

# Excluded to included

Expanding the government's income support schemes






Briefing paper

By Torrin Wilkins and Janey Little, August 2nd, 2020

# Centre

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## About Centre

We are an independent non-profit foundation and cross-party think tank. Our mission is to rebuild the centre ground and to create a more centrist and moderate politics. We support better public services and a strong economy inspired by policies from the Nordic countries.

To achieve these goals, we work with people from across the UK and party politics. This includes engaging with politicians and our networks, which include academia, politics, and law.

Our work includes creating new conversations by hosting events and conducting interviews. We also produce new policy ideas to better inform debate, publish papers, and release articles. We aim to build consensus, shape public opinion, and work with policymakers to change policy.

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## Summary



This paper proposes a number of measures to include those excluded from income support schemes during the pandemic. This includes removing barriers to the system and expanding the eligibility criteria that have meant some people have received nothing.



- Allow limited companies to include dividends in earnings and let them claim on their turnover if they reinvest their money back into the company.
- Scrap the rule that 50% of earnings must come from self-employment to claim under the Self-Employment Income Support Scheme.



- Allow limited companies to include dividends in earnings and let them claim on their turnover if they reinvest their money back into the company.
- Allow furnished holiday lettings to be counted under the Self-Employment Income Support Scheme in the same way that Bed and Breakfasts are.



- Add into calculations discretionary commission and PAYE Tronc payments.
- Simply require proof of employment for those made redundant and new starters.
- For Annual PAYE, the government should accept PAYE returns from the 20th of April.



- Remove time spent on maternity leave from Self-Employment Income Support Scheme calculations.
- Accept 2018-2019 tax returns or PAYE payments to include those who are newly self-employed, are freelancers, or are on short-term contracts.

## **Introduction**

It is estimated that around three million people have been either wholly or partially excluded from the Government's income support schemes. Without key financial support, many of them are struggling to survive, and this has brought together both a group of more than 200 Members of Parliament, along with the campaign group Excluded UK, which represents many of those who have been unable to access the Government furlough scheme.

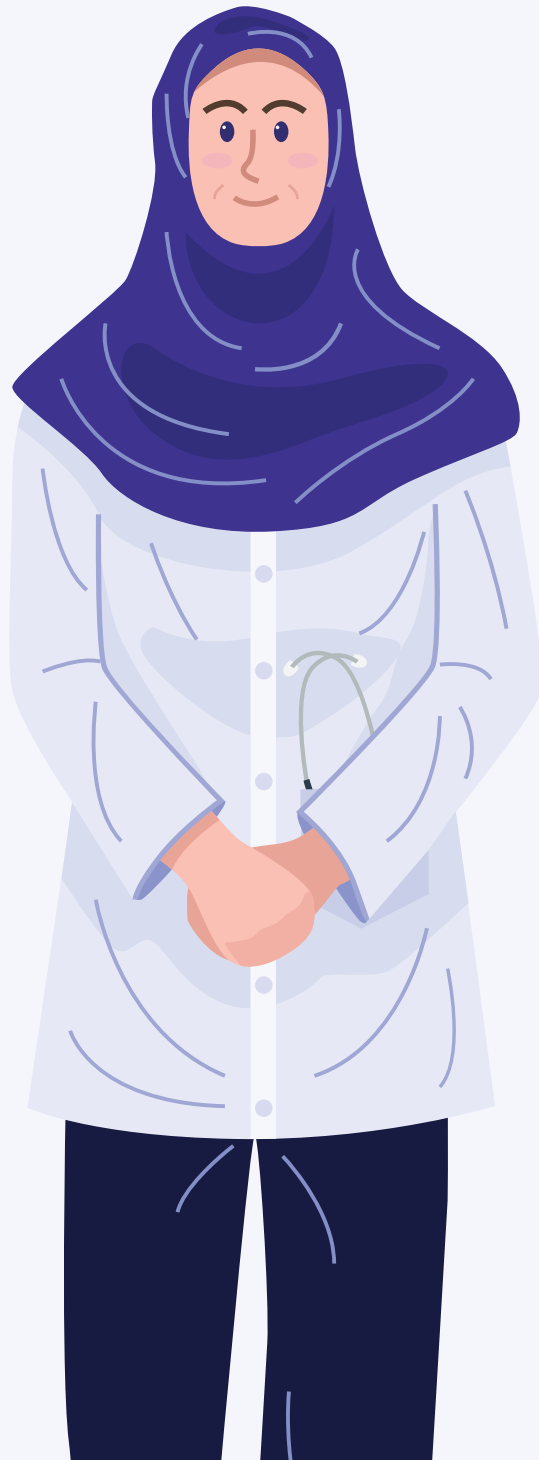
This paper is a collation of our practical policy solutions to solving this crisis. This is an urgent matter, as the risk of a second COVID-19 wave increases each day. If a second wave hits the UK, it is paramount that we ensure the self-employed are not forgotten and get the support they need.

## **Abbreviations**

- CJRS: Coronavirus Job Retention Scheme.
- SEISS: Self-Employment Income Support Scheme.
- RTI: Real Time Information. This means that you must update HMRC when you make a payment through your payroll.
- PAYE: Pay As You Earn. This is the method of deducting tax from an employee's gross earnings.
- UTR: Unique Taxpayer Reference.

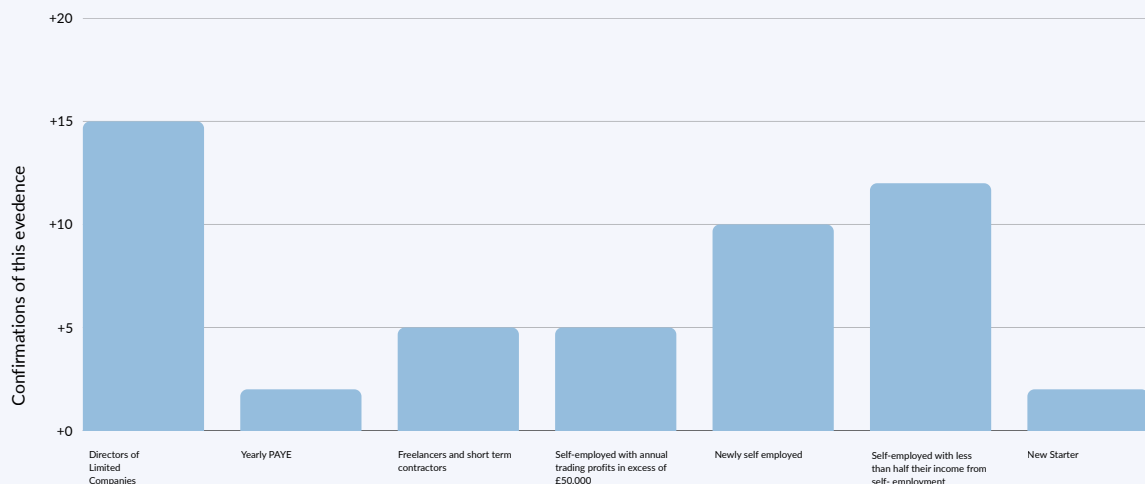
Chapter one

# Our survey of the excluded





**Figure 1: Number of responses**



In some sections of this paper, our solutions are followed by the results of our survey on the excluded. The survey itself consisted of 54 people who told us why they had been excluded and what proof they could supply to back up their income or turnover. The graph above shows the number of answers we received from each of the excluded groups, aside from a few more specific answers. Please note that not all results are included in the individual sections or the graph above if they were more specific than the categories set out above. We also received some comments from the form, which we have tried to cover in our solutions, and we discussed our plans with a further 17 people to test their suitability for individual situations.

The survey results set out above are simply raw data and have not been weighted. This is partly because the survey aimed to establish whether the whole, or the majority, of a group had a certain form of proof that the Government could mirror in their requirements.

Whilst this survey was only on a small scale, and large surveys need to be undertaken in the future, it gives us an idea of the scale of the situation. What became apparent through the results was that there was no shortage of evidence that could be provided to the Government by those who were excluded. This includes pieces of evidence that could be supplied under the Coronavirus Job Retention Scheme or the Self-Employment Income Support Scheme. In other categories where such evidence was not available, other documents could be used as evidence of income, with most individuals in said categories having access to them. This includes P60s for new starters or tax records for those on Annual PAYE.

Chapter two

# Limited company Directors

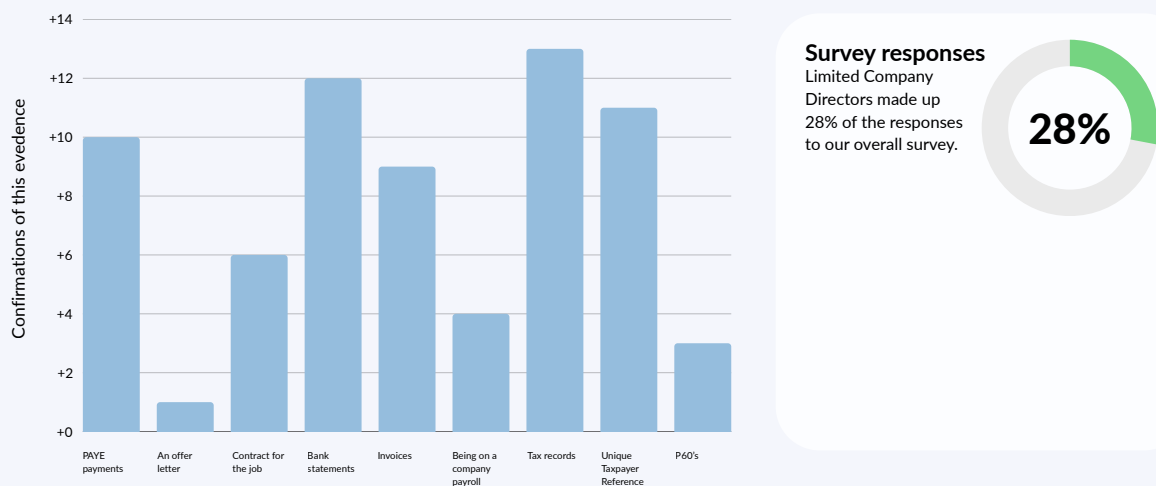


Limited Company Directors who pay themselves either partly or wholly through dividends miss out on this section of their income due to it not being included in the Coronavirus Job Retention Scheme. “If they do furlough themselves then they are not allowed to work in the business which is in contrast to the SEISS. Any directors who submit their PAYE annually and miss the RTI cut-off date are not entitled to claim under the CJRS”<sup>2</sup>.

The solution to this would be to open up the scheme to limited companies and count dividends as a form of income. To do this, the Government should look at dividends that were subject to tax over the past tax year to calculate how much limited company directors will receive. However, this would still be subject to the existing 80% cap on total pay and £2,500 a month limit. The Government could also consider dividend certificates as a form of proof if necessary. On top of this, we also advocate for grants to be allocated to businesses with both physical and non-physical premises.

In the “The Coronavirus Act 2020 Functions of Her Majesty’s Revenue and Customs (Coronavirus Job Retention Scheme) Direction”<sup>3</sup> this would require adding a section 3.3 to “Qualifying employers”<sup>4</sup> stating “An owner of a limited company earning part or all of their earnings through dividends”. In section 8.1<sup>5</sup>, we would add a section (d) saying “Any dividends that were subject to taxation and dividends below the tax threshold where dividends above that level were taxed within the last tax year”.

**Figure 2: Directors of limited companies using dividends as income**



Our survey shows that directors of limited companies had a wide variety of evidence to prove income, but tax records were the most common and something that the vast majority of individuals who fall into this category have access to. All but two respondents stated that this was the best method of proving income. However, the main issue when it comes to helping those who are excluded is how we count dividends. According to the survey, dividend certificates were identified as the best method of proving dividend income.

## Chapter three

# Annual PAYE

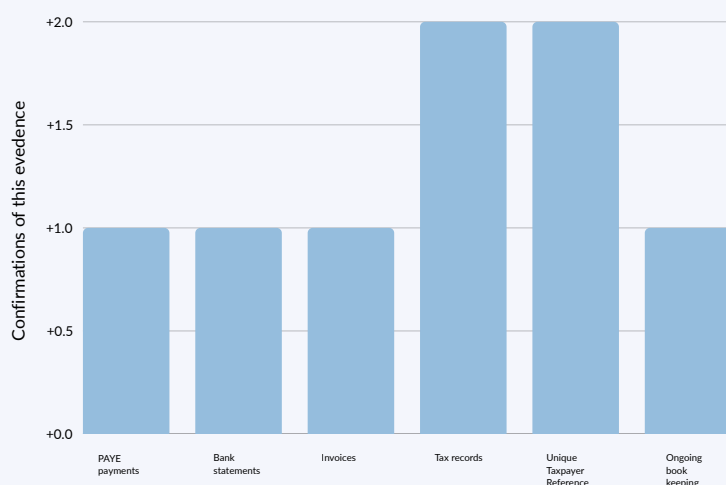


Some of those being paid through PAYE on an annual basis are being excluded from the government's Coronavirus Job Retention Scheme. This happens if they miss the March 19th deadline for submitting their PAYE return and obtaining their reference number. However, those handing in monthly PAYE reports can get onto the Coronavirus Job Retention Scheme.

To change this, we propose changing the March 19th deadline to April 20th so companies can use later PAYE returns. We also support allowing HMRC to investigate claims independently of this system as well where HMRC has previous annual PAYE reports for companies. We have seen numerous cases where, despite being denied help, the risk of fraud is tiny when taking into account the proof some of these companies have. It is also not a complex situation given the information HMRC has on these companies.

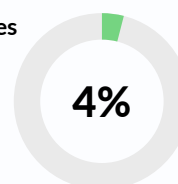
In "The Coronavirus Act 2020 Functions of Her Majesty's Revenue and Customs (Coronavirus Job Retention Scheme) Direction"<sup>6</sup> section (5) (a) (1) says "to whom the employer made a payment of earnings in the tax year 2019-20 which is shown in a return under Schedule A1 to the PAYE Regulations that are made on or before a day that is a relevant CJRS day,"<sup>7</sup> which means only the 2019-20 accounts are counted. We would change the "...relevant CJRS day" from March 19th to April 20th.

**Figure 3: Annual PAYE**



**Survey responses**

Yearly PAYE made up  
4% of the responses  
to our overall survey.



Everyone who answered our survey that was on annual PAYE had tax records and a Unique Taxpayer Reference. Whilst a UTR could be requested by the Government as additional proof, our solution only requires PAYE payments or tax records.

Chapter four

# **Self-employed maternity leave**



The Government currently uses past earnings to calculate payments through the Self-Employment Income Support Scheme. In doing this, it has placed those who are self-employed but also on maternity leave at a considerable disadvantage. In practice, this reduces the financial support available for around 69,200<sup>8</sup> workers.

In these circumstances, the Self-Employment Income Support Scheme should only account for time not spent on maternity leave, or shared parental leave, when calculating payments. This would mean that payments are calculated as if the individual had not taken any maternity or parental leave.

Thus, self-employed people need proof of when and how long that person was on maternity leave during the past three years.

To do this it would require inserting a section into the Self-Employment Income Support Scheme. In the “The Coronavirus Act 2020 Functions of Her Majesty’s Revenue and Customs (Self-Employment Income Support Scheme) Direction”<sup>9</sup> section 5 deals with “The profits condition”<sup>10</sup> and section 6<sup>11</sup> with how the SEISS payment is calculated. We suggest adding section 6.3 (a) stating that “Time taken off for maternity leave should not be included in any of the above calculations.”

#### Extending maternity leave

Another area we identified was the interruptions caused by Maternity and Adoption Leave. Overall, 491,453<sup>12</sup> people are on maternity or adoption leave during the pandemic. Despite being on leave, lockdown has meant the possibility of lower incomes along with being unable to mix with other parents and their children.

We therefore support extending maternity and adoption leave by 3 months. The full cost of extending maternity and adoption leave by 3 months would be “...£966 million, assuming full take-up”<sup>13</sup> if it is paid leave<sup>14</sup>.

Chapter five

# Discretionary commission





This applies to commissions that are counted as discretionary commissions in an employee's contract. These affect people who are also being paid from commissions from the goods that they sell, such as car salespeople or estate agents. These are similar to compulsory commissions which are already counted as income in the Coronavirus Job Retention Scheme.

We would include discretionary commission when calculating the amount of money employees should receive from the Coronavirus Job Retention Scheme income. This would be done in the same way as compulsory commission already is.

In terms of legislation, this will require the Government to update its "The Coronavirus Act 2020 Functions of Her Majesty's Revenue and Customs (Coronavirus Job Retention Scheme) Direction"<sup>15</sup> which set out how support should be given to businesses under the Coronavirus Act 2020<sup>16</sup>. Currently, it states that "...no account is to be taken of anything which is not regular salary or wages"<sup>17</sup> and it also adds that a person's salary must not be "...conditional on any matter..."<sup>18</sup>. This needs to be updated by removing 7.4 (b) of the act and instead stating that "...account should only be taken of anything which is not regular salary or wages if it is discretionary commission".

Chapter six

# Recently became self- employed



Individuals who set themselves up in business from 6 April 2019 do not meet the eligibility criteria for either the CJRS or SEISS and a 2018–19 tax return is a key eligibility criterion for the SEISS<sup>19</sup>. This means that they are currently excluded from Governmental schemes.

Instead, the Self-Employment Income Support Scheme should be opened to those who are newly self-employed by expanding the evidence that can be used to prove earnings.

The first step would be to identify who is eligible for support, which could be done by checking Unique Taxpayer References submitted before the original furlough scheme was introduced.

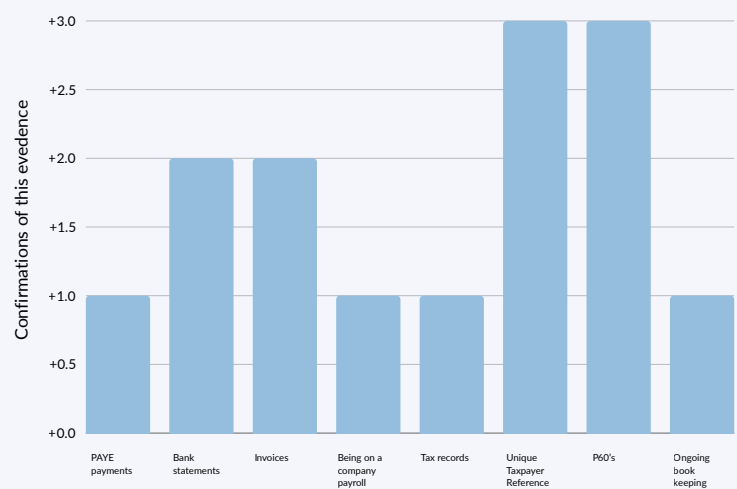
The second step would involve a mixture of evidence to calculate the rough income for those who have applied. The person applying should also send a rough estimate of how much they were earning. This should include bank statements, P60s, invoices, ongoing bookkeeping, and PAYE payments from this tax year. We would also suggest allowing the use of a 2019/2020 tax return in the Self-Employment Income Support Scheme.

This would then allow those who are recently self-employed to gain access to the Self-Employment Income Support Scheme. This would mean that they were then entitled to payments that make up 80% of their income, up to £2,500 a month.

Currently, the only people who can qualify for the Self-Employment Income Support Scheme are those with a tax return. This is stated in section 4.2 of “The Coronavirus Act 2020 Functions of Her Majesty’s Revenue and Customs (Self-Employment Income Support Scheme) Direction”<sup>20</sup> as a person must “have delivered a tax return for a relevant tax year on or before 23 April 2020,”<sup>21</sup>. We would alter this so that those who “have delivered a tax return for a relevant tax year on or before 23 April 2020 or submitted alternative forms of proof such as bank statements, invoices, ongoing bookkeeping, and PAYE payments”.

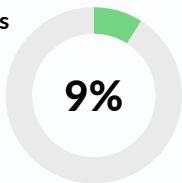
We would suggest using multiple pieces of evidence to incorporate those who are newly self-employed into the Government’s plans. The first of which is getting individuals to provide a UTR, which most people who filled out the survey in this category agreed with. The second is a mixture of bank statements, P60s, invoices, ongoing bookkeeping, and PAYE payments. All of these, aside from ongoing bookkeeping, were in the top four options that those in this category picked as the most suitable option. The survey showed that if P60s and UTRs were required as evidence, most respondents would be able to prove their earnings.

**Figure 4: Recently self-employed**



**Survey responses**

Recently went self-employed made up 9% of the responses to our overall survey.



Chapter seven

# Employees made redundant



"This includes those who were made redundant before 28 February and are not eligible to be included in the CJRS. It also includes those made redundant after 28 February but before 19 March whose previous employer does not agree, for whatever reason, to re-employ them and place them on temporary leave.

For these employees, just as with new starters, the Government should simply require proof of employment such as a contract, being on the company payroll, and tax records from this tax year. These could all be used to prove an individual was an employee of the company.

If this evidence was provided, then the Government should give employees made redundant the standard 80% salary payment, up to the £2,500 per month currently available. This would be based on the income they would have received if they had worked for the company.

Section 6 of the "The Coronavirus Act 2020 Functions of Her Majesty's Revenue and Customs (Coronavirus Job Retention Scheme) Direction" describes what a furloughed employee is, the conditions that must be met, and how unpaid leave is dealt with. This would require allowing applications from those who have been made redundant after 1 January 2020 and accepting evidence such as a contract or being on a company payroll. The proof of this needs to be submitted to HMRC in the same way as PAYE payments are through the Government Gateway."

Chapter eight

# Furnished holiday lettings



There is currently a mismatch in the Government's policy between the support that Bed and Breakfasts receive compared to furnished holiday lettings. This means that income that comes from furnished holiday lettings is not included in Government schemes, whereas income from Bed and Breakfasts is counted.

Both should be counted in the same way when working out who is eligible for the Self-Employment Income Support Scheme and calculating how much money they should receive. This will require HMRC to treat these individuals as self-employed for the Self-Employment Income Support Scheme.



Chapter nine

# **PAYE Tronc payments**



The Government currently excludes tips that are distributed electronically through PAYE Tronc payments.

To solve this, the Government should include PAYE Tronc payments alongside other forms of income. Like other schemes, this would also include the limit for a combined income of £2,500 per month and a maximum of 80% pay when PAYE Tronc income is included with all other income.

This would mean updating the Coronavirus Job Retention Scheme with two points of entry. The first is that the person in charge of PAYE Tronc payments, known as the troncmaster<sup>24</sup>, can submit an average of payments for the past year for each employee. This can be done either by the troncmaster themselves putting in a request or the employer putting in a request with the details of the troncmaster. The second is that an individual can submit their own PAYE records if they have them.

Payments should be fairly easy to calculate given PAYE Tronc payments are already run through HM Revenue and Customs when they are taxed and the company must also apply to them in order to set the system up<sup>25</sup>.

Chapter ten

# **Freelancers and short-term contractors**



“Those on short-term PAYE contracts and/or self-employed work. They have missed out on support from the CJRS or the SEISS because either: they were not in a contract at the designated cut-off date; more than half of their income has not come from self-employment; their employer could not afford to keep them on the payroll until the Government’s financial support became available; or their employer does not want to apply for support under the scheme on their behalf”<sup>26</sup>.

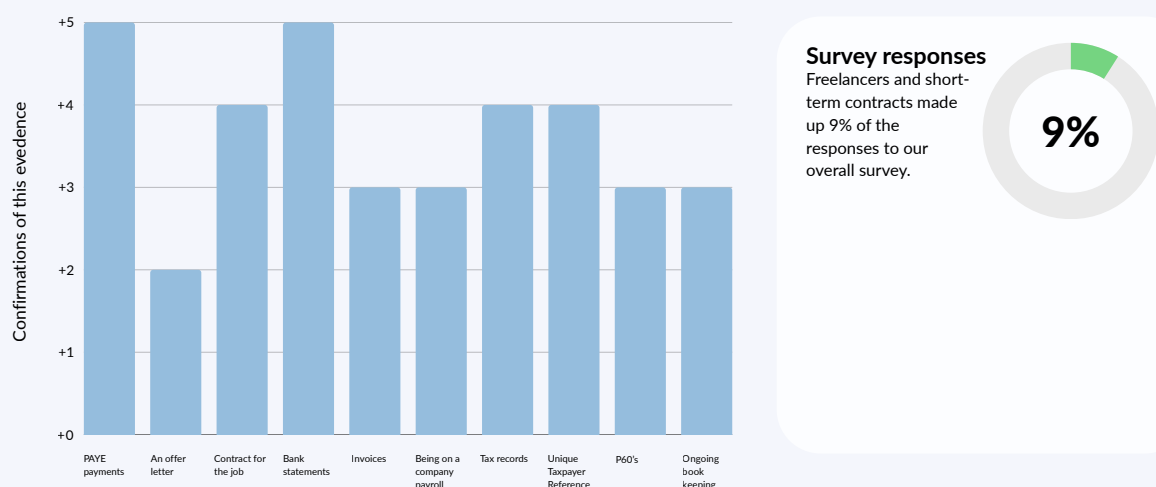
To include freelancers and short-term contractors, the Government needs to provide several new avenues into the Coronavirus Job Retention Scheme and the Self-Employment Income Support Scheme.

This should include amending the Self-Employment Income Support Scheme to remove the 50% requirement for those who are self-employed as we set out later in this briefing paper.

We also support following the recommendations of the House of Commons Treasury Committee which suggested “financial support that equates to 80 per cent of their average monthly income earned in the first 11 months of the 2019–20 tax year, based on their PAYE tax record in a year”<sup>27</sup>. This could either be applied for by the employer or the employee.

This support could be applied for by either the employer or the employee. It would mean that, as long as the individual has earnings registered through PAYE within the last 11 months of the 2019-20 tax year, they could still apply regardless of whether they were in a contract at the cut-off date. For this 11-month average during the 2019-2020 tax year, freelancers and short-term contractors would receive 80% of their average income minus any time spent on maternity leave up to £2,500 a month. This would be added to both the Self-Employment Income Support Scheme and the Coronavirus Job Retention Scheme.

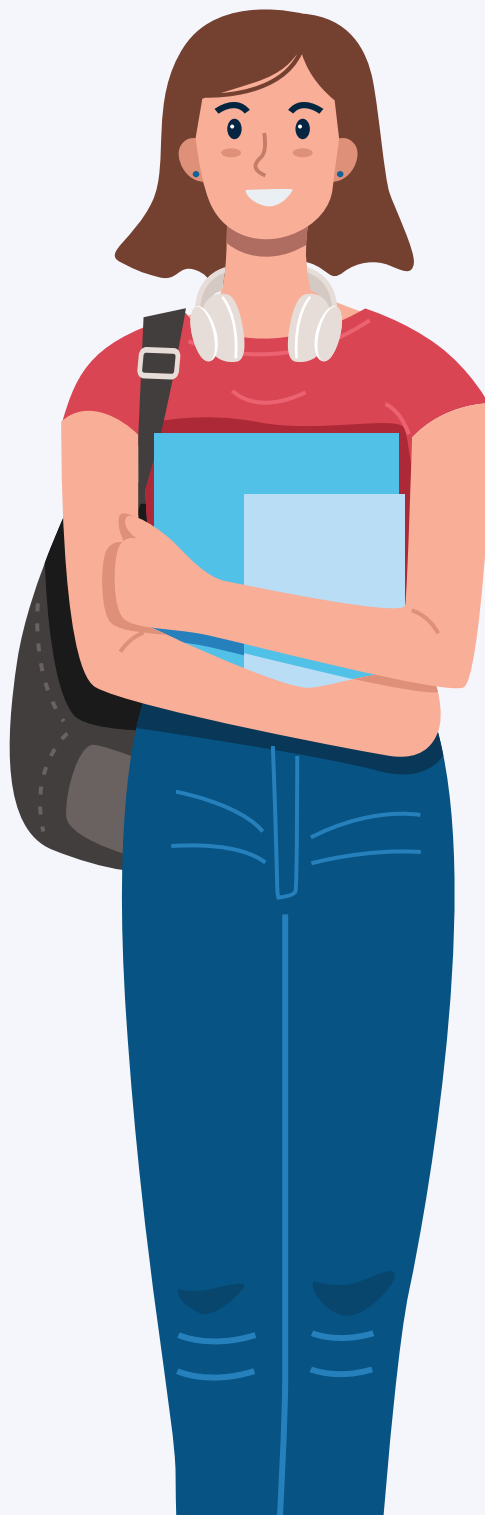
**Figure 5: Freelancers and short-term contractors**



For freelance and short-term contractors, we endorse the recommendation from the House of Commons Treasury Committee. PAYE and bank statements were both selected the most. While this seems to be the preferred method, the survey results also show there are various forms of evidence that could instead be used.

Chapter eleven

# The £50,000 cap



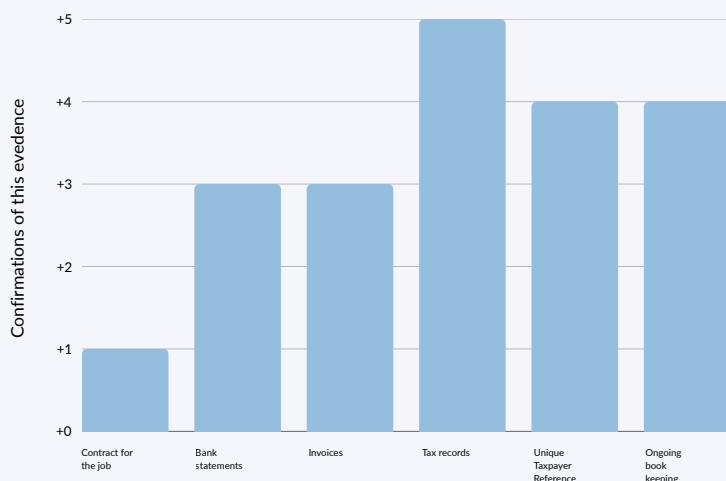
The current system means that self-employed people with trading profits of more than £50,000 a year do not receive help from the Government through the Self-Employment Income Support Scheme. This cap on profits means that those who fall even slightly above it currently receive no support from the Government. However, "...the arbitrary £50,000 cut-off that has no equivalent in the job retention support scheme."<sup>28</sup> (Coronavirus Job Retention Scheme).

Our proposal would be to increase this cap to £100,000 and then to reduce government payments by 25% for every £25,000 of trading profits over this limit until they get to £200,000 at which point, they will receive no support. This support would be 80% of trading profits up to the £2,500 per month limit.

This would require changing the Self-Employment Income Support Scheme (SEISS) by rewriting the guidance stating "Your trading profits must be no more than £50,000 and at least equal to your non-trading income"<sup>29</sup> and instead saying "Your trading profits must be under £100,000 to receive the full grant, after which the overall payment that you would have received from the Self-Employment Income Support Scheme will be reduced by 25% for every additional £25,000 in profits".

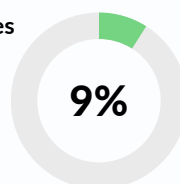
This would also require changing the "The Coronavirus Act 2020 Functions of Her Majesty's Revenue and Customs (Self-Employment Income Support Scheme) Direction"<sup>30</sup> by removing sections 5.2 (a)<sup>31</sup>, 5.3 (b)<sup>32</sup>, 5.4 (b)<sup>33</sup>, 5.5 (b)<sup>34</sup>, and 5.6 (b)<sup>35</sup>. It would also need to be updated in 5.3<sup>36</sup> of the SEISS Extension.

**Figure 6: The £50,000 cap**



**Survey responses**

Those above the £50,000 cap made up 9% of the responses to our overall survey.



## Experience

# Andy Kay



I am an Event Presentation Director working in the live sport market. My role is to ensure the smooth running of events in conjunction with organisers, sponsors, competition officials, and live TV.

I am ineligible for the SEISS as my trading profits exceed £50k. I work in the live sport/live events industry. My last job was in mid-February. If I am lucky, I will work for 9–10 days before the end of the year. I have been unable to join the general jobs market during the pandemic as my wife has leukaemia and is shielding.

All I am asking the Government for is parity. Parity with other UK taxpayers that have received grant aid support. Parity with employees who earn way more than me but have enjoyed furlough since March. Parity with my fellow workers who have received local authority discretionary grants that I am also barred from applying for.

The self-employed and small business owners are often described as the backbone of the UK economy. But this government has abandoned them at their time of greatest need. It is grossly unfair to exclude people down to how they pay tax, when they pay tax, when they started a new job, when they switched jobs, or if, in 2016/17, they earned a few quid over a completely arbitrary cap set four years later.



The Chancellor knows that unemployment is set to soar in the months ahead. I and people like me can help him with that if he helps us. Give us support now and we'll save our jobs, save our businesses and save those who work for us.

Hundreds of thousands of us have had zero income since March. Measures like mortgage holidays and tax deferrals help a little but don't replace actual income.

We have been discriminated against by this government. It is time for the discrimination to end.

Andy Kay

A handwritten signature in black ink that reads "Andy Kay". The signature is written in a cursive, flowing style with a large initial 'A'.

Chapter twelve

# New Starters Furlough



New starters are those who had either not started work or had not been added to the payroll before the 19th March cut-off date. This meant they could not access the Coronavirus Job Retention Scheme. This is even though employees could ask their employers to re-hire them so they can claim furlough. "Approximately 95% of previous employers have refused to re-hire new starters to claim furlough"<sup>37</sup>.

According to Excluded UK, this also includes "...those individuals who started work before the cut-off date but are still ineligible for support because their employer had not submitted the required paperwork to add them to the payroll"<sup>38</sup>. In both cases, this places the decision over whether the employee receives support entirely in the hands of the employer.

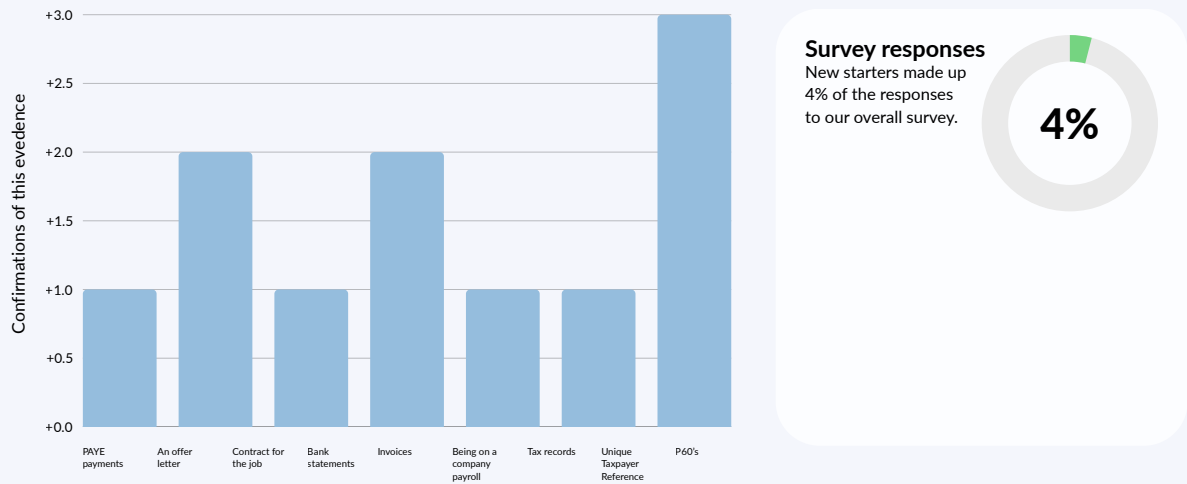
To solve this, we are proposing a New Starters Coronavirus Job Retention Scheme Amendment (NSCJRSA). The Government should give new starters payments of up to 80% of the salary they would have been paid up to £2500 a month. This would be the same as the Government already offers employees through the Coronavirus Job Retention Scheme<sup>39</sup>.

This would be based on the earnings they would have received had they worked for the company. To receive this, employees would either need to be re-hired by their employer or apply separately, in which case the Government should cover the full grant.

The Government should change this scheme so that it simply requires proof of employment. The proof of employment could include: a contract with the new employer, evidence of being on the company payroll, and tax records such as PAYE payments which date back to, at the very latest, April 20th, due to this being the month where COVID-19 was first detected in the UK. Other forms of evidence we have found include offer letters, which could also be considered as proof of employment or as supplementary evidence, and P60s.

This would require altering the Coronavirus Job Retention Scheme through "The Coronavirus Act 2020 Functions of Her Majesty's Revenue and Customs (Coronavirus Job Retention Scheme) Direction"<sup>40</sup>. It would require adding into sections 3.2, 9.1 (b), 9.2 (a), and 9.3 (a) the ability to also submit other forms of evidence such as contracts or offer letters. Currently, they simply ask for PAYE records which would also need to be changed, so rather than the cut-off date being "...19 March 2020..."<sup>41</sup> it would be April 20th.

**Figure 7: New Starters**



For new starters, contracts and offer letters came up multiple times as the evidence that those excluded have access to, although the survey itself picked up P60s as the main form of evidence. Contracts and being on a payroll were a joint second.

## Experience

# Alex Briggs



"I'd worked for QinetiQ for nearly 3 years when I left in March to start a new job that was then cancelled due to COVID. Despite their guidelines and principles stating they look after all employees, old and new, they refused to allow me to take advantage of the Government furlough scheme.

I travelled the world on their behalf as a senior electronic engineer.

I contacted my local MP, Flick Drummond, who also emailed on my behalf, but they still refused even though it would be no cost to them. They stated things like 'employee insurance and healthcare' and accruing holiday days as reasons they couldn't re-employ and furlough me. The power of my life is held in my ex-company's hands.

It's very backwards and could be simply solved by checking my tax and NI contributions through PAYE.

How can they leave the power of furlough in the hands of companies and ignore everyone else who left companies to better themselves? I could understand more if people had been sacked for something malicious. This was purely poor timing."

Alex Briggs

A handwritten signature of Alex Briggs in black ink, written in a cursive style.

Chapter thirteen

# **50% self-employed rule**

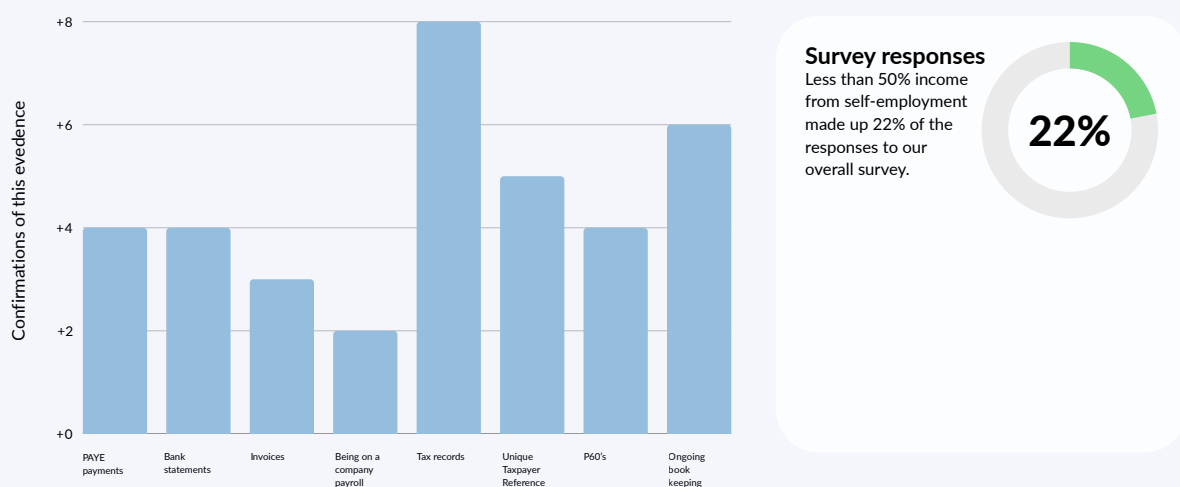


To receive help from the Government through the Self-Employment Income Support Scheme, an individual must have more than half of their total income from self-employment. This includes “...dividends, savings, pensions, or taxable benefits...” from the past three years.

The Government should remove the requirement for half of people's wages to come from self-employment, so they can claim 80% of their income up to £2500 a month just as other workers do. Instead, eligibility should require at least 5% of an individual's income to come from self-employment.

This would require changing the Self-Employment Income Support Scheme through the “The Coronavirus Act 2020 Functions of Her Majesty’s Revenue and Customs (Self-Employment Income Support Scheme) Direction.” Currently, sections 4.2 (e), 5.2 (b), 5.3 (c), 5.4 (c), 5.5 (c), and 5.6 (c) all require roughly that “the sum of those profits is equal to or more than the sum of the person’s relevant income for those tax years” as is stated in point (5.3 c). It would require changing these to “the sum of those profits is more than 5% of the person’s relevant income for those tax years” for 5.3 (c) and all of these sections.

**Figure 8: Less than 50% of a person’s income from being self-employed workers**



## Experience

# Trevor O'Jarvis



I became a self-employed entertainer working predominantly in care homes for the elderly in Devon. I left my previous employment in January 2019 and became self-employed. From a standing start, I managed to secure my first booking in February 2019 and by the end of the year, I managed to get around 30 homes as regular customers with most arranging monthly bookings, some fortnightly. My work didn't generate high levels of income but just enough to pay my living expenses.

In February 2020, I completed 30 bookings and in March was expecting to complete around 35 bookings. However, I actually completed 10 bookings, and by March 17 had to cancel all the remaining bookings. All bookings for April had to be cancelled, and currently, only two homes that have large outside spaces have felt it safe to arrange outside entertainment, allowing two bookings in May and one each in June and July.

I currently have no idea when normal levels of work might resume. I'm ineligible for the Self-Employed Assistance Scheme because more than 50% of my earnings in the tax year 2018/19 came from my previous employment. The imposition of this clause, apparently to prevent fraud, seems particularly unfair. In my case, a P45 was issued from my previous employer, and my tax records prove that I have not been self-employed and employed concurrently.



My application for Universal Credit was turned down because my partner receives an occupational pension. I am not technically “entitled” to any of that income as it is not earned in my own right and whilst the UK tax system does not treat it as joint income, UC does. However, in most households, one person’s income is not generally enough to cover two people’s outgoings.

Trevor O'Jarvis



Experience

**Amanda  
Forster**



“My name is Amanda Forster. I am 62 and live in Hemel Hempstead. I have worked (PAYE) since about 1983, with only one short break of unemployment and a couple of 6-month breaks for maternity leave. I started a very small self-employed business in around 2005 - helping my self-employed friends with their book-keeping. My main income was my PAYE job - most recently teaching.

I gradually obtained more clients and decided to build up my self-employed business with a view to doing it full-time. In 2016 I gave up my permanent teaching post; however, I carried on doing supply teaching, and I also rented out a property which I inherited (I own it jointly with a family member). Until 2019/20 my income from supply teaching and property rental was more than 50% of my total income

"My self-employment has now grown and has expanded to include Virtual Assistant work; at the same time, there has been little supply of teaching work. So, my income in 2019/20 was more than 50% from self-employment.

Since the lockdown, there has been no supply work at all; however, as it is a public sector job, I was not able to be furloughed. The vast majority of my self-employed clients were not able to work during the lockdown, so even if I was able to continue to help them with their bookkeeping, they were not able to pay me; all my VA work has dried up. I am unable to claim Universal Credit because the property I own counts as savings. My tenants were for a while unable to pay the rent (though they have started to pay now, thank goodness).

I feel very let down by the Government. I have contributed to the country all my working life, paying taxes and NI. I have always assumed that this would mean there would be a safety net for me if anything went wrong. I cannot understand why some provision cannot be made for the 3m people who are in the same position as me - no income through no fault of our own."

Amanda Forster

A handwritten signature in black ink that reads "Amanda Forster". The script is fluid and cursive, with the first letter 'A' being particularly large and stylized.

Chapter fourteen

# How many people



These figures were put together by both Centre Think Tank and ForgottenPAYE to calculate an estimated cost for this plan. Below is each category of excluded, along with the number of people in that category, followed by a section calculating the overall cost.

**Those excluded by the 50% PAYE rule.** The Institute for Fiscal Studies (IFS) estimated that roughly 675,000 (or 18%) of the 3.8 million people who receive more than half of their income from self-employment would be ineligible for support under the SEISS.

**Newly self-employed taxpayers who have been identified as having been excluded from SEISS.** The IFS estimates that those ineligible for support are 650,000. It has been reported that “For example, between 2014–15 and 2015–16 (the most recent years for which we have data from tax records), 650,000 sole traders were starting up (alongside 580,000 exiting)”.

**Self-employed taxpayers who have been identified as having been excluded from SEISS because of the £50,000 income limit threshold.** The IFS has estimated that 225,000 individuals will be ineligible for support under the SEISS because their profits from self-employment were more than £50,000 per year.

**Limited company directors who have been identified as having been excluded from SEISS.** The IFS estimated that there are around 710,000 limited company directors who receive little support under the SEISS because their income is taken out as dividends, which are therefore not included in calculations.

**New starters who have been identified as having been excluded from the JRS.** An ONS publication indicated that in the last year, around a million people started being employed each quarter having not been employed before, with a further 800,000 moving from one job to another. This means that a total of 1.8 million new starters have been excluded from the Job Retention Scheme because of the cut-off dates.

**PAYE freelancers.** The Treasury Select Committee estimated that in a population of more than 5 million self-employed, around 780,000 people in this group are freelancers. However, according to ONS data for January to December 2019, 12.3% (618,690 taxpayers) of self-employed people categorised themselves as “freelance,” while 3.3% (165,990 taxpayers) categorised themselves as “agency workers”. This means there are a total of 784,680 PAYE freelancers.

These 165,990 taxpayers (the 3.3% “agency workers”) may also, to some extent, be included in the 974,000 zero-hours workers identified by ONS, and so to ensure they aren’t double-counted, we have not included “agency workers” in the zero-hours contractors figures below, resulting in a figure of 808,010 zero-hours workers. This means there are a total of 808,010 on zero-hours contracts.

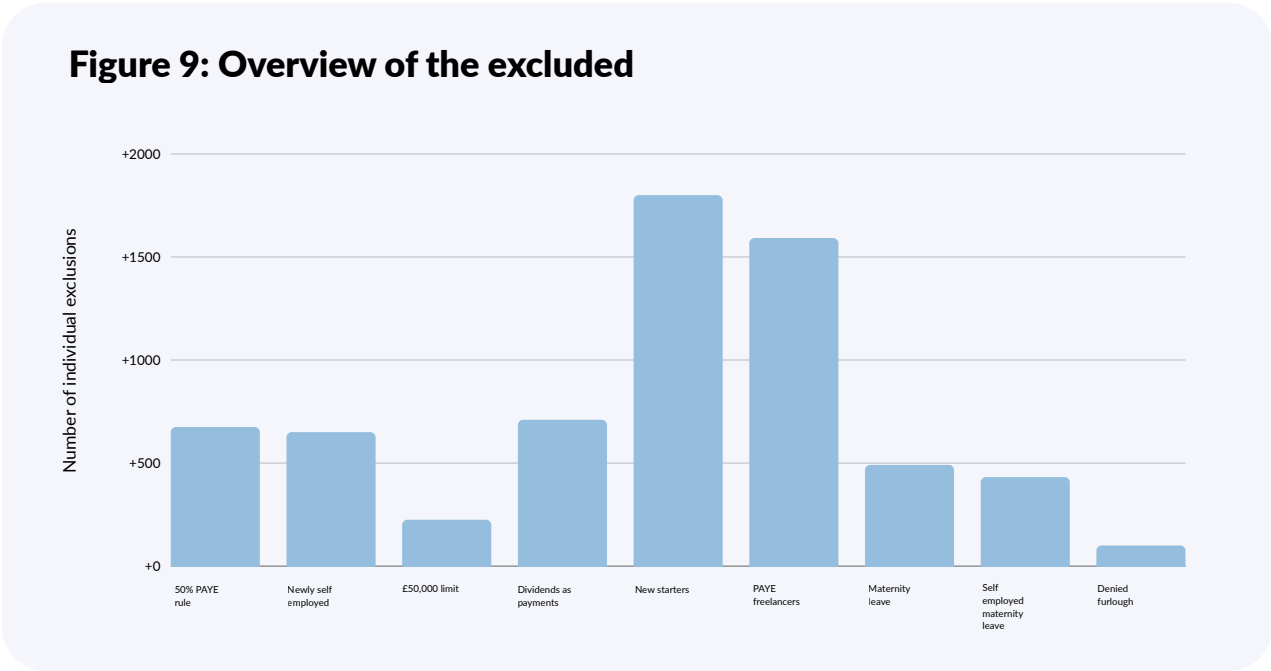
These two added together mean a total of 808,010 on zero-hours contracts plus 784,680 PAYE freelancers resulting in 1,592,690 excluded freelancers.

**Extending maternity leave and adoption leave by three months.** Overall, 491,453<sup>60</sup> people are on maternity leave, adoption leave, and parental leave during COVID-19.

**Recalculations for self-employed people who went on maternity leave.** According to Excluded UK, 432k<sup>61</sup> people are on maternity leave, adoption leave, or parental leave who are affected.

**Employees of companies who have simply been denied furlough.** Overall, 100K<sup>62</sup> have been denied furlough according to Excluded UK. However, our latest paper has shown the number of people who refused furlough may be as high as 800,000 people.

**Areas where we need more data and therefore aren't included in this costing.** There were a number of areas where income was less easy to find data. These included Annual PAYE, Discretionary commission, Employees who have been made redundant, People receiving money from furnished holiday lettings, and PAYE Tronc payments.



Chapter fifteen

# Costing the plan



The next challenge is to work out how much it would cost to cover those who have been excluded. To work this out, it first takes adding together all of the figures from those that ForgottenPAYE has already calculated in their statistics. These groups are: the newly self-employed, those above the £50k threshold, limited company directors, PAYE freelancers (including zero-hours contracts), new starters, and those excluded by the 50% earnings rule. This results in 5,860,000 people who have been excluded, and then we add on the 100,000 who have been denied furlough as company employees. That results in 5,960,000 people who are overall excluded.

As a result, we can then work out how much it would cost to give all these groups who have been excluded support from the government. This means multiplying 5,960,000 by £14,070 for both grants, resulting in a total cost of £83,857,200,000, or almost £84 billion, as the maximum amount the scheme would cost. The £14,070 consists of the two rounds of payments of both £7500<sup>63</sup> for the first payment, added to £6570<sup>64</sup> for the second round. Neither includes penalty fees caused as a result of being excluded.

We then need to add on the cost of providing an extra three months of maternity leave or adoption leave to those currently on this during COVID-19. The cost would be “...£966 million, assuming full take-up”<sup>65</sup>. Added to the current, this means total spending is almost £85 billion pounds at £84,823,200,000.

Chapter sixteen

# Paying for the plan





The next step is to pay for this plan, something which a series of tax measures could be used to fund. However, it is also possible that some planning has already taken place within the existing furlough and self-employment income support schemes. When these schemes were created, the government should have made provisions for a higher-than-expected take-up rate or broader eligibility.

**Money left over from the SEISS.** In the UK, there were “5.1 million people who report positive self-employment income”<sup>66</sup> in April 2020. Out of this, “3.4 million self-employed individuals were identified as potentially eligible for the SEISS scheme”<sup>67</sup> according to official statistics from the government’s website. Using the maximum first-round SEISS grant of £7,500 and the 3.4 million individuals identified as potentially eligible, the theoretical upper limit of first-round SEISS payments would have been £25.5bn. By comparison, HMRC paid £7.8 billion<sup>68</sup> in first-round SEISS grants. This indicates a gap of £17.7 billion between actual payments and the scheme’s theoretical maximum under full take-up at the capped level. Further SEISS and furlough rounds were anticipated at the time of writing, meaning the gap between theoretical maximum support and actual expenditure could increase over time.

**Money left over from the CJRS.** As a broad upper-bound estimate, total private-sector employment can be used to illustrate the maximum possible scale of furlough support, rather than the number of workers who would in practice be eligible. Overall, there were “27.55 million people estimated to be working in the private sector for December 2019”<sup>69</sup>. This means that the total amount needed to cover every worker would be 27.55 million people multiplied by the £7,500 each could receive for furlough. If every private-sector worker were furloughed at the maximum capped level, total expenditure would reach approximately £206 billion. Actual CJRS spending by August 2020 stood at approximately £35.4bn,<sup>70</sup> leaving a large gap between realised expenditure and the scheme’s theoretical maximum under full take-up at the cap.

Across both schemes, full take-up at the maximum capped levels would have implied up to £188.3 billion in additional expenditure relative to spending. Illustratively, extending support to currently excluded groups would represent a fiscal cost substantially lower than the gap between actual spending and the schemes’ theoretical maximum scale.

This would include extending support to currently excluded groups, as well as recalculations for self-employed people who went on maternity leave, those paid via annual PAYE, discretionary commission, and employees who have been made redundant, groups for which we have not found comprehensive cost estimates.

This calculation leaves room for uncertainties, including: overlap between individuals in different excluded groups, which could lower the overall cost; the possibility that government budgeting did not anticipate all grants being claimed; individuals not suffering sufficient loss of earnings, additional groups not included in our estimates, which would raise the cost; and the fact that this only counted the first phase of furlough.

Chapter seventeen

# Proposal for Limited companies



Currently, even if those running limited companies can access the Coronavirus Job Retention Scheme, they would only receive money based on their income. This is not fair to the owners of limited companies that have reinvested their money back into the company without taking a salary themselves.

To support these businesses, the Government should base support on turnover—the overall money generated from sales—rather than on profits. Based on this, the Government should give these businesses support up to 80% of a company's income and up to £2500 a month if the income the owner gets from the business is below £10,000. This would only be open to those not already on the Coronavirus Job Retention Scheme or the Self-Employment Income Support Scheme through other criteria.

The first stage will be to prove a person is self-employed which could be done by requiring a Unique Taxpayer Reference (UTR) if it was requested before 1st January 2020. In terms of calculating the amount of money businesses should receive the government could either use: PAYE payments, tax returns and P60s from the last tax year.

Experience

# Magdalena Gabriah



My name is Magdalena Gabriah. I am the Founder of Forte Training Company and Co-Founder of Ascot Music School.

In January 2020, I was nominated for Best Female Entrepreneur of The Year and Start-Up of the Year Awards for Forte at the Thames Valley Business and Community Awards.

In March, I became a No. 1 International Bestselling Author [this was with the book *Wild Wise Women*].

I like to think that I am an honest and hard-working person.

When COVID-19 happened, I was calm and assured that I would be able to find a way to make both businesses work in the new reality. I worked hard and pivoted. I have managed to move both businesses to operate online, safely, whilst working from home.

Sadly, not all the clients have moved with us to this new way of working. Some have chosen not to, preferring face-to-face solutions, some have not been able to pay our fees any longer. One of these companies has not made any money this year, the other has lost a big percentage of our revenue.

Since the pandemic, none of my companies have been eligible for any of the support offered by the Government. We have not been eligible to furlough ourselves, benefit from the SEISS, or access any grants due to companies being based at home. Although many other local authorities offered grants to home-based businesses, the Royal Borough of Windsor and Maidenhead did not.

The solution that Centre Think Tank offers is the one I support, where self-employed people and directors of Limited Companies should be eligible for the same help and support as those who are employed have been. Small businesses like mine offer valuable services, provide local jobs in the area, and empower local people. With no support, our companies will perish, and our legacies will be lost. We need help now!

Magdalena Gabriah

A handwritten signature in black ink, reading 'Magdalena Gabriah'. The script is fluid and cursive, with the first letter 'M' being particularly large and stylized.

## **Conclusion**

Whilst these solutions will not help all of those who have been excluded from government support, they cover a large percentage of those who have been unable to access financial help. Even if these solutions were implemented by the Government, the APPG and campaign groups would still need to work further with those who are still excluded to ensure that nobody is left behind.

Whilst this paper looked primarily at those who are excluded, it also showed the number of self-employed people who did not feel that the current PAYE tax system was working for them. The main issue was that many had paid into a system deemed insufficient to qualify them for support, even though they would ultimately help fund that support through taxation.

From our conversations, being excluded has left those people feeling that even when they follow the rules set by the Government, they are not going to be supported. Therefore, we hope the Government will implement these changes and will try to rebuild trust with those who are self-employed or using systems such as PAYE.

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## **Author Disclosure Statement**

Nothing to disclose.

## Reference this paper

Reference as a Non-Governmental Organisation (NGO): Centre Think Tank, 'Excluded to Included' (Bury St Edmunds, Centre Think Tank, 2020)

Reference the website link: Centre Think Tank, The case for dignity. Available at: Centre Think Tank, Excluded to Included. Available at: <https://centrethinktank.co.uk/2023/02/excluded-to-included/> [Accessed 00/00/0000].

Reference as a journal article: Wilkins, T. Little, J. 'Excluded to Included', Centre Think Tank, 6 (2020) pp. 1-62.

If you indirectly reference or use the ideas from this paper, include a link to the paper and the name of our Think Tank.

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