



From: **Name Redacted**  
 Teams: Personal Tax & TASR  
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### Design and delivery of a Self-Employed (Income) Support Scheme

1. You have indicated that you would like officials to continue working up a scheme to support the self-employed during the Coronavirus outbreak. Whilst we have drawn on the design of the Coronavirus Job Retention Scheme, the rationale for helping the self-employed is different, and self-employed income is more complex, and would require a different solution. The CJRS is intended to allow firms to retain workers through the Coronavirus outbreak. Support for the self-employed is intended to support self-employed individuals with living costs when no other sources of income are available. Most self-employed people are eligible for the SME loan guarantee scheme you announced last week, though you should note that the self-employed typically find it harder to access finance than others. Many will also be entitled to Universal Credit and other changes announced recently, including deferring Income Tax Self-Assessment payments due in June 2020 to January 2021.
2. Unlike the CJRS, which has clear conditionality attached, a scheme for the self-employed will carry significant deadweight and fraud risks, and therefore carries substantial fiscal risks. These will be difficult to mitigate, but we strongly recommend attaching some conditionality to these payments. These could include making the grant conditional on meeting certain conditions through an application process (though you should note these would be very difficult to check or enforce) and restricting eligibility as much as possible.
3. In the meeting today, you gave some steers on the design of this scheme, and our working assumption is that the scheme should have the following features:
  - **Replace income from trading, and partnership income only.** This means that incorporated self-employed will not be able to replace income from dividends that they would have paid to themselves. Only those with taxable trading income are eligible, meaning that those with less than £1,000 of trading annual income are out of scope.
  - **Cover only those with 50% (or 66%) of total income from trading/partnerships would be eligible for the scheme.** This may not reduce costs substantially, but it would remove the need to provide grants to employees with trivial amounts of trading income. HMRC can easily identify taxpayers who meet this criterion.
  - **Use 18/19 tax returns as a reference point.** This would mean that HMRC do not bring in new traders created since the end of the 18/19 tax year. We are not aware of any dataset that can reliably and easily identify traders who have started trading since April 2019. On this basis, there would be 4.1m individuals with trading income who are potentially eligible for the scheme, and 0.9m partners potentially eligible. This would also exclude around 950,000 taxpayers who have not yet filed tax returns for the 18/19 tax year, who could also submit fraudulently high income estimates.
  - **Cover 80% of income, up to a cap.** At present, we are working on the cap being £2,500, but there is an argument for making it lower than the CJRS equivalent, because of (i) the fact that the self-employed have lower average incomes than employees and (ii) the fact that lower tax rates are applied to self-employed income than to employee income.
  - **An upper limit on eligibility.** You could design the scheme so that only those with income under £50,000 (or any other income threshold) would be eligible for it. This would save up to £0.5bn from the overall costs. It would also be possible to limit eligibility to a lower amount.

To constrain costs, and better target the support, we would strongly recommend limiting eligibility to at least £50,000, and you may wish to go further than this.

- **Be calculated on trading income (i.e. turnover), not trading profits.** This means that loss-making traders will be eligible for a grant, and that high-income/low-profit traders are favoured relative to high-income/high-profit traders.
  - **Ideally be a grant, not a loan, but this is dependent on cost.** But you indicated that by making this a grant, you are acknowledging that the self-employed are receiving significant support from the state equivalent to that going to employees, and therefore at a future date, you might increase National Insurance Contributions so that the tax treatment of the self-employed is also equivalent to employees.
  - **Grants should be taxable and means-tested within Universal Credit.** This is the same tax treatment as for the CJRS.
4. There are several design choices still to be made, which are contingent on costings and further work on operational delivery timescales and HMRC capacity. These are:
- **When would you like the scheme to come into effect?** This is potentially a very expensive measure. From a public finances perspective, it would be better if payments were made in May/June, rather than April. This could also align with delivery timescales for HMRC, to sequence the IT build and grant payments to follow work on the CJRS. The fiscal impacts in a single month are even more significant if 3 months of grant goes out in a single month, which may also constrain this measure. We are working closely with fiscal leads to understand the financing requirements for this measure.
  - **Should we make the grants conditional on certain criteria?** We think there is a strong case for making the grant conditional on meeting certain conditions given the considerable deadweight and fraud risks and overall costs associated with an automatic or blanket approach. This will require HMRC to build an application or opt-in process, through a new online portal and verification process. A claims process could require applications to check a box that confirms their trading income has been impacted by Covid-19, and also ask them to confirm whether they have accessed other schemes such as the loans guarantee; though you should note these would be very difficult to check or enforce. We are doing further rapid work on the cost, impacts and timelines for delivering this.
  - **Should the award be based on 18/19 tax returns, or an average of 16/17 to 18/19?** Similar schemes (e.g. the Norwegian equivalent) have used an average of previous tax years. Averaging out would arguably be fairer to traders who had an unusually low-income 18/19. We would design the averaging so that individuals must still have some trading/partnership income in 18/19 to be eligible for the grant. Averaging may cost more or less than just basing on 18/19 returns. It would also be more complex and therefore take longer to set up and for HMRC to deliver – we are doing rapid work on timelines.
  - **A one-off or monthly payment for 3 months.** A monthly payment would be better from a public finances perspective, and to mitigate interactions with monthly awards in Universal Credit. However, this would be extremely resource intensive if you proceed with an automated process, as it would require 60-65% payments to be made via cheque in the post – so this is only a viable option if the claims process could collect bank account details so that all grants are paid via electronic transfer.

#### Costings

5. A grant for one month, based on providing 80% of monthly trading and partnership income, up to a cap of £2,500, would cost approximately £4.5bn per month. This effectively assumes full take-up within the eligible population. This costing before we attach further eligibility criteria, including restricting to those with 50% (or 66%) of total income from trading/partnerships, an income limit, or an opt-in claims process. Income tax and NICs are liable on these payments;

these are not yet deducted from the £4.5bn cost. Given the size of this subsidy, we would expect significant indirect effects.

6. Unfortunately, we are not able to cost the impacts of more detailed eligibility criteria, or greater restrictions on eligibility, today. We will update you on the impacts of these options tomorrow.

**Taxpayer populations**

7. HMRC has very thorough data for self-employed and partnerships trading in the tax year 18/19 (and for previous years) through self-assessment but does not yet have much data relating to taxpayers in self-employment in 19/20. HMRC cannot reliably identify these before taxpayers are required to notify HMRC of new business income for the 19/20 tax year (on 5 October 2020) – and we are not aware of another dataset that comprehensively and easily identifies them.
8. You indicated you were inclined to base eligibility on who has self-employed or partnership income in 18/19. We would need to base this on the position as HMRC understands it on the day of the announcement, to prevent speculative or fraudulent attempts to inflate 18/19 income. This approach will also omit around 950,000 of the population who have not yet submitted their tax return for 2018-19. This is in line with the average number of people who have not submitted tax returns by this stage of the year and will draw the line plenty of time after the filing deadline, which was on 31 January 2020.
9. It will also omit everyone who has started a self-employed trade in the 19/20 tax year. You could look to include these taxpayers through an expanded application process (see section on delivery below), but you would have to accept a very significant risk of fraud and organised criminal attack (much higher than any of the other approaches we discuss in this note). Even without these more difficult populations, there is an appreciable risk of non-compliance and/or fraud. The more taxpayers brought into scope beyond what HMRC can easily extract from the 18/19 data it already has, the more it will cost HMRC to implement.

**Delivering the scheme**

10. We discussed two delivery questions in our meeting with you: (i) whether HMRC should issue payments automatically to those who were eligible, based on the data it already holds, or whether we should ask taxpayers to go through a light-touch payment process; (ii) whether to make the payment via bank transfer or cheques in the post (payable orders). On the first:
  - a. **Automatic payments** are the simplest and quickest mechanism for HMRC to get money to the target population. HMRC already holds the relevant data and could make the determinations and calculations automatically. However, this maximises the reach of the measure into the target population and means the fiscal cost of this policy is not reduced by people unaffected by coronavirus choosing not to receive the grant.
  - b. **An application process** is the alternative. This would require a small additional burden on taxpayers to fill out a form and for HMRC to design it and check what taxpayers had filled in against existing records. In practice, HMRC would not require much additional data so it could be very light touch. It could require the taxpayer to confirm their business income has suffered impairment because of Coronavirus, to dissuade the most compliant self-employed taxpayers unaffected by Coronavirus from applying, reducing overall fiscal outlay. It would be very hard for HMRC to go back and check after the fact, so the main effect would be behavioural. There would also be a risk of fraud, although as long as it was restricted to people who were registered for tax in 18/19 or earlier years, HMRC could mitigate this risk

by checking against their records. Introducing this for self-employed people who do not have tax records would very significantly increase the fraud risk.

11. If you were minded to pursue this option, we would recommend creating a form on GOV.UK. Due to capacity in HMRC's IT delivery teams, we would also recommend delivery of this is sequenced until the Coronavirus Jobs Retention Scheme is set up, which will also give HMRC time to work through issues relating to the digitally excluded and further develop the compliance approach. In practice, this could mean starting the IT build in May and delivering the grants in June or July, but we will revert with further advice on this.
12. You should also consider the payment process HMRC could use. HMRC would prefer to pay taxpayers the grant directly to their bank account. This limits the amount of paper processing, and avoids taxpayers physically attending banks to cash postal orders (the alternative form of delivering money). But HMRC do not have up to date bank details for all the self-employment population, having bank details for slightly over 35% of taxpayers in this population, with a further 10% indicating a nominee to pay receive monies on their behalf (e.g. their accountant). Allowing the use of nominees increases the risk of fraud and exploitation by organised crime groups, so we would want to avoid paying money to these accounts.
13. Using an application process provides an opportunity for HMRC to pay a greater number of people with bank details (as well as building HMRC's data for the future too) – filling out bank details can be made a requirement of securing the grant.
14. Within the time available, we are **unable to build in strong protections against fraud** in the policy design. This approach, especially if it involves an application, it will be vulnerable and attractive to fraud and criminal attack by organised crime groups. There will be significant scope for fraud, criminal attack, and other forms of non-compliance (such as error). We will explore how we can build in counter-fraud measures, including how we can use compliance checks after the payment out to reduce risks. You may want to use any public messaging to emphasise that the government will be vigilant and act against any abuse.
15. We also need to think through issues around **digitally excluded taxpayers** – not all self-employed taxpayers will be able to use an online form. Adopting a non-digital process alongside the digital process will increase costs to HMRC.
16. **We will provide further information on this next week, but it would be helpful to get an early steer on whether you are attracted to faster delivery, or an application process to enable conditionality, reduce take-up and cost.**

#### Hard cases

17. We have been considering the potential hard cases in this scheme:
  - **Individuals who have started trading after 18/19 or not submitted their tax returns for 18-19:** We have not identified a way to include these people without opening the scheme up to serious fraud.
  - **Self-employed individuals who have incorporated:** Self-employed individuals who have incorporated (work through a personal service company) will report most of their income via company tax returns and will not be in the ITSA population.
  - Some individuals who are employees of their own company and furlough themselves may be able to benefit from the wage subsidy scheme if they have paid themselves a salary. However, most individuals will only pay themselves a small salary up to the NICs primary

threshold (taking the rest as dividends), so the benefit would be limited compared to their actual income.

- PSCs may also benefit from available business loan schemes. However, overall this group may receive less generous provision than self-employed individuals doing the same work, who have not incorporated. This will be seen as unfair.
- Not all PSC would be 'disguised employees' under the off-payroll working rules. We estimate that only around 1/3 of PSCs in the private sector would be deemed 'inside IR35'.

**Potential lines for an announcement tomorrow**

18. We have drafted some options for what you could say in a statement tomorrow. The lines will depend on a) whether you have made a decision to proceed with the scheme and b) whether you want to indicate that you will consider future reform of NICs. The lines are currently drafted based on a grant scheme but could be adapted if you want to leave the possibility of a loan scheme open.

*"We have already strengthened the safety net for self-employed people, by suspending the minimum income floor for everyone affected by the economic impacts of coronavirus.*

*That means every self-employed person can now access, in full, Universal Credit at a rate equivalent to Statutory Sick Pay for employees.*

*And to support the self-employed through the tax system, the next self-assessment payments will be deferred until January 2021.*

*However, I recognise that self-employed people, who are a vital part of our economy but have seen their income fall, will still be worried about how they can meet their financial obligations and support themselves and their families."*

19. You could stop here and say that you will consider whether further support is needed, or you could go further and indicate that you are considering the scheme without committing to it. However, we think this is only presentationally feasible if you indicate that you would increase support through other channels.

***Floating further support but not committing to it:*** *"I am currently assessing whether it would be possible to support the self-employed in a similar way to the coronavirus job retention scheme for employees. However, finding a fair way to do this is not straightforward. Most employees have only one employer, who makes the decisions about how and when they work. On the other hand, the self-employed are able to generate income in different ways, have access to different channels of support and pay lower taxes. This means other ways of supporting the self-employed may be better at ensuring the right level of support reaches those who need it, in a way that is fair to all taxpayers.*

20. If you want to announce the scheme, you could make a high-level commitment and say that you will provide full details in due course.

***Commitment to future scheme:*** *"I will therefore introduce a scheme to compensate the self-employed for part of their lost earnings, in a similar way to the coronavirus job retention scheme for employees. This is not a straightforward scheme to design, and we are working through the details as quickly as possible. The Government will announce details and eligibility conditions as soon as we can."*

21. If you want to recoup part of the cost later, through either clawbacks or NICs reform, you may want to signal this now to manage expectations early. [for either options] You could link this to the need to support vital public services.

***Messaging about future contributions/NICs reform:*** “In recent years, successive Conservative-led governments have increased the self-employed’s access to contributory benefits, including access to the same State Pension as employees, [for NICs reform: while at the same time self-employed NICs have remained lower than employees] [for clawback/to leave options open: while at the same time the self-employed continue to contribute less in tax than employees].

*It is right that at this unprecedented time the Government supports the self-employed through [this new scheme]. But it is also right that we consider the contribution the self-employed should make in the future in return, to support the vital public services that are essential in helping us through this pandemic.”*

22. Alternatively, you could start laying the ground for increased future contributions in a more subtle way, by making more of the argument that the self-employed contribute less in tax when explaining why it is so important to make sure that the scheme is designed fairly.