

# Self-employment and entrepreneurship: lessons from tax records and challenges for policy

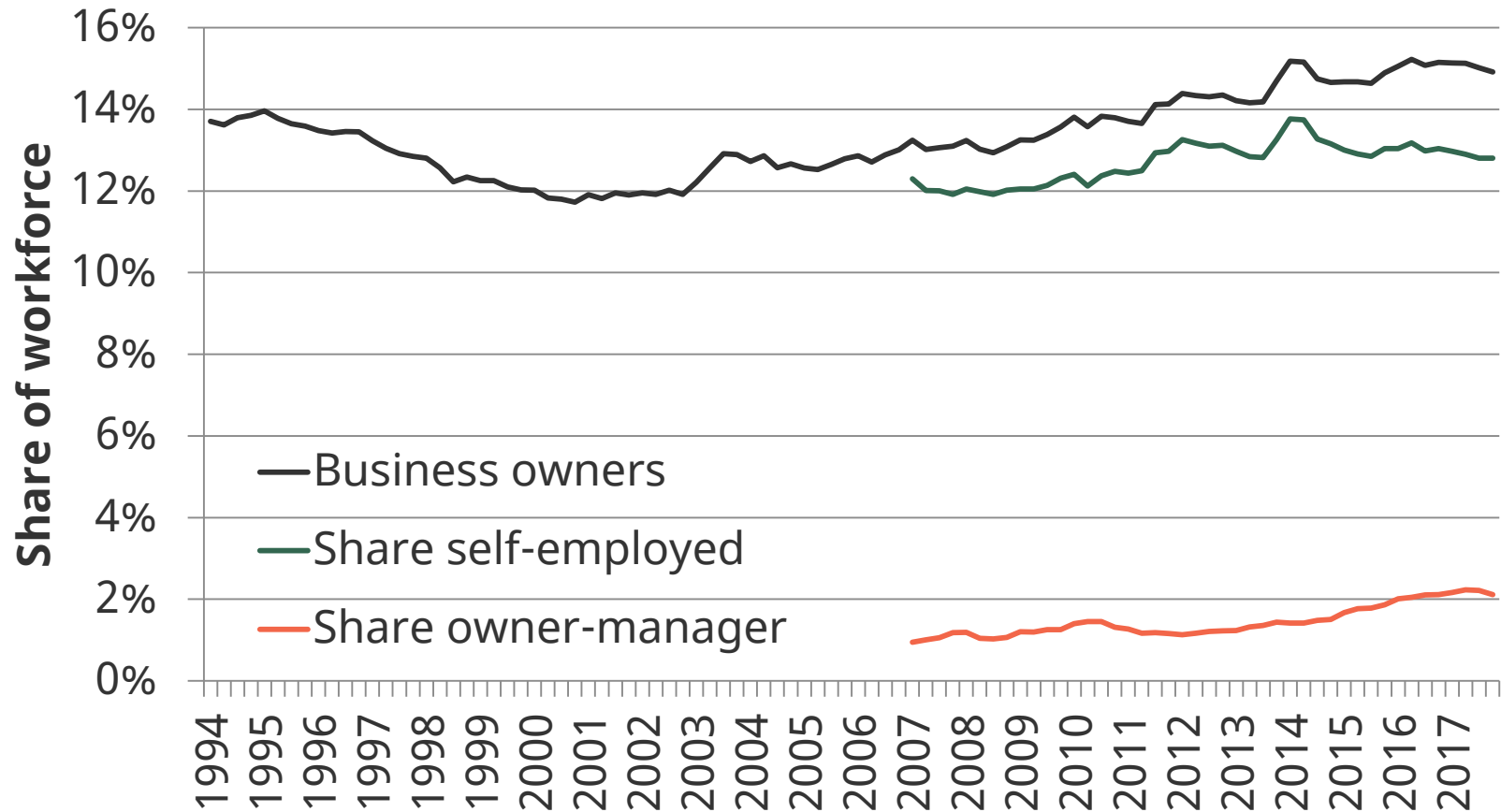
Institute for Fiscal Studies

4 June 2018

# A picture of business owners in administrative data

Thomas Pope

# Business owners make up a greater share of the workforce than before the financial crisis



Source: Authors' calculations using Labour Force Survey

## Use administrative data to shed more light on these populations

### Focus on businesses with one owner and one manager

Self-employed: sole traders

- Excludes partners

Owner-managers: 1 director 1 shareholder companies

- Excludes multiple-director companies

### Answer:

- How many are there?
- Who are they?
- What are they doing?

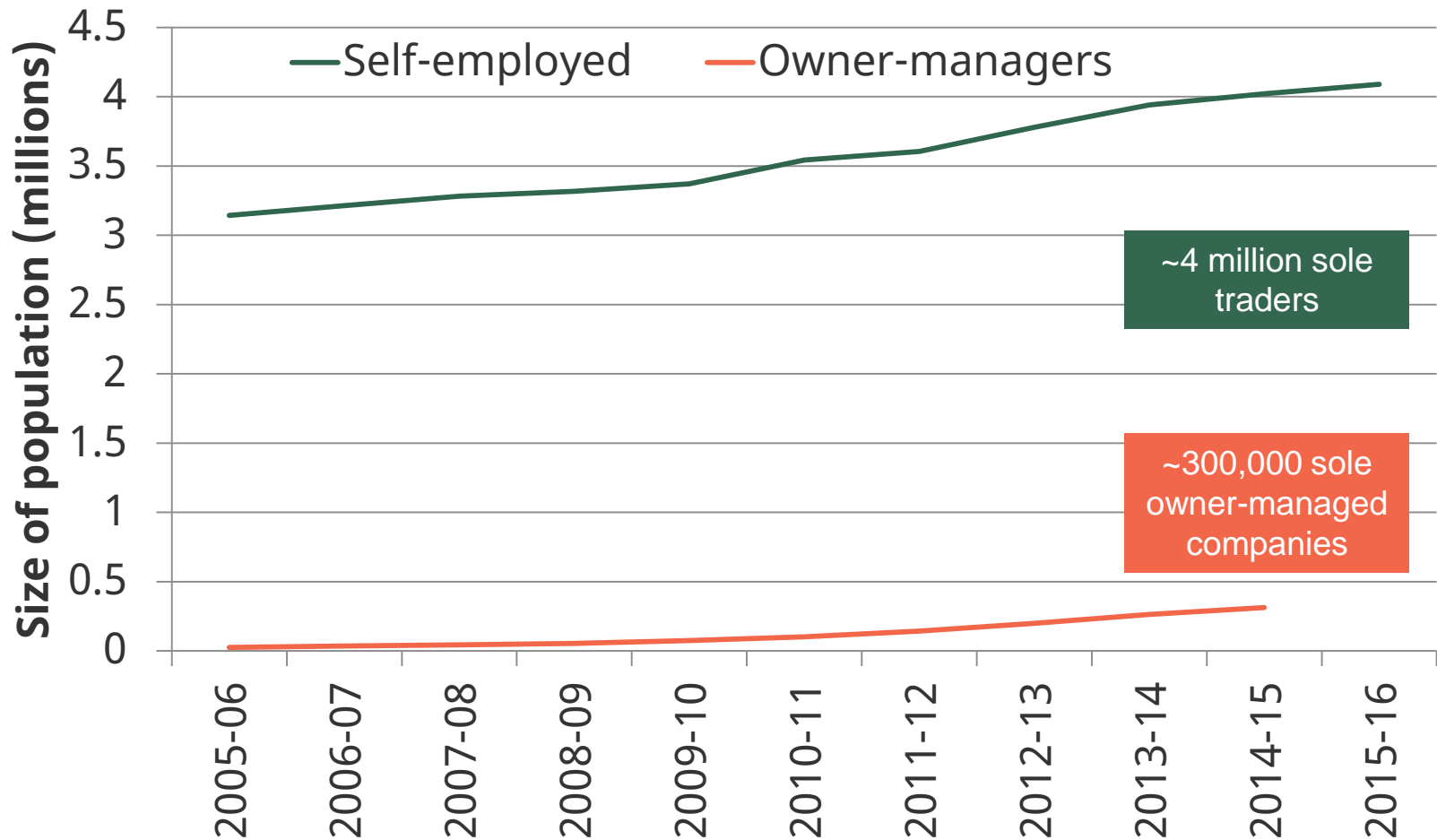
# How many are there?

# How many people operate in these legal forms?



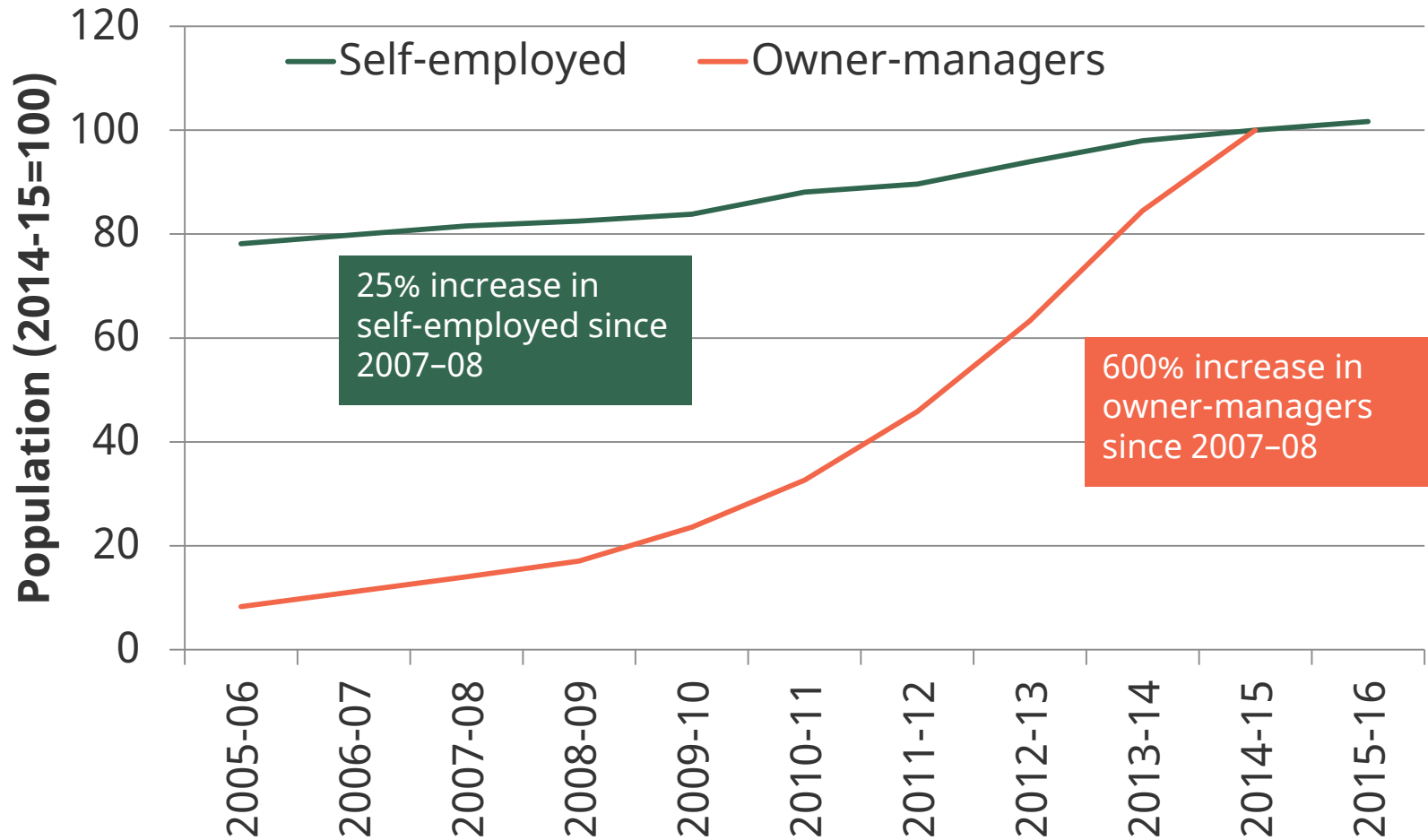
Note: Based on HMRC administrative data sources. Includes sole traders and 1 director 1 shareholder companies filing tax returns.

# How many people operate in these legal forms?



Note: Based on HMRC administrative data sources. Includes sole traders and 1 director 1 shareholder companies filing tax returns.

# Both populations are growing quickly

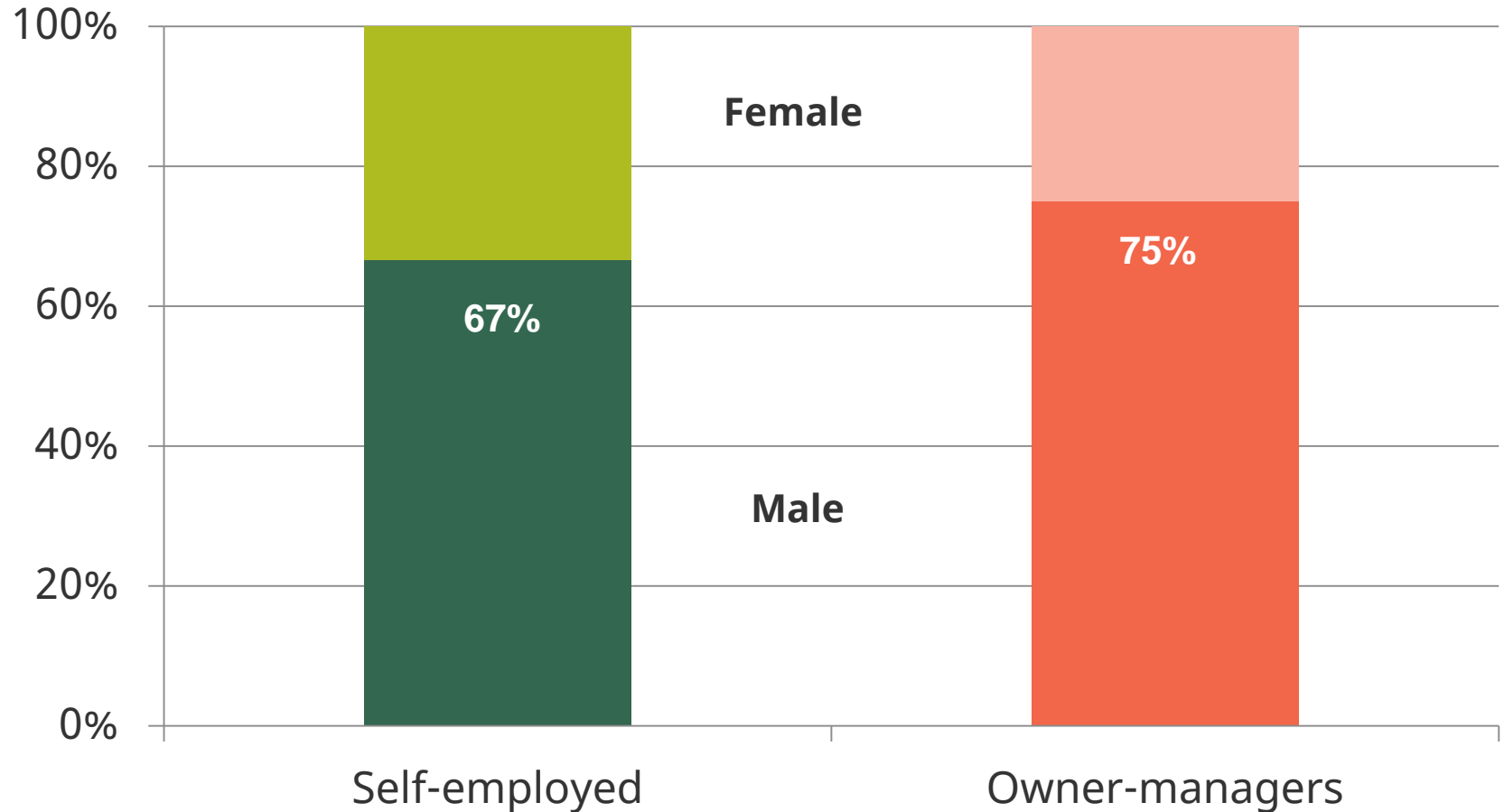


Note: Based on HMRC administrative data sources. Includes sole traders and 1 director 1 shareholder companies filing tax returns.



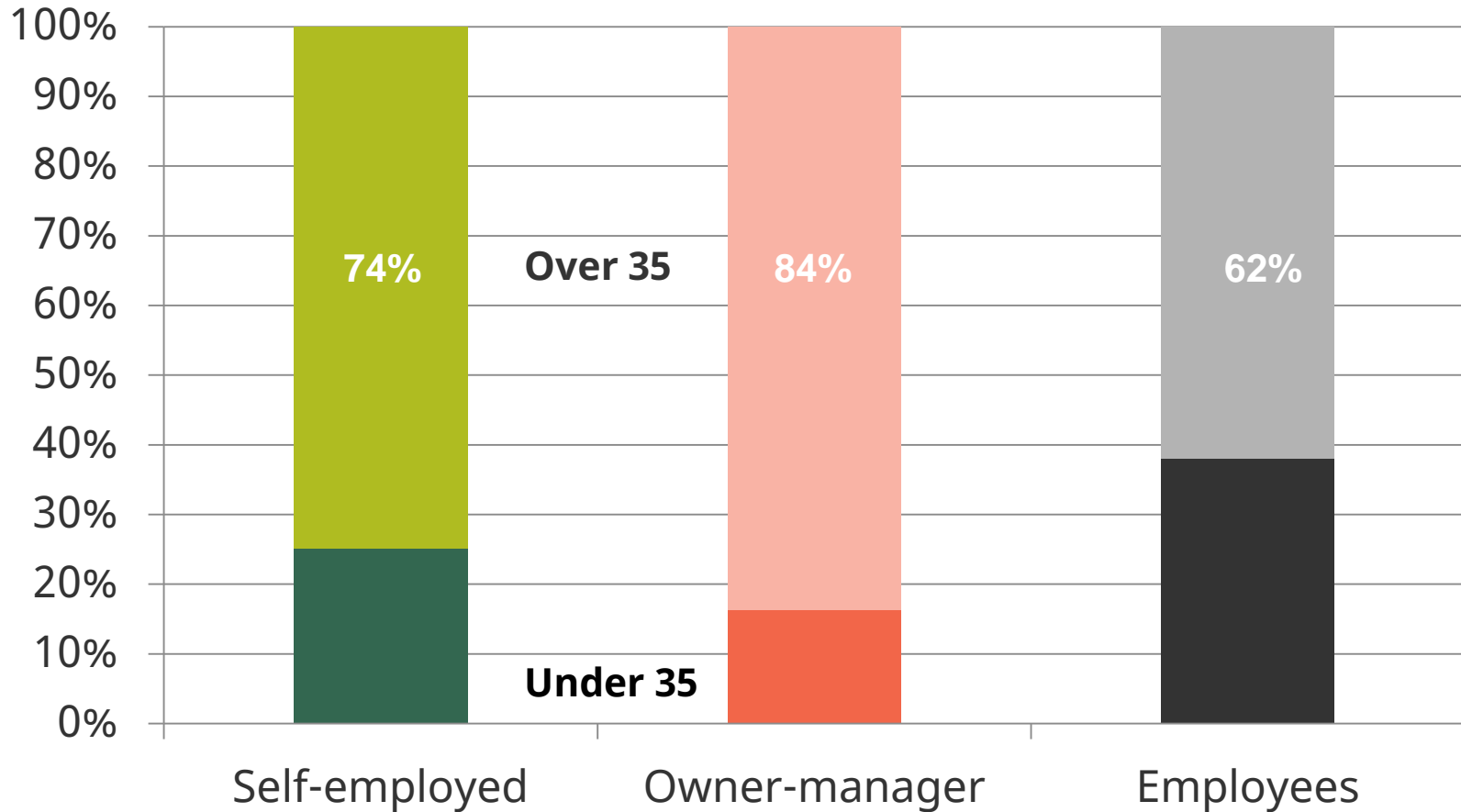
# Who are they?

## Both groups are male dominated



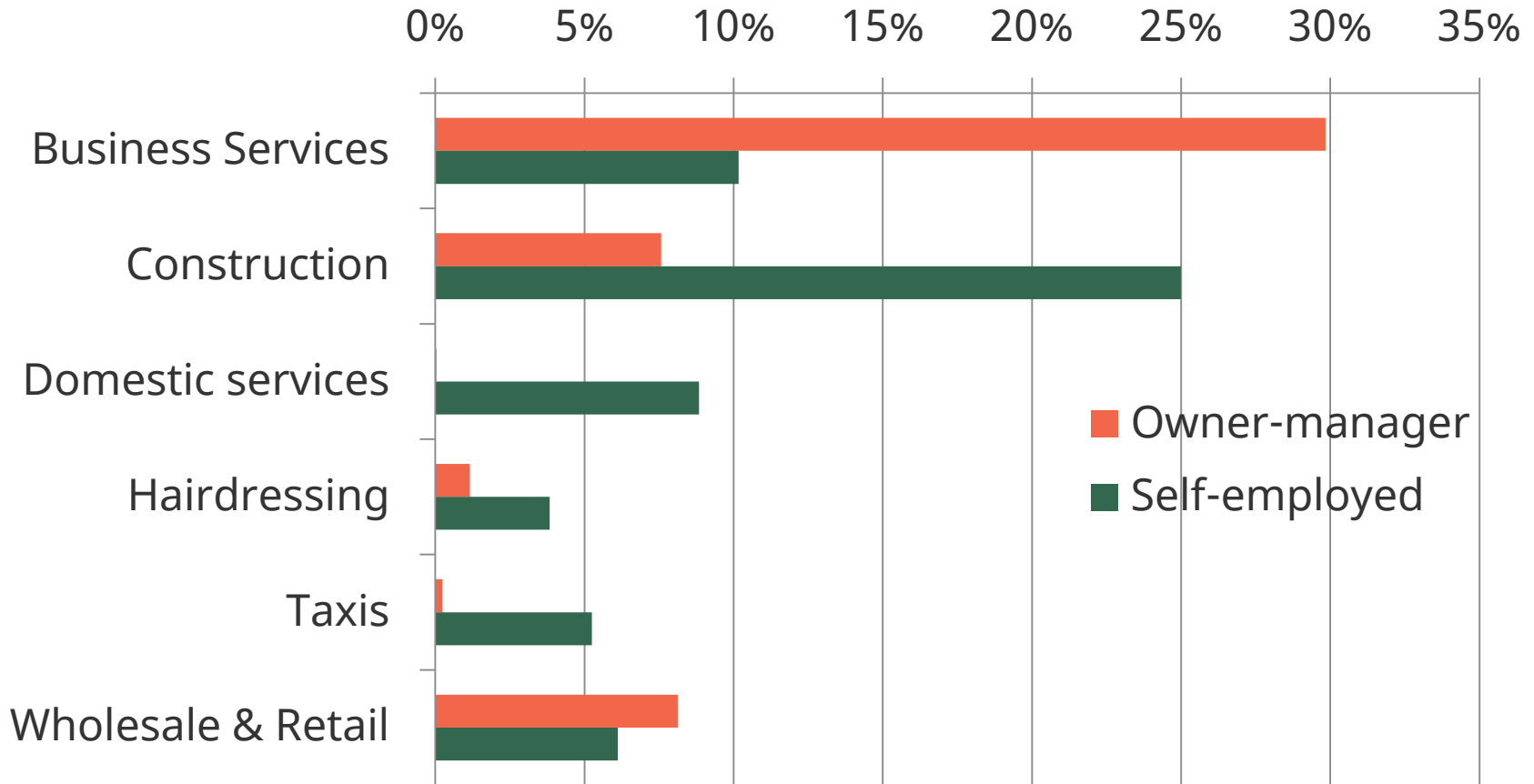
Note: Based on HMRC administrative data sources. Includes sole traders and 1 director 1 shareholder companies filing tax returns. Owner-manager statistics based on a data match between personal and corporate tax data in 2013–14. Sole traders statistics based on 2015–16

# Both groups older than employees on average



Note: Based on HMRC administrative data sources. Includes sole traders and 1 director 1 shareholder companies filing tax returns. Owner-manager statistics based on a data match between personal and corporate tax data in 2013–14. Sole traders statistics based on 2015–16. Employee ages based on the Labour Force Survey

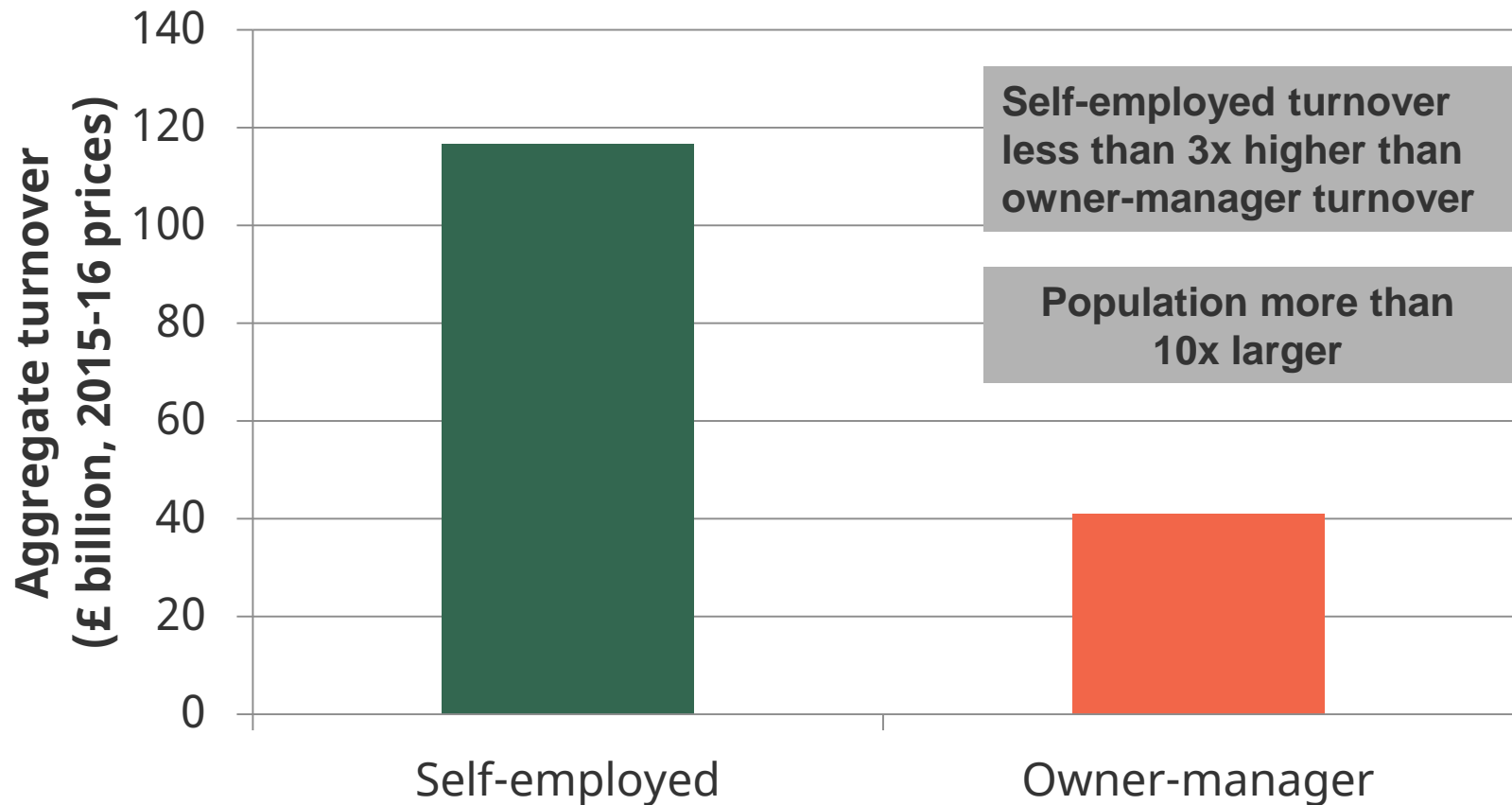
# Owner-managers based in business services, self-employed in construction



Note: Based on HMRC administrative data sources. Includes sole traders and 1 director 1 shareholder companies filing tax returns. Owner-manager statistics based on a data match between personal and corporate tax data in 2013–14. Sole traders statistics based on 2015–16

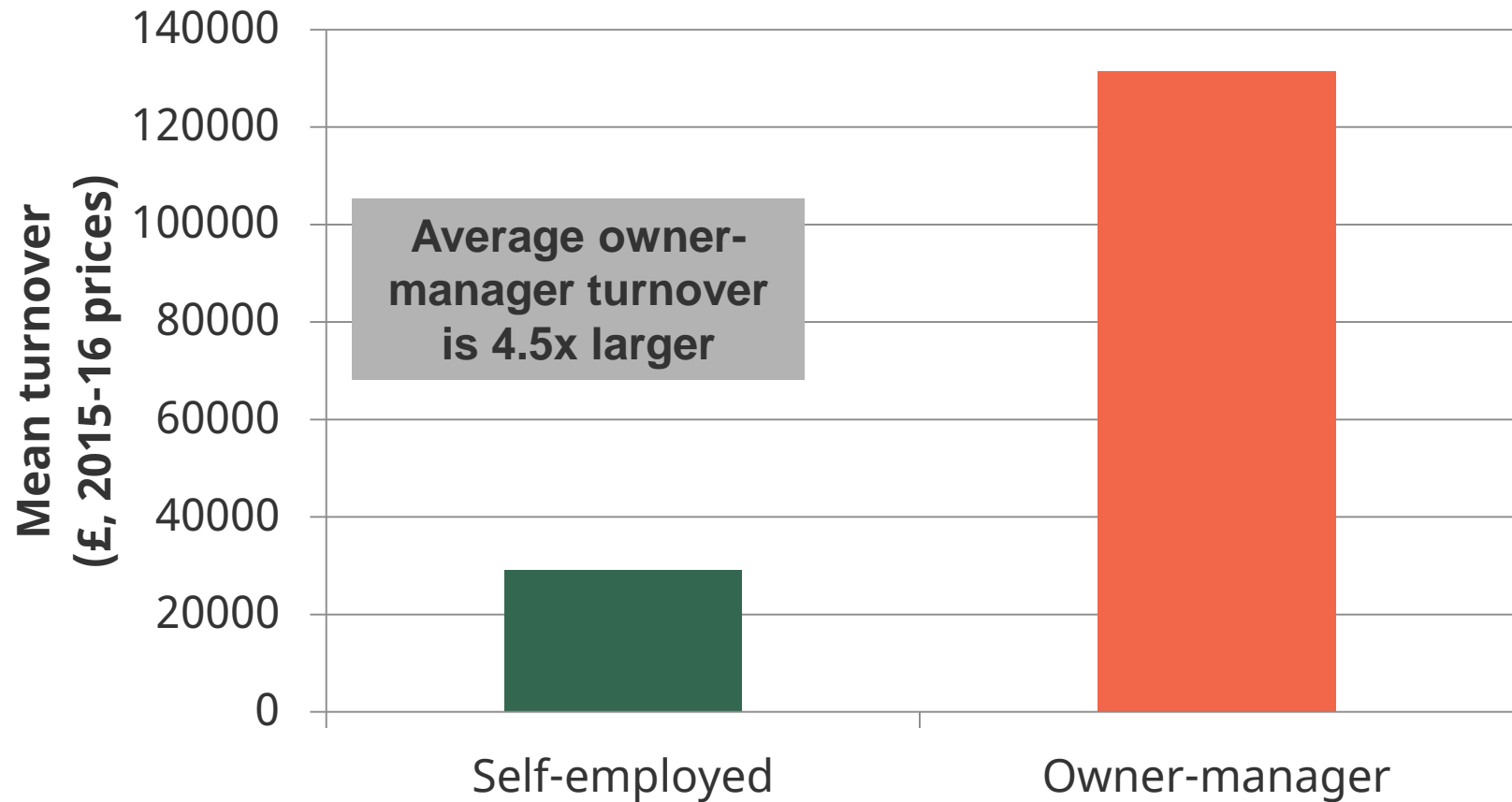
# What are they doing?

# Self-employed aggregate turnover higher than owner-managers



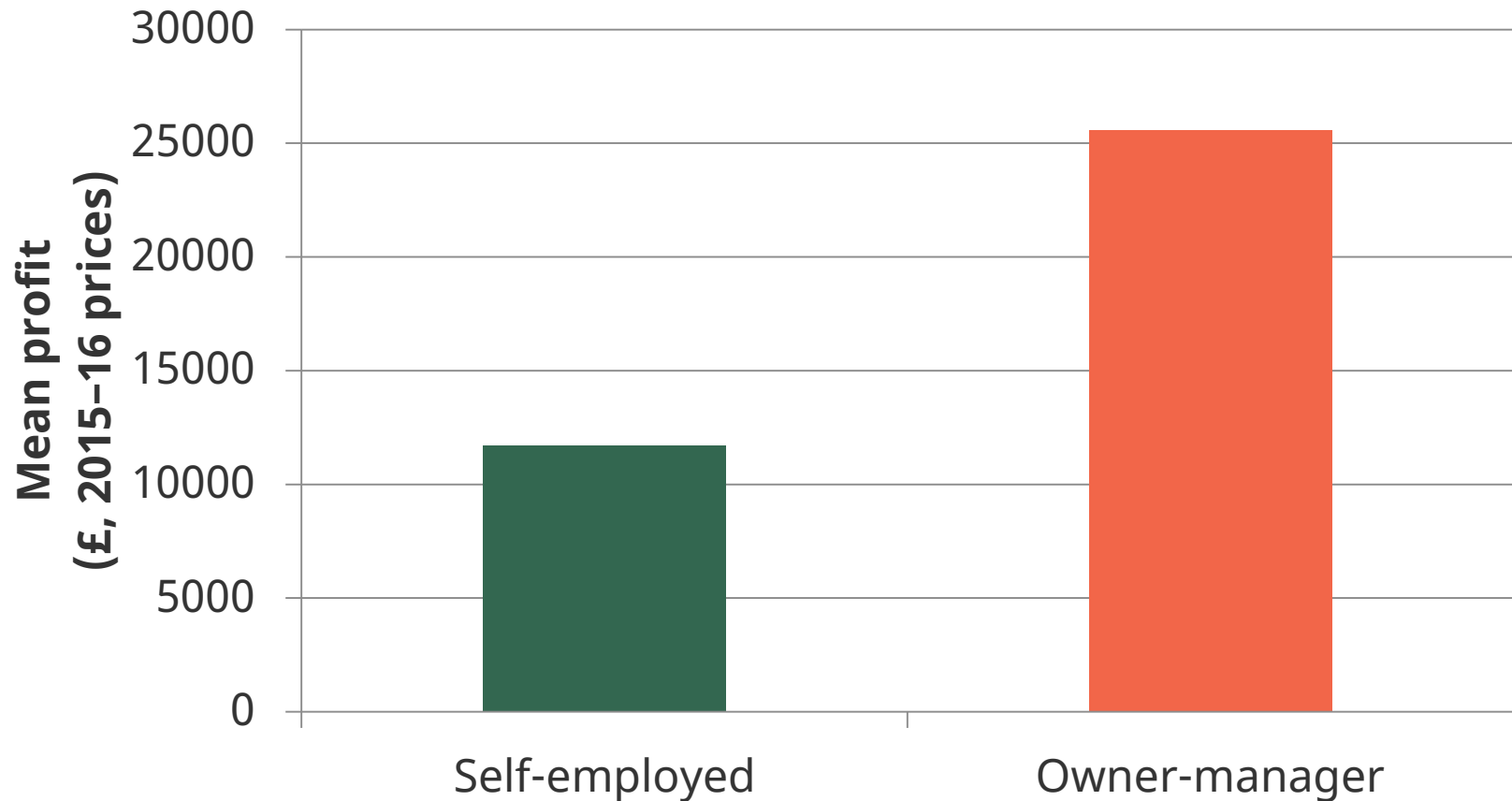
Note: Based on HMRC administrative data sources. Includes sole traders and 1 director 1 shareholder companies filing tax returns.

# On average owner-managers have much higher turnover



Note: Based on HMRC administrative data sources. Includes sole traders and 1 director 1 shareholder companies filing tax returns.

# Owner-managers have higher profits



Note: Based on HMRC administrative data sources. Includes sole traders and 1 director 1 shareholder companies filing tax returns. Owner-manager statistics based on a data match between personal and corporate tax data in 2013-14. Sole traders statistics based on 2015-16



# Average business profits are lower than before the crisis



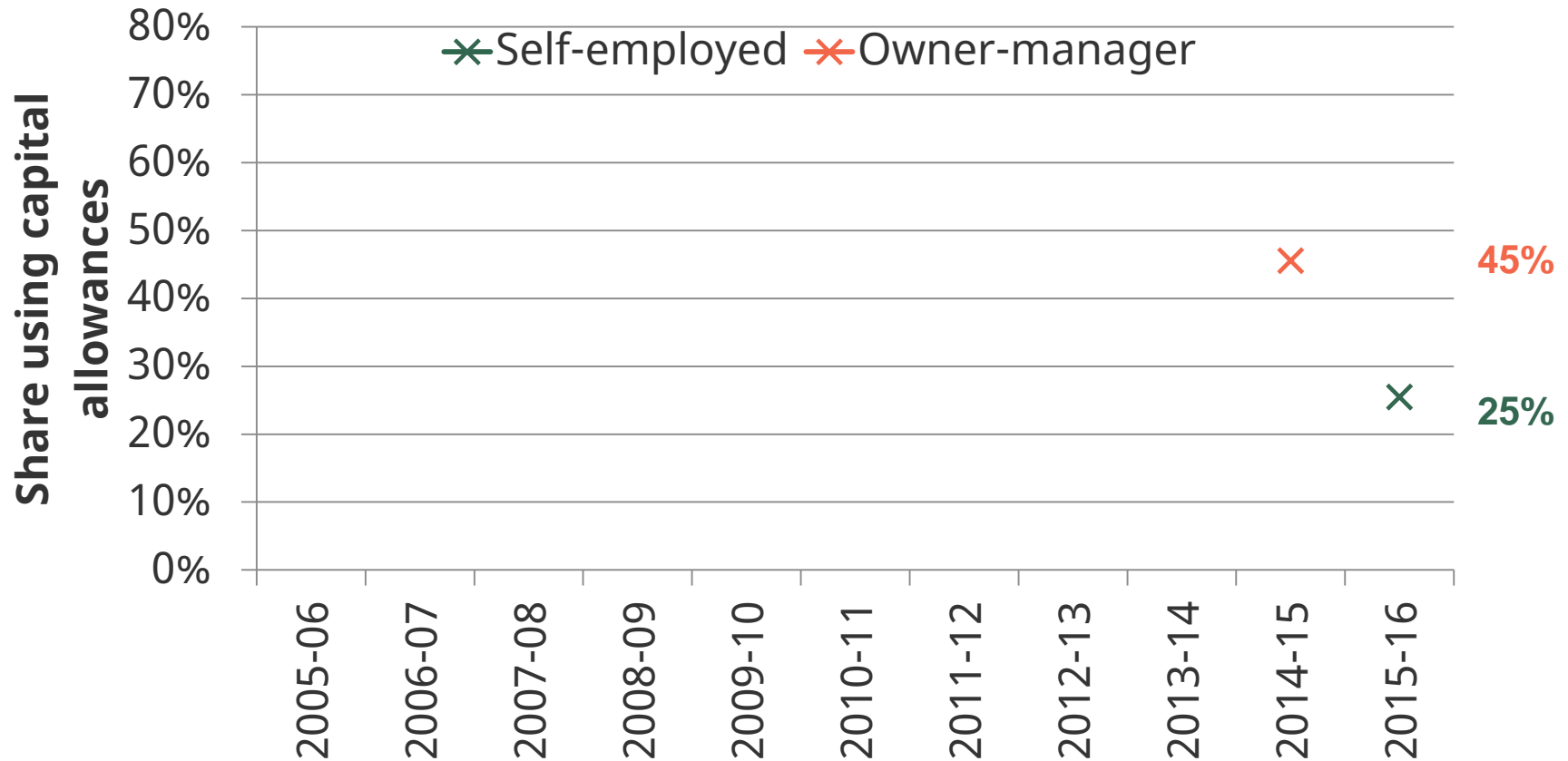
Note: Based on HMRC administrative data sources. Includes sole traders and 1 director 1 shareholder companies filing tax returns.  
Note that business profits understates the income from owner-managed companies as directors also pay themselves a wage.

# Average business profits are lower than before the crisis



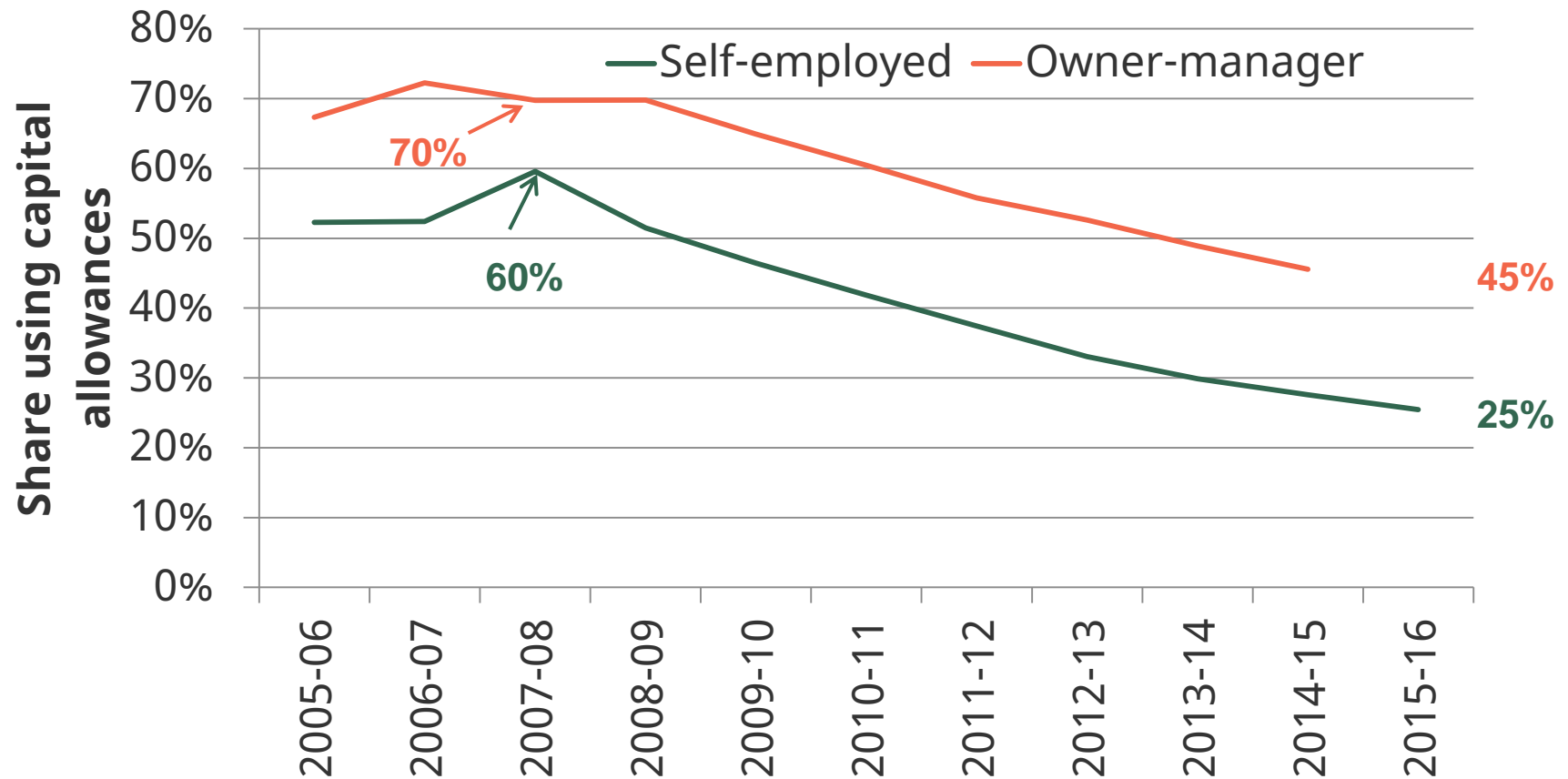
Note: Based on HMRC administrative data sources. Includes sole traders and 1 director 1 shareholder companies filing tax returns.  
Note that business profits understates the income from owner-managed companies as directors also pay themselves a wage.

# Less than half of business owners invest



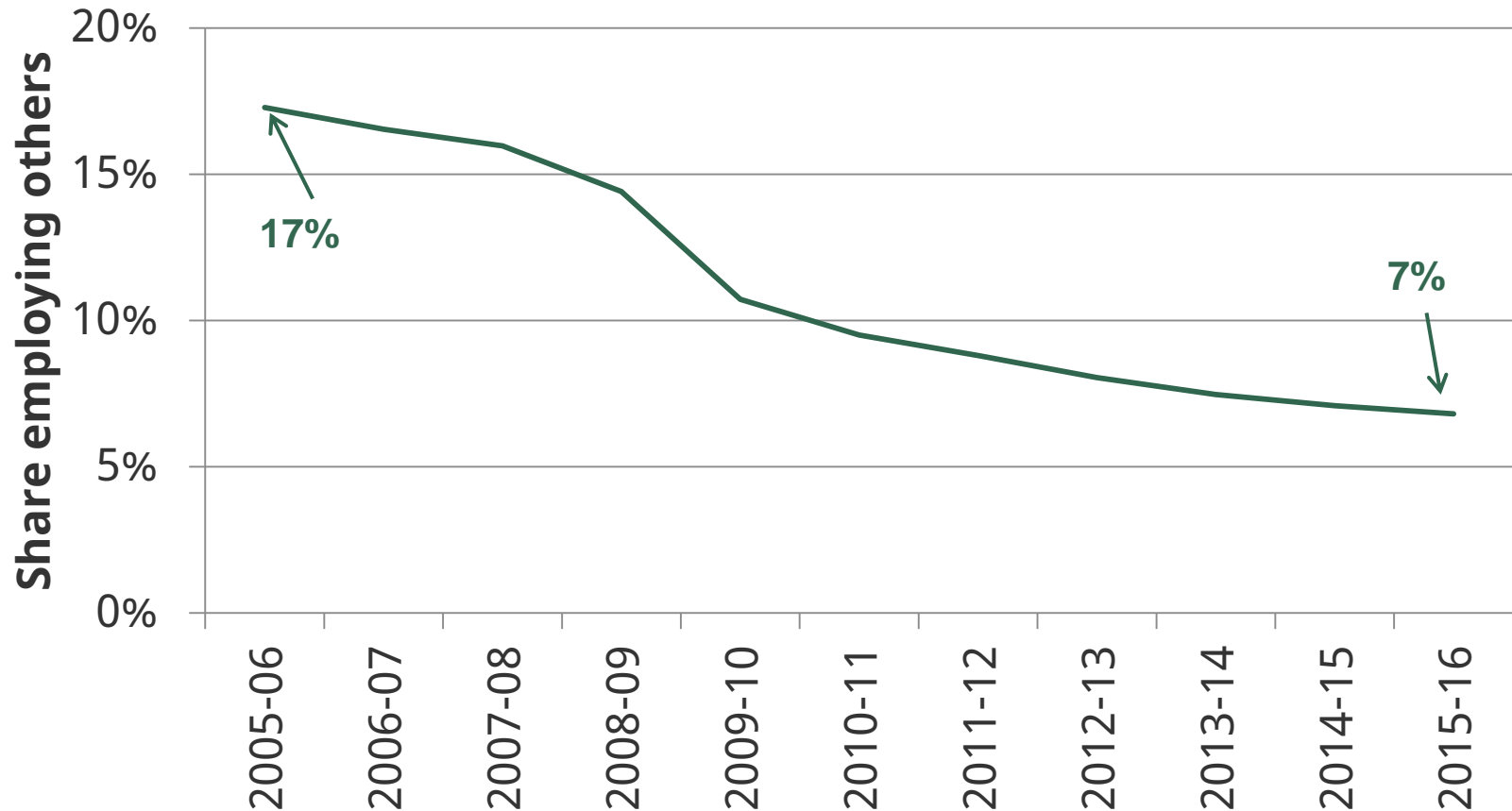
Note: Based on HMRC administrative data sources. Includes sole traders and 1 director 1 shareholder companies filing tax returns.

# The share investing in capital in both populations is falling sharply



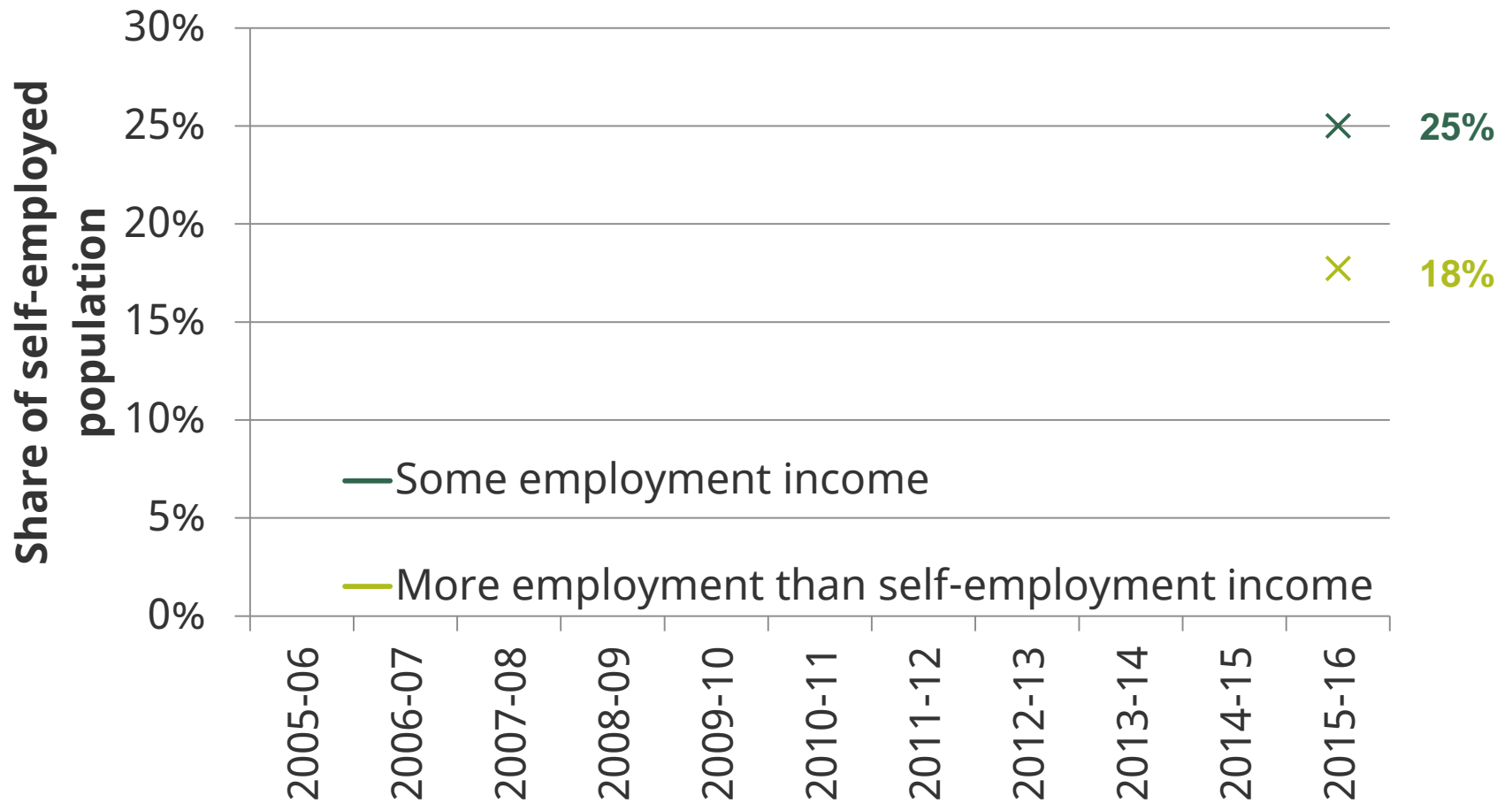
Note: Based on HMRC administrative data sources. Includes sole traders and 1 director 1 shareholder companies filing tax returns.

# An even more dramatic fall in the share of self-employed employing others



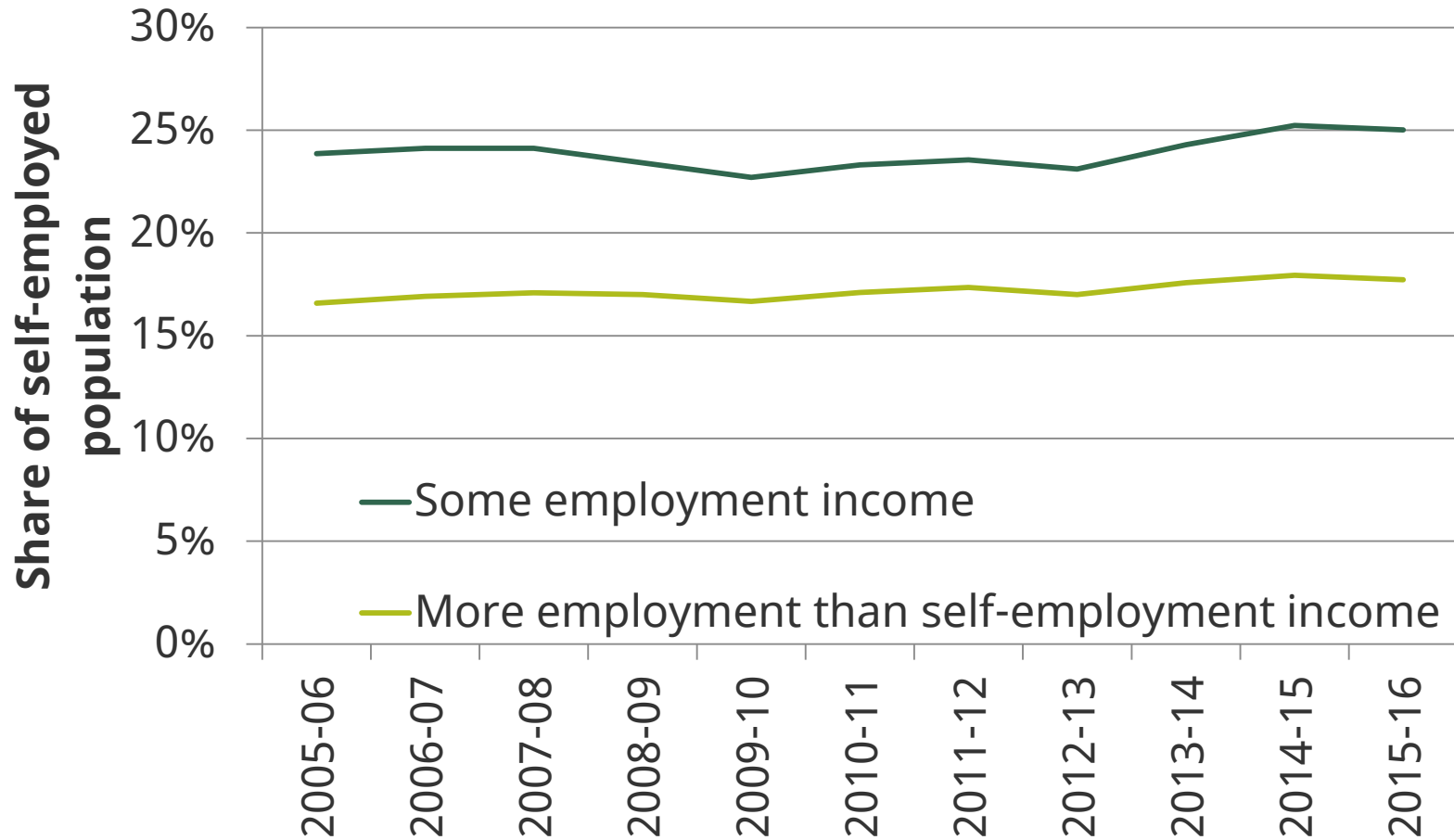
Note: Based on HMRC administrative data sources. Includes sole traders and 1 director 1 shareholder companies filing tax returns. A sole-trader is registered as employing others if wage or salary costs are greater than zero

# A large share of the self-employed have some employment activity



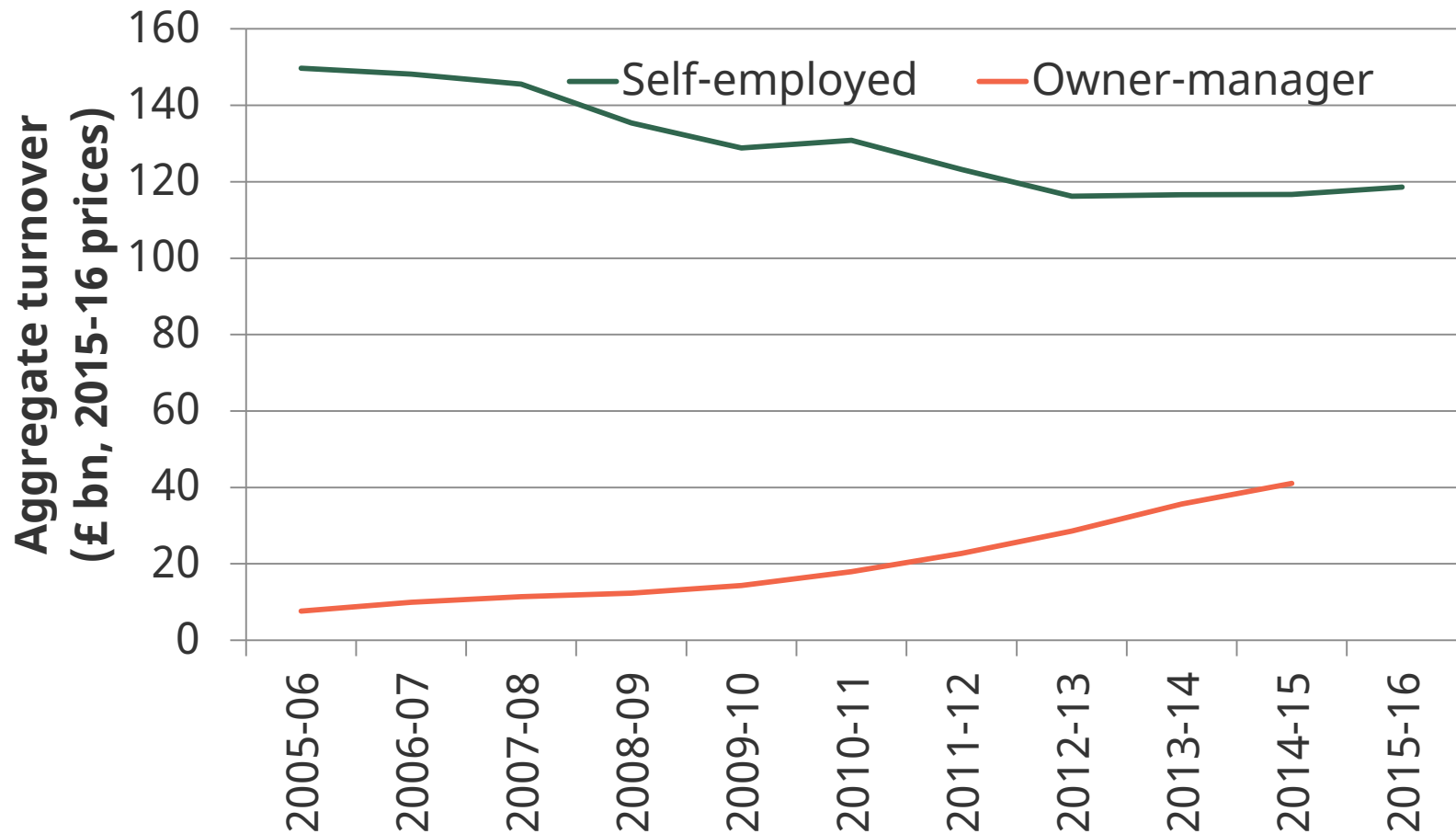
Note: Based on HMRC administrative data sources. Includes sole traders

# But these trends are not explained by more 'double-jobbers'



Note: Based on HMRC administrative data sources. Includes sole traders

# Aggregate self-employed turnover is declining



Note: Based on HMRC administrative data sources. Includes sole traders and 1 director 1 shareholder companies filing tax returns.



# Summary

**4 million sole traders and 300,000 single director and shareholder companies in administrative data**

**Despite growing by 25%, the self-employed population accounts for less turnover now than in 2007–08**

**Share of self-employed with some employment income – almost 25% – has been stable over the last decade**

**The share investing or employing others has fallen dramatically**

**Average profits have also fallen substantially since the crisis**