EXCLUDED

The Self-Employed Excluded from the Self-Employed Income Support Scheme

The Self-Employment Income Support Scheme (SEISS) was announced on 26 March 2020 in parallel to the Coronavirus Job Retention Scheme (CJRS), with support at 80% of trading profits. HMRC identified 3.4 million who were eligible for SEISS[1], based on information held from their self-assessment returns for tax years 2016-2017, 2017-2018 and 2018-2019.

However, hard edges to the eligibility criteria have left 1.6 million self-employed workers outside of the scope of the scheme through no fault of their own, with three key exclusions and one further scenario as follows:

- requirement of a minimum of 50% of trading profits from self-employment
- newly self-employed who had not submitted a 2019-2020 tax return could not benefit from the scheme
- total trading profit had to be £50,000 or less
- businesses with low to no profit over the 3-year profit calculation period

The first two criteria often go hand in hand. Thus, many have found themselves excluded on the basis of both criteria.

This paper considers the exclusion relating to the requirement for total trading profit to be £50,000 or less.

ExcludedUK has a wealth of evidence from case studies illustrating how those who have fallen foul of the SEISS eligibility criteria have been plunged into debt and for many poverty. This is also a group of people who often have never found themselves in such a position, having never relied on benefits before.

As financial expert Martin Lewis (Money Saving Expert) pointed out in the Treasury Committee meeting of 9 December 2020:

---

[1] www.gov.uk/government/statistics/self-employment-income-support-scheme-statistics-august-2020/self-employment-income-support-scheme-statistics-august-2020

“The one [category] that we need to focus on are the people who were able to support themselves before, who were perfectly financially independent without mainstream support from the State, who were in businesses and sectors like travel, events or entertainment or hospitality and who solely because of this pandemic are not able to support themselves, and my concern is it would be short-sighted of the State to provide them with no support at all so they continue to languish and they move into that category of people that will permanently be in financial trouble and will permanently need to be a burden on the State. And by not providing short-term support to get them through to the end of this pandemic, and that includes limited company directors, it includes the newly self-employed, it includes the other excluded categories, all of whom were in viable work, to use the Chancellor’s term, is a short-sighted mistake that will cost us more in the long run. We need to get people over this hump, and then back to their jobs, back working, back paying taxes.”[2]

According to accountants QuickBooks, 3 million people faced having to pay tax bills double the normal size by the deadline of 31 January 2021 “as bills already deferred from last year begin to pile up”[3].

The Resolution Foundation’s report “Long Covid in the labour market” of 18 February 2021 states that according to their survey 3 in 10 self-employed workers equivalent to 1.5 million people “said that while their profits had fallen as a result of Covid-19, they had not been eligible to receive a grant through the scheme. This exclusion could have longer-term consequences, too, as those who were not eligible for the SEISS were two-and-a-half times more likely to say they planned to leave self-employment than those who received a grant”[4].

For those self-employed people who have been excluded from SEISS and recently submitting their tax returns it has been a bitter pill to swallow, having to pay tax on their pre-Covid incomes from their decimated 2020 income. ExcludedUK called for tax to be waived for those affected as a gesture that would offer some help to these people. However, there was no response to these calls by the Treasury. Moreover, for those who took advantage of the tax deferral for payments due 31 July 2020, the financial strain at this time has been all the harsher.

For those who have taken out Bounce Back Loans, reminders are starting to be sent out informing people that their repayments are due to commence in the new few months. Loans and deferrals were never the solution.

The Treasury Committee report of 15 February 2021 further highlighted the gaps in support first identified in its report of 15 June 2020, emphasising its recommendations to the Treasury to amend the eligibility criteria so as not to exclude these three groups[5].

---

[2] https://youtu.be/ZpMUD9TPSXI
[3] www.telegraph.co.uk/tax/return/taxpayers-owe-4bn-hmrc-thousands-struggle-pay-bills/
[4] www.resolutionfoundation.org/app/uploads/2021/02/Long-covid-in-the-labour-market.pdf
[5] https://committees.parliament.uk/publications/4703/documents/47210/default/

ExcludedUK full supports these recommendations and urges the Treasury to adopt these recommendations.

The Self-Employed with Trading Profits over +£50,000 Excluded from the Self-Employed Income Support Scheme

Overview

The self-employed with profits over £50,000 were excluded from the SEISS. This £50k cap would appear to be an active policy decision[6] on the part of the Government in line with its assertion that in formulating the Covid-19 income support schemes they sought to help those most in need, thus considering those on +£50k not in need of support.

Contrary to what the Chancellor has stated, based on the data analysed by ExcludedUK, the majority of those earning over the £50k cap are not high earners with many within the £50k-£70k bracket, rather than +£200k as the Chancellor initially suggested – later revised down to £100k following questioning at the Treasury Committee meeting on 15 July 2020 on the median income figure for those in this category in a letter from the Chancellor to Mel Stride.

The assumption that those earning over £50k are 'comfortable' is false. Those affected in this category do not simply have savings to rely on, and for those who did, they have unfairly been forced into depleting savings, now over a period of almost one year. Just like those affected by other exclusions, no one planned for this eventuality. People in this category still have outgoings in line with their pre-Covid income to deal with.

The £50k cap presents a sheer cliff edge such that someone with £49,999 trading profits will have received just short of £2,500/month for the first 3 months of the SEISS scheme, just short of £2,190/month for the subsequent 3 months and £2,500/month for the further extension of the scheme. Someone with £50,001 trading profits will have received no support at all.

How many are affected?

According to the Treasury Committee report of 15 June 2020, the Institute for Fiscal Studies estimated 225,000 were ineligible for support under SEISS due to trading profits from self-employment of +£50k per annum[7].

The National Audit Office stated in its report of 23 October 2020 that HMRC estimated 200,000 had earnings above the £50k cap, which was confirmed in a release on the UK Government website referring directly to HMRC data[8].

---

[6] www.ifs.org.uk/publications/15281

[7] www.ifs.org.uk/publications/14787

[8] www.gov.uk/government/statistics/self-employment-income-support-scheme-statistics-august-2020/self-employment-income-support-scheme-statistics-august-2020?fbclid=IwAR3JFjY7jI-ZRFXfzRFmZ7A94clLWipHpIRYfeX7BAa419GPMp_5AAYvkk4

Case Study Examples

- A photographer earning just over £50k, with two adopted children, cannot work due to homeschooling, and is now resorting to using a food bank and borrowing clothes from friends for his children

- A creative florist who works on weddings and restaurant displays set up in business in her early 20s straight out of art school and now in her early 30s finds herself with no income and absolutely no work on the horizon. Yet she has carved out a niche area in her field, and worked hard to attain this level, made a point of giving work to young women trying to get a foothold in the industry so those who work for her have lost work too

- A theatre technician whose maternity period fell during the pandemic and therefore had no work, no income and no support, with no prospect of work on the horizon

Cost

The IFS report of 27 January 2021 stated that extending SEISS to accommodate all those affected by the £50k cap would cost £1.3 billion per quarter with £7,500 paid per person. A tapered form of support for those whose profits were in the range of £50,000-£90,000 would only cost around £325 million per quarter[9].

Potential solutions

1. Tapered support

A system of tapered support has been widely suggested in response to the Government's assumption that those in this situation are financially comfortable. However, many of those affected do not consider this to be parity which is the overriding call for redress from those who have been excluded.

2. Removing the ceiling

This is widely considered to be the most favourable outcome by those affected, such that support would be in line with CJRS with the £2,500 cap, irrespective of level of profits.

The Treasury Committee put forward a proposal in its report of 15 June 2020 which was reiterated in its report of 15 February 2021 "that the Government must tackle the cliff edge that exists in the design of the SEISS by removing the £50,000 cap and allowing those with profits just over this cap to access some financial support up to the total monthly support cap of £2,500 (as for salaried employees)"[10], which ExcludedUK fully supports.

Conclusion

The earnings of the majority of the self-employed affected by this exclusion fall under £100,000 according to IFS[11], and thus many are not high earners. Being left without support and particularly for those who work in the hardest hit sectors, this has plunged many into debt and poverty, people who were by and large self-sufficient prior to the pandemic.

---

[9] www.ifs.org.uk/publications/15281

[10] https://committees.parliament.uk/publications/4703/documents/47210/default/

[11] www.ifs.org.uk/publications/15281

Report prepared by Sonali Joshi (Founder - Director of Policy & Communications, ExcludedUK)
sonali@excludeduk.org
www.excludeduk.org

22 February 2021