

IFS Briefing Note BN316

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Who is excluded from the government's Self Employment Income Support Scheme and what could the government do about it?

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Executive summary

Key findings

- 1 The government's Self-Employment Income Support Scheme (SEISS) is a generous form of income support for those who are eligible for it. It has been paid to (at least) 2.6 million people, costing £21 billion up to January 2021. At least three-quarters of the potentially eligible self-employed population have taken advantage of this scheme compared with the 30% of employees who were benefiting from the furlough scheme at its peak last May.
- 2 However, around 1.8 million self-employed people and around 700,000 company owner-managers are not eligible for support through the scheme.
- 3 For some of these people, it is technically very difficult for the government to provide targeted support. This is the case for owner-managers and newly self-employed people.
- 4 This is not the case for the 1.3 million self-employed people who have less than 50% of their income coming from self-employment, or for the 225,000 people who have profits in excess of £50,000. The government has actively chosen to exclude these people from SEISS.
- 5 There are clear injustices in the way these people are excluded, not least in the hard cut-offs which mean someone with profits of £50,000 can claim the maximum available while someone with £50,001 can claim nothing. Equally, someone with 51% of declared income from self-employment can claim the maximum, while someone with 49% can claim nothing.
- 6 More than half of self-employed people with less than 50% of their income from self-employment have total personal incomes of under

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£25,000, meaning that targeting support at this group would affect many people with low or moderate personal incomes. They also have relatively low levels of self-employment profits (more than half have profits under £5,000 per year). 45% of people in this situation are women compared with just 35% of those supported by SEISS. We estimate that extending SEISS to them would be relatively cheap in comparison with other spending on government support schemes (between £500 million and £800 million per quarter, with average quarterly payments of between £600 and £1,000 per person).

- 7 People earning over £50,000 per year in self-employment profits have on average very high incomes. While over half of them have incomes between £50,000 and £100,000, some will have much higher incomes. But denying support to them entirely creates a clear unfairness for people who earn just over £50,000 compared with those earning just under, and is inconsistent with how the furlough scheme works for employees. Extending SEISS fully to this whole group would cost £1.3 billion per quarter with a payment of £7,500 per person. Providing a tapered form of support to those with profits between £50,000 and £100,000 would cost much less: around £350 million per quarter.
- 8 Fully supporting those with less than half their income from self-employment and providing some support to those with prior self-employment income between £50,000 and £100,000 would likely cost around £1 billion per quarter. That is just 5% of the cost of SEISS to date (and around 1% of the combined cost of the SEISS and furlough schemes to date). It is hard to believe it would be significantly less well targeted than the current SEISS, and it would certainly support a significant number of people facing financial difficulties.

1. Introduction

The government has provided huge amounts of financial support to working people since the start of the pandemic, with its furlough scheme for employees forecast to cost £62.5 billion in 2020–21 and the Self-Employment Income Support Scheme (SEISS) forecast to cost £21 billion up to January 2021, with expected costs of up to a further £7 billion to cover the period from February to April 2021.¹

SEISS provides payments once per quarter worth 80% of pre-pandemic profits up to a cap of £7,500 (per quarter) for eligible self-employed workers who have been adversely affected by the pandemic.² However, despite huge spending on these support packages, important groups of self-employed workers are not eligible for it. This short briefing note sets out what we know about who have been excluded from this support and what options the government has for extending it to them.

¹ Source: <https://obr.uk/efo/economic-and-fiscal-outlook-november-2020/>.

² There are four planned quarterly payments, with the first covering May–July 2020 and the final one covering February–April 2021. The first and third payments were worth 80% of profits, the second was worth 70% of profits, and the level of the final payment remains unconfirmed.

2. SEISS is generous to those who receive it, but millions are left out

It is important to stress quite how generous SEISS is for the 2.6 million people who have claimed the payments to date.³ One reason for this is that the SEISS payments are only related to previous self-employment profits, not how much those profits have been affected by the pandemic. To illustrate this, imagine two people with profits of £5,000 per quarter before the pandemic. One of these people is unable to work, and their profits fall to £0 per quarter. They would receive a SEISS payment worth £4,000 per quarter. The second person sees only a 10% decline in their profits, down to £4,500 per quarter. This person would receive the same £4,000 quarterly SEISS payment, meaning their income has actually risen to £8,500 per quarter.

This level of generosity, combined with the fact that there is a long list of reasons that you can claim to be ‘adversely affected’ by the pandemic, will be the key reason that an astonishing 77% of people eligible for the scheme have taken it up (according to the National Audit Office), far above the 30% of employees who were furloughed at the peak in May 2020.⁴

However, there are five groups of self-employed people who might be adversely affected by the pandemic but are not eligible for government support under SEISS. Of these, 1.8 million are self-employed workers and around another 700,000 are owner-directors of limited companies.⁵ These groups are:

³ Source: <https://www.nao.org.uk/report/implementing-employment-support-schemes-in-response-to-the-covid-19-pandemic/>.

⁴ Source: <https://www.gov.uk/government/news/official-figures-show-that-the-furlough-scheme-has-worked-saving-jobs-and-helping-more-than-half-of-employees-back-to-work-already>.

⁵ Source: These figures are from <https://www.nao.org.uk/report/implementing-employment-support-schemes-in-response-to-the-covid-19-pandemic/> and <https://www.ifs.org.uk/uploads/publications/bns/BN277-Income-protection-for-the-self-employed-and-employees-during-the-coronavirus-crisis.pdf>.

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- i) people who have self-employment profits of more than £50,000 per year (around 225,000 people);
- ii) self-employed people who have less than 50% of their income coming from self-employment (around 1.3 million);
- iii) self-employed people who were making losses prior to the pandemic (around 500,000);
- iv) people who have entered self-employment since April 2019 (around 200,000);
- v) people who are company owner-managers (directors of limited companies) (around 700,000).

It is worth pointing out that SEISS is not the only form of support available to these people. Those ending up with low family incomes can usually claim universal credit. In addition, most company owner-managers will be employees of their company, albeit paying themselves a low salary to minimise tax payments. They will be able to furlough themselves, and receive 80% of their salary through the furlough scheme.

Of the five groups that are excluded from SEISS, two are excluded because it is technically very hard to include them. For people who were not self-employed before April 2019 and have therefore not had to submit a tax return, the government does not know how much they earned pre-pandemic, and so cannot provide them with support without even greater risk of fraud than there is under the current SEISS. Having said that, if the government were able to find a way around this problem, the cost of extending SEISS to them is probably relatively low given there are only 200,000 people in this group and that the newly self-employed tend to have relatively low incomes.

It is also hard to support company owner-managers who choose, perhaps for tax reasons, to take most of their income in the form of dividends rather than as a salary. It is hard for HMRC to distinguish dividends of this kind from those earned from investment in other companies, and therefore technically hard to support these incomes. However, other schemes, including the furlough scheme and the Bounce Back Loan Scheme, are also available to many in this position. Some, though, will be struggling with very little income through no fault of their own.

Given that payments from SEISS are based on previous income from self-employment, it is also hard for it to provide support to people who made self-employment losses prior to the pandemic.

This is not to say that some in these groups have not suffered serious loss of income which they have struggled to cope with. Clearly many have. Nor is it to say that targeted support is impossible. But it would certainly require a major redesign of policy and/or a clear willingness to risk excessive payouts to many.

This leaves two groups to which the government could easily provide support through SEISS, but has chosen not to: those earning over £50,000 per year and those with less than 50% of their income coming from self-employment. The hard cut-offs that apply at these thresholds are a source of clear unfairness. Someone with previous profits of £50,000 can receive support of £7,500 per quarter, while someone with profits £1 higher receives nothing. Significant support is provided to people with 50% of their income from self-employment, but nothing for those for whom it is 49.9% of income. The remainder of this briefing note discusses these groups in more detail.

Self-employed people with profits in excess of £50,000 per year

Previous IFS research has estimated 225,000 self-employed people have profits in excess of £50,000 per year. We can use data from the Family Resources Survey to get a sense of how high their incomes are. We estimate that over half of this group have personal incomes between £50,000 and £100,000, while the fact that there are some extremely high earners means that the mean income is over £150,000 per year. We estimate that 80% of this group are men.

One argument for not giving support to this group could therefore be that many of them are rich enough to cope well financially without government support. But that does not explain why someone with profits of £50,000 per year can receive significant support, but someone with profits of £50,001 per year receives nothing. In addition, there is an inconsistency between high-income employees and high-income self-employed people. A high-income employee can still be furloughed and receive £2,500 per month, or £7,500 per quarter, while an equivalently high-income self-employed person can receive no support.

We estimate that extending the full SEISS scheme to this group would cost £1.3 billion per quarter or £5.2 billion per year. Extending it in full to those with earnings up to around £100,000 would cost half that. An alternative policy would

be to provide tapered support. For example, if someone earning £50,000 could receive the full £7,500, and this support was tapered away such that someone earning £100,000 received nothing, the cost would probably fall by around 75% to around £350 million per quarter.

Self-employed people with less than 50% of their income from self-employment

There are many more people who are excluded from SEISS due to having less than 50% of income from self-employment. We can use survey data on personal incomes to get a sense of the financial situation of this group.

We estimate that more than half of them have personal incomes below £25,000 per year, meaning that extending SEISS to include this group would target many people on low and moderate incomes. 45% of those in this ineligible group are women, compared with around 35% for those who have more than 50% of their income from self-employment.

The data also suggest that more than half of this group have profits of less than £5,000 per year. The relatively low level of average profits means that, were the SEISS scheme to be extended to this group, the average payments would be quite low compared with those paid out to people currently eligible. While it is hard to put a precise figure on the cost to the government of extending the scheme to cover this group in full, we estimate that it would probably be between £500 million and £800 million per quarter, with average quarterly payments of between £600 and £1,000 per person.

3. Conclusion

Over the last 10 months, the government has spent vast sums of money supporting the incomes of both employees through the furlough scheme and the self-employed through the Self-Employment Income Support Scheme. Forecasts from November (before the third lockdown), implied that the schemes were on course to cost around £90 billion over the 2020–21 financial year, in addition to other support for businesses, and for families through higher universal credit payments.

However, there are millions of self-employed people who are ineligible for support through SEISS. Many are company owner-managers or newly self-employed people whom it is technically or administratively hard to help. But those who earn over £50,000 in self-employment profits or have less than 50% of their income from self-employment are ineligible as a result of a straightforward policy choice by the government. This choice has clearly created some serious inequity between those just above and just below arbitrary cut-offs, and hardship for some.

Those earning more than £50,000 per year are on average very high-income people, and extending full support to them would cost around £1.3 billion per quarter. This cost could easily be reduced by three-quarters if support were tapered to exclude those with particularly high incomes.

In contrast, most self-employed people with less than 50% of their incomes coming from self-employment are on low or moderate personal incomes. Because most people in this group actually have very low profits, we estimate that extending the scheme to this group would cost between £500 million and £800 million per quarter, a tiny fraction of the cost of the whole scheme. A cut-off at, say, 25% of income coming from self-employment would ensure that nearly all those whose business has been seriously affected by the pandemic would be supported, and would avoid unnecessary administrative complexity by bringing very large numbers with small incomes into the scheme.