

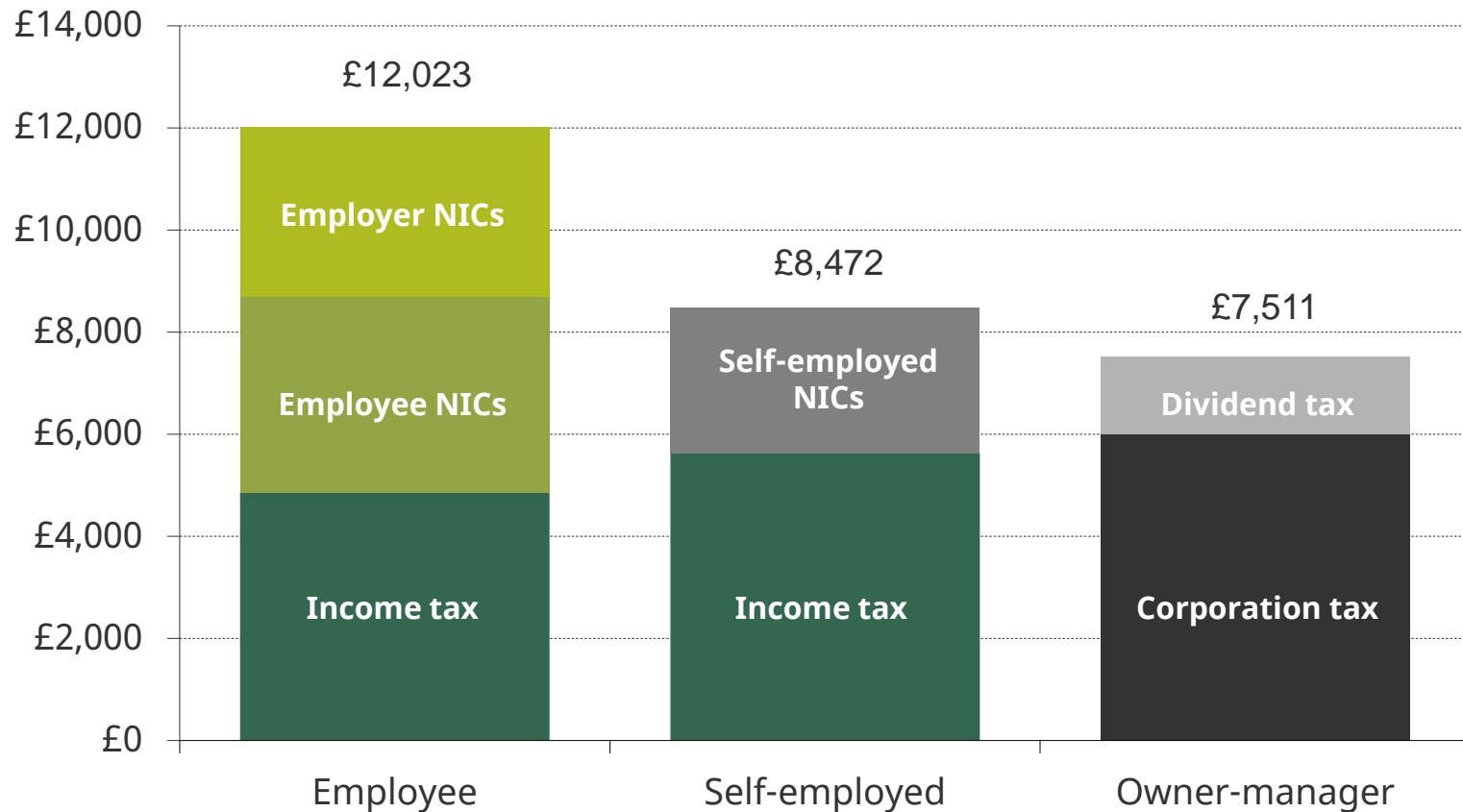
Tax, benefits and labour law: what's the right answer for workers in the gig economy?

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The tax system penalises employment

Tax due on total income generated of £40,000, 2018-19



This is a problem

Unfair

- Two otherwise similar people are taxed very differently

Inefficient

- Clear evidence that these tax differentials distort behaviour

Complex

- Requires IR35 rules etc.

Growing Exchequer cost

- Self-employed & 'small company' owners would pay >£10bn per year more if taxed as employees
- Changing composition of workforce will add £4.5bn to Exchequer cost between 2016–17 and 2021– 22

❖ Similar problems likely wherever the boundary is placed

Hard to justify tax differences

Little difference in state benefits to be offset

No role for tax system in offsetting differences in employment rights

- Employment rights are a transfer from employers to their employees, not a benefit given to employees by the government
- Make employment **more** attractive to employee – *higher tax offsets*
- Make employment **less** attractive to employer – *higher tax reinforces*

Across-the-board lower rates are badly targeted at encouraging investment or ‘entrepreneurship’

Universal credit

Major benefit reform, currently being rolled out

Self-employed, unlike employees, treated (broadly speaking) as earning at least full-time minimum wage after a year

- Disadvantages self-employment
- OBR estimates that 2/3 of self-employed UC claimants (430,000 families) will lose an average of £3,000 per year
- Saving the Exchequer £1.3bn a year

Some rationale as one possible response to the difficulty of monitoring self-employment income

Could be tweaked in various ways. For example:

- Longer/shorter grace period, phase in gradually, apply discretion,...
- Use 12-month rolling average income rather than monthly

Align status across tax, benefits and rights?

Tax, benefits and labour law treat some people differently from others

In each case, ask why doing this (for some but not others). What criteria define/identify the target population?

Answer could be different for different rights, and for taxes/benefits

- Power imbalance / risk of exploitation, lack of 3rd-party reporting, risk-taking, degree of control, capital investment, administrative practicality, preventing discrimination, co-ordination to avoid race to bottom,...
- Though sometimes similar rationale → similar criteria

May then want to compromise for practical reasons

- Simplicity → align tests for different rights/taxes
- Minimise upheaval → presumption in favour of status quo

But recognise trade-off involved: what are we sacrificing for an easy life?

- What problems (unfairness, distortions) can we expect, and can we mitigate them?

Summary

Self-employment, 'gig' work and borderline status issues not new

- But growing

Tax system penalises employment

- Hard to see a good reason for this

Universal credit penalises self-employment

- Potential for fraud provides some rationale, but design could be tweaked

Moving boundaries cannot solve the fundamental problem

No reason in principle that status for employment law and for tax should be the same

- Lower tax rates do *not* compensate for fewer employment rights
- Target groups for stronger rights and for higher taxes may be different
- Could align for simplicity, but recognise trade-offs involved

Clear statement of policy aims and long-term vision would be nice