

Going it alone: Experiences of self-employed Universal Credit claimants

IPR Report

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abrdn Financial Fairness Trust

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Summary

Self-employed people represent an important subgroup of claimants, but little is known about their experiences on Universal Credit. To help fill the gap, findings in this report, summarised here, draw 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

UC rules are different for self-employed claimants

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. This matters because the regulations which apply to UC claimants who ‘work for themselves’ – whether as sole traders, owners of small businesses, freelancers, franchisees, ‘gig economy’ workers, main contractors or sub-contractors – 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, based on 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 HMRC 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

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: <https://www.bath.ac.uk/projects/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: Griffiths, R. and Wood, M. (2024). Coping and hoping: Navigating the ups and downs of monthly assessment in Universal Credit. <https://www.bath.ac.uk/publications/coping-and-hoping-navigating-the-ups-and-downs-of-monthly-assessment-in-universal-credit/>

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 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

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 £1851.85, the net MIF would be £1,642.72 (information supplied by the DWP).

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 (MIF)

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 discretion and flexibility

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

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.

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.

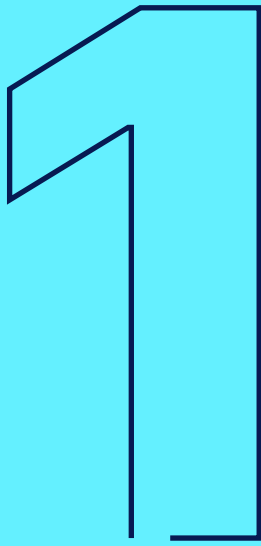
Improve DWP self-employment statistics

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.

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. <https://www.gov.uk/government/collections/making-tax-digital-for-income-tax-for-businesses-step-by-step>



Introduction

Introduction

Self-employment and Universal Credit

Approximately 13 per cent of UK workers – around 4.4 million people – are currently classified as self-employed, with most working in the construction and building trades, transport and logistics, agriculture and cultural industries.⁶ Although their numbers have fallen post-Covid,⁷ historically, there has been a steady increase in self-employment, with a doubling of its prevalence during the past 40 years.⁸ Driven almost exclusively by an increase in solo employment, rising levels of self-employment accounted for around of a third of all the growth seen in UK employment since 2010.⁹ Contrary to public perception, self-employed people generally earn less and are much more likely to have low incomes, on average, than employed people.¹⁰ Indeed, becoming self-employed after a period of unemployment, illness or economic inactivity has become increasingly common.¹¹ The role and effectiveness of the welfare system in helping to support low-earning self-employed people is therefore of growing policy interest.

Universal Credit (UC) is the UK's main working-age benefit for low-income people who are out of work and in work, including those who are self-employed. As of March 2025, 7.6 million people were claiming UC, the highest level since its introduction in 2013.¹² There are no official Department for Work and Pensions (DWP) statistics in the public domain for the number or proportion of UC claimants who are self-employed. However, a response to a Parliamentary Question in 2023 indicated that of the approximate six million people on UC at that time, around 565,000 were classified as living in a household with one or more self-employed claimants.¹³ A further 235,000 households on tax credits received some income from self-employment.¹⁴ This compares with 675,000 tax credit

⁶ Francis-Devine, B. and Powell, A. (2025). UK labour market statistics. House of Commons Library: London, UK. p.9. <https://researchbriefings.files.parliament.uk/documents/CBP-9366/CBP-9366.pdf>

⁷ Office for National Statistics (2022). Understanding changes in self-employment in the UK: January 2019 to March 2022. <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/understandingchangesinselfemploymentintheuk/january2019tomarch2022#main-points>

⁸ In 1975, one in twelve workers was self-employed. By 2019, this had increased to one in seven. See: Giupponi, G. and Xu, X. (2020). What does the rise of self-employment tell us about the UK labour market? Institute of Fiscal Studies. p.5. https://ifs.org.uk/sites/default/files/output_url_files/BN-What-does-the-rise-of-self-employment-tell-us-about-the-UK-labour-market-1.pdf

⁹ As above.

¹⁰ As above.

¹¹ As above.

¹² Department for Work and Pensions (2025). Universal Credit statistics, 29 April 2013 to 10 April 2025. <https://www.gov.uk/government/statistics/universal-credit-statistics-29-april-2013-to-10-april-2025>

¹³ Ashworth, J. (2023). 'Universal Credit: Self-employed', UIN 185575, 17 May 2023. <https://questions-statements.parliament.uk/written-questions/detail/2023-05-17/185575>

¹⁴ Horne, S. (2014). Universal Credit and the Self Employed. <https://www.rsnonline.org.uk/images/meetings/rsn-agms/17-03-14EGM/Attach%20D%20Universal%20Credit.pdf>

claimants whose main occupation was self-employment in 2010/11, prior to the introduction of UC.¹⁵ As the remaining group of people claiming legacy benefits and tax credits are migrated across to UC, by 2026, when the benefit is fully rolled out, the proportion of claims with one or more self-employed earner(s) is expected to reach around one in ten, equivalent to upwards of 700,000 households.¹⁶

Self-employed people (and their partners, if UC is jointly claimed) thus represent an important subgroup of UC claimants. However, there is limited evidence about their experiences. Much of what we know has been garnered from research conducted with self-employed claimants of working tax credit (WTC) and during a much earlier phase of the UC roll-out. This matters because the regulations and policies regarding people who ‘work for themselves’ – whether as sole traders, owners of small businesses, freelancers, franchisees, gig economy workers, main contractors, sub-contractors, or company directors – are, in many respects, quite different from those which formerly applied to WTC claimants and currently applies to UC claimants in employment. Compared to WTC, people on UC must pass a much stricter test to prove that their self-employment is ‘gainful’. They are also required to report their trading income, expenditure and profits monthly, rather than annually, as was the case under tax credits.

Another significant difference under UC is that an assumed level of net earnings, known as the minimum income floor (MIF), acts as a monthly earnings baseline in UC payment calculations after a 12-month start-up period has elapsed. The MIF treats most self-employed people as though they are working at least 35 hours per week at the National Living Wage (NLW). If a claimant earns more than the MIF in any assessment period, then UC entitlement is calculated using their actual income. If they earn less than the MIF, then the MIF is used in place of income, even if actual earnings are in fact much lower.¹⁷ Employed UC claimants, in contrast, are assessed for UC on the basis of their actual monthly earnings, as reported to HM Revenue and Customs (HMRC) real time information (RTI) system.

In this changed policy context, the experiences of UC claimants with self-employed earnings are likely to be different from those both of former WTC recipients and of paid employees.

¹⁵ Sainsbury, R. and Corden, A. (2013). Self-employment, tax credits and the move to Universal Credit. Department for Work and Pensions. <https://www.york.ac.uk/inst/spru/pubs/pdf/rrep829.pdf>

¹⁶ Office for Budget Responsibility (2018). Welfare trends report. https://obr.uk/docs/dlm_uploads/WelfareTrends2018cm9562.pdf

¹⁷ The MIF is explored in greater detail on page 17.

What do we know about self-employed Universal Credit claimants?

A DWP-commissioned study in 2018 that explored self-employed UC claimants' grasp of the rules, including the MIF, found that they generally understood how UC worked, including what would happen to their payment if they earned above the MIF.¹⁸ However, there was more uncertainty and concern expressed about the consequences of earning below the MIF, or if earnings fluctuated. Further DWP research in 2021 sought to find out how self-employed WTC claimants felt about the support they might get under UC compared with WTC.¹⁹ Few reported any difficulties with the design of tax credits or with HMRC's management of their claim. As such, there were few perceived benefits associated with moving onto Universal Credit.

A large-scale two-wave telephone survey of around 5,000 self-employed UC claimants in 2020²⁰ and 2021,²¹ followed up with in-depth interviews, found respondents to be more optimistic about UC. However, much of the research was conducted during and in the immediate aftermath of the Covid-19 pandemic, when conditionality rules were temporarily suspended and key policies, including 'gateway' interviews for evidencing gainful self-employment (GSE) and the MIF, were paused.²² There has been no DWP-commissioned research conducted since the GSE rules and the MIF were reinstated in September 2022.

Some small-scale, sector-specific research has also been carried out exploring the experience of UC claimants working in industries with atypical work patterns and volatile earnings. An Equity study of workers in the creative and cultural industries found that the MIF was driving serious

¹⁸ Department for Work and Pensions (2024). Exploratory qualitative research into the early experiences of the Minimum Income Floor (MIF). <https://www.gov.uk/government/publications/exploratory-qualitative-research-into-the-early-experiences-of-the-minimum-income-floor-mif/exploratory-qualitative-research-into-the-early-experiences-of-the-minimum-income-floor-mif#key-findings>

¹⁹ Shaw, A., Jacobs, G., Cooper, T. and Shutter, H. (2024). Self-employed tax credit claimants research. <https://assets.publishing.service.gov.uk/media/66fbb986c71e42688b65ef10/self-employed-tax-credit-research-phase-1.pdf>

²⁰ Department for Work and Pensions (2024). Research with self-employed Universal Credit claimants: Wave 1. <https://www.gov.uk/government/publications/research-with-self-employed-universal-credit-claimants/research-with-self-employed-universal-credit-claimants-wave-1#introduction-and-methodology>

²¹ Department for Work and Pensions (2024). Research with self-employed Universal Credit claimants: Wave 2. <https://www.gov.uk/government/publications/research-with-self-employed-universal-credit-claimants/research-with-self-employed-universal-credit-claimants-wave-2#introduction-and-methodology>

²² To support self-employed universal credit claimants during the Covid-19 pandemic, in March 2020, the Government introduced a temporary suspension of the minimum income floor (MIF), removed the requirement for gainful self-employment (GSE) tests and paused start-up periods. These easements ended on 31 July 2021. Davies, M. (2021). Minimum income floor, Universal Credit gainful self-employment tests and start-up periods. Hansard: House of Commons, 698, 8 July 2021. <https://hansard.parliament.uk/commons/2021-07-08/debates/21070836000022/MinimumIncomeFloorUniversalCreditGainfulSelf-EmploymentTestsAndStart-UpPeriods>

financial hardship.²³ Highlighting the difficulties faced by farming families migrated from tax credits onto UC, the National Farmers' Union (NFU) has been lobbying Government to change self-employment rules.²⁴ Unlike tax credits, they say, UC does not take account of the seasonal and highly volatile nature of farm business income and expenditure throughout the agricultural year. Overall, however, the evidence base is poor and significant gaps exist both in terms of our understanding of the general experience of self-employed UC claimants, and of specific subgroups operating in different occupational sectors.

Our previous qualitative, longitudinal research

To help fill the evidence gap, this report synthesises findings from two qualitative longitudinal research studies conducted between 2018 and 2024, both of which included a sample of self-employed UC claimants. Funded by the Economic and Social Research Council ([ES/R004811/1](#)), the first study explored the experiences of couples with a joint claim for Universal Credit.²⁵ The second study, funded by [abrdn Financial Fairness Trust](#) (FFT), explored working claimants' experiences of the system of monthly assessment and means-testing in Universal Credit.²⁶

Findings here draw on telephone and face-to-face interviews relating to 16 UC claimants in 13 households,²⁷ from across the two studies, who had earnings from self-employment, and/or had a partner who did at some point during the periods of the research. The sample is small and not necessarily representative of the wider group of self-employed people on UC. Most interviews also took place when participants were still in their start-up period and/or affected by the pausing of self-employment conditionality rules, including the suspension of the MIF, during the Covid-19 pandemic.

23 Ashton, H. (2024). 'Not here to help': Equity members' experiences of Universal Credit and the minimum income floor. <https://www.equity.org.uk/campaigns-policy/policy/universal-credit-report>

24 NFU (2024). Why Universal Credit migration could threaten farming finances. <https://www.nfuonline.com/updates-and-information/universal-credit-changes/>

25 The research comprised two waves of in-depth interviews carried out approximately two years apart, between June 2018 and January 2019. 123 individual and joint face-to-face interviews were carried out with 90 Universal Credit joint claimants in 53 households, in four areas in England and Scotland. See: Griffiths, R., Wood, M., Bennett, F. and Millar, J. (2020). Uncharted territory: Universal Credit, couples and money. <https://www.bath.ac.uk/publications/uncharted-territory-universal-credit-couples-and-money/attachments/Uncharted-Territory-Universal-Credit.pdf> Follow-up interviews were conducted by telephone (due to Covid-19) with 63 participants in 39 households between August and October 2020. See: Griffiths, R., Wood, M., Bennett, F. and Millar, J. (2022). Couples navigating work, care and Universal Credit. https://www.bath.ac.uk/publications/couples-navigating-work-care-and-universal-credit/attachments/Couples_Navigating_Work_Care_and_Universal_Credit.pdf Excerpts from this report have been used in this report.

26 The research tracked monthly income and expenditure from February 2022 – March 2023 in 42 working households with a UC claim. See: Griffiths, R. and Wood, M. (2024). Coping and hoping: Navigating the ups and downs of monthly assessment in Universal Credit. <https://www.bath.ac.uk/publications/coping-and-hoping-navigating-the-ups-and-downs-of-monthly-assessment-in-universal-credit/> Follow up interviews were conducted by telephone between July and September 2024 with six of the 15 claimants who were self-employed or had a self-employed partner.

27 In three households, both partners had experience of self-employment.

However, their experiences, and the issues raised, are useful starting points, providing valuable insights into the ways in which UC policies around self-employment are affecting, and being responded to, by this important but largely neglected group of claimants.

Structure of report

This report is written in three further sections.

Chapter Two traces the development of policy for self-employed people entitled to means-tested support, from working tax credit (WTC) to Universal Credit.

Chapter Three explores the experiences of research participants with self-employed earnings, including their understanding and experiences of and responses to: proving gainful self-employment; self-employment advice and support; the minimum income floor; monthly assessment; and the monthly reporting of income and expenses.

Chapter Four discusses the policy implications of the findings and makes recommendations for reform including how self-employed people can be better supported, particularly in the context of a changing policy environment for UC, including changes to health-related elements and disability benefits.

2

Policy and research context

Policy and research context

Low-earning self-employed people of working age and those with newly established businesses have, for many decades, been able to access specialist advice and support and apply to have their income topped up from the social security system. However, eligibility criteria, entitlements, the type of support on offer and the treatment of self-employed earnings have changed considerably over time. In this section, we trace the evolution of help for low-income self-employed people exploring how policies have evolved from tax credits to Universal Credit.

Self-employment and tax credits

New claims for tax credit are no longer allowed and virtually all residual tax credit claimants have now been moved across to Universal Credit as part of 'Move to UC'. However, it is useful to look back and consider how the regime for self-employed claimants of working tax credit (WTC) differed from that which now applies under UC. For claims prior to April 2015, the definition and test of self-employment was simply that the work was 'remunerative', that is, done for payment, or in expectation of payment. As was the case for claimants in paid employment, eligibility for WTC for self-employed people was based on working a minimum of 16 hours per week, while the amount claimants got depended on household income and circumstances. Once awarded, the four-weekly payment was generally fixed for a year.

From April 2015, a new test of 'qualifying remunerative work' was introduced. Both new and existing WTC claimants were required to demonstrate that the work they did was profitable, or intended to be, as well as 'commercial, regular and organised'.²⁸ If the average hourly profit from self-employment was less than the National Living Wage (NLW), they were required to provide evidence such as business records, a business plan and marketing and promotion materials. Inability to fulfil these criteria could result in a reduction in, or refusal of, WTC.²⁹ The stricter test was intended both to filter out unsustainable businesses generating very low levels of income and to ensure greater consistency in the treatment of self-employment between WTC and UC claimants, which had begun to roll out across the UK from 2013.

When it came to calculating earnings from self-employment, WTC broadly followed HM Revenue and Customs' (HMRC) self-assessment rules. Entitlement was assessed based on the previous year's income

²⁸ <https://www.gov.uk/working-tax-credit>

²⁹ Even if deemed ineligible, any self-employed earnings would nevertheless be taken into account for the purposes of assessment for means-tested benefits.

as submitted in the annual tax return.³⁰ The computation of profits and losses also generally adhered to HMRC accounting conventions used for calculating business profits for income tax purposes.³¹ Newly self-employed applicants with no previous trading figures were requested to provide a realistic estimate of income. Those whose income was too high to qualify for help could apply for a 'protective claim'. Though not yet entitled to receive an award, if a drop in income was experienced later in the year, the claim could be backdated to when they first applied.

Every year in April, after the end of each tax year, a renewal pack would be sent to WTC claimants that finalised the claim for the year ended and, if appropriate, acted as a claim for the new tax year. Given that many self-employed people would not have finalised their accounts or completed their tax return at this time, HMRC rules allowed claimants to complete the form using estimated income. Any under- or over-payment of tax credits was later reconciled and factored into the payment awarded for the following year.

Self-employment and Universal Credit

Universal Credit (UC) rules with regard to self-employed people who have, or intend to have, self-employed income are markedly different compared both with how self-employed people were treated under WTC and compared with UC claimants who are employed or unemployed.

In addition to the general rules and regulations that apply to all UC claimants, those who are self-employed are subject to a specific set of policies and conditions including:

- Meeting a test of gainful self-employment (GSE)
- Exemptions from some aspects of UC conditionality during a 12 month a 'test-trading', 'start-up' or 'grace' period
- The use of an assumed minimum level of earnings, known as the minimum income floor (MIF), in the calculation of entitlement for Universal Credit after the period of grace or test trading
- Monthly self-reporting of trading income and expenses

Not only are these special provisions at variance with eligibility criteria and conditions under WTC, but they also deviate from many HMRC rules and conventions governing the reporting and treatment of business profits for the purposes of income tax assessment.

³⁰ Assessment of tax credits including the level of earnings thresholds changed over time.

³¹ The rules are complicated and different rules apply to the treatment tax relief and trading losses. HMRC are also introducing changes to accounting rules. From the 2024/25 tax year, taxable business profits will be assessed on the profits that arise within the tax year rather than on the profits that end in the tax year.

Gainful self-employment (GSE)³²

Before a UC claimant can be treated as self-employed, they must prove that their self-employment is 'gainful' during a face-to-face 'gateway' interview with a Jobcentre work coach. For the purposes of UC, to be gainfully self-employed, the work that claimants do for themselves must be their main job or main source of income, organised and expected to make a profit.³³ For this, they are required to provide supporting evidence – by showing a business plan, accounts, bank statements, marketing materials, customer or supplier lists, any receipts or invoices for business activities to date and their HMRC unique taxpayer reference (UTR),³⁴ for example. Based on the evidence, the work coach determines if the person fulfils the criteria for gainful self-employment or not.

If GSE designation is granted, this then influences a claimant's conditionality and work- and earnings-related requirements. Where an individual is found to be GSE, they are exempt from work search and work availability requirements because they are treated as 'working enough'. Where claimants have self-employed earnings but are deemed not be gainfully self-employed, these activities may be taken into account in their work conditionality requirements. MIF rules apply to claimants who are deemed GSE and placed in the all-work-related activity group. Those who are in the no work-related requirements group, the work-focused interview group or the work preparation group are not subject to the MIF (see further details about the MIF on page 17).

Test-trading or start-up period

Once a claimant is deemed to be in gainful self-employment, they may be eligible for a 12-month period of start-up or 'test-trading'. The rules around start-up and test-trading periods have changed over time. Initially only UC claimants who were newly self-employed were eligible for a start-up period. However, in September 2020, the rules changed. Whether the person is making a new claim for UC or they are an existing claimant, as long as the minimum income floor has not previously been applied, and as long as they have not had a start-up period in the previous five years, a start-up/test-trading period now applies from the beginning of an assessment period in which the claimant is assessed as being in gainful self-employment. A start-up period can be terminated if the claimant is no longer considered to be in gainful self-employment or no longer taking active steps to increase their earnings.

³² More detailed information about how the DWP determines whether a claimant is in gainful self-employment, together with other definitions and explanation of UC rules, are available here <https://assets.publishing.service.gov.uk/media/670cc991080bdf716392f264/dwp-adm-h4.pdf>

³³ HM Government (2025). Self-employment and Universal Credit. <https://www.gov.uk/self-employment-and-universal-credit>

³⁴ A person who is registered as self-employed with HMRC for self-assessment purposes is not automatically treated as gainfully self-employed for the purposes of UC.

Self-employment advice and support

UC claimants who are GSE receive advice and support from a work coach trained to work with self-employed people. Claimants need to attend quarterly appointments, providing evidence that they remain GSE and are actively working to build their business and increase profits.

Prior to 2022, self-employed UC claimants could be referred to the New Enterprise Allowance (NEA) programme. The NEA was introduced in 2011 and supported unemployed people who wanted to start their own business and move into self-employment. It provided a weekly allowance and other financial help, together with access to a business mentor, during the first year of start-up. UC claimants were eligible to take part but were not entitled to the financial element of the scheme. The NEA ended in January 2022.

Monthly assessment of earnings

Self-employed earnings are calculated monthly for each monthly assessment period by deducting any allowable expenses paid out that month (regardless of the period it covers) from any income received that month – including advance payments for future work, if appropriate. The difference is treated as ‘profit’ or ‘income’, and this is the self-employed earnings figure used for the purposes of assessing UC entitlement. Seasonal fluctuations in income or expenditure are not taken into account. However, the rules do allow claimants to carry forward any unused losses from earlier assessment periods and there is no time limit for this. If earnings are greater than the maximum amount allowed for UC eligibility, this may result in a nil UC payment for that month and potentially subsequent months until this ‘surplus’ is expended (see surplus earnings, page 20).

Minimum Income Floor (MIF)

The MIF is an assumed level of net income equivalent, for most claimants,³⁵ to working around 35 hours per week at the National Living Wage (NLW) (or National Minimum Wage (NMW)), depending on the person’s age group (called the ‘individual earnings threshold’)³⁶, less a notional deduction for tax and national insurance. The MIF only applies to claimants in gainful self-employment in the ‘all work conditionality group’ who generally

³⁵ 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.

³⁶ For an employed person, this is called the conditionality earnings threshold (CET) – the level at which claimants are considered to be ‘working enough’.

have no disabilities, health conditions or caring responsibilities. For most people in the 'all-work conditionality' group, the MIF is broadly based on an expectation of working around 35 hours a week at the National Living Wage (or National Minimum Wage).³⁷ As long as they remain gainfully self-employed and the MIF applies, a claimant is not subject to any further work availability or work search requirements.

The MIF is calculated by multiplying the NLW (or NMW) by the number of hours the claimant is expected to work per week, multiplying by 52 and dividing by 12, less a notional amount deducted to take account of income tax and national insurance. The 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, for a person with an individual gross monthly earnings threshold of £1,851.85,³⁸ the net MIF would be £1,642.72.³⁹

No deduction is allowed from the MIF for any pension contributions. This is because pension contributions are considered to be optional payments, making it difficult to treat them in the same way as tax and NI for MIF purposes.⁴⁰ As a result, pension contributions are not factored in when calculating the MIF. However, pension contributions made by a self-employed person on UC whose self-employed earnings are above the level of the MIF are taken into account as an allowable deduction, in the same way as they are for employed people.

Jobcentre work coaches should take account of individual circumstances when determining the MIF and fewer hours may be allowed if the person meets certain requirements, for example if they have serious health issues or caring responsibilities.⁴¹ The calculation is also intended to be based on a claimants' circumstances and work capability at the time the MIF comes into effect. Regular self-employment reviews by work coaches are used to discuss with the claimant what their MIF will be and if any adjustments are needed at the end of their start-up period.

For claimants assessed as GSE who earn more than their MIF in any assessment period, the UC payment is calculated using their actual earnings.⁴² However, if a person has earned income in any assessment period that amounts to less than their MIF, they are treated as having earned income equal to the MIF, even if their actual earnings are in fact

³⁷ For people aged 21 and over, from 1 April 2025, this equates to gross earnings of around £1,851.85 per monthly assessment period, or around £22,222 gross earnings per annum.

³⁸ Based on working 35 hours per week x £12.21 per hour x 52 divided by 12.

³⁹ Information supplied by the DWP.

⁴⁰ Information supplied by the DWP.

⁴¹ Although of MIF is meant to be tailored to the claimant's individual circumstances, from January 2024, the MIF for lead carers of children aged 3-12 increased from a maximum of 16 or 25 hours up to a maximum of 30 hours per week. This reflects the fact the MIF is meant to be based on what an employed person in similar circumstances is normally expected to earn. https://data.parliament.uk/DepositedPapers/Files/DEP2024-0673/073_Gainfully_SE_lead_carer_youngest_child.pdf

⁴² This includes any employed earnings alongside any profit from self-employment.

much lower. Rules for joint claimants are more complex still.⁴³ Claimants are normally told what their minimum income floor is at their gateway interview or subsequent self-employment appointment with a work coach. A claimant's MIF must be reviewed if their circumstances or expected hours of work change, if they move into a different age band for the NLW/NMW or if there are changes to the amounts, due to annual uprating, for example.

The use of the MIF in place of actual earnings could, in some cases, take household income above the threshold of entitlement for UC, together with those for passported benefits and other means-tested help. For example, receipt of a nil payment of Universal Credit due to the application of the MIF during any of the qualifying periods for the Government's Cost of Living payments would have rendered such claimants as ineligible. A nil UC payment due to application of the MIF would also generally result in the loss of entitlement for council tax reduction that month.

There are a number of important exemptions to the minimum income floor (MIF). As noted above, claimants who are deemed to be gainfully self-employed, and were already self-employed when first claiming Universal Credit, are exempt from the MIF for 12 months from the date of the claim. Those who become self-employed after starting their UC claim are exempt for 12 months from the date they started being gainfully self-employed. Self-employed claimants moved over to UC from legacy benefits as part of the DWP's managed migration process are also exempt from the MIF for 12 months.

Because they are not in the all-work-related activities conditionality regime, UC claimants assessed as having limited capability for work (LCW) or limited capability for work-related activity (LCWRA) are also exempt from the MIF, as are claimants who provide 35 or more hours per week of care for a child with a disability living allowance (DLA) award, or an adult in receipt of Personal Independence Payment (PIP). Claimants who are pregnant and not more than 12 weeks until their due date, or have given birth in the last 15 weeks, the lead carer of a child under the age of three, a foster carer for a child under 16, or have had a child placed with them for adoption in the past 12 months, are also exempt from the MIF, as are claimants recently under threat of domestic violence.

Another group for whom the MIF does not apply are people in the all-work-related conditionality group with self-employed earnings but who are not considered to be gainfully self-employed. In these cases, the claimant is expected to look for and be available for work in the same way as people in similar circumstances who are not self-employed would be. However,

⁴³ In a joint claim, both partners have their MIF worked out separately and then added together to provide a combined MIF, even if one member of the couple is not self-employed. Individual earnings from self-employment and/or employment are then added together to provide a combined earnings figure for the couple. Where a self-employed claimant's earnings in an assessment period are lower than the MIF, and the couple's combined earnings are less than the couple threshold, the MIF applies to the self-employed earnings but it is reduced by any amount by which their combined earned incomes would exceed the couple's threshold. For further information see: Revenue Benefits (2024). Self-employment: Minimum income floor. Available at: <https://revenuebenefits.org.uk/universal-credit/guidance/entitlement-to-uc/self-employment/minimum-income-floor/>

their self-employed activities may be taken into account in their work conditionality requirements. These claimants also need to report their self-employed income and expenditure on a monthly basis in the same way as claimants who are classed as gainfully self-employed are expected to.

Surplus earnings

While the MIF applies to self-employed people whose monthly earnings are considered too low, 'surplus earnings' rules apply to claimants (both employed and self-employed) whose monthly earnings are considered too high. By carrying forward 'excess' earnings from one assessment period into subsequent months, surplus earnings rules are meant to prevent claimants from deliberately manipulating their earnings in order to increase their UC payment. The rules are complex but, in principle, surplus earnings refer to a temporary 'de minimis' threshold (currently £2,500⁴⁴) where monthly earnings exceeding this amount, above the point where UC entitlement ends, are carried over to the next and potentially future assessment periods. This lowers the amount of UC awarded to nil until all 'excess earnings' are fully expended.⁴⁵

Monthly reporting of income and expenses

UC claimants with self-employed earnings are required, in each monthly assessment period, to report all payments into and out of their business including 'necessary and appropriate' allowable expenses,⁴⁶ any money paid in tax or national insurance or into a pension⁴⁷ and all the income received from self-employment. For the purposes of UC entitlement, self-employed accounts must be prepared and earnings declared using a 'cash basis' method of accounting. This is a simple cash in-cash out, or cash flow, method of calculating trading profits⁴⁸ and is an alternative to using

⁴⁴ The surplus earnings 'de minimis' threshold was originally £300. A recent ministerial determination extended the £2,500 temporary 'de minimis' period until 31 March 2026.

⁴⁵ For further information about surplus earnings see Revenue Benefits (2025). Self-employment: Surplus earnings and losses. Available at: <https://revenuebenefits.org.uk/universal-credit/guidance/entitlement-to-uc/self-employment/surplus-earnings-and-losses/>

⁴⁶ The rules about which business expenses are allowable in UC are complex and it cannot be assumed that an expense allowed by HMRC for tax purposes will be allowed for UC. Further information can be found here. <https://www.gov.uk/government/publications/universal-credit-and-self-employment-quick-guide/business-expenses-you-can-report-to-universal-credit-if-you-are-self-employed>

⁴⁷ Employed UC claimants can deduct 100 per cent of their pension contributions and have entitlement calculated on their net income figure. Self-employed claimants can do the same. However, self-employed claimants do not benefit if the pension contributions reduce their income below the MIF.

⁴⁸ On 6 April 2024, the cash basis became the default method of accounting for the purposes of self-assessment and businesses must opt out if they wish to use the accruals method. The cash basis is more typically used by small businesses and sole traders, but it can cause problems for businesses that hold high levels of stock, need to claim interest on a loan or mortgage, or have losses that could be offset against other taxable income. This is because the cash basis limits the amounts that can be claimed as a business expense.

traditional 'accruals' accounting,⁴⁹ based on invoicing and billing dates (regardless of when cash is received or paid out). Under the cash basis system, income and expenditure are recorded when money is actually received, or when a bill is actually paid, regardless of when the work was done or the invoice was raised.⁵⁰

Claimants report their income and expenses using their online Universal Credit account. Claims must be submitted in the period of seven days before, and 14 days after, the end of their assessment period. An automated text message and email reminds claimants of these dates. Failure to report correctly, or within the set timeframe, can delay or stop a UC payment until the matter is resolved.

49 The accruals basis has historically been the default method of calculating profits and a business has had to elect to use the cash basis through notifying HMRC that they wished to 'opt-in'. From 2024/25 onwards, the default position will switch and the cash basis will be the default method of calculating trading profits unless an election is made to use the accruals basis. Universal Credit cash accounting is different from the optional cash basis.

50 Although the cash basis can also be used for income tax purposes, there are key differences between the cash system used for the purposes of UC and that used by HMRC for self-assessment purposes. The treatment of business losses is also different between DWP and HMRC.

3

Experiences of self-employed UC claimants

Experiences of self-employed UC claimants

In this chapter, we explore the experiences of 16 UC claimants in 13 households who had earnings from self-employment, and/or had a partner who did during the period of our research. Findings draw on telephone and face-to-face interviews from two qualitative, longitudinal research studies that were conducted between 2018 and 2024. The first study explored the experiences of couples claiming Universal Credit in which most participants were interviewed twice, in 2018/19 and 2020. Eight of the 90 participants in this study were self-employed. The second study explored the experiences of working claimants on Universal Credit. This involved monthly telephone interviews over a period of a year between 2022 and 2023. Twelve of the UC claimants in this study were self-employed (including four who also took part in the first study). Six people were later followed up and had a third interview in 2024.

Characteristics of the sample

Of the 16 self-employed claimants, eight were men and eight were women. The oldest was 54 and the youngest was 25. Four claimants were aged 25-34; seven were aged 35-44; and five were aged 45-54. 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 employment, and in three couples, both partners had earnings from self-employment.

At the time of the first interview, claimants were working in a variety of businesses and occupational areas, as follows (pseudonyms and minor changes to business types have been used to protect participants' identities):

- Alex, travel agent (partner to Fiona)
- Anita, childminder
- Carla, cleaner
- Claire, childminder
- Fiona, utility adviser (partner to Alex)
- Gerry, plumber
- Ian, stone mason

- Jack, music therapist
- Laura, gift shop owner
- Liam, delivery driver (partner to Pamela)
- Pamela, delivery driver (partner to Liam)
- Philippa, trainer and pet-sitter
- Sarah, basket-weaver (partner to Tom)
- Ted, upholsterer
- Tom, roofer (partner to Sarah)
- Warren, writer

Motivations for and routes into self-employment

Few claimants in this study had chosen self-employment for reasons associated with ‘entrepreneurship’ or a strong desire ‘to be their own boss’. This is not to say they were not entrepreneurial, or not intending to make a profit, only that for many, the decision was typically born more of expediency than ambition. Becoming self-employed typically reflected the need or desire to work more flexibly – often part-time, or from home – in order to better manage health conditions or caring responsibilities, while allowing them to continue to work and earn.

Philippa transitioned from a paid job to become a freelance trainer after a health condition meant she was no longer able to continue working in her previous role:

“I particularly ... wanted to carry on working ... It means more to me than financial... It’s to do with, like, mental health and physical health ... I am keen to build up my earnings and earn more ... but I’m limited by my health.”

Philippa, single claimant, self-employer trainer and pet-sitter

The arrangement was mutually beneficial, allowing her to work flexibly for her previous employer, without the inconvenience and cost to him of her continually taking sick leave.

Ted was the nominated lead carer for two children while his partner worked full-time. When she became seriously ill, he looked for flexible work that would allow him to continue his caring responsibilities. Unable to find anything suitable, he set up an upholstery business that allowed him to work from home:

“I spent a bit of time looking for a job working from home but I couldn’t find anything suitable ... so I thought, well, I can start

up self-employed.”

Ted, joint claimant with dependent children, self-employed upholsterer

Claire, a childminder, opted to use the test-trading period to ease her way back into the world of work after a serious, life-changing accident, in a way she, too, felt would be more manageable and flexible than working for an employer would be:

“With childminding, you can just do a few hours and then work your way up.”

Claire, lone parent, self-employed childminder

Home-based, self-employment similarly offered other mothers with pre-school-aged children the possibility of earning a modest income without the need for paid childcare. Sarah, whose partner worked as a self-employed roofer, hoped that making and selling wicker baskets would give her a period of respite from strict work conditionality requirements until her youngest child started school:

“I’d love to be back in work but at the moment it’s just not doable especially with my youngest – he’s only in school two and a half hours a day ... and if I work, I’m worse off ... so I think I’m just going to stay on the self-employed route ... They give you a year and after that year they’ll be, like, ‘look, you’re not making any money, you need to look for a job.’”

Sarah, joint claimant with dependent children, self-employed basket-weaver

Fiona, who has mental health issues, tried several different employment routes before opting for commission-only self-employment for a utility company:

“I tried to work for a call centre and I’ve tried to work for a retail environment and both of them I gave up ... it’s just too difficult for your mental health ... I’m self-employed which gives me freedom. I choose my hours basically ... I work around our little one.”

Fiona, joint claimant with dependent children, self-employed utility adviser

Laura was one of the few participants who had chosen to set up her own business as a conscious career choice:

“It’s something I’ve been thinking about for many years. I was trying to sort of think about ways in which I could use my skillset, coming out of the pandemic ... I’d already been doing sort of [arts-based] workshops, and I’d seen the mental health benefits for people ... So the idea came out of that really.”

Laura, joint claimant without dependent children, self-employed gift shop owner

Others had not so much chosen self-employment as had it imposed, due to the job role or occupational sector they worked in. For the cleaners, delivery

drivers and others whose conditions of hire were contingent upon having self-employed status, the reality of self-employment often fell a long way short of the ideal, with the benefits often mainly accruing to their clients. Here, low pay, unreliable hours and lack of control over patterns of work and earning – including difficulties taking time off for holidays or when they, a partner or a child was sick – more typically characterised their working conditions.

Meeting the gainful self-employment test

Accounts of being assessed for gainful self-employment (GSE) were mixed. Those who were already self-employed prior to claiming UC more typically found the process straightforward. Others, who were new to self-employment, could find the requirements for providing documentary evidence harder to comply with. There were, however, exceptions. Philippa, who was already self-employed, said the guidance was unclear and poorly communicated:

“At the start of the claim ... they didn't give much guidance ... they said ... bring all your accounts for three months' past accounts ... bank statements, etc. It took me all of my bandwidth for about two weeks to get all that stuff together ... They didn't tell me how they wanted them presented but they gave really vague sort of criteria and then I put the accounts together in a way that I thought they wanted ... and they hardly looked at them ... she just glanced through them ... and it had taken so much energy for me to do that.”

Philippa, single claimant, self-employed trainer and pet-sitter

She also felt her health condition had not been sufficiently taken into account when her minimum income floor was calculated:

“They said ... ‘how many hours a week did you work?’ And ... I said ... ‘12 or 15’, and they times that by the minimum wage, and they said, ‘there's your minimum income floor. So if you don't earn that ... we just start your payment as if you have earned that.’ And at the time, because I'd been ill and I could no longer do the job I used to do ... I hadn't worked for like the best part of a year ... I didn't have the capability to work ten ... or 12 hours a week.”

Philippa, single claimant, self-employed trainer and pet-sitter

Already working as a freelance trainer prior to claiming UC, she believed she had wrongly been steered away from self-employment:

“When I first went in, [the work coach] was trying to send me away, she said, ‘look you earn more than £304 a month, you won't qualify’ ... If I hadn't been so determined and gone online and found ... some help from elsewhere, I would have given up at that point.”

Philippa, single claimant, self-employed trainer and pet-sitter

Others, with newly established or more speculative businesses, and no prior experience of self-employment, had seemingly been able to secure GSE status without any difficulty:

“About a month ago, I’ve been making [baskets] and I’ve been selling them. So I’ve put myself down as self-employed ... So then they made me another appointment so I went down to that, just to prove I was self-employed, and they’ve said for the first year, they monitor, see how you’re doing ... they want me to make ... it amounts to 35 hours on national minimum wage ... After the year then, if I’m not making over that amount, they’ll refer me to people that could help build up my business.”

Sarah, joint claimant with dependent children, self-employed basket-weaver

Work coaches and self-employment support

Participants had mixed experiences of self-employment advice and support. Work coaches were commonly said to lack specialist knowledge as well as often being ill-informed about UC self-employment rules. When Ted approached his work coach for advice about setting up in business, she failed to convey important information to him. Stock he purchased before registering as self-employed had to be treated as an unrecoverable loss; not the best of starts, he said:

“I said ... ‘I’ll register self-employed in February’, she said that was fine ... So I [was] ... buying lots of items of stock ... When I went self-employed, I was then told any expenditure prior couldn’t be classed as an expenditure for Universal Credit ... She didn’t tell me that before.”

Ted, joint claimant with dependent children, self-employed upholsterer

Philippa, too, said the work coaches she had been allocated were generally unhelpful:

“Some of the work coaches at the Jobcentre have been extraordinarily unhelpful, and that’s been really difficult to deal with. [I’ve] been given ... wrong information ... The impression that I got ... was that because I’m self-employed she just didn’t want to deal with me ... it was like I’d be extra work.”

Philippa, single claimant, self-employed trainer and pet-sitter

She said that requests for monthly budgeting data while she was test-trading interfered with the running of the business:

“I’ve explained to [my work coach] that my self-employed earnings vary ... She just said to me, ‘oh, just do another budgeting sheet’ ... She wanted me to do one every month and I just haven’t got time in my day to find the time to do that ... especially while I’ve been working as much as I possibly can.”

Philippa, single claimant, self-employed trainer and pet-sitter

Others had more positive experiences. Being allocated a different work coach made all the difference to Laura:

“The first job coach I had actually in retrospect was pretty rubbish ... She just didn’t seem to grasp the idea of what it meant to run a business ... and she also wasn’t very clear in her explanation of what would happen when the minimum income floor clicked in ... I’ve now got a new job coach who is just fantastic, sat down with me ... explained how it would affect [my partner’s] payments ... explained figures-wise what it would look like ... Pop-ins at the Jobcentre with my job coach, they were ... pretty useful, coming up with ideas and support.”

Laura, joint claimant without dependent children, self-employed gift shop owner

She had even been selected to feature as a self-employed success story in a DWP publication:

“The work coach, he’s been really great ... I’ve had a good year with them and that’s been really helpful and he’s putting me forward ... [as a] candidate ... who [has] had successful businesses and then I think the DWP use them as an example of, ‘oh, this is a good news story, someone who’s had a bit of success.’”

Laura, joint claimant without dependent children, self-employed gift shop owner

A frequent observation was that work coaches failed to fully understand the demands and complexities of setting up and running a business. Most participants felt they would have benefitted from more tailored help from a dedicated adviser with specialist knowledge and expertise, both of self-employment in general, and UC in particular:

“This self-employed [thing] just falls through the cracks every time ... they’re not really used to dealing with it ... If there was somebody who was specialist in self-employment it would be a massive help, to answer questions ... either at the Jobcentre or online.”

Philippa, single claimant, self-employed trainer and pet-sitter

Two participants had, in fact, been allocated a business mentor as part of the New Enterprise Allowance programme. In marked contrast to generic Jobcentre work coaches, these specialist advisers operating independently of the DWP received overwhelming praise:

“The New Enterprise Allowance has given me access to my own business mentor ... and that’s been priceless... It’s something that it came about through my first appointment at the Jobcentre and through discussing with the job coach ... She put me in contact with them ... I have access to this business coach for 12 months and in that time I can contact him any time ... A whole year ... which is amazing ... It was online courses and ... support at the end of the phone or email with any questions that cropped up. So that was really, really invaluable.”

Laura, joint claimant without dependent children, self-employed gift shop owner

However, the scheme closed in 2022 during the Covid-19 pandemic and was never relaunched, a decision this participant found bewildering:

“The New Enterprise Allowance ... I think they’ve now taken [that] away ... Apparently that’s gone now ... which I think is crazy.”

Laura, joint claimant without dependent children, self-employed gift shop owner

Monthly income and expenses returns

Most participants reported that the process of collating their business accounts and submitting them monthly to the UC online systems was, in the main, relatively easy to comply with:

“It’s very straightforward for me. I know exactly which part of the month I have to go and log on and put my earnings in and it’s all calculated, so I find the process very easy.”

Anita, lone parent, self-employed childminder

Ted, along with several others, said that uploading income and expenses took him no more than half an hour each month:

“I declare my earnings and then they deduct my earnings off my Universal Credit ... It takes about 20 minutes once a month.”

Ted, joint claimant with children, self-employed upholsterer

Automated text and email prompts to submit their monthly figures were said by many to be helpful reminders of forthcoming deadlines:

“They send me an email and sort of text reminder to declare my income and outgoings, and then there’s a bit of buffer, I think of sort of three or four days, to make you do that ... but I’ve now got into the sync knowing that that’s coming, so I keep my accounts throughout the month and then it only just takes usually 15, 20 minutes to put it together.”

Laura, joint claimant without dependent children, self-employed gift shop owner

For others, meeting the strict monthly reporting requirements and deadlines was more of a challenge. Gerry, a self-employed plumber, found having to record every job and upload every receipt and invoice time-consuming and onerous:

“Every job I done, no matter how small, I had to declare it ... give a brief description of the job, any expenses such as fuel or materials ... It was tedious, really tedious.”

Gerry, joint claimant, no dependent children, self-employed plumber

Monthly assessment periods that were out of kilter with calendar months were particularly challenging. Laura, whose assessment period started in the middle of the month, found the timing of reporting her income and expenses to be out of sync both with calendar months and business cycles:

“Because of the timing of the UC [monthly assessment period], it’s not at the beginning of the month or the end of the month when you sort of naturally would think about how your business is doing, it’s, like, in the middle of the month ... So it’s a really strange part of the month ... in terms of when invoices might come in or bills ... It would be more useful to have an end of month point ... because often that looks quite different to this... mid-month thing ... It would work better for me it had been a calendar month assessment rather than on the 10th of the month ... [It’s] just how business accounts work and ... the way you look at your incomes and outgoings.”

Laura, joint claimant without dependent children, self-employed gift shop owner

Simple errors, if not adjusted in time, could have serious consequences, including potential delays in receiving UC payments, even loss of entitlement:

“There was one time I didn’t put my expenses in, I don’t know what happened, and then that took ages for it to be sorted out because they were like, ‘oh, you’ve got to re-enter everything’ ... oh it was really bad ... I’d ... put the income in but not the expenses! ... it causes like a whole headache. It’s really complicated if you make a silly mistake.”

Claire, lone parent, self-employed childminder

Late submissions would stop the UC payment in its entirety until all the required information was correctly uploaded:

“A couple of times I’ve been late ...and they’ve stopped my claim ... so that happens instantly, the minute you miss the deadline, that’s it, you get a zero payment ... it all gets stopped until you put the accounts in ...They send you [a message] saying your claim has been suspended ... When I did submit it, it all kind of clicked back into place ... but it really, really frightened me, because I’d had such a nightmare setting up the claim in the first place.”

Philippa, single claimant, self-employed trainer and pet-sitter

Changes to the way in which business accounts had to be categorised and uploaded to the UC system were an unwelcome added burden:

“I got into the groove of doing [monthly accounts] ... so I know what’s expected, but then ... how they wanted the figures inputted this month changed without warning ... I got my accounts together in the way that I normally do, I do a spreadsheet and then I ... input them into the UC online and when I went to put them in, they wanted them in a different format.”

Philippa, single claimant, self-employed trainer and pet-sitter

New rules for separating and labelling business expenses were said to be more time-consuming:

"They have just changed the format ...Whereas before you just put a grand total of business costs, so business outgoings, and now they've split it ... They want more defined categories of exactly what amount is going to what with outgoings. ... so there's business rent, utilities, materials ... loads of sub-categories and then they want the individual totals for each sub-category ... [It's] definitely extra work ... It adds time to that reporting."

Laura, joint claimant without dependent children, self-employed gift shop owner

However, once accustomed to this new way of reporting income and expenses, Laura found it actually contributed to the efficient running of her business, helping her to keep the accounts organised and up to date. She acknowledged, along with several others, that the new system was also useful for the purposes of HMRC self-assessment annual returns:

"Almost three years on now I've just become accustomed to it ... and the positive is that I'm always up to date with my accounts every month, because I have to be for UC. So when it comes to doing my tax return, I'm brilliantly up to speed because I haven't sort of let it go because I have to declare it all every month. So in that sense, it's helped me with very regular bookkeeping."

Laura, joint claimant without dependent children, self-employed gift shop owner

Some people who had applied for a reduction in their council tax reported that the business accounts they prepared for UC purposes had to be presented differently, involving significant additional bureaucracy:

"When [I] applied for council tax reduction, they wanted accounts presented in a different way. So I had to do them all again.... It makes it incredibly difficult ... they both work on different presentation of accounts ... It just took up all of my headspace for months and in fact I couldn't work very much because I was just ploughing through benefit forms."

Philippa, single claimant, self-employed trainer and pet-sitter

Differences in the treatment of allowable business expenses between the DWP and HMRC for the purposes of annual income tax assessment were a further complication. Those with experience of WTC felt that the previous system, which largely replicated HMRC self-assessment rules, was better:

"UC will only give you 45p a mile mileage, whereas the tax man will give 65p ... and also things like heat and light allowance, again there's different criteria, UC will give you £10 a month if you work from home ... whereas the tax man has a different way of working it out ... and the criteria's slightly different for ... internet use and mobile phone, again different percentages. And there are some things that would be eligible for tax but aren't eligible for UC expenses ... like if you had like a meeting

or if you're working away from home and ... parking [UC] don't cover those sort of things ... Working Tax Credit was much easier."

Philippa, single claimant, self-employed trainer and pet-sitter

Managing such issues were not merely administratively demanding but could have serious financial implications affecting, in certain cases, the decisions some participants made about continuing as self-employed. Though it later transpired the error lay with the DWP, Carla had her UC payment stopped due to alleged discrepancies in her mileage expenses:

"They'd done the mistake at their end ... they'd been working it out on how many miles I'd done ... I'd been telling them how much petrol I'd used, so [the expenses] wasn't matching up ... Somebody in head office took it over and rang me up and said ... it was them that were wrong ... Every month ... it was like hitting a brick wall, they would, like, pass me from pillar to post ... It was a nightmare ... I was constantly ringing them up."

Carla, joint claimant with dependent children, self-employed cleaner

Her work coach helped to sort things out, but it took many months to resolve:

"My work coach was ... really nice and helpful ... when the Universal Credit made the mess up, she ... kept messaging them and ... saying 'don't worry' and 'I'll sort it out', and she did, she was brilliant."

Carla, joint claimant with dependent children, self-employed cleaner

However, the same issue kept recurring, resulting in large oscillations in the UC payment from one month to the next. Submitting her income and expenses every month was onerous enough, she said, but the figures she uploaded were rarely taken at face value. After 18 months of self-employment, she moved into paid work.

Monthly assessment and income volatility

It was common for claimants in this research to experience month-to-month fluctuations in their self-employed income. Some businesses were at the mercy of the weather or were seasonal for other reasons. Most had busy periods – in the weeks leading up to Christmas, for example, or during the school holidays – followed by quieter months generating low or no income. The disbursement of business costs was similarly variable, with invoices and demands for payment unevenly distributed throughout the year. Some expenses had to be paid annually or in a single lump sum, while regular bill payments could sometimes debit twice within the same monthly assessment period. With self-employed earnings calculated by subtracting monthly expenses from monthly income, these factors could give rise to significant volatility in the UC payment, causing budgeting difficulties and financial uncertainty.

While claimants understood the need to maximise their earnings to cover the leaner months when business was slow and takings fell, it was a tricky balance to strike. Higher earnings – whether actual or assumed, due to the MIF – would mean a lower or potentially nil UC payment:

“I had to ... make hay while the sun shone, you know really milked what I could out of December, in order to try and then safeguard the business for the first quarter of '23, sensing that things could be a lot ... quieter ... So I really went at it, hell for leather, just to try and get as much income as I possibly could, working all the days, doing ... over and above, just to try and make sure that I have a bit of reserve then to cope with the first sort of bit of this year ... but that obviously meant that UC went right down to zero.”

Laura, joint claimant without dependent children, self-employed gift shop owner

Assessment in arrears also meant that periods of low or no earnings might coincide with a reduced or nil UC payment, potentially leaving claimants with little or no monthly income:

“It seems like every month it's ... up and down, up and down ... You have a bumper month and then ... you don't get anything, but then you're hitting a month where you really need it and you haven't got any [UC] coming in ... not at all helpful ... So that's tricky, that whole arrears assessment [thing].”

Laura, joint claimant without dependent children, self-employed gift shop owner

Laura was not alone in thinking that monthly assessment failed to account for the variations in income and expenditure that businesses routinely experience throughout the year:

“It's not really taking into account how ... businesses work ... if you're a specialist pumpkin grower for Halloween, you're going to have you know a spike then, aren't you? So I think there needs to be a bit of nuance with it that accounts for the type of business.”

Laura, joint claimant without dependent children, self-employed gift shop owner

The ability to increase earnings, even to engage in paid work at all, could also be outside a claimant's control. Sub-contractors, for example, could be dependent on main contractors providing them with materials and equipment in a timely way. Sarah's partner, a roofer, experienced significant dips in his income, not only due to bad weather, but also as a result the failure of the main contractor to supply the scaffolding and skips he needed to do his job:

“Last week he was in all week. This week, he hasn't been in ... Roofing ... it's quite weather dependent ... and a few times ... the skip hasn't arrived and then obviously he can't strip a roof without a skip, so he's had to come home. So it's quite tricky ... to get that sort of steady income ... he's presumed he's going

to have ... The summer is better... That's quite true of a lot of self-employed workers, it's quite seasonal isn't it?"

Sarah, joint claimant with dependent children, self-employed basket-weaver

Warren was more sanguine and simply accepted that earnings and UC payments naturally fluctuated in response to business cycles:

"Whether it's a month or a year [assessment]... we just sort of accept it ... For example ... in August I'm not going to earn anything but last month I earned much more and we got zero [UC]... June's good, July I've got a bit coming as well, but we know that actually we're going to have to keep some of that for ... August ... because I'm not earning any self-employed income. That's just life ... whether I was on benefits or not, that's how it would be."

Warren, joint claimant with dependent children, self-employed writer

As a freelance writer, he had more control over invoicing and payment arrangements. Customarily paid in a single lump sum at the end of an assignment, he negotiated with his clients to spread the payment of his fee across several months, thereby ensuring that he retained some entitlement to UC:

"For people I know are going to pay promptly, I can say, 'actually, can you pay me in two weeks?' ... [My client] said to me, 'I don't want to give you it all in one go because ... I know that you'll lose your benefits' ... so I think we split it into three ... for June, July and August."

Warren, joint claimant with dependent children, self-employed writer

These adjustments helped to stabilise the family's Universal Credit payment. "It's sort of regulated itself ... so it's not fluctuating as wildly now," said Lily, his partner.

For others, efforts to regularise UC payments could give rise to perverse business practices, encouraging spend earlier than was needed, for example:

"Sometimes [it] has made me spend money with the business when I didn't need to ... So it might be that I had a big order to put in but I was going to leave it till the next week, but I'll rush it through earlier because then I know that it balances a bit better for the UC."

Laura, joint claimant without dependent children, self-employed gift shop owner

However, few participants were able to exercise this degree of flexibility or control over cash flow. Some, in fact, received payment from customers in advance, or unexpectedly, for products or services not yet supplied. These unsolicited deposits could create unhelpful spikes in monthly earnings which then reduced the recipient's UC entitlement:

"With my regular customers, they've got my bank details ... sometimes they just randomly send money over without telling me ... I'll have to somehow tighten it up with people and sort of say, don't pay me till I tell you!"

Philippa, single claimant, self-employed trainer and pet-sitter

Calculating profit monthly could also give the false impression that businesses were loss making. Purchases of stock, on which income could only be earned over a longer period, distorted profit calculations and assessments of business viability:

"Sometimes you've got to get the stock in to make the money, so you get into that rhythm of having to sort of buy a load of stuff ... and then you're waiting for invoice payments to come back ... you don't always get the payment immediately for the job you do. So obviously you're investing in stuff that's going to be sort of over the next few months rather than immediate payback."

Laura, joint claimant without dependent children, self-employed gift shop owner

An unusually large number of bills paid within a single assessment period meant that Philippa's gainful self-employment status was called into doubt:

"There was one month when by just a fluke, I made a loss not a profit ... sometimes ... regular payments go out twice in one month ... start and the end ... and I'd paid, like, a year's worth of insurance ... so I made a small loss ... They stopped my claim and I got a message from the Jobcentre ... saying you're not even making a profit now, you'll have to come in and see me, you know, we'll work out whether you're gainfully self-employed."

Philippa, single claimant, self-employed trainer and pet-sitter

Conversely, those doing well felt penalised by rules which treated spikes in monthly income as 'excess profit'. With a reduced UC payment, funds that might otherwise be reinvested into the business would need to be spent on living expenses, hampering investment and innovation:

"Any surplus money that I make for the business [is] expected to cover household [expenses], whereas you need that money to reinvest ... You have a good month and then suddenly you're getting low or nothing [from UC], but actually you need that regular, even, support ... to allow the business to grow to an extent where then I perhaps could ... employ other people ... The way that it's calculated has been quite stifling, it's not allowing the business to really flourish ... It's really hard to be able to build on an idea that would increase profits. You're constantly just treading water with it because the money's then got to be siphoned off for stuff at home."

Laura, joint claimant without dependent children, self-employed gift shop owner

For Laura and her partner, the issues were more complex still. Normally something to be celebrated, a large profit from her business one month meant that her partner, who had limited capability for work, was awarded a nil UC payment, his only source of income:

“The negative side of it has been ... a bit perverse ... because ... I’m growing [the business] and this is great... and then I’m like, damn, I’m making a massive profit, which means this month, [my partner] is getting no money ... It’s not allowed me to really rejoice in the business doing well ... because I’m always thinking, oh this is taking it away from [my partner]”

Laura, joint claimant without dependent children, self-employed gift shop owner

When surplus earnings rules stopped the UC payment for several months, having to financially support her partner threatened to undermine the viability of her business, she said:

“It makes it very difficult to grow ... or sustain the business Because it’s a partnership claim ... even though [he] isn’t part of the business because the [surplus] rolls over. It may then mean that next month he gets nothing as well. But ... there isn’t the spare cash to carry him because that money ... is about sustaining the business ... It’s a really tricky one because ... that money will have to be used for the household income and compensating for the loss [of UC] ... The worst case scenario for that is then the business could fail.”

Laura, joint claimant without dependent children, self-employed gift shop owner

Knowledge and understanding of the MIF

Equivalent to working around 35 hours per week at the national living wage (or national minimum wage), unless claimants have caring responsibilities or health problems, the minimum income floor (MIF) is applied as soon as the 12-month start-up period ends. If a claimant earns above the MIF, their actual earnings are used to assess UC entitlement, but if they earn less than their MIF in any assessment period, the MIF is used in place of actual earnings.

When first interviewed, most participants in this research were in the start-up or test-trading period, so not yet subject to the MIF. Later interviews took place during the Covid-19 pandemic when the MIF was suspended. All had nevertheless had their MIF amount calculated – typically during the gateway interview. Most had a good grasp of how it was calculated and how it was meant to work. Some demonstrated a high level of understanding – including that the MIF was individually assessed, affected by household circumstances and subject to increases each year in line with the annual

uprating of the NLW/NMW. That this might mean having to work longer hours or increase prices was also understood:

"They work out the minimum income floor from however many hours you're supposed to be doing related to ...your youngest child's age ...it's something like 20 or 25 hours a week I need to be doing. But it will probably be more when [my youngest] is in secondary school ... That will probably mean that I have to have to [increase my earnings] ... Part of me is thinking 'do I up my prices then to make up for that?'"

Claire, lone parent, self-employed childminder

Others took longer to reach a basic level of understanding. When initially interviewed, Laura was unsure what the MIF was or how it might affect her:

"The minimum income floor, so whatever that is, it's about over £1000 isn't it?... I don't know what the minimum income floor currently is."

Laura, joint claimant without dependent children, self-employed gift shop owner

A year later, with the MIF about to be applied, she had a much clearer understanding and was bracing herself for its impact:

"We've psychologically prepared Come October, we've got this sort of perfect storm of energy bills going up, I'll then switch on to the MIF for my UC ... it'll reduce because they'll assume that my income is the minimum wage, 35 hours ... that's going to affect what income's coming in... My last meeting at the Jobcentre with my job coach, she talked through you know how it would look, the impact it would have ... so we're now sort of braced for we know what's going to happen."

Laura, joint claimant without dependent children, self-employed gift shop owner

Sometimes it was only after the MIF had been imposed that a full level of understanding was reached. Even then, some struggled to grasp how the MIF affected the UC payment calculation:

"It's only in the last few months that I understand how they work out the payments now. Literally before that, I didn't ... so I didn't understand when there was a minimum income floor ... when that got removed. I still didn't understand how the payments were worked out!"

Philippa, single claimant, self-employed trainer and pet-sitter

Although the MIF and its intent were generally understood, with just a 12-month period of exemption before it was applied, many questioned the underlying policy rationale. Twelve months was considered too short a period of time in which to expect new businesses to establish themselves and become fully profitable:

"The minimum income floor is ... relatively high for a new business in terms of profit to be making ... It's a bit outrageous

that, giving relatively new businesses just a year ... there has to be a better understanding of what it takes for a new business to develop and grow and stand on its own two feet, and that one year is not enough ... I think it would be better if the minimum income floor hit you know in 24 months, rather than 12.”

Laura, joint claimant without dependent children, self-employed gift shop owner

Effects and impacts of the MIF

Participants who were in the start-up period and not yet subject to the MIF were asked how they would manage when it took effect. Most felt they would cope, mainly because they expected their earnings would be above the threshold. Ted said that if his business failed to generate sufficient income, he would “just get a part-time job”. Others, too, thought that supplementing their self-employed income with paid work would be the most likely strategy.

Anita, a childminder, was one of the few participants whose earnings turned out to be consistently above her MIF threshold each month:

“I did hear about the minimum income floor, but I was always earning more than that.”

Anita, lone parent, self-employed childminder

For most of the others, the income volatility they experienced during their start-up period continued after the MIF was applied. In quiet months, earnings would often dip below a claimant’s MIF, while in months of higher takings, they might exceed the threshold of entitlement for UC – in both cases, potentially resulting in a lower or nil UC payment.

For participants no longer in the start-up period, whose earnings fell below the MIF, loss of income was the main, immediate effect. Philippa’s monthly UC payment reduced from £400 to £100, then to £50. For her, this loss of income was fortunately short-lived due to suspension of the MIF in March 2022 in response to the Covid-19 pandemic:

“I have to say, that minimum income floor was ... complete hardship for me, it caused me so much hardship ... I felt like I was stuck in a catch-22 ... I didn’t earn anywhere near it, because I was literally ... not well enough to do that ... So ... rather than I’d be entitled to £400 a month ... because they gave me the minimum income floor, I was getting like £100 something a month ... So then March they abolished the minimum [income] floor, which was a godsend, because I was getting like about £50 a month UC before that ... and I was wondering how I was literally going to survive.”

Philippa, single claimant, self-employed trainer and pet-sitter

The MIF was reinstated in September 2022 but, in the meantime, Philippa had been assessed as having limited capability for work, which meant she was exempt. With her monthly earnings generally below the work allowance she was now entitled to, her UC payment had stabilised:

“Limited capability for work, that allowed me to earn up to £600 and something a month without it affecting my UC ... I but if it went over, then they would take an amount off ... an adjustment to the UC.”

Philippa, single claimant, self-employed trainer and pet-sitter

For Laura, fortuitous timing meant that the end of her start-up period coincided with her busiest and most profitable trading period, in the weeks leading up to Christmas. However, she was concerned about how the couple would cope financially in the early months of the new year, when business receipts dipped to their lowest ebb:

“For the next couple of months it hopefully should be OK because I think Christmas trade for the business should be good ... The interesting thing will be the first sort of quarter of next year ... I’ll probably bring in less money ... So at the moment I think the [business] income is going to sort of compensate for the loss in [UC] ... but I wonder whether that safety net will be enough should the income fall away next year.”

Laura, joint claimant without dependent children, self-employed gift shop owner

Financial impacts of the MIF were later compounded when rising interest rates increased the couple’s monthly mortgage payment:

“This month is where everything sort of shifted into that different gear. So I’m now on the MIF, so the payment that’s coming this month will be MIF, so that’s £400 and something I think. So this is our first month of that, and it’s also our first month of a higher rate of mortgage payment.”

Laura, joint claimant without dependent children, self-employed gift shop owner

When Laura later contracted Covid-19 and was unable to work, with no income from self-employment and a UC payment reduced by half, the couple’s safety net fell away and they struggled to make ends meet:

“I had Covid... so I had to then just halt my business ... there was no income ... and then that coupled with the fact that that month was also the lower [UC] payment ... It was like perfect storm of lower payment ... and then not able to make any other sort of form of income to come in to compensate and then nothing available that would offset that from anywhere.”

Laura, joint claimant without dependent children, self-employed gift shop owner

Thereafter, the UC payment fluctuated as earnings from her business oscillated above and below the minimum income floor month to month:

“It’s just totally yo-yoing ... at the moment, month by month ... If I look back it’s sort of 880, then 400 something, 880, 400 something.”

Laura, joint claimant without dependent children, self-employed gift shop owner

Reductions in UC entitlement and in household income following imposition of the MIF had, in several cases, affected decisions around work. As annual increases in the NLW/NMW successively raised the MIF earnings threshold, Liam, a self-employed delivery driver, said he was having to work longer and longer hours to compensate:

“Every year they change the minimum income ... they rise it up, up, all the time, so if the [MIF] is increased, so I have to work more, more to make this minimum income which they want from me ...I’m working per week ... maybe ... 40, 50 hours.”

Liam, joint claimant with dependent children, self-employed delivery driver

Liam’s partner, who had also been a delivery driver, gave up her self-employment in favour of a part-time job as a catering assistant, work that allowed her to drop off and pick up the couple’s children from school.

Now getting less than half the amount of UC they were entitled to when her partner was in the start-up period, Sarah, too, had closed her basket-weaving business and was looking for work. Cementing the decision was use of the MIF by her local council to assess the couple’s entitlement for council tax reduction. Now liable to pay full council tax, household income was no longer sufficient to cover the family’s essential living costs:

“I’m trying to look for a part-time evening job at the minute because my partner’s been self-employed for over a year, once that year’s ended, with UC they put an income floor ... That’s just what’s recently happened. So I think once we’ve paid rent, we have like £300 left for the whole month and because they’re saying we’ve earned this much now we’ve lost the council tax reduction, so it’s full whack.”

Sarah, joint claimant with dependent children, self-employed basket weaver

Sticking with or stopping self-employment

At the time of their final interview,⁵¹ seven of the 16 participants who were self-employed at the start of the research remained self-employed. Six of the seven were still claiming UC, though three of them were supplementing their incomes with paid work. Philippa had been assessed as having LCWRA, so was exempt from the MIF. She was hoping to gradually increase her hours over time, as her health condition allowed. Three years on, Laura's business continued to flourish, though her partner's on-going ill-health and limited capability for work meant that the couple were still having to claim UC.

Warren had continued his freelance writing but was supplementing his income with part-time employment in a food outlet. Alex, a commission-only travel agent, had yet to make a profit. With his gainful self-employment status in doubt, his work coach had indicated he would need to look for paid work. Tom was still working as a roofer but his earnings remained highly erratic. He, too, was being urged by his work coach to give up self-employment and look for a job. Liam had regular work as a delivery driver and was consistently earning above the MIF. However, with the cost of running a vehicle to cover, he was now having to work up to 50 hours per week. Ian was still a self-employed stone mason but had begun a part-time job. He was no longer claiming UC after separating from his partner.

Of the nine participants who were no longer self-employed, three were in paid jobs and still claiming UC – Carla as a care worker, Pamela as a catering assistant and Anita as an administrative assistant. Anita had re-registered as a childminder and was hoping to restart her business. There were three unemployed jobseekers; Fiona was doing voluntary work as a teaching assistant and Sarah and Jack were looking for part-time work. Claire, who was still recovering from a serious accident, had been assessed as having LCWRA and had recently been awarded PIP. Jack had recently started a part-time degree course and was still claiming UC. Gerry, who cared for a partner with mental health issues, was now getting Carer's Allowance. Ted, an upholsterer, became seriously ill and was no longer able to work.

Reasons given for ending their self-employment varied. Gerry's attempts at plumbing faltered when he failed to meet the requirement for gainful self-employment:

"The Jobcentre were hounding me to try and find a job ... I was classed as ungainfully self-employed ... I wasn't bringing in enough. It didn't seem to make it sort of worthwhile. If I'm going out to work and literally making less than minimum wage, and then that small profit that I was to make just gets taken off us ... what's the point?"

Gerry, joint claimant, no dependent children, self-employed plumber

⁵¹ For eight participants, the final interview was between 12 and 18 months after first being interviewed. For four participants, the final interview took place almost three years after they were first interviewed and for another four, their final took place almost six years after the first.

His prospects suffered a further blow when his gas registration certification came up for renewal. "It's three and a half grand," he said, "which I simply can't afford." A year later, his partner had been awarded PIP and he became her full-time carer and awarded Carer's Allowance, in addition to the carer's element of UC. No longer required to actively look for work, he was nevertheless still required to declare his self-employed earnings every month before his UC payment was released:

"I'll get a message each month ... to report my self-employed income and expenses, even though I'm not doing anything. I have to go on, tick a few boxes ... [If I don't], I would assume that our payments would be stopped."

Gerry, joint claimant, no dependent children, self-employed plumber

Fiona was obliged to give up self-employment when her commission-only work for a utility company also failed to generate sufficient income. Sarah, too, gave up self-employment part way through her test-trading period, when sales dropped away after the Christmas rush:

"When I was making the [baskets] at Christmas, I put myself as self-employed, but because I haven't made anything since, they told me it's best to come off it now."

Sarah, joint claimant with dependent children, self-employed basket-weaver

Jack's music therapy business failed to generate any income. Advised that further qualifications would be needed to work in his chosen field, he returned to higher education while continuing to look for part-time work.

After a lengthy hospital stay followed by rehabilitation, Claire found part-time childminding too difficult to sustain financially:

"To be a childminder, you have to pay for insurance, you have to pay Ofsted ... There's quite a lot to even doing a small amount of childminding. So it's not sort of financially feasible ... My hope was to expand ... but it just didn't happen ... I'd still have to do the pediatric first aid ... and with Ofsted ... when you have a significant break ... you have to re-register – go through the whole process again."

Claire, lone parent, self-employed childminder

Anita, too, had stopped childminding during the Covid-19 pandemic, but had recently renewed her Ofsted registration. Now working as a part-time administrative assistant, her intention was to do some ad hoc childminding during the school holidays, to supplement her income:

"I used to be a childminder as well as my job. I stopped doing that when the pandemic started ... Six months later I got a job and I didn't think I ever was going to do childminding – again, and then I got a phone call ... from Ofsted to say you're due your inspection ... and I said ... I haven't childminded for two years ... but she phoned me in a couple of days and I said, actually I don't want to resign! So I had my inspection quite

recently ... it's called a 'no children on roll' inspection ... I passed that and then I'm just going to do it during the holidays ... It's not my main job anymore."

Anita, lone parent, self-employed childminder

For Carla, who had been a self-employed cleaner, it was the looming presence of UC in her life, as she saw it, that was the biggest drawback. Annual assessment in tax credits, she said, was not only administratively simpler but much less intrusive:

"If you've not done what you're told to do ... it's a bit scary ... If you didn't do enough hours, [they] would be wanting to know why your income had decreased ... Obviously I didn't get sick pay ... [they] would want to know ... why have you took time off work? ... There'd always be messages in the journal online, asking you to contact them before any payment would be released ... Before, when it was just the tax credits, you just had to do it yearly, they sent a letter through the post, you signed it and sent it back, whereas now it's, like, constant ... wanting to know your every move."

Carla, joint claimant with dependent children, self-employed cleaner

She came to the conclusion that it would be less troublesome if she had a job and, after 18 months of self-employment, she moved into paid work as a carer. The family is financially better off, but there is a significant trade-off; Carla's excessively long hours. She has a zero-hours contract but currently works 55 hours per week.



Conclusions, policy implications and recommendations

Conclusions, policy implications and recommendations

Universal Credit brings with it a series of additional challenges for self-employed claimants. A strict test must be passed to prove that the self-employment is 'gainful'. Trading income and expenses must be reported monthly, online, on a 'cash in-cash out' basis, according to the DWP's allowable expense rules (different from those of HMRC), and to strict monthly deadlines. Working tax credit (WTC), by contrast, was assessed annually using HMRC self-assessment rules employed for the purposes of calculating income tax.

After a 12-month start-up period, monthly earnings for UC claimants without caring responsibilities or limited capability for work must also reach a minimum income floor (MIF), an assumed level of net income equivalent, for most claimants, to working around 35 hours per week at the National Living Wage (NLW), less a notional deduction for tax and NI. If a claimant earns less than this 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. No deduction is allowed from the MIF for any pension contributions.⁵² On the other hand, claimants making profits but deemed to have 'surplus earnings' can forfeit their entire UC payment, sometimes for successive months, until the 'surplus' is expended.

The extent and complexity of UC's self-employment rules reflect the multiple policy objectives they were designed to fulfil. First and foremost, they are intended to provide financial support to low-earning UC claimants, particularly in the first year of self-employment before their activities have become fully self-sustaining. Gainful self-employment (GSE) rules and the minimum income floor (MIF) are meant to prevent fraud and minimise the risk of loss-making businesses being propped up at taxpayers' expense. Through having similar earnings-related conditionality requirements between self-employed and employed claimants (or jobseekers), a further intended aim is parity of treatment – to ensure that self-employed claimants (after a year of test trading) are treated no more (or less) favourably than claimants who are employed or unemployed.

GSE and MIF policies are also intended to encourage self-employed claimants to increase their profits and/or supplement low business income with earnings from paid work, or else abandon self-employment in favour of becoming an employee. As such, the MIF was expected to deliver considerable exchequer savings. The Office for Budget Responsibility's

⁵² UC claimants who are employed can have pension contributions deducted from their income and have entitlement calculated on the net income figure. Self-employed claimants can benefit in the same way, but pension contributions do not count when income is below the MIF.

(OBR) January 2018 welfare trends report shows that savings from self-employed UC claimants accounted for some of the largest projected savings from the UC regime. This was because 400,000 of the estimated 700,000 self-employed claimants when UC was fully rolled out were predicted to have average monthly earnings below the MIF.⁵³

Whether UC rules have achieved the right balance between helping low-earning self-employed customers establish viable businesses or have tipped too far towards protecting the public purse remains to be seen. Evidence from this research provides some useful insights. However, the small sample size of 16 claimants and timeframe for the research, bookending the Covid-19 pandemic, means that findings may not fully reflect experiences of self-employment in the current cost of living crisis or be generalisable to the wider group of self-employed claimants or specific sub-sets within it. This said, a 'typical' or 'average' self-employed claimant may not, in fact, exist. As the findings here show, experiences can differ significantly depending on personal and household circumstances and the nature of business activities.

What did the research find?

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 capable of doing, 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 the need for paid childcare.

Self-employment advice and support were generally perceived to be 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 business. Most claimants felt they would have benefited from more tailored support from a specialist self-employment adviser.

Regardless of their circumstances or the type of business, for most claimants in this research, being self-employed while on UC was a challenge. Month-to-month fluctuations in earnings were common, giving rise to corresponding 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 trading income and expenditure naturally oscillate throughout the year. While employed claimants with fluctuating

⁵³ Office for Budget Responsibility (2018). Welfare trends report. p.10. https://obr.uk/docs/dlm_uploads/WelfareTrends2018cm9562.pdf

earnings can experience similar volatility, employees are not subject to the MIF. Indeed, reduced earnings from employment are topped up by a compensatory increase in the UC payment.

Surplus earnings, on the other hand, were seen to penalise success. Funds that might otherwise be reinvested into their business would need to be spent on living expenses, stifling innovation and growth and potentially undermining longer-term sustainability. And while surplus earnings rules apply to all claimants, the more volatile nature of self-employment makes it more likely that people whose main income derives from self-employment will be adversely impacted.

For affected claimants, the biggest challenge was the MIF. For those no longer in the start-up period, loss of income was the main, immediate effect. In quieter months, earnings would often dip below a claimant's 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. The MIF was also seen to unfairly disadvantage businesses with less control over patterns of invoicing and spend and those carrying high levels of stock.⁵⁴ Applying the MIF independently each month means that two self-employed claimants with similar household circumstances, earning roughly the same amount during the course of the year, might receive very different monthly UC payments simply because one has seasonal or more volatile trading income (and/or expenditure) than the other.

A self-employed UC claimant earning the same annual amount as an employee could also be financially worse off. This is because the UC payment may be reduced by the MIF in months when earnings are low, while potentially reduced to nil in the months when earnings are high. An illustrative example by the Low Incomes Tax Reform Group (LITRG), shows that self-employed and employed UC claimants with the same incomes – averaging out over a year to the equivalent of full-time at NLW, but varying month to month for the self-employed – can receive very different UC awards.⁵⁵ As the Resolution Foundation points out, this runs counter to one of UC's stated aims of equalising the treatment of self-employed and employed UC claimants.⁵⁶

Participants with prior experience of WTC felt that, by averaging out self-employed earnings through the year, annual assessment was much fairer. With tax credit payments generally fixed for a year, this reliable monthly top-up also helped those with variable earnings to better manage their cash flow, counterbalancing seasonal fluctuations in business outgoings and income. Traditional accounting methods, allowable under tax credits but not under UC, also benefitted businesses needing to purchase stock or equipment. Not only fairer and administratively simpler, annual assessment

⁵⁴ Purchasing high levels of stock or paying a costly business expense in one assessment period can reduce monthly income to below the level of the MIF.

⁵⁵ Low Incomes Tax Reform Group (2018). UCR0196: Evidence on Universal Credit. <https://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/work-and-pensions-committee/universal-credit-rollout/written/76591.pdf>

⁵⁶ Finch, D. (2015). Making the most of UC: Final report of the Resolution Foundation review of Universal Credit. <https://www.resolutionfoundation.org/app/uploads/2015/06/UC-FINAL-REPORT1.pdf>

was also seen to be much less intrusive than UC. Indeed, for some, the monthly reporting, monitoring and scrutiny that self-employment brings was its biggest drawback – not only burdensome for claimants but time-consuming for work coaches and resource intensive for the DWP.

In terms of outcomes, 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 had left self-employment, three were in paid work and three were job seeking. The remaining three were economically inactive and claiming disability or carer's benefits due to their own, or a partner's, serious ill-health.

What can be done?

Based on our findings, we outline below our recommendations for how the treatment of self-employed UC claimants and their earnings can be improved.

Introduce more flexible and tailored support for UC claimants who are self-employed, or would like to be

Work coaches have an important role to play in supporting self-employed claimants and are meant to have undergone additional training. However, in this research, some appeared to be lacking relevant knowledge and expertise. There was also significant variation in work coach advice and practices, even within the same Jobcentre. Further training is needed to ensure work coaches have appropriate skills and knowledge, both of UC rules and of self-employment more generally. 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 support or mentoring scheme (along the lines of the former New Enterprise Allowance (NEA) scheme), offering tailored help to claimants whose businesses have the potential to grow, should be explored.

Introduce easements and more support for self-employed claimants with disabilities and health conditions

A lighter touch also needs to be exercised, and more support offered, when work coaches are dealing with self-employed customers who may be

struggling to achieve the MIF, including those with disabilities and health conditions. The need for easements and a more flexible approach with such claimants will become increasingly important due to the Government's proposed reforms to Personal Independence Payment (PIP) and the health-related elements of UC. Claimants with LCW or LCWRA are currently exempt from the MIF and also entitled to a work allowance. However, with the proposed scrapping of the UC work capability assessment and possible changes to PIP assessment and eligibility criteria, in future, some people with disabilities and health conditions may lose these exemptions and entitlements as well as potentially being subject to greater work conditionality than has been the case historically.

As part of the reforms, the Government has committed to provide tailored employment support for claimants with disabilities and health conditions, giving them "much more active engagement and support ... to help [them] manage their health condition or disability ... and participate in the labour market in a way that works for them". Regardless of how and when the proposed changes are implemented,⁵⁷ it will be important to ensure that self-employment advice and support and appropriate financial incentives are included in the options. As the DWP's own research confirms, the reason why many claimants choose the self-employed route is precisely because they have a disability or health condition that limits their ability to work full-time or in a mainstream job.⁵⁸ Even low-remunerated self-employment is to be preferred if the alternative is that claimants remain unemployed or economically inactive. Work coaches will need to be afforded greater discretion to allow them to work flexibly with these customers. Easements in self-employment rules, including the MIF (see page 50), will need to underpin such changes in adviser working practices.

Extend the 12-month start-up period

For most businesses, 12 months is too short a period of time in which to expect the generation of profits to the level required by the MIF, particularly for newly established enterprises that are test-trading. Thirty-five hours at the NLW in terms of on-going monthly earnings is also an exceptionally high bar to reach within the space of a year. Research by the RSA showed that, on average, it took around three years for a self-employed person to be earning the equivalent of the national minimum wage from their business.⁵⁹ The imposition of the MIF after only 12 months may risk undermining the viability of new, potentially profitable businesses before they have had a chance to establish themselves. Short of removing the MIF altogether, two years' exemption would be a fairer and more realistic timeframe.

⁵⁷ 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.

⁵⁸ Tu, T., Bollen, A. and Pannell, S. (2017). Self-employment working tax credits claimant survey and qualitative follow-up research. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/644093/research-into-self-employment-working-tax-credits.pdf

⁵⁹ Dellot, B. and Reed, H. (2015). Boosting the living standards of the self-employed. London: RSA (unavailable online).

Reform the minimum income floor

To take account of the legitimate business factors that can cause large fluctuations in monthly income, another option for reforming the MIF would be to allow greater discretion on the part of work coaches over whether or not it should be applied to a particular claimant in any assessment period. This would enable greater flexibility in the treatment of viable businesses that are currently penalised simply because they have volatile patterns of income and expenditure. As noted above, such easements would also benefit self-employed claimants with work-limiting disabilities and health conditions including those potentially affected by proposed changes to the work capability assessment (WCA), health-related elements of UC and PIP eligibility and assessment.

There is a precedent for this. When the MIF was reinstated in July 2022 after Covid-19 restrictions were eased, work coaches were given the discretion to suspend the MIF for up to two months at a time on a case-by-case basis, for a maximum of three suspensions. Work coaches who have undergone further specialist training and have specific self-employment expertise should be afforded similar discretion.

A further option would be to introduce a taper to the MIF at the end of year one and rising to the full amount at the end of the extended start-up period.⁶⁰ As with any temporary suspension of the MIF, this could be managed by specialist work coaches on a case-by-case basis.

Pension contributions from self-employed claimants do not currently count when income is less than the MIF. Another reform would be to allow pension contributions to be deducted where a claimant's income is below the MIF.

Reduce the administrative burden on self-employed claimants

Most self-employed claimants in this research had become accustomed to uploading their income and expenses monthly. However, the feasibility of extending the short reporting timeframe should be explored to minimise financial difficulties caused by late submissions. Closer alignment between DWP and HMRC rules is also needed, particularly in relation to allowable business expenses and what counts as income. Greater consistency between UC and council tax reduction (CTR) schemes regarding proof of GSE and the treatment of self-employed income and expenses is also needed. GSE status in UC should be sufficient proof for the purposes of evidencing CTR eligibility. Self-employed earnings data used to calculate monthly UC entitlement should also be made available to councils in the same way as HMRC real time information (RTI) earnings data is for employees.

⁶⁰ This was one of the recommendations of a Work and Pensions Committee report, see: House of Commons Work and Pensions Committee (2018). Universal Credit: Supporting self-employment, Eleventh Report of Session 2017-19. <https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/997/997.pdf>

Lengthening the reporting period from a monthly to a quarterly basis, as HMRC is about to introduce for self-assessment purposes,⁶¹ would reduce the administrative burden on UC claimants, while also helping to stabilise UC payments. However, monthly reporting is inescapably tied to monthly assessment in UC. Without changes to the underlying architecture of UC, this limits the options for reform. The feasibility of averaging out self-employed earnings over a longer timeframe should therefore be explored as part of the DWP's broader review of UC.

Improve DWP self-employment statistics

Official Universal Credit 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 to place in the public domain would include the number of claimants classed as 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 and support.

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

Evidence from this research provides some useful insights into the way in which UC policies are being experienced and responded to by claimants newly flowing onto self-employment and in the relatively early stages of operating their businesses. However, the sample size of 16 claimants was small. Using larger samples, further research is needed to investigate claimants' longer-term experiences and outcomes. Research is also needed to explore the effectiveness of self-employment rules designed to encourage claimants to increase their earnings – including business, employment and financial impacts of the MIF and surplus earnings rules. Self-employed claimants working in specific occupational sectors, such as farming and the cultural industries, which experience significant income volatility, warrant separate scrutiny.

⁶¹ As part of HMRC's Making Tax Digital (MTD) scheme, from April 2026, most people with self-employed earnings will be required to upload income and expenses returns quarterly, rather than annually, using HMRC compatible software. See: HM Revenue and Customs (2025). Technical note: Modernising the tax system through Making Tax Digital. <https://www.gov.uk/government/publications/modernising-the-tax-system-through-making-tax-digital/technical-note-modernising-the-tax-system-through-making-tax-digital>



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