of profit. This also must be your main form of employment[ix]. If you meet these criteria, you will be awarded Universal Credit.

Universal Credit will then be paid monthly into your account. This amount will be linked to how much you earn, and can vary from month to month[x]. In order to receive Universal Credit, you must supply monthly cash-in and cash-out figures, online, to the Universal Credit system. These figures can be reported any time between 7 days before, and 14 days after, the end of each month. If you fail to do this, your Universal Credit will be suspended. If these earnings still haven't been reported a calendar month later, your entire Universal Credit claim will be terminated[xi].

If you are deemed to be gainfully self-employed, you will be subject to something called a "Minimum Income Floor." This is an assumed level of earnings that the government will use to calculate your Universal Credit payment, if your earnings are below that level for any given month[xiii]. This floor will generally be set at 35 hours per week at the appropriate National Minimum Wage or National Living Wage for a person's age.

The living wage is currently £7.20 per hour for those aged 25 and over (rising to £7.50 from April 2017); this means the monthly Minimum Income Floor for a self-employed person over 25 claiming Universal Credit, after tax and NICs, will be set at £1092 per month. What this means is if you earn anything less than £1092 per month, Universal Credit will not make up this gap Universal Credit expects you to be earning at least the equivalent of a full-time job at the National Minimum/Living Wage, in each calendar month. If you earn less than this amount in any given month, Universal makes no distinction[5].

UCSE system in practice

These proposals appear to be, quite simply, completely ignorant of the realities of business and income for the large majority of self-employed people in Northern Ireland. If implemented, they will result in legitimately and gainfully self-employed people being:

(a) Unable to gain sufficient support via Universal Credit during periods where they are legitimately making less than the Minimum Income Floor;

(b) Forced to report accounts to Universal Credit on a monthly basis, adding significant bureaucracy and duplication for a self-employed person already required to report separate accounts to HMRC.

The following 2 case studies demonstrate how the introduction of Universal Credit for the self-employed could prevent these people from meeting basic living expenses, and place enormous time and/or financial burdens on self-employed people to report detailed accounts on a monthly basis.

Case Study I: Small Farmer, Ken Higgins

Ken is a beef farmer in Fermanagh. Ken is married with three children, aged 3, 5 and 10. Ken's wife runs the family home and cares for the children. Between September and June, Ken makes nothing; however he takes his produce to auction in July and August, where he makes a total of £5,000. Additionally in October, Ken receives an EU Single Farm Payment of £12,000. Across the whole tax year, after business expenses Ken has a gross earned income of £17,000. After tax and NICs, this is a net earned income of £14770 for the year.

Under the current system, Ken makes an annual declaration of his income for Child Tax Credit (CTC) and Working Tax Credit (WTC). He will receive £170.40 per week in CTC, and £8.48 per week in WTC. (The household is also entitled to Child Benefit of £48.10 per week.) If Ken can equally budget his £14770 across the year, **Ken's household – including his wife and 3 children - will have a net income of £2214 per month**.

Under Universal Credit: Self Employed (UCSE), Ken will have to submit monthly, online cash-in cash-out accounts to the Universal Credit system every month. If he fails to do this for any one month, his claim is initially suspended, and then terminated.

Providing Ken does correctly submit his monthly accounts, the household's monthly Universal Credit payment will be calculated as follows:

Couple over 25	£498.89
3 children	£740.42

UC allowance:	£1239.31, minus earnings/presumed earnings ('Minimum Income Floor')

In the months from September to June (excluding October), as stated above, Ken earns nothing: he is farming his produce for sale in the summer months. Due to the Minimum Income Floor, however, he is **presumed** to be earning £1092 per month. Therefore **from September to June (excluding October), Ken's household – including his wife and 3 children - will have a net income of £147.31 per month**. To re-iterate: for 9 months of the year, the household income for a farming family of 2 parents and 3 children will be under £150 per month. (In July, August and October, the household's "monthly" earnings are so high they receive no Universal Credit whatsoever.)

Even if Ken and his family equally spread their budget over the year, and ensure they spread their earnings across the whole year, **their monthly net income will be £1735.58 – a fall in income of £478 per month**.

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Case Study II: Child-minder, Marie Quigg

Marie is a self-employed child-minder, living in Bangor and renting a 3-bed social house at £390 per month. Marie is a single mother of two children, a boy and girl aged 12 and 14; she is self-employed as a child-minder of 2 children. After business expenses, Marie makes £1000 a month during the school year, but receives no income in July and August as the family she works for take the summer off, and care for their children themselves. Across the whole tax year, Marie has a gross earned income of £10,000. After tax and NICs, this is a net earned income of £9680 for the year.

Under the current system, Marie makes an annual declaration of her income for CTC and WTC. She will receive £117.08 per week in CTC, and £63.52 in WTC. (The household is also entitled to Child Benefit of £34.40 per week, and Housing Benefit of £16.87 per week.) If Marie can budget her £9,680 earnings across the year, **Marie's household – including her 2 children – will have a net income of £1811 per month**.

Under Universal Credit: Self Employed (UCSE), Marie will have to submit monthly, online cash-in cash-out accounts to the Universal Credit system every month. If she fails to do this for any one month, her claim is initially suspended, and then terminated.

Providing Marie does correctly submit her monthly accounts, the household's monthly Universal Credit payment will be calculated as follows:

Single adult over 25	£317.82
2 children	£508.75
Housing cost	£390.00

UC allowance:	£1216.57, minus earnings/presumed earnings ('Minimum Income Floor')

In the months from September to June, Marie earns £1000 per month. Universal Credit 'earnings disregards' means that figure is taken, by Universal Credit, to be £525.20: therefore in these months, Marie gets a UC allowance of £691.37. In addition to her earned income of £968, this means that **from September to June, Marie's household– including her 2 children – has a monthly net income of £1,659.37 a drop of £151.63 per month**.

In July and August, as detailed above, Marie is not earning anything. However, the UC system presumes she is earning the Minimum Income Floor of £1092 per month, so in these months her UC allowance is (£1216.57 - £1092) £124.57. So **for two months of the year, Marie's household– including her 2 children – will have a monthly net income of £124.57. Even if Marie budgets effectively**, and spreads her term-time earnings equally across the year, **the household's monthly net income will be £1403.57– a fall in income of £255.80 per month**.

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Case Studies: Analysis

What if they were employed?

If we simply pretend that Ken and Marie are employed - earning the same money, in the same (or similar) annual pattern – we can see how the Universal Credit system heavily penalises the self-employed.

Let's say Ken is an *employee* on a large farm earning £14,770 per annum (£1230.83 per month) his Universal Credit would be calculated as follows

UC Allowance = **£1239.31**
Subtract
Income: £1230.83 minus disregards = **£541.98**

UC Award = £697.33

So Ken would receive £697.33 per month from Universal Credit as an employee for 12 months of the year and only £147.31 per Month Universal Credit as a self-employed person (and only for 9 months of the year)

Let's say Marie is an *employee* for a childcare facility earning £10,000 per annum (£833.33 per month) her Universal Credit would be calculated as follows

UC Allowance = **£1216.57**
Subtract
Income: £833.33 minus disregards = **£416.86**

UC Award = £799.71

So Marie would receive £799.71 per month from Universal Credit as an employee for 12 months of the year and only £147.31 per Month Universal Credit as a self-employed person (and only for 10 months of the year)

The information and case studies detailed above highlight two enormous issues with Universal Credit for the self-employed (UCSE).

Firstly, for the average self-employed person, monthly account reporting will be a nightmare: changing from the annualised tax credit reporting system to monthly returns will place huge strains on individuals who are generally accustomed to employing an accountant for a single, annual return to HMRC[6].

Monthly reporting will result in a significant additional time cost to self-employed people, as they spend time each month compiling accounts, instead of working and earning. There is also the possibility of a direct financial cost to the individual; if they are unable to personally complete monthly accounts, they may be forced to hire an accountant. Finally, in many rural areas of Northern Ireland – and, indeed, the rest of the UK – there are issues with internet literacy, particularly among older people, as well as infrastructural issues and the complete lack of internet access.

Given the above factors, there is a very high likelihood that this new system will not be correctly used by self-employed claimants in the early months of the system's roll-out. According to the Government guidance detailed above, failing to submit monthly accounts results in the suspension and consequently termination, of the claim. This is simply inevitable, and will directly cause productive, self-employed households to fall into serious financial hardship or poverty.

Secondly, the UCSE system is utterly blind to claimants with variable or seasonal income. Painters, taxi drivers, farmers, builders – it is difficult to imagine a self-employed person whose income does not fluctuate, or is not subject to seasonal or market trends. However, the UCSE system offers no acknowledgement of this: as we see in the above 'What if they were employed?' section, this leads to claimants being hugely worse off, just because they are self-employed.

Through the arbitrary and practically punitive 'Minimum Income Floor', Ken's household income is reduced to £147.31 per month for 9 months of the year – an income of £147.31 per month, to provide for 2 adults and 3 young children. This is a poverty budget. Marie, despite having a more regular and consistent income stream, is still left to care for 2 children over the summer on an income of just £124.57 per month. The sheer practical absurdity of Universal Credit for the self-employed is demonstrated when we see what Ken and Marie's situation would be if they were employees. The Universal Credit system, far from encouraging individual enterprise, will penalise the self-employed *simply because they are self-employed*.

The proposed Universal Credit system then, in its current form, will have severe consequences for the self-employed, by:

- massively increasing their administrative workload, and
- punitively reducing their Universal Credit entitlement, in a way which is both arbitrary, and insensitive to the fluctuating nature of self-employed income.

Below, we have made several proposals which we hope will improve the operation of Universal Credit for the self-employed, and ensure a system which treats self-employed people equitably and fairly.

Our proposals: How do we fix the Universal Credit: Self Employed (UCSE) system?

As we have demonstrated, the UCSE system in its current form will place enormous additional administrative burdens on self-employed people, whilst ignoring the fluctuating nature of self-employed earnings in a way which arbitrarily penalises people simply for being self-employed. We appreciate the Minister's acknowledgement of 'unintended consequences [relating to] irregular earnings'[xvi], and his pledge to monitor the system's operation in Great Britain, bringing forward any policy changes when bringing forward the NI legislation[xvii].

We have made the following 3 proposals for changes to the UCSE system. These are intended to ensure that the self-employed, a vital and substantial part of the Northern Ireland economy, receive equitable and fair treatment from the Social Security system. We believe implementing these proposals will encourage a more dynamic and entrepreneurial Northern Ireland economy, by ensuring that self-employed people are actively supported and encouraged by the Government:

Remove the monthly Minimum Income Floor

The Minimum Income Floor is a completely artificial figure, which bears no real-life relation to the intrinsically seasonal, variable and fluctuating nature of the vast majority of self-employed income. The notion of earning a net minimum of £1092 per month is utterly foreign to the farmer who is losing money on cultivating his produce for market 10 months of the year; for the child-minder who doesn't work over the summer, as her employing family don't need her; or for the builder who gets paid on completion of projects which can vary from weeks to months in length. The over-riding effect of the Minimum Income Floor will be to persecute hard-working, self-employed people for not having a regular income stream.

Administer the UCSE system on an annual basis

In a 2011 paper, the Low Incomes Tax Reform Group rightly pointed out that for self-employed people, 'income or profits however measured do not always occur regularly or uniformly . . . the concept of a weekly or monthly income can be difficult to replicate in real time. In a universal credit system that is intended to operate more in real time, this presents a real difficulty.' For this reason, the LITRG recommended that Universal Credit for the self-employed should, like the current Working Tax Credit system, base UC entitlement on earnings across the tax year: 'as many self-employed workers often have no idea how their business is doing until the accounts are prepared several months after the end of the tax year, it will equally be difficult to determine how much welfare support to give them during that period[xix].'

An annualised Universal Credit system would, like WTC, allow the Government to provide consistent and reliable support to self-employed households, whilst also ensuring that these households get only what they are legitimately entitled to. In light of both the enormous administrative difficulties for self-employed people in producing real-time accounts, and the irregular nature of earnings amongst the self-employed, we would strongly encourage the Government to administer Universal Credit for the self-employed on an annual, tax-year basis.

Create a dedicated 'UCSE Support Programme'

Whatever the finer details of UCSE, implementing the benefit will represent a major change to the Social Security system. Such a major change to the system, with specific and complex changes for the self-employed claimant in particular, will take a lot of getting used to.

In a paper circulated to all MLAs at Further Consideration Stage of the Welfare Reform Bill, the NI Advice Services Consortium and NICVA called for a 'statutory right to independent advice'[xx] for anyone negatively affected by Welfare Reform: this would have incorporated a dedicated support programme for all claimants, on all aspects of Welfare Reform.

We would recommend that for the specific implementation of a benefit as novel and complex as UCSE, the Government should create a dedicated support system for the self-employed throughout the initial implementation of UCSE. By utilising the existing independent expertise of Advice NI's Northern Ireland-wide advice network, in conjunction with grass-roots networks in specific self-employed sectors such as Rural Support, the UFU, CAFRE, taxi drivers association or builders' groups, an holistic and independent advice service can be developed. This expert, independent service could support self-employed claimants through all aspects of UCSE, including the Gateway Interview, monthly accounting and the Minimum Income Floor. By utilising the expertise of the voluntary and community sector, the Government here can ensure that this major change in policy is implemented as seamlessly and successfully as possible. As Minister Storey rightly commented in the Assembly in January 2015, 'If anything has been learned from the way in which Universal Credit in particular has been rolled out in the rest of the UK, it is more about its implementation than the overall policy intent[xxi].'

As we have demonstrated in this paper, in its current form, Universal Credit for the self-employed will both massively increase the administrative burden on self-employed people, and arbitrarily persecute these people's entitlements simply because they are self-employed. The financial effects of this, as demonstrated by our case studies, will be severe. Self-employed people are a vital and dynamic element of the Northern Ireland economy, and deserve to be encouraged by the Government, not punished by it. We hope the Government will consider our analysis and proposals, and give serious consideration to amending UCSE in order to ensure that self-employed people are treated equitably by the State.

Bob Stronge Advice NI
Jude McCann Rural Support
Wesley Aston Ulster Farmers' Union

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[iii] NISRA (2015) Ibid.

[iv] D'Arcy C & Gardiner L (2014) 'Just the job – or a working compromise? The changing nature of self-employment in the UK' Resolution Foundation, p4

[v] See http://www.legislation.gov.uk/ukpga/2012/5/introduction

[vi] See https://www.gov.uk/government/publications/2010-to-2015-government-policy-welfare-reform/2010-to-2015-government-policy-welfare-reform#appendix-1-government-policy-on-universal-credit-an-introduction

[vii] Ibid.

[viii] See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/404243/uc-and-self-employment.pdf, p1

[ix] Ibid.

[x] Ibid., p2

[xi] Ibid.

[xii] Ibid.

[xiii] This figure is calculated as follows: 35 hours per week x National Living Wage x 52 (weeks) = £13104 per year. If a self-employed person thus earns £12,194 per year, they are liable for £318.80 in income tax and £517.66 in National Insurance contributions (£145.60 of which are class 2 NICs, and £372.06 of which are class 4 NICs). This person's net earnings are therefore £11,357.24 per year, or £946.46 per month.
The Minimum Income Floor in 2020 is calculated as follows. With a National Living Wage of £9 per hour and an income tax Personal Allowance of £12500 – as pledged in the July 2015 Budget, the following applies: 35 hours per week x National Living Wage x 52 (weeks) = £16,380 per year. If a self-employed person thus earns £16,830 per year, they are liable for £776 in income tax and £894.40 in National Insurance contributions (£145.60 of which are class 2 NICs, and £748.80 of which are class 4 NICs). This person's net earnings are therefore £14,709.60 per year, or £1225.80 per month.

[xiv] Ibid.

[xv] All Universal Credit figures cited in the Case Studies are taken from The DWP's 2016/2017 UC rates.

[xvi] Storey M (2015) 'Concern about the potential impact of Universal Credit on Self Employed Persons' (letter to Barclay Bell), p1

[xvii] Ibid., p2

[xviii] Low Incomes Tax Reform Group (2011) 'Self-employment and the Universal Credit', p2

[xix] Ibid.

[xx] NIASC & NICVA (2015) 'Welfare Reform that works for Northern Ireland: Our proposals for Further Consideration Stage', p3

[xxi] Northern Ireland Assembly (2015) 'Official Report, Monday 12 January 2015' Hansard, 100:5, p26

[1] http://www.smf.co.uk/

[2] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479116/A_Fresh_Start_-_The_Stormont_Agreement_and Implementation_Plan_-_Final_Version_20_Nov_2015_for_PDF.pdf

[3] https://www.nidirect.gov.uk/articles/introduction-to-universal-credit

[4] Universal Credit will replace and incorporate income-based Jobseeker's Allowance; income-based Employment & Support Allowance; Income Support; Child Tax Credits; Working Tax Credits; and Housing Benefit.

[5] If your business is less than 12 months old, you will get a 12-month "start-up period" under Universal Credit, where the Minimum Income Floor will not apply. In addition to this, the Minister for Social Development has previously indicated that 'once UC has been introduced into NI and current benefit recipients are transitioned across to the new system, those claimants will not be subject to a MIF for the first 6 months of their claim.'

[6] It is worth reminding ourselves that a single, annual set of audited accounts is the professional norm for companies of any shape or size.

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1 Rushfield Avenue, Belfast, BT7 3FP

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