IPR Policy Brief
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Going it alone

Experiences of self-employed Universal Credit claimants

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Self-employed people represent an important subgroup of claimants, but little is known about their experiences on Universal Credit.

When UC is fully rolled out in 2026, the proportion of claims with a self-employed earner is expected to reach around one in ten, equivalent to around 700,000 households. Self-employed people (and their partners, if UC is claimed jointly) therefore represent an important subgroup of claimants. However, there is limited evidence about their experiences on UC.

To help fill the gap, this policy brief draws on telephone and face-to-face interviews relating to 16 Universal Credit (UC) claimants who had earnings from self-employment, and/or had a partner who did, during research undertaken for two qualitative longitudinal studies conducted between 2018 and 2024.[1]

Our main report, *Going it alone: The experiences of self-employed Universal Credit claimants*, sets out our full research findings.

1 The first study (ES/R004811/1), funded by the Economic and Social Research Council (ESRC), explored the experiences of couples with a joint claim for UC. See: Couples balancing work, money and care: Exploring the shifting landscape under Universal Credit. The second study, funded by abrdn Financial Fairness Trust (FFT), explored working claimants' experiences of monthly assessment and means-testing in UC. See: Coping and hoping: Navigating the ups and downs of monthly assessment in Universal Credit.

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UC regulations for self-employed people are quite different from those which apply to claimants who are employed

Exploring the experiences of UC claimants who 'work for themselves' – whether as sole traders, owners of small businesses, freelancers, franchisees, 'gig economy' workers, main contractors or sub-contractors – is important because UC regulations for self-employed people are quite different from those which apply to claimants who are employed. Eligibility criteria and conditionality rules are also much stricter than those which formerly applied to recipients of working tax credit (WTC).

In addition to the general rules and regulations which apply to all claimants, self-employed people on UC are subject to a specific set of policies and conditions. A rigorous test must be passed to prove that the self-employment is 'gainful'. Earnings – against which UC entitlement is assessed – are calculated monthly, using income and expenses reported by claimants online, on a 'cash in-cash out' basis, according to the Department for Work and Pensions' allowable expense rules (different from those of HM Revenue and Customs), and to strict monthly deadlines. WTC, by contrast, was assessed annually using HM Revenue and Customs self-assessment rules.

After a 12-month start-up period, most self-employed claimants are required to reach a minimum income floor (MIF) earnings threshold. The MIF is an assumed level of net income equivalent, for most claimants,[2] to working around 35 hours per week at the National Living Wage (NLW) – or National Minimum Wage (NMW), depending on a claimant's age – less a notional deduction for tax and national insurance.[3] No deduction is allowed from the MIF for any pension contributions. If a claimant earns less than the MIF in any assessment period, the MIF is used in place of actual earnings, resulting in a lower UC payment than would otherwise have been the case. On the other hand, those making good profits who are deemed to have 'surplus earnings' can forfeit their entire UC payment until the 'surplus' is expended.

Who did we interview and what kind of self-employment were they engaged in?

To investigate how claimants are experiencing and responding to these policies, we drew on interviews with 16 UC claimants who had earnings

2 At the time of writing, claimants assessed as having limited capability for work (LCW) and limited capability for work-related activity (LCWRA) were exempt from the MIF, together with other claimants not in the 'all-work conditionality' group.

3 The notional tax and NI calculation is based on the amount that would normally be payable if the individual had actually earned income at their MIF level. For example, if the gross individual monthly earnings threshold is £1,851.85, the net MIF would be £1,642.72 (information supplied by the DWP).

from self-employment, and/or had a partner who did. Eight were men and eight were women. The oldest was 54 and the youngest was 25. Eleven lived in England, two lived in Scotland and three lived in Wales. At the start of the research, ten claimants were in couples with dependent children, two were in couples without dependent children, two were lone parents and two were single claimants. Four combined self-employment with paid employment and in three couples, both partners had earnings from self-employment.

The 16 claimants were working as a travel agent, cleaner, utility adviser, plumber, stone mason, music therapist, gift shop owner, delivery driver (2), trainer and pet-sitter, basket-weaver, upholsterer, roofer, writer and childminder (2).

Key findings

Most claimants had become self-employed to allow them to better manage health conditions, or to enable them to juggle work with caring responsibilities

Most claimants in this research had become self-employed to allow them to work more flexibly, often part-time, or from home, to better manage health conditions, or to enable them to juggle work with caring responsibilities. Those with health problems saw self-employment as an alternative to jobs they were no longer able to do, or as a means of easing themselves back into the world of work in a way that was more manageable and flexible than working for an employer would be. For mothers with pre-school-aged children, self-employment offered the possibility of earning a modest income without having to arrange and pay for childcare.

Month-to-month fluctuations in income were challenging to manage

Regardless of their personal circumstances or the type of business, for most participants in this research, being self-employed while on UC was a challenge. Month-to-month fluctuations in earnings were common, giving rise to significant volatility in the UC payment. A widespread view was that monthly assessment rules failed to take account of the reality of running a business, in which income and expenditure naturally oscillate throughout the year.

Self-employment advice and support from work coaches was perceived to be mainly poor

While some work coaches were said to be supportive, others lacked knowledge of UC rules and of self-employment more generally. A frequent observation was that work coaches failed to fully understand the demands and complexities of setting up and running a small business. Most claimants felt they would have benefitted from more tailored support from a specialist self-employment adviser.

Imposition of the MIF after 12 months caused income insecurity and financial difficulties

For claimants no longer in the start-up period, the biggest challenge was the MIF. In quiet trading months, earnings would often dip below the MIF, while in months of higher takings, they might exceed the threshold of entitlement for UC – in both cases, potentially resulting in a low or nil UC payment. Assessment in arrears meant that a lull in business might coincide with a reduced or nil UC payment, potentially leaving claimants with little or no monthly income. The MIF was also seen to unfairly disadvantage businesses whose income and expenditure fluctuated significantly throughout the year. Calculating profit monthly could distort assessments of gainful self-employment, giving the false impression that viable businesses were loss-making.

Surplus earnings rules could 'penalise success'

On the other hand, by reducing UC payments to nil, sometimes for successive months, surplus earnings rules were seen to penalise success. Profits that might otherwise be reinvested would need to be spent on essential living expenses, stifling innovation and growth and potentially undermining longer-term business sustainability.

Experiences of reporting income and expenditure monthly were mixed

Once they had got into the routine of monthly reporting, many people found collating and submitting their business accounts monthly to the UC online system relatively easy to comply with, while also being useful for the purposes of HMRC's self-assessment process. However, claimants whose monthly assessment periods were out of kilter with calendar months could find the requirements more onerous. Lack of alignment between DWP and HMRC self-employment rules, for example, in terms of allowable business expenses, and between UC and council tax reduction schemes, could also be time-consuming, adding to the administrative burden.

Tax credits were seen as fairer, easier to budget and simpler to manage than monthly assessment in UC

By averaging out self-employed earnings through the year, annual assessment under working tax credit (WTC) was seen to work much better. With payments fixed for a year, claimants with prior experience of WTC felt that this reliable monthly top-up helped them to better manage their cash flow, counterbalancing seasonal fluctuations in business outgoings and income. Not only fairer and administratively simpler, annual assessment was seen to be much less intrusive. Indeed, for some, the monthly monitoring and scrutiny that self-employment under UC brings was its biggest drawback – not only burdensome for claimants but also time-consuming for work coaches.

How sustainable was self-employment?

Just under half (seven out of 16) of those who were self-employed at the start of the research were still self-employed at the time of their final interview, between approximately 18 months and three years later. However, three of the seven were supplementing self-employed earnings with income from employment and one was not subject to self-employment conditionality rules to due having limited capability for work (LCW). Only one participant was earning enough to allow him to leave UC, but he, too, had a part-time job. The other six all relied on the UC claim, albeit with intermittent and variable payments, to keep their self-employment activities on a viable footing.

Of the nine claimants who were no longer self-employed, three were in paid employment and three were unemployed jobseekers. The remaining three were economically inactive and in receipt of Personal Independence Payment and/or the health and/or carer-related element of UC, due to their own, or a partner's, disability or serious ill-health.

Recommendations

Introduce more tailored support for self-employed UC claimants

Consideration should be given to having specialist, even dedicated, work coaches to support claimants who are self-employed, or aspire to be. The feasibility of re-introducing some form of externally delivered business support or mentoring scheme, offering tailored help to claimants whose businesses have the potential to grow, should also be explored.

Extend the 12-month start-up period

The imposition of the minimum income floor after only 12 months may risk undermining the viability of potentially profitable businesses before they have had a chance to establish themselves. Two years' exemption would be a fairer and more realistic timeframe.

Reform the Minimum Income Floor

An alternative or additional option would be to introduce a taper to the MIF at the end of year one, rising to the full amount at the end of any extended start-up period. Pension contributions made by self-employed claimants should also be deductible from income below the MIF.

Allow work coaches greater flexibility and discretion

A lighter touch needs to be exercised by work coaches, and more support offered, when dealing with customers who may be struggling to achieve the MIF. Work coaches should also be given greater discretion over whether or not the MIF should be applied to a particular claimant in any particular assessment period. This would help ease the difficulties experienced by people with reduced earnings capacity due to ill-health and businesses affected by seasonality and volatile patterns of income and expenditure. Specialist training would need to underpin greater discretion and flexibility for work coaches.

Introduce further easements for people with disabilities and health conditions

The need for greater flexibility will become increasingly important due to the Government's proposed reforms to the health-related aspects of UC and Personal Independence Payment (PIP).[4] Self-employed claimants assessed as having limited capability for work (LCW) or limited capability for work-related activity (LCWRA) are currently exempt from the MIF. However, with the proposed scrapping of the UC work capability assessment, potential changes to the health-related elements of UC and likely reforms to PIP eligibility and assessment, UC self-employment support and conditionality rules will need to be adjusted accordingly. Many claimants choose self-employment precisely because they have a disability or health condition which limits their ability to work full-time or in a mainstream job. Even low-remunerated self-employment is to be preferred if the alternative is that such claimants remain unemployed or economically inactive.

Reduce the administrative burden on self-employed claimants

Closer alignment is needed between DWP and HMRC rules in terms of allowable business expenses and what counts as income. Greater consistency in administrative rules for self-employed people is similarly needed between UC and council tax reduction (CTR) schemes.

Aligning UC's reporting rules with those of HMRC by lengthening the reporting period from a monthly to a quarterly basis would also help, particularly as 'Making Tax Digital' is progressively rolled out.[5] However, the frequency of reporting in UC is unavoidably tied to monthly assessment. The feasibility of averaging out self-employed earnings over a longer timeframe should therefore be explored as part of the DWP's review of UC.

4 At the time of writing, the precise nature of changes to PIP assessment and eligibility and to the health-related element of Universal Credit were still being debated in Parliament.

5 Making Tax Digital for Income Tax Self Assessment is progressively mandating certain businesses with qualifying levels of annual income to maintain digital records and to submit quarterly returns to HMRC using compatible software. See: HM Revenue and Customs (2025). Making Tax Digital for Income Tax for individuals: step by step.

Improve DWP self-employment statistics

Official UC statistics do not currently provide a breakdown of the number of claims or claimants with earnings from self-employment. This needs to be addressed. Other useful statistics would include the number of claimants classed as gainfully self-employed (GSE), the number in the start-up period and the number who are subject to the MIF and surplus earnings rules each month. A measure of sustainability would help to assess the effectiveness of UC self-employment policies.

Conduct further research into the longer-term experiences and outcomes of self-employed UC claimants

Evidence from this research provides useful insights into the way in which UC self-employment policies are being experienced and responded to by claimants. However, the sample size of 16 claimants was small. Using larger sample sizes, further research is needed to investigate claimants' longer-term experiences and outcomes and to assess the effectiveness of policies designed to encourage increased earnings, such as the MIF. Self-employed claimants working in specific occupational sectors which experience significant income volatility, such as farming and the cultural industries, warrant separate scrutiny.

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