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Income protection for the self-employed and employees during the coronavirus crisis

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Executive summary

Employees are now much better protected from earnings falls resulting from job loss than they were at the start of the coronavirus outbreak. Before the recent reforms, on average, employees would have lost 53% of their net family income if they lost their job. The reforms have reduced this to 13%. The number of employees who would have lost more than 60% of their family income if they lost their job has fallen from 9.5 million (36% of employees) to just 300,000 (1%).

The self-employed get even more protection, but with a delay in the timing of payments. Very little extra protection is afforded to self-employed workers over the next couple of months: almost half of them would see their family income fall by at least 40% if their work dried up (a figure barely affected by recent increases in universal credit). However, in June, most self-employed workers will receive a large grant – up to 80% of three months' normal profits – if they report being affected by coronavirus at all. If the scheme is extended beyond June, a self-employed person whose business is completely shut down would have a family income thereafter around 14% lower than before the crisis, on average – similar to employees – as opposed to 44% in the absence of recent reforms.

The wait until June for the grant to arrive means it is important to ensure the quick delivery of other mechanisms for the self-employed to access cash in the short term, such as the Coronavirus Business Interruption Loan Scheme and universal credit. A quarter of self-employed people earning less than £50,000 a year do not have enough liquid assets (between themselves and any partner) to cover three months' lost earnings, and 15% do not have enough to cover a single month.

Many self-employed workers will be better off financially than if the crisis had never happened. If self-employed workers see only a small fall in their profits, half will have a family income more than 20% above their usual level thanks to the grant. Even if their business dries up completely, a quarter will be financially better off while the self-employment grant programme continues than if the coronavirus had never struck.

There are large differences in the types of protection offered to different groups. The Coronavirus Job Retention Scheme provides income replacement for all employees but only where they completely stop working. The Self-Employment Income Support Scheme offers support to just over 80% of those who get the majority of their income from self-employment – not all of them – but provides it regardless of how badly affected their business is. Increases in the generosity of benefits help those with low family incomes and assets, including those out of work. There are people for whom most of their income is not covered by these schemes, including the newly self-employed, self-employed high earners and those who run their business as a company rather than through self-employment.

1. Introduction

The government has announced a series of reforms intended to protect workers against income losses resulting from the coronavirus. First, there have been several temporary benefit giveaways. The basic allowances in universal credit (UC) and working tax credit have both been increased by £1,000 per year. Maximum entitlements to housing benefit (and the housing element of UC) for private tenants have been increased to the 30th percentile of rents in a local area. And the minimum income floor in UC – under which the self-employed are treated as earning the full-time minimum wage if they report earning less – has been suspended. Second, the government is covering 80% of the salary of furloughed employees through the Coronavirus Job Retention Scheme (JRS), up to a cap of £2,500 per month. Third, the government will be giving grants to the self-employed who report that their income has been negatively affected by the coronavirus through the Self-Employment Income Support Scheme (SEISS). Similar to the JRS, these grants will be up to 80% of self-employed profits, up to a cap of £2,500 per month. Both the JRS and the SEISS are currently due to be in place for three months.

However, the SEISS differs from the JRS in several important respects.

- Whereas the JRS is available to all furloughed employees, the SEISS is available only to those who filed a tax return for 2018–19 (which means they have been in business for at least a year) and for whom self-employment makes up more than half of their total taxable income.
- While JRS payments are based on recent earnings (usually their regular salary as of the end of February 2020), SEISS payments are based on average profits reported between April 2016 and April 2019 (or however much of that period they were in business – we refer to this henceforth as 'historical profits').
- JRS payments are available to furloughed employees regardless of their earnings – but the self-employed with historical profits above £50,000 are ineligible for SEISS grants.[1]
- Self-employed individuals may not receive any support through the SEISS until early June (though the government is trying to deliver it sooner than that). Furloughed employees, in contrast, should continue to receive at least 80% of their pre-crisis salary throughout the crisis, even if there is a short delay before their employer receives reimbursement through the JRS.
- Employees must stop doing any work for their employer in order to qualify for the JRS (though they can do voluntary work or training and, if they already had more than one job, they can continue working in their other job(s)), whereas the SEISS is available to self-employed people who report losing any trading profits at all as a result of the coronavirus, however marginal, not just those who have to stop work completely.

1 Those with average profits between April 2016 and April 2019 above £50,000 can still be eligible for the SEISS if their 2018–19 profits were below £50,000. We do not model this aspect of the system.

2. Who is eligible for income protection?

Employees

There are 28 million employees in the UK. The government has set out its intention that those employed (directly or indirectly) by the public sector will continue to be paid their full salary as normal. All of the 21 million private-sector employees will be eligible for the JRS if they are furloughed by their employer. The JRS will not provide support for those who lose their job completely, who have to take unpaid leave to cover caring responsibilities (for example, looking after their children), or who see a cut in their earnings (for example, as a result of reduced hours) but continue to work.

Self-employed

There were 5.1 million people who reported positive self-employment income in 2016–17, the most recent year for which detailed data are available. We estimate that the eligibility criteria for the SEISS mean that:

- **About a quarter of people with some self-employment income (1.3 million people) will be ineligible because they received less than half of their income from self-employment.** For 39% of this group, income from employment (as opposed to self-employment) was their main source of income for the year. This will include people who are employed and self-employed at the same time, as well as some who switched to self-employment part way through the tax year. For another 19% of those who receive less than half of their income from self-employment, pension income is their main source of income.
- **Approximately 225,000 (4%) will be ineligible because their self-employment profits were more than £50,000 a year.**[2]
- **Roughly 650,000 (13%) will be ineligible because they entered self-employment in the past year** (i.e. since April 2019).[3]

These three groups overlap, so our rough estimate is that in total **around 2 million people with some self-employment income (38% of them) will not have it covered by the SEISS.**[4] Those with employment income have access to the JRS. **Among the 3.8 million people who receive more than half of their income from self-employment, we estimate that roughly 675,000 (18%) will be ineligible for the SEISS.**

[2] The figures in the first two bullets are authors' calculations using the Survey of Personal Incomes for 2016–17. The actual eligibility criteria are that a person has trading profits in 2018–19 that are both less than £50,000 and less than half their income, *or* average trading profits in 2016–17, 2017–18 and 2018–19 that are both less than £50,000 and less than half their income. The figures cited do not account for averaging across previous years. It is therefore likely that they overestimate how many people will be ineligible based on these criteria.

[3] Previous research using HMRC tax records showed that in the years from 2013 to 2016, around 650,000 people were starting self-employment each year. See J. Cribb, H. Miller and T. Pope, *Who Are Business Owners and What Are They Doing?*, 2019, https://www.ifs.org.uk/uploads/R158_Who_are_business_owners_and_what_are_they_doing.pdf.

[4] We assume that the same share of new entrants would be excluded by one of the other two eligibility criteria (the 50% threshold and the £50,000 threshold) as we find for the 2016–17 population (i.e. 29%). In reality, new entrants are more likely than others to earn an income below £50,000, and possibly more likely to have employment income alongside self-employment income. Very few people have self-employment income above £50,000 and self-employment income that is less than half of total income.

Company owner-mangers

There are around 2 million company owner-managers – i.e. people running their own company (as opposed to an incorporated business, i.e. self-employment).[5] Company owner-managers are not eligible for the SEISS. They are eligible for the JRS in relation to their salary if they stop working. However, the HMRC tax records show that many owner-managers pay themselves a very small salary (often set at the National Insurance earnings threshold, which is currently £166 per week) and take the rest of their income in dividends. This is the tax-efficient choice. However, since the JRS covers only salary, not dividends, it means that the JRS will cover only a small part of their actual income.

3. Incomes of employees and the self-employed

Before investigating the effects of these policies on protecting individuals' incomes, we first analyse the distribution of incomes before the crisis struck.

Figure 1. Family income distribution among employees and the self-employed

Note: Incomes are adjusted for household size and composition ('equivalised') using the modified OECD equivalence scale and are expressed as the equivalent income for a couple with no dependent children. The figure splits families into £50 bands of equivalised income, except for families with incomes below £100 or above £1,800, who are put into the bottom or top group accordingly. Assumes full take-up of means-tested benefits and full roll-out of UC. As elsewhere in this briefing note, we categorise people who are both employees and self-employed according to which is the larger income source.

Source: Authors' calculations using TAXBEN, the IFS tax and benefit microsimulation model, run on data from the Family Resources Survey 2017–18.

[5] In 2014–15, there were 1.8 million company owner-managers, defined as directors of one- or two-director companies. See J. Cribb, H. Miller and T. Pope, *Who Are Business Owners and What Are They Doing?*, 2019, https://www.ifs.org.uk/uploads/R158_Who_are_business_owners_and_what_are_they_doing.pdf.

Figure 1 shows the distribution of family incomes (after taxes and benefits) for employees and the self-employed. These incomes are adjusted ('equivalised') to account for differences in family size and composition. The statistics shown are the equivalents for a couple with no children.

Self-employed workers are more likely to be in both low- and high-income families than employees. Whereas 23% of the self-employed are in families with equivalised incomes below £400 per week, the same is true for only 15% of employees. Similarly, 8% of self-employed workers are in families with equivalised incomes over £1,500 per week, compared with 6% of employees.

4. Income protection for employees and the self-employed

In this section, we show how the JRS, SEISS and UC support announced by the government affects the average incomes of employees and the self-employed.

The JRS means that employees should continue to receive 80% of their salary when they are furloughed (or more, if their employer chooses to top it up).

In contrast, self-employed people who are losing income now may not get support through the SEISS until June, so those whose savings will not cover their living costs may need to borrow money until then (though the promise of the SEISS to come may make that an easier option). They may also be able to claim UC, though those who still have a significant family income (for example, because of a partner's earnings) or financial assets do not qualify.

This means self-employed people's incomes will be affected differently in three distinct periods:

1. **March to May**: During this period, they will not receive any SEISS payment to cover their income loss, but if their income is low they might be entitled to some UC – which was made more generous two weeks ago.[6]

2. **June**: Three months' SEISS payment – a total of 240% of their historical monthly profits, up to a maximum of £7,500 – will be paid as a single lump sum. This will reduce any means-tested support they are entitled to, and eliminate it entirely if they receive anywhere near the £7,500 maximum.[7]

3. **July onwards**: So far, only a single SEISS payment covering three months has been confirmed, but the Chancellor made clear that he will extend the scheme if it is still

[6] The increased generosity of UC will only kick in from April. For simplicity, we ignore this point throughout this briefing note.

[7] The large grant in June may also reduce UC entitlement in future months via an accumulation of 'surplus earnings'. If a UC claimant's net earnings in a month are more than £2,500 above their 'run-out point' (the level of earnings at which their UC entitlement reaches zero), the surplus is recorded and counted as earnings in the subsequent month. This will therefore reduce UC entitlement in future months as well as the month in which it is received. We do not model this effect. It is perhaps less significant than it might seem, however. The maximum £7,500 grant is worth £5,325 after tax for a self-employed basic-rate taxpayer, and so their maximum amount of surplus earnings is £2,825. In almost all cases, the surplus recorded will be considerably less than that, as even if they receive the maximum SEISS payment, claimants' non-SEISS earnings in June will generally be some way below their run-out point, sometimes thousands of pounds below.

needed. We show what incomes would look like if monthly payments continue at 80% of historical profits (up to £2,500) for a while from July onwards.

While the delay in delivering SEISS might cause cash-flow problems and hardship for some, it actually increases the amount of support the self-employed will receive in total. People who would not be entitled to UC if their profits were 20% below their historical average (i.e. if they were getting the monthly level of SEISS throughout, rather than as a single lump sum in June) are still able to claim UC now. So in total for the period before June, they receive both UC (now) *and* (retrospectively) 80% of their historical earnings for three months: their total compensation is more than 80% of their earnings.

Since the SEISS is available for those who suffer any loss of trade at all, claimants will therefore receive 80% of their historical profits in SEISS *on top of* their ongoing, perhaps barely-reduced profits. Indeed, anyone eligible who loses less than 80% of their historical profits (or £2,500 a month, if lower) will be financially better off than before the coronavirus.

Of course, many self-employed people will have to stop working entirely, and many more will see a substantial drop in trade. But others will face relatively minor disruption to their business and still be able to claim the SEISS in full. We therefore analyse the two extreme cases: if profits fall to zero, and if profits are only marginally affected. The reality for many will be somewhere in between. It will also vary hugely across industries: some industries will be closed down entirely by the coronavirus, while others will be only mildly affected. To that extent, our analysis of the two extremes can also be seen as relating to those different sectors. Overall, the self-employed are more likely than employees to work in sectors affected by social distancing.[8] But our estimates of how people's incomes change *if* they have to stop work, or if they do not, vary little by industry.

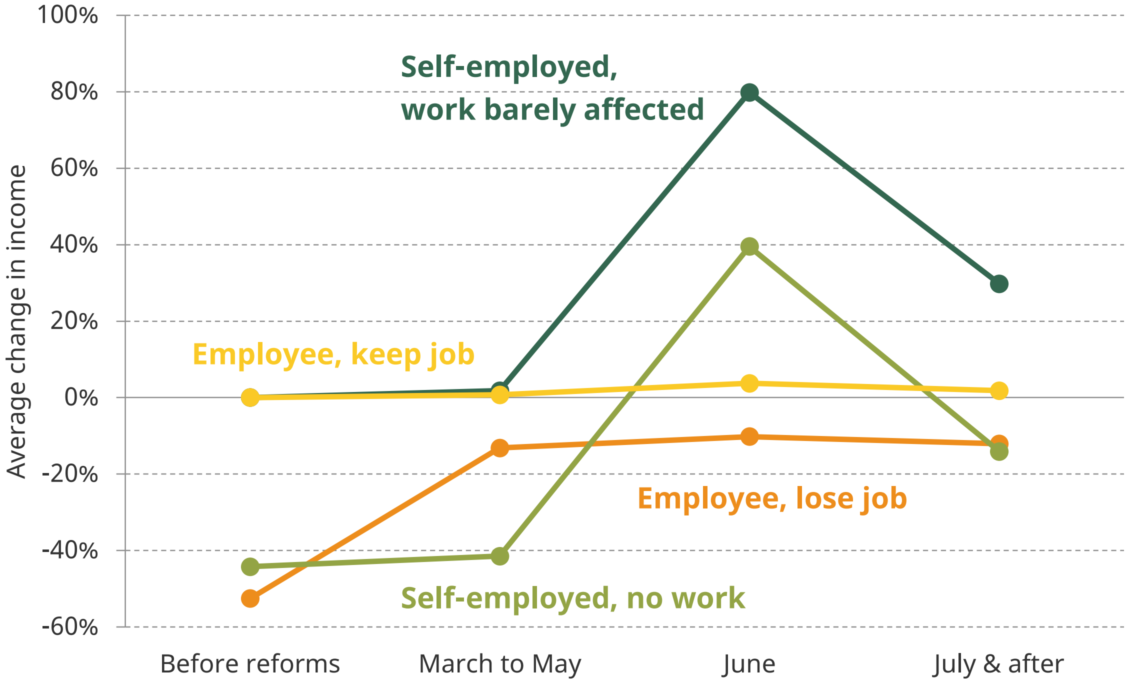
Figure 2 shows the average change in net family income following the onset of the coronavirus, for employees and the self-employed, relative to their usual pre-crisis income.[9] That is, we look at the effect of the *individual's* employment status and earnings on what happens to their *family's* overall income after taxes and benefits, holding any partner's employment status and earnings fixed. In reality, of course, there will be couples who both have to stop working at the same time, but to keep the analysis manageable we do not look at that here.

In the absence of the reforms recently announced by the government, both employees and the self-employed would have lost about half of their net family income, on average, if they had to stop working: 53% in the case of employees and 44% for the self-employed. Obviously if they were still working as normal then, in the absence of reforms, their incomes would not change.

8 S. Adam, H. Miller, T. Waters and X. Xu, 'Support for the self-employed during the coronavirus pandemic', 2020, https://www.ifs.org.uk/publications/14768.

9 For people who are both employees and self-employed, we categorise them according to which is the larger income source.

Figure 2. Average change in net family income relative to usual pre-crisis income



Note: Assumes full take-up of means-tested benefits and full roll-out of UC.

Source: Authors' calculations using the Family Resources Survey 2017–18, Understanding Society waves 6–9 (2014–17) and TAXBEN, the IFS tax and benefit microsimulation model.

After the reforms, employees who carry on earning as normal still see little change in their income. (A small minority gain from the benefit increases, or see their family income affected by what happens to their self-employed partner.) But if they are furloughed, the JRS means they now lose only about a tenth of their income, on average, rather than half of it: on average, the JRS is successful in protecting them from most of their loss of earnings.

For the self-employed, the story is very different. Until June, if they have to stop work completely they still face an average income loss almost as big as before the reforms: some gain from the benefit increases but, when averaged across the whole self-employed population, this only reduces the loss from 44% to 41% of net family income. In June, they will receive three months' worth of SEISS – a lump sum of 240% of their historical profits, up to a cap of £7,500 – leaving their family income in that month 40% higher than its usual level. Only from July onwards is their situation similar to that of furloughed employees: they will receive (we assume) 80% of their historical profits (or £2,500 if lower) each month, so that after accounting for taxes and benefits, their partner's earnings and any other income, their net family income will be around 85% of its usual level on average – close to that of employees.

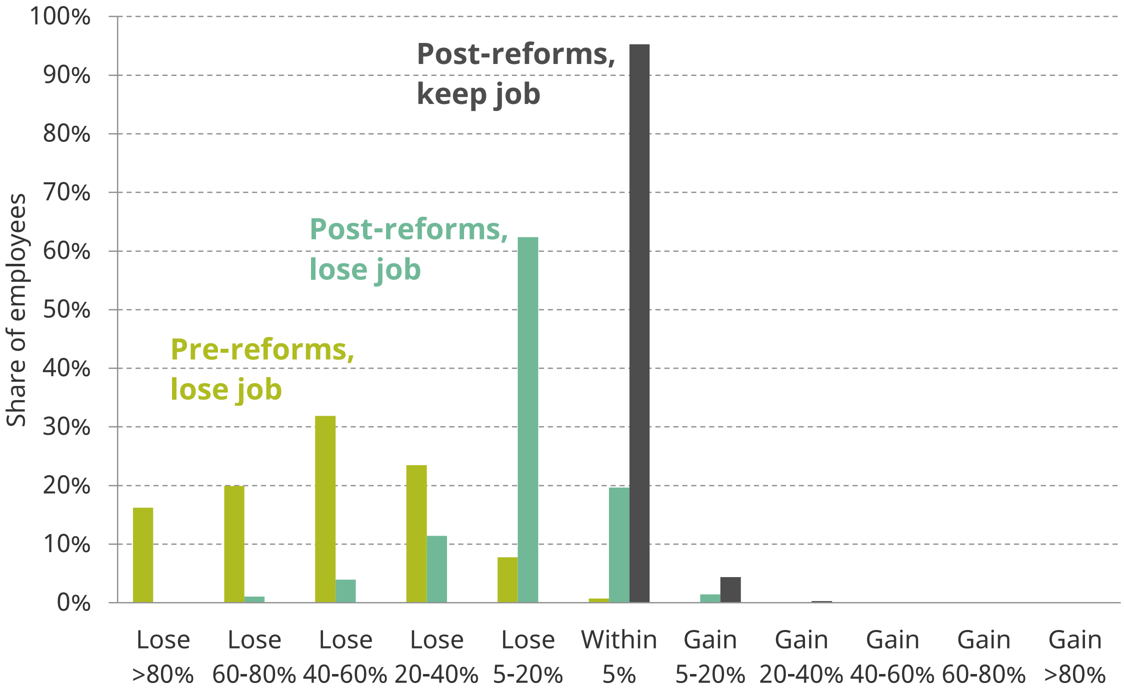
But unlike employees, the self-employed also get these levels of support even if their earnings are barely reduced. In that case, their income is broadly unchanged even before the grant arrives in June, and the large lump-sum SEISS payment in June will increase their income by 80% in that month. Even in the scheme's 'steady state' from July onwards, when they receive 80% of their historical profits (up to £2,500) in SEISS each month, self-employed people who see only a small hit to their earnings from the coronavirus will have a net family income around a third higher than before the crisis, on average.

5. The distribution of income protection: employees

These averages conceal wide variation according to individual circumstances, which we now explore in more detail.

The previous section showed that, before recent reforms, employees would typically have seen their family income fall by about half if they had lost their job. But Figure 3 shows that some 16% (4.3 million people) would have lost more than 80% of their family income and a further 20% (5.2 million) would have lost between 60% and 80% of their usual income. Thanks to the JRS (and, to a lesser extent, benefit increases), only 16% now stand to lose more than a fifth of their income if they are furloughed and only 1% (300,000 people) stand to lose more than 60% – and this assumes their employer does not top up the JRS to maintain their usual salary. If they carry on working as normal through the crisis, of course, their income will be unchanged (within 5%) in 95% of cases; the other 5% (1.2 million) are in low-income families who gain from the increases in means-tested benefits.

Figure 3. Proportion of employees losing/gaining different shares of their usual family income



Note and source: See Figure 2.

6. The distribution of income protection: self-employed

Figure 4 shows equivalent distributions for the self-employed in the period before June, in June itself and thereafter.

Figure 4. Proportion of self-employed losing/gaining different shares of their usual family income

Note and source: See Figure 2.

The reforms change little before June (panel A): both before and after the reforms, the most common consequence of having no work is a fall in family income of 20–40%, but with larger losses also widespread. The benefit increases do mitigate that slightly, reducing the proportion who stand to lose more than 80% of their income by 3 percentage points to 10% (a reduction of 100,000 people). But most continue to face considerable reductions in their income in the short term if they have to stop work completely, and will have to rely on running down their savings or borrowing until June if they are to maintain spending at anything like its previous level. Many will be able to meet their short-term costs from their family savings. But many others have relatively little money readily available (as opposed to wealth tied up in a house or a pension, for example, which cannot easily be accessed). Among self-employed individuals earning less than £50,000 a year:

- Over half have liquid assets (between themselves and any partner) of less than £10,000, and a quarter have less than £1,500.
- 15% do not have enough to cover a month's lost earnings, and a quarter do not have enough to cover three months' lost earnings.[10]

This suggests it is important for the self-employed to be able to access loans (such as through the Coronavirus Business Interruption Loan Scheme) and/or UC quickly to avoid hardship if their business dries up. There have been reports of difficulties getting bank loans and completing the UC sign-up process;[11] addressing these needs to be a priority.

At the other extreme, if their business has been little affected by the coronavirus then, as with employees who keep working, the vast majority will see no change in their income and a few will gain from the benefit increases. Such gains are more widespread among the self-employed than among employees: 10% of the self-employed gain if they carry on working as usual, compared with 5% of employees.[12] This is partly because the self-employed are more likely to have low earnings and therefore be entitled to means-tested top-ups, and partly because the suspension of the minimum income floor in UC is a giveaway specifically to self-employed low earners.

In June, the SEISS money arrives and everything changes for the self-employed (panel B). A lump sum of £7,500, or 240% of their historical profits (if lower), is very large in a single month, and a majority of the self-employed will see above-average income that month even if they have had to stop work completely. Whether it is enough, or even more than enough, to repay any borrowing (or make good any dissaving) from the previous months of hardship will depend on a variety of factors, including the exact timing and extent of the decline in their trade, whether their overall income and assets are low enough to qualify for means-tested support, and how far they have been able to cut back on their costs. Other government policies such as the business rate holiday and grants for firms occupying low-value premises and deferral of other tax payments, which are not our focus here, will help in this regard.

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10 Source: IFS analysis of the Wealth and Assets Survey 2016–18.

11 See, for example, https://www.bbc.co.uk/news/business-52114414.

12 The absolute number of self-employed gainers is nevertheless much smaller – 400,000 compared with 1.2 million employees – since most workers are employees.

The only self-employed people who will not have a higher income in June than they would have had without the coronavirus are:

- those who do not report being hit by the coronavirus at all, and are therefore not eligible for the SEISS (not shown in Figure 4);
- the minority of the self-employed who do not qualify for the SEISS – because self-employment accounts for a minority of their income, because their historical profits are above £50,000 a year, or because they set up their business in the past year and do not have a 2018–19 tax return with a record of their self-employment;
- the few whose average profits from April 2016 to April 2019 were much lower than they are now – or would be in the absence of the coronavirus – for whom even 240% of that long-run average is less than the lost profits now.

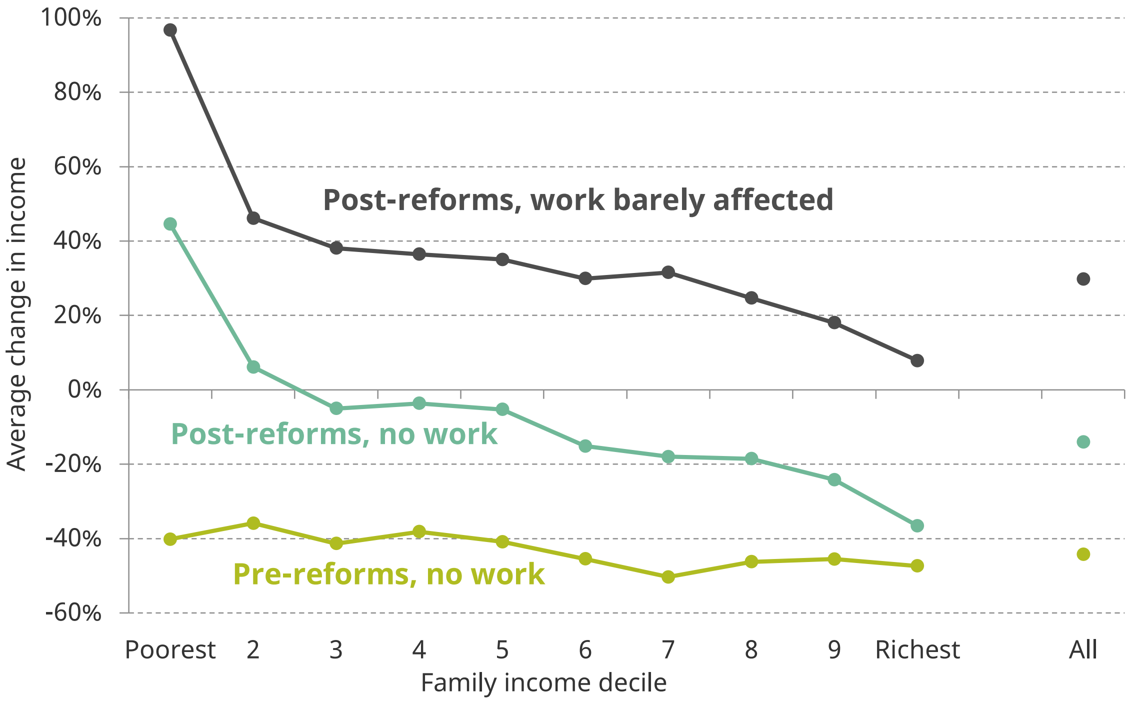
If the scheme is extended on a rolling monthly basis beyond the initial lump-sum payment, panel C of Figure 4 shows how the incomes of the self-employed would compare with what they usually were in the past. If profits are little reduced then all self-employed individuals apart from those ineligible for the SEISS would have incomes that are higher than if there were no coronavirus, and half would have income more than 20% above its usual level. At the other extreme, if they had to stop work entirely then most of the self-employed would have somewhat less income than before the coronavirus struck, because the SEISS replaces less than 100% of their profits – though, as for employees, the government's measures very much cushion the loss of income: only two-fifths would lose more than 20% of their family income, compared with four-fifths losing that much in the absence of reforms (Figure 4, panel A).

In fact, a quarter of the self-employed will be financially *better* off than if the coronavirus had never struck, even if their business dries up completely. This is perhaps surprising, since the SEISS would appear to replace at most 80% of their earnings. It happens for two overlapping groups of people:

- those earning little enough that the 20% of lost earnings not made up by the SEISS is outweighed by the benefit giveaways;
- those who would now – even in the absence of the coronavirus – be earning much less than they averaged from April 2016 to April 2019, so that their current lost earnings are less than the 80% of that historical earnings level they receive through the SEISS.

Figure 5 confirms that it is the low-income self-employed who will be better off than before the crisis, on average, even if they have to stop work; those on moderate and higher incomes lose slightly if they have to stop work completely. Apart from in the top fifth of the income distribution, the average losses are nowhere near what they would have been in the absence of the reforms. And right across the income distribution, those whose profits are little affected by the coronavirus but are able to claim the SEISS as well see their incomes much enhanced. Only in the top fifth of the income distribution is the average gain less than 20% of income, a result of the £50,000 cut-off for eligibility and the £2,500 a month cap on support.

Figure 5. Average change in net family income relative to usual pre-crisis income for the self-employed, July onwards



Note and source: See Figure 2. Income deciles are based on usual pre-crisis equivalised family income, using the OECD modified equivalence scale.

7. Conclusion

As well as some temporary benefit giveaways, the government has announced two big temporary earnings replacement programmes. The JRS for employees is generous, replacing most of the earnings they would have lost and protecting their job for later. The SEISS for the self-employed will ultimately be even more generous, 'replacing' most of their income even if their business is only slightly affected. As a result, many self-employed people will be left better off financially than they would have been if the coronavirus had never struck (though many others will certainly lose out).

But whereas furloughed employees should receive their replaced earnings without much delay, the self-employed will have to wait until June, during which time those whose work has dried up will see significant income falls – and many have little by way of liquid savings to tide them over. Our analysis highlights the need for the self-employed to be able to access loans (such as through the Coronavirus Business Interruption Loan Scheme) and/or UC between now and June. These issues should be at the forefront of policymakers' minds: there have been reports of difficulties getting bank loans and completing the UC sign-up process. Both banks and the Department for Work and Pensions will be struggling with staff absences as well as a surge in applications, of course, but adapting to cope with the current situation and resolving any delays as quickly as possible should be a priority.

It is also worth repeating that some people running their own business are not fully protected by these schemes and will see significant income falls if their work dries up. As discussed in a previous IFS Observation,[13] these include those who get less than half their income from self-employment, have historical profits above £50,000, or set up their business in the past year, and those who work not through an unincorporated business (i.e. self-employment) but through their own company.

[13] S. Adam and H. Miller, 'Help is coming for (most of) the self-employed', 2020, https://www.ifs.org.uk/publications/14772.