



Think

Self-Employed

Supporting the 4.8 million to climb higher

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Experts in Business

FEDERATION OF SMALL BUSINESSES

The Federation of Small Businesses (FSB) has grown since being founded in 1974 into the UK's leading business organisation.

Our mission is to create the best environment for businesses to start up and thrive. Our success will help drive the economy and create jobs.

We are member-led, so that we authoritatively protect and champion the interests of the self-employed and the whole small business community. We are strong in every industry sector of the economy, and in every nation and region - England, Scotland, Wales and Northern Ireland.

Proud of our independence, we ensure the voice of small business is heard by decision-makers at every level of Government – from a local council right through to Brussels. We are a cross-party, non-partisan organisation, and we work with councillors, MPs, MEPs, Peers and elected representatives from all major political parties and in all Parliaments and Assemblies. We campaign, but we also bring our entrepreneurial spirit into our work by proposing practical policy changes and being part of the solution.

More broadly, we support our members at every stage of their business journey. We provide them with market-leading business services from insurance and business banking through to legal and tax advice.

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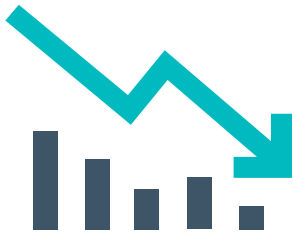
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BENEFITS OF SELF-EMPLOYMENT



28% of the self-employed feel that their **businesses performance** will get worse over the next **3 months**



51%
Opportunity to fulfil a personal vision



79%
Independence at work



61%
Better work/life balance



Over half of the self-employed say a **quarter of payments** are late



A third of the self-employed say their **payment terms** have **increased** over the last **2 years**



21% of the self-employed have **struggled to access a mortgage**



69% are **not saving** into a **pension**



14% have **experienced problems** trying to get a **business loan**



13% have **experienced problems** applying for a **personal loan**



Just **under half** of the self-employed have taken **off-the-job** or **on-the-job** training over the last **12 months**



41% feel that **technical / job specific training** is the most important **skill** for **future growth** of their business

INTRODUCTION

The UK has seen huge changes to the world of work in the last decade, one of the biggest shifts has been the rise in the number of people who have decided to strike out on their own and move into self-employment. With the 4.8 million self-employed representing 15% of the workforce, and contributing over £270 billion to the UK economy¹, it is a group that is here to stay.

Self-employment has also played a valuable role in opening up employment to those who otherwise might not be in work. More older people, younger people, women, service leavers and others are increasingly seeing the benefits of striking out on their own, and being their own boss.

This growth has had huge benefits for many and for the wider economy. Helping to drive the record levels of employment and local economic growth, and reducing economic inactivity among those who struggle in traditional, full-time employment. There is clear evidence that the vast majority of the self-employed are happier than they would be as an employee and that most start up in business out of choice, often in search of more flexibility and meaning at work.

Despite the benefits of self-employment those that choose to 'go it alone' face a number of challenges which have long ignored by successive governments. If the self-employed fall ill they are dependent on their own savings or lack of while sick. When they start a family self-employed mothers receive a lower level of parental support, fathers and those adopting a child receive no parental support. Their fluctuating incomes and desperate need to save for a 'rainy day' means they often struggle to save for retirement.

They face significant difficulties accessing mortgages and insurance products. The Universal Credit (UC) and the benefits system designed with employees in minds often lead the self-employed to be to 'round pegs and square holes'.

The self-employed enjoy fewer rights and, fundamentally, by setting up in business they face much higher risks than those in employment do. For far too long they been an after-thought in policy-making from Government and all political parties.

The time has now come for the Government and all political parties to start thinking about the self-employed and do more to support the 4.8 million to climb higher.

¹ BEIS, Business population estimates 2017, 30 November 2017



SIMPLIFYING THE TAX SYSTEM

The tax system for the self-employed is currently complex and difficult to navigate. This includes the National Insurance system, where the self-employed pay both Class IV and Class II National Insurance Contributions. Simplify contributions helps increase understanding and ensures understanding of entitlements.

Class II National Insurance Contributions, unlike other National Insurance Classes is currently flat-rate weekly rate of £2.95 paid if you earn more than the Small Profits Threshold. This flat rate does not increase as income rises, is instead levied at the same level for all of the self-employed.

The Government should maintain their commitment and abolish Class II National Insurance Contributions for the Self-employed in April 2019, to simplify the tax system and remove the arbitrary levy.



SAVING FOR THE FUTURE

The number of self-employed workers in the UK rose by 23% between 2007 and 2018, from 3.8 million to 4.81 million². This increase is combined with a decline in the number of self-employed contributing to a pension scheme. Our research shows that fewer than a third (31%) of self-employed said they were saving into a private pension³. Worryingly, 15 per cent of self-employed said they did not to have any savings to fund their retirement.

Auto enrolment has been a success, with over nine million people now auto enrolled into a workplace pension scheme. With the increasing number of self-employed, we cannot simply ignore the need to encourage and incentivise them to save for retirement.

There needs to be an incentive for the self-employed to save for retirement, which acknowledges the volatility of self-employed incomes. Government and pension providers need to find solutions to solve the under-saving problem for the self-employed, particularly for women and younger self-employed. To better support the self-employed save into a pension, the Government should use the annual self-assessment process as a means of promoting pensions savings for the sector. So, when the self-employed are completing an annual tax return, they are prompted to nominate a pension provider or scheme (they may wish to nominate the same provider they paid their employee contributions into, if applicable). The sum would be automatically added to their total tax bill.

There is no standard self-employed person, the variation and many characteristics of the self-employed means no one solution will work for all, so FSB supports the extension of the Sidecar pension savings model, in which an individual can save into a liquid fund for emergency spending for unexpected bill or if they experience a reduction in business and once the level of savings reaches a satisfactory threshold, all of their contributions will be transferred into a pension pot.

In addition, 88% of the self-employed were previously employed and likely to have been auto enrolled into a workplace pension. Government and pension providers should create a way to smoothly transition between workplace pension schemes and personal pension schemes.

Research shows that an individual can have up to 11 employers over their working life; and with each job comes a pension. The Pensions Dashboard will provide consumers with one single view of their pension, helping people manage the pensions from multiple jobs. The Pensions Dashboard will be crucial for the self-employed, workers and small business employers.

The Government should place these groups at the heart of the Pension Dashboard to make sure as many people have accessibility to their pensions and can understand what they need to invest for their retirement.

² Office for National Statistics, Labour Market Stats, June 2018

³ FSB, Going it Alone Moving on Up: Supporting Self-Employment in the UK, 2016.



GIVING NEW STARTERS A STEP UP

The introduction of Universal Credit (UC) has radically changed the UK welfare system. The new system has created a number of challenges for self-employed recipients.

Previously, around 18 per cent of all self-employed received Working Tax Credits or were in receipt of Child Tax Credit⁴. Self-employment can be a vital route into the workforce for those who struggle with traditional employment, with 45% of the self-employed on Working Tax Credits balancing self-employment and caring responsibilities and 30% managing a physical or mental health condition lasting over 12 months⁵.

This safety net also provides valuable support to those on the lowest incomes. For UC to truly work it must support all viable forms of self-employment, including those with fluctuating incomes and seasonal businesses. The self-employed deserve to be treated fairly by our benefits system.

Under UC the self-employed, after a year, will see their UC award capped in line with a Minimum Income floor (MIF). In many cases, this could make them financially worse off.

The assumed level of earnings will for most workers be the National Living Wage at 35 hours a week. The 'floor', or number of hours you're expected to work, may be reduced depending on circumstances. Anyone earning below the MIF will not have the difference made up by a larger Universal Credit payment.

Many of the self-employed and particularly seasonal business incomes fluctuate over the course of the year, but the application of the MIF is on a monthly basis. This makes it more challenging to average out income across the year. The Government should align the reporting requirements and give greater flexibility to the application for the MIF by introducing quarterly reporting.

The Start-up Period should give newly self-employed on UC the time and space to focus on creating a growing business that provides them with a sufficient income. Viable and ultimately successful businesses often take longer than a year to start up, with evidence pointing to the self-employed earning four times as much in their third year than the average for those who have been running a business for less than a year⁶. For many the application of the MIF after a year could prevent people from going on to lead successful businesses. The Government should extend the start-up period from 12 months to at least 24 months.

The New Enterprise Allowance (NEA) has supported people to move from unemployment into self-employment. This offered many people a route into a meaningful career. The mentoring provided by the NEA programme is key giving advice and support to help manage the pressures that come with starting a business. If done well, advice and support can make the difference to creating a long term successful business or not.

Alongside changes to UC, the Government needs to look at how to maintain and improve the New Enterprise Allowance, which has so far helped those who are unemployed to set up over 115,000 small businesses⁷. Started in 2011, the Government should look at boosting take-up, eligibility, alongside reviewing the timing and length of business support and mentoring provided.

⁴ FSB, Going it Alone Moving on Up: Supporting Self-Employment in the UK, 2016.

⁵ FSB, Going it Alone Moving on Up: Supporting Self-Employment in the UK, 2016.

⁶ RSA, Boosting the living standards of the self-employed, 2015, accessing at <https://www.thersa.org/discover/publications-and-articles/reports/boosting-the-living-standards-of-the-self-employed>

⁷ Department of Work and Pensions, New Enterprise Allowance Statistics, March 2017.



STARTING AND GROWING YOUR FAMILY

While self-employment has grown in popularity to 4.8 million, the family support given to this group by the state has not kept pace. The self-employed do not have access to the same level of parental benefits as employees, including expectant mothers who receive less maternity pay, but also fathers and those choosing to adopt who receive no entitlements at all.

For all parents, starting a family is a major commitment and creates financial pressures. In this context, the state provides some support to help the immediate disruption and ensure the family can provide support to their new child. Reduced levels of entitlement places more of a strain on the self-employed. There is real concern around the financial impact taking time off can impact on their finances; we found 44% of self-employed said lack of certainty of earnings is one of the top three challenges of being self-employed. Similarly, 17 per cent of respondents say 'not getting paid if I fall ill or have to take time out of work for personal/family reasons' is the number one challenge⁸.

If you are employed you are entitled to Statutory Adoption Pay if you choose to adopt a child, but if you are self-employed you receive no access to paid leave. This represents an additional barrier for the self-employed to adopt, with many adopters having to demonstrate their ability to spend a year with a new child to strengthen their application.

Adoption can transform the lives of our most vulnerable children and give them a stable and happy home. Each year in England alone there are around 4,000 children waiting in foster care, unable to live with their birth families. As a nation, we need more potential parents to consider adoption, and that should not exclude the self-employed. An Adoption Allowance based on the current Maternity Allowance would be a major boost for self-employed parenting.

Self-employed fathers' also receive no access to paternity pay or leave. As we look to encourage more fathers to spend time with their new born child, through schemes like Shared Parental Leave, this lack of access is out of step. The Government should introduce Paternity Pay to the self-employed.

The Government should also review the Maternity Allowance, and the level of support for self-employed new mothers.



PREPARING FOR THE WORST

One of the biggest challenges facing the self-employed is not being able to rely on a secure income. Incomes can fluctuate when the self-employed are growing a business, or when business takes a downturn. It can be even more challenging when their family or they experience certain life events.

The self-employed are financially worse off if they fall ill, as they are not entitled to sick pay, while they also run the risk of not earning in the event that they assume caring responsibilities. Having less certainty over future earnings can also make the self-employed reluctant to put savings away – particularly in long-term savings and investment products that cannot be easily accessed.

Under one in ten (9%) have income protection insurance to support them during periods of illness or when they are struggling for income⁹. The Government should work with the insurance industry to support the development of more affordable income protection insurance options for the self-employed. The Government should also explore the role of new technologies in creating new models of collective insurance to address the challenges faced by the self-employed.

Experiencing the loss of a child is one of the most difficult things for any parents. Families and parents need time to grieve for the loss of a child. The current Parental Bereavement (Pay and Leave) Bill, is an example of government recognising the need to allow parents time to grieve.

FSB supports this Bill, to provide support for employees, but believes it should be extended to include the self-employed. Particularly as some parents of children with severe disabilities may choose self-employment as more flexible work.

⁹ FSB, Going it Alone Moving on Up: Supporting Self-Employment in the UK, 2016.



TRAINING

Keeping our skills current is an indispensable part of growing a business. It can help the self-employed to adapt to changes in the economy, and to grow their business and their own income. The self-employed are less likely to be training than employees. Just under half of the self-employed have taken off-the-job or on-the-job training over the last 12 months¹⁰.

When the self-employed choose to undertake training not only do they have to pay for the cost of the training course itself, they also have to forgo the income for the days spent training instead of working on their business.

We believe that more can be done to make sure Government initiatives prioritise the self-employed, helping them to upskill and satisfy their skills demands. The Government should make sure the work of the National Retraining Scheme and the Digital Skills Partnership prioritises the self-employed.

Increasingly there is a blurred line between existing skills and new skills that are relevant for business growth. The Government should introduce tax relief for training courses for the self-employed that develop new, not just refresh existing, skills. To further incentivise the self-employed to develop new expertise so that they might improve their chances of success in an increasingly demanding and adapting economy, and bring the rules in line with those that apply to employees.

Previously, in **Northern Ireland**, there was a 50 percent grant support for management and leadership training available from Northern Ireland Executive departments. Given the enhanced value to the wider economy of better trained self-employed, the next Northern Ireland Executive should reinstate this support, which would help drive training and the wider economy.

In **Wales**, the Welsh Government should ensure that training and support services delivered to business are designed with self-employment in mind. As it stands, most provision assumes an employer/employee relationship, which does not reflect the reality for an increasing proportion of the Welsh labour market.

In **Scotland**, some training is available to small business owners, such as that provided by Business Gateway, often by attending multiple training events. However, wider consideration should be given to whether the training needs of small business owners and the self-employed remain unmet, e.g. digital upskilling. Further, FSB has highlighted the need to consider a wider range of funding options suitable for the training needs of smaller businesses, including the self-employed.

¹⁰ FSB, Learning the Ropes: Skills and training in small businesses, 2017.



EQUAL ACCESS TO FINANCE PRODUCTS

One of the biggest challenges the self-employed face is not being able to rely on a secure income. Income volatility is not just a concern for their family finances but can add additional barriers to accessing finance products such as mortgages, bank loans and insurance.

This can often be due to not being able to verify past income or demonstrate a regular future income, with lenders concerned over the ability of borrowers to afford repayments.

Our research shows that 21% of self-employed have struggled to access a mortgage while 48% of self-employed feel they have poor access to credit. 14% have experienced problems trying to get a business loan and 13% have experienced problems applying for a personal loan¹¹.

The Government, and the FCA should bring together industry leaders to address barriers that prevent many of self-employed from accessing mortgages. It should explore the feasibility of more flexible mortgage repayment terms for the self-employed and the possibility of lenders taking into account a wider range of business assets (including stock and outstanding future revenue) where self-employed mortgage applicants are unable to demonstrate sufficient proof of regular income.

¹¹ FSB, Going it Alone Moving on Up: Supporting Self-Employment in the UK, 2016.



LOCAL SUPPORT TO SET-UP AND GROW

The self-employed value support not only to set up but also to grow their business. Our research showed that relatively few have accessed government-backed business support schemes, and only 16 per cent have undertaken training to help them run their business¹².

One reason for this includes a lack of visibility of the schemes available, resulting in part from the complexity of the business support landscape with overlapping and competing schemes both at national and local level. The needs of the self-employed should be a priority for business support schemes at all tiers of governance.

Local Enterprise Partnerships (LEPs) in England have to create strategic economic plans for growth. Currently the Government ONS full business population statistics are not available at LEP level, which means that data given to each LEP for businesses within its boundaries is limited to those who pay VAT or who use PAYE systems to pay staff. This excludes many micro businesses, sole traders and the self-employed. To improve the provision of support to the self-employed the Government should provide the full business population statistics at a LEP level.

In **Northern Ireland**, there are various business support schemes to assist firms, including the NI Business Start-up scheme which is administered by local councils and assists with business planning, and the 'Go for Growth' programme which is run by the enterprise agency, Invest NI, and helps with exporting and expansion. However, for the self-employed it can be difficult to navigate the right kind of business support, which is why we have asked for the establishment of a 'one stop shop' for business support and advice.

Business support services in **Wales** are generally focused on the creation of new jobs. This could disadvantage the self-employed in gaining access to support, and also means much of the available provision is in areas that are not relevant to the self-employed. Welsh Government, alongside its partners Business Wales and Banc (The Development Bank of Wales) should consider ways in which the self-employed have different needs and priorities to other sectors of business.

Scotland provides a broad range of business start-up and growth services through the Business Gateway model however too many competing programmes from public bodies can make it hard for businesses to know where to turn to for help. The strength of a diverse economy and the contribution made by self-employed people and their businesses to a local economy is often overlooked. Therefore, agencies and local authorities should consider more carefully how a broader range of business owners can be brought into discussions about their local economy and the support offered to businesses.

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