

IPSE response: Review of Employment Practices in the Modern Economy
May 2017

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About IPSE

The Association of Independent Professionals and the Self Employed (IPSE) is the voice of the estimated 4.8 million individuals working for themselves in the UK. IPSE is the largest association of independent professionals in the EU, representing over 67,000 freelancers, contractors and consultants from every sector of the economy. It's a not-for-profit organisation owned and run by its members.

Introduction

This review presents an excellent opportunity to rethink how self-employment is approached by government, ensuring it remains a positive way of working while the most vulnerable individuals are protected. IPSE believes the biggest problem that must be tackled is the uncertainty around employment status. We have developed a model which offers a practical way of defining employment status, which can be easily understood and tested by individuals and clients alike – more detail is provided within this paper.

Self-employment is a riskier way of working than employment. But this doesn't mean government cannot do more to encourage freelancers to save for retirement, make training and developing new skills simpler, and ensure the self-employed have better support when they have children.

IPSE's paper also outlines the steps government needs to take to support people who work flexibly, ensuring that it is simpler to establish workhubs and that fast broadband is available in all corners of the country.

Summary of recommendations

In relation to self-employment, IPSE believes this review should focus on six key themes:

- Clarifying the current confusion around employment status
- Encouraging pension uptake and savings
- Developing fairer maternity, paternity and childcare support
- Incentivising training and skills development
- Building the physical and digital infrastructure that makes self-employment possible
- Creating a fairer, more efficient tax system

1. Clarify employment status

Recommendation	Where to find more detail
Adopt IPSE's Self-Employment Matrix, which will provide greater clarity about employment status for individuals and larger companies	Page 4-12
Explore developing a statutory definition of self-employment	Page 13-14
Further consider whether 'worker' status should be afforded to engagements that fall within a "grey area" of employment status	Page 13
Government should consider whether roles deemed to be "delivering essential public services" – such as ambulance drivers and care	Page 13-14

workers in the public sector – should be carried out on a self-employed basis	
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2. Encourage pension uptake and saving

Recommendation	Where to find more detail
Commission a wide-ranging review into incentivising pensions for the self-employed	Page 16-17
Extend the age eligibility criteria for the Lifetime ISA	Page 17
Better signpost new State Pension eligibility criteria to improve awareness	Page 18

3. Fairer maternity, paternity and childcare support

Recommendation	Where to find more detail
Enable mothers who are self-employed to claim a form of Statutory Maternity Pay	Page 18-19
Paternity benefits for the self-employed should be re-examined as eligibility is unclear	Page 18-19
Tax-free childcare should be opened to self-employed parents first, so they can act as an initial sample to test the policy	Page 19-20

4. Incentivise training and skills development

Recommendation	Where to find more detail
Make training for new skills tax-deductible for the self-employed, just as it is for employees	Page 20
Self-employment and enterprise should be integrated in all relevant areas of the school curriculum	Page 21
To help the disabled thrive in self-employment, BEIS should work with an advisory panel of disabled entrepreneurs to pilot three Inclusive Entrepreneurship Programmes across the UK	Page 21-22

5. Back infrastructure for independent working

Recommendation	Where to find more detail
Commit to 100% access to broadband by 2020, including a maximum ratio between the fastest and slowest speeds	Page 23-24

Cut business rates for workhubs, while also incentivising the use of empty properties and streamlining the planning system	Page 23
Guarantee new housing developments have fibre optic broadband	Page 24
Ensure WiFi is enabled across rail networks, as part of the negotiation of new rail franchising agreements	Page 24

6. A fairer, more efficient tax system

Recommendation	Where to find more detail
Undertake a strategic review of the tax system, considering how modern working practices should be addressed	Page 22
Limit the damage from IR35	Page 22
Create a bespoke opt-in tax system for freelancers, thus providing clarity for freelancers while also protecting revenue	Page 23
Simplify Making Tax Digital to ensure the smallest businesses do not face undue administrative burdens	Page 23

Q1. Do current definitions of employment status need to be updated to reflect the new forms of working created by emerging business models, such as on-demand platforms?

Bringing employment status out of the shadows – the need for greater clarity

On-demand platforms have exacerbated existing tensions about how employment status is considered. IPSE members (typically highly skilled freelancers working through their own limited companies) have faced uncertainty for a long time because employment status decisions are reached on the basis of ill-defined terms such as ‘control’. This is unhelpful for all parties concerned: individuals cannot be sure of their status and rights, while larger businesses face similar uncertainty because of the risk that their business model could be threatened by the subjective decision of a tribunal.

The rapid rise of on-demand platforms has highlighted this problem in a very public way. Individuals and ‘gig economy’ companies are struggling to understand their rights and responsibilities, and there is too little case law about platforms to provide clarity.

IPSE believes there is an urgent need to bring employment status out of the shadows. Individuals and companies need to know what self-employment looks like: this will prevent people being exploited and help those who want to be self-employed understand what steps they need to take to ensure they are genuinely in business on their own account. Similarly, companies need certainty about how they should approach their relationship with people they wish to engage on a self-employed basis.

IPSE’S model for change: the Self-Employment Matrix

IPSE has developed a framework (our ‘matrix’), which we believe will provide much-needed clarity about employment status. It can be easily understood and drills down into the detail of working practices with clear criteria.

Our matrix has been reviewed by expert lawyers, freelancers and companies that engage freelancers, and is grouped into four categories to reflect the reality of self-employment:

- Autonomy
- Control of process and working environment
- Business risk
- Level of integration in client business

There are a number of factors within each category that tease out whether the contract and working practices underpinning it should be considered self-employment. Each factor is weighted to reflect how strong a pointer it is towards genuine self-employment. We welcome feedback from the Review team – as well as stakeholders from all sides of the debate – about how the factors and scoring system can be tweaked to make the matrix more effective.

IPSE hopes the matrix can then be made available and signposted by the government as an essential resource for the self-employed and those who engage the self-employed. It will be an advisory matrix, to allow individuals and organisations to quickly understand where they stand. The matrix will also highlight where cases are in a ‘grey area’, and make it immediately clear which factors either the individual or client needs to change in order for the engagement to be considered genuine self-employment. This ‘grey area’ is explored in more detail in the ‘Further Issues’ section, but broadly speaking, it refers to roles that fall within the 40-55 scoring range.

How the matrix will work in practice

There are 12 factors that need to be considered. These are weighted by importance and grouped by category, based on our assessment of what genuine self-employment is underpinned by and existing case law.

The scores for each factor are added together to give a final score. This will result in one of four conclusions: Self-employed, not self-employed, likely to be self-employed, or unlikely to be self-employed.

There are eight additional factors that, although they do not form part of the scoring system, should still be considered particularly where an engagement falls into the grey area.

Definition and segmentation matrix		
Factor	Definition	Weighting
	Autonomy	
Lack of mutuality of obligation	An employer is obliged to provide work and the employee is obliged to complete it. This includes those on a fixed term contract, because although there is no obligation once the contract ends, mutuality exists for the duration of the contract. Where this mutuality does not exist it indicates a relationship between a self-employed person and a client. Score 15 points if there is no mutuality in the relationship.	15
Right of substitution	The right of the contractor to have another individual do the work. If the individual can clearly demonstrate they have the unfettered right to substitute and the responsibility for paying the substitute, it is a strong indicator the individual is self-employed. The only limitation a client should be able to place on this right is that the substitute is qualified to do the job. Score 5 points if the individual has a right to substitute.	5
Use of a substitute	If an individual has used their right to substitute during an engagement score an additional 10 points. The use of a substitute should score a total of 15 points.	10
Lack of exclusivity	Where an individual has a contract that specifies they are only to work for one client. If there is a situation where exclusivity applies, it points to an employer-employee relationship (unless there is a clearly justifiable reason, e.g. security or sensitive information). If exclusivity does not exist score 5 points.	5
		35
	Control of process and working environment	
Control of tasks (What is done)	Control of the day-to-day work the individual undertakes. If their tasks are dictated by the client or the client is able to instruct the individual to change tasks without a change to the contract, it indicates an employer-employee relationship. If this is not the case and the self-employed individual has full control of tasks score 15 points.	15
Control of method (How it is done)	Control of how the work is conducted. If the client has the right to dictate the method and process of working, it indicates an employer-employee relationship. For example, if the individual is instructed to use a script when talking to customers or has to adhere to a code of conduct at work, the client has control of the method of work. Health and safety rules should not be considered when making an assessment of who controls the method of work. Where an individual has control of their method of work score 10 points.	10

Control of hours	If the contractor has full control of the time they do work and only a deadline for delivery is set, it indicates they are self-employed. Health and safety limitations on hours should not be considered when making an assessment of who controls the hours of work. If the individual has control of their hours score 5 points.	5
		30
Business risk		
Pay per job/task	Where an individual is paid on completion of a job or task rather than by time worked. This indicates the individual is operating on a self-employed basis. If this is the case, score 10 points.	10
Number of clients	Individuals that have a number of clients appear more likely to be self-employed. If an individual has two or more working relationships at one time, even if the contracts themselves do not overlap, it is a pointer towards self-employment. Where this is the case score 5 points.	5
Entrepreneurial activity	An entrepreneur takes initiative and risk in order to profit. If the individual has an ongoing responsibility for creating business (through marketing, networking etc.) and takes the financial risk of business failure it points to self-employment. Score 5 points if there is evidence of entrepreneurial activity.	5
Rate of pay	The right to set or negotiate the rate of pay, particularly where the individual initiates the negotiation with a client using their own pay scales, points to self-employment. If this is the case score 5 points.	5
		25
Level of integration in client business		
Representation	This determines who the individual is representing in the delivery of a service to the client. If an individual appears to be representing their client while they are conducting their work, it points to an employer-employee relationship. For example, if an individual is required to wear a uniform they are representing their client. If the individual represents themselves while conducting their work score 5 points.	5
Equipment and tools	If an individual uses their own tools and equipment to complete the work this points to self-employment. For example, if an individual uses their own car for driving work or a designer uses their own laptop to complete work, score 5 points.	5
		10
Total points		100
Self-employed	If an individual scores 65 points or more they should be considered self-employed.	65+
Likely to be self-employed	If an individual scores 50-64 points they are likely to be self-employed.	50-64
Unlikely to be self-employed	If an individual scores 35-49 points they are unlikely to be self-employed as they display many characteristics of an employee working for an employer.	35-49
Not self-employed	If an individual scores below 35 they should not be considered self-employed.	<35

	Additional indicators of employment status
Control of location (Where it is done)	Where the work is done. If the individual chooses where they work it points to self-employment.
Lack of supervision	Supervision is the action or process of overseeing or monitoring what a person does or how something is to be done. If the client has the right to check what the individual is doing, they are subject to supervision. If there is no supervision in the relationship, it indicates self-employment.
Liability	If the individual has a degree of liability for any problems that arise while they are at work this points to them being self-employed. An example is if an accident occurs which is the fault of the individual.
Expenses	It is expected that a self-employed person pays their own expenses, such as travel and subsistence and then declares these costs to HMRC. An employee would normally expect additional costs of doing their work (other than simply getting to and from their usual place of work) to be covered by their employer.
Finance and tax administration	Taking control and responsibility for finance and tax administration is an indication of self-employment. For example, invoicing the end client for payment and completing tax returns are activities only a self-employed person would normally undertake.
Lack of economic dependency	If 80% or more of an individual's annual income is received through work done for a single client, it indicates they are dependent on that client in a similar way to an employee. This should not just take account of their earnings through work, but also their overall income (e.g. including returns from investments and pension income). This should be calculated over two years.
Length of contract	Longer contracts could give an appearance of an employer-employee relationship. The benchmark should be two years as this is the 'qualifying period' employees have to reach in order to gain additional rights at work (e.g. the right to claim unfair dismissal). This calculation should also include contract extensions.
Benefits	Benefits or perks such as a free company lunch, free onsite parking or free gym membership are normally reserved for employees. Where the individual does not receive any benefits from their client it points to self-employment.

Illustrative examples

A number of different scenarios are outlined below to show how the matrix works in practice. They are purely illustrative and should not be taken as a verdict on particular business models or organisations.

The imagined contractual terms and working practices are described, and their score is listed in brackets. It becomes clear that some engagements should be considered self-employment, and some absolutely should not.

The next section considers what can be done about the resulting 'grey area', as well as the question of whether we need to make a subjective judgement about whether certain roles essential to public services should be self-employed.

Emmanuel – Graphic Designer (90)

Emmanuel designs a publication for a client every six weeks. His contract is specifically to deliver this piece of work and he is paid on completion of the work after submitting an invoice. He has an explicit, unfettered right of substitution in the contract but has not yet used a substitute. He specified his rate of pay to the client before the contract was agreed and has other clients that he works for while he is completing work for this contract.

Emmanuel's client has very little control over how he works after the contract is agreed. He organises his own work, methods, tasks and hours but is subject to a degree of supervision as his work is reviewed at intervals. Emmanuel represents himself while doing this work: although he is not listed as one of the client's contributors for the work, he does show this work as examples for future contracts. The matrix shows that Emmanuel is clearly self-employed.

Indicators of self-employment

- ✓ Emmanuel is paid on completion of a task via invoice
- ✓ He has an unfettered right of substitution in the contract (but he has not used this for his current project)
- ✓ He sets his own rate of pay
- ✓ He has a number of clients at the same time
- ✓ He controls his hours, methods of working and tasks
- ✓ He represents himself because his work is displayed as his own on his website

Indicators of an employer-employee relationship

- ✗ Emmanuel is subject to a degree of supervision in this contract as his client has the right to review his work at intervals

Samantha – IT Contractor (70)

Samantha has been contracted to help implement the migration of data from old servers to a cloud-based solution for a client. The contract has been in place for six months, but prior to this, she worked on two separate one-year contracts for the same client, on different projects. She has negotiated her rate of pay and she has the right of substitution, but has not used a substitute. Samantha has control of her working processes and hours, but normally has to work at the client's site because the work requires her to.

She is paid a day rate rather than on completion of the work, and the work becomes the property of her client. She is not, however, required to work exclusively for this client, completes her own tax and finance administration and is liable for any mistakes she makes in the work, as well as any loss to the client resulting from this. Overall, the matrix shows that Samantha should be considered self-employed.

Indicators of self-employment

- ✓ Samantha negotiated her rate of pay on this contract
- ✓ She has the right of substitution in her contract
- ✓ She has control of her working processes and hours
- ✓ There is no exclusivity in the contract
- ✓ She is liable for any loss to her client that is incurred because of errors in her work
- ✓ She is responsible for her tax and finance admin

Indicators of an employer-employee relationship

- ✗ Samantha is paid on a monthly basis
- ✗ She is required to work on the client's site
- ✗ She does not take ownership of her work

Parisa – Gig economy taxi driver (60)

Parisa uses her own car as a taxi on a part-time basis to supplement her income. She works through a mobile phone app that identifies potential customers in the area. Parisa turns the app on when she wants to work and turns it off when she doesn't, and can choose which area she starts her work in. She also has the right to use a substitute, but has not used one. She can choose which customers she picks up and is able to turn down fares. Parisa is also paid by every journey and chooses how and when this is done.

However, drivers are rated by customers, and if they fall below a certain rating they can no longer use the app. Parisa also doesn't display very many features of a person running their own business. The app generates the work for her and decides the rate of pay according to demand. The matrix shows Parisa is likely to be self-employed.

Indicators of self-employment

- ✓ Parisa does not have any obligation to accept work
- ✓ She chooses her hours, location and which rides to accept
- ✓ She is paid for every task
- ✓ She provides her own car

Indicators of an employer-employee relationship

- ✗ She is rated by customers and cannot allow this rating to fall below a level set by the app
- ✗ She cannot negotiate her rate of pay

Paul – Contractor Plumber (20)

Paul is a contractor for a plumbing firm. His relationship with his client offers him no autonomy, however: he is obliged to complete work he is assigned by the firm, he has no right of substitution, has his rate of pay set by the firm and is limited to doing plumbing work for this firm only.

He also has very little control over his process of working. He is instructed what to do on a task-by-task basis, is obliged to work a minimum number of hours for the company and is sent to the required site of work, so has no control of the location of his work. He is not, however, instructed how to conduct his work.

Although Paul is responsible for his finance and tax administration and is held liable for any damages while carrying out a job, he represents his client as he wears a uniform and drives a branded van. He is also paid on a monthly basis rather than per task. The matrix clearly shows Paul should not be considered self-employed.

Indicators of self-employment

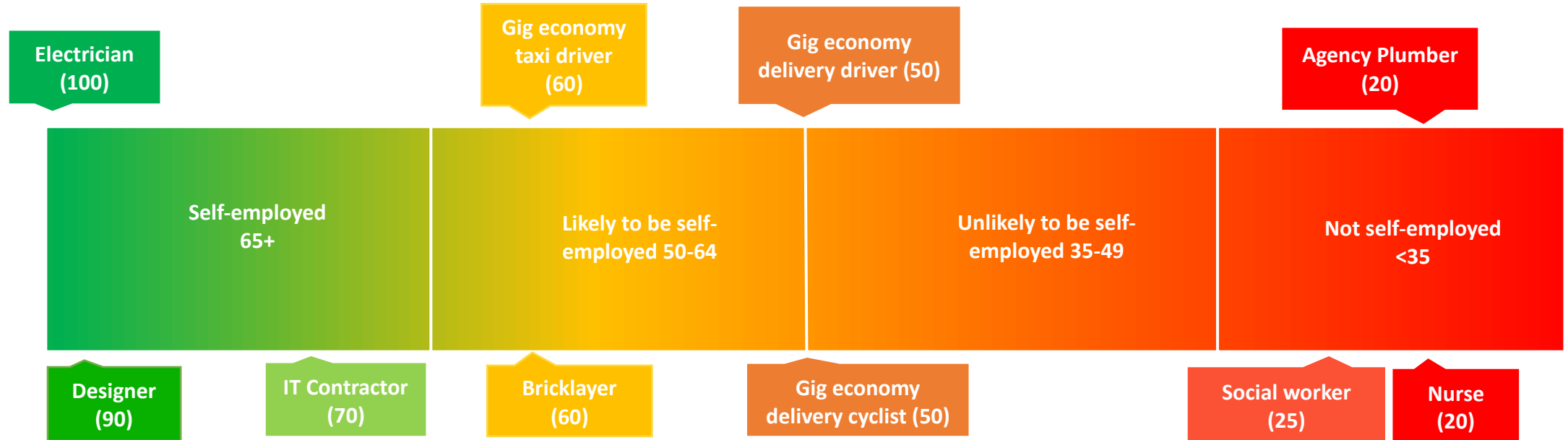
- ✓ Paul is not supervised or instructed about the method of his work
- ✓ He is liable for damages caused by mistakes in his work

Indicators of an employer-employee relationship

- ✗ Paul has little control over his hours or location of working
- ✗ He has no right of substitution
- ✗ His rate of pay is set by the firm
- ✗ There is an exclusivity clause in his contract
- ✗ He represents his client while on a job
- ✗ He is paid monthly, not per completed task

Beyond the illustrative examples outlined above, we include a number of other possible engagements in the diagram below.

IPSE Self-Employment Matrix



Further issues to consider

1. Handling the ‘grey area’

Our matrix clearly does provide a greater deal of certainty for those engagements which score over 65 or below 35. For engagements between this range, individuals and companies will be able to consider whether they are able to adjust working practices or not to ensure it is clearly one of genuine self-employment.

This should be one of the key benefits of our matrix, helping those on both sides of the relationship understand what practical steps need to be taken to ensure they are involved in a genuinely self-employment relationship. Tackling this ‘grey area’ should be a priority, and must include tougher enforcement action by HMRC. However, if this uncertainty is not resolved, government would be justified in acting.

Although the matrix is envisaged as an advisory resource, where it becomes clear that similar roles within the same industry are typically falling within the ‘grey area’ (40-55) this presents a problem. If the individual or client is unable or unwilling to adjust working practices to provide certainty over the status of that engagement, this is not a desirable state of affairs.

In these situations, in specific roles in certain sectors where this ‘grey area’ exists, IPSE believes government could be justified in acting. Rather than creating a new employment status, which would add a further layer of complication, ‘worker’ status could be assigned to these engagements. This would give individuals some of the protections that employees receive (for example, minimum wage and holiday pay), while maintaining the flexibility of the arrangement.

In this instance, government should also explore whether the tax treatment of workers needs to be considered. At present, ‘workers’ receive certain employment benefits but their work is still taxed as if they are self-employed. To boost tax receipts and make the system more rational, government should consider whether this needs to change.

This is an area worthy of exploration, but government would be wise to approach with caution. It will often be the case that similar roles in similar industries will nonetheless be very different in terms of the working practices that exist.

2. The case for a statutory definition

‘Employee’ and ‘worker’ are both defined in law (Section 230 of the Employment Rights Act 1996), but there is no statutory definition of self-employment. As BIS noted last year, ‘the lack of a formal definition of self-employment...can result in individuals drifting into a status that neither they, nor their engager wishes, and has the potential to lead to abuse’.¹

Although no easy task, IPSE believes government should explore defining self-employment in law. This would help remove the uncertainty that many individuals face, and reduce the potential for exploitation which exists with the current lack of clarity and reliance on the courts to interpret working relationships.

IPSE’s matrix could form the framework of any attempt to develop a statutory definition of self-employment – built around the key tenets of ‘autonomy’, ‘control of process and working environment’, ‘business risk’ and ‘lack of integration into client business’.

¹ Department for Business, Innovation & Skills, Employment Status Review, December 2015.

3. Self-employment and the delivery of essential public services

IPSE's Self-Employment Matrix considers employment status on a purely objective basis, getting to grips with the reality of the work people undertake. However, it is worth considering whether roles deemed to be delivering "essential public services" such as an ambulance driver or care worker within the public sector should be carried out on a self-employed basis.

In these instances, it may in fact not be desirable, for example, for the individual to have the ability to turn down work or send a substitute to complete the work. Therefore self-employment, and the autonomy this brings, may not be appropriate for roles delivering essential public services where the engager needs a greater degree of control as to what work is carried out, and how it is completed.

Definition of self-employment

IPSE believes this matrix should form the basis for a statutory definition of self-employment. Below is an example of what such a definition should look like.

A self-employed engagement is likely to have some (**but not all**) of the following core characteristics:

- The individual controls the following; the tasks they undertake on a day-to-day basis, how the tasks are undertaken, where the tasks are undertaken, and for how long the tasks are undertaken
- The individual is not obliged to do any work beyond what is explicitly specified in their contract, and the client is not obliged to provide any additional work beyond what is explicitly specified in the contract
- The individual has an unfettered right, and has used, a substitute to do their work. The substitute should be paid by the individual and not the end client
- They are paid on completion of a job rather than by time worked, and they have had more than four clients over the previous 12 months

The following additional factors are also often present in a self-employed engagement:

- The individual has the right to set or negotiate their rate of pay, particularly when the individual initiates the negotiation within their own pay scales
- The individual does not have an exclusivity clause in their contract (unless there is a clearly justifiable clause reason such as security) which prevents them working for other clients
- The individual represents themselves in the course of doing business, rather than their client. For example, they do not have to wear a uniform
- The individual takes responsibility for financial and tax administration
- The individual is held liable for problems that arise while they are at work
- The individual uses their own tools and equipment
- The individual has been working for a client for less than two years, including contract extensions

Q2. To what extent do emerging business practices put pressure on the trade-off between flexible labour and benefits such as higher pay or greater work availability, so that workers lose out on all dimensions?

The advantages of self-employment

The vast majority of self-employed people enjoy working the way they do. Research from BIS in 2016 found self-employed people most value their independence (79%), flexibility (75%) and greater job satisfaction (73%)². 52% said they are financially better off in self-employment compared to being an employee, and 84% said overall life is better in self-employment compared to being an employee. Importantly, only 6% were planning to leave and work for an employer in the next three years.

This is backed up by IPSE research which found almost nine in ten independent professionals (86%) are very satisfied with the way they work. 79% of independent professionals say they enjoy being their own boss and 69% say it provides a better work-life balance than employment. The research also found almost two thirds (65%) of independent professionals intend to continue working in this way for the foreseeable future. Only a very small number (2%) want to make the switch and work as an employee.

Self-employment also allows the wider economy to flourish. As research by Professor Andrew Burke³ has demonstrated, by absorbing risk for their clients, the self-employed both encourage innovation and boost efficiency. Firms that use self-employed people are better able to quickly respond to peaks and troughs in demand.

The path for reform – implementing the Deane Review recommendations

Self-employment is clearly a positive way of working for the vast majority. However, IPSE recognises that the growth in self-employment, particularly where individuals may be struggling financially, necessitates action by policymakers.

Government needs to improve specific welfare policies which encourage rather than restrict flexibility in the labour market. The Deane Review into self-employment made a number of recommendations which IPSE urges government to implement⁴. These are outlined in our answer to question three, but primarily cover encouraging the uptake of savings products including pensions, and improving access to maternity and paternity pay for the self-employed.

² Department for Business, Innovation and Skills (2016) 'Understanding self-employment'. Available online: <https://www.gov.uk/government/publications/understanding-self-employment>

³ Burke A. (2012), 'The role of Freelancers in the 21st century British economy', Cranfield School of Management.

⁴ Julie Deane (2016) 'Self-Employed Review: An independent review'. Available online: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/529702/ind-16-2-self-employment-review.pdf

Q3. To what extent does the growth in non-standard forms of employment undermine the reach of policies like the National Living Wage, maternity and paternity rights, pensions auto-enrolment, sick pay, and holiday pay?

Self-employment and benefits: a limited but vital role

From the perspective of self-employment, certain benefits are not appropriate. Benefits like sick pay and holiday pay, for example, are funded exclusively by employers and it is difficult to imagine how they would work for the self-employed. For example, if I am working from home as a freelancer and have multiple clients at any given time, which client would be expected to pick up the tab for sick pay and holiday pay?

It is difficult to imagine how the flexibility which the self-employed so value could be maintained if they were entitled to sick pay and holiday pay. For example, they could be required to have set shifts and only be allowed to work for one client at a time. However IPSE believes that there are extensions or modifications to the pensions system and maternity and paternity pay that can offer additional security for the self-employed, without harming their flexibility.

A flexible pension solution for the self-employed: can auto-enrolment help?

The recommendations in the Deane Review included “more flexible financial solutions” for the self-employed, including pensions⁵. The review found many self-employed people “cannot afford to or they do not feel they can commit to a pension because of the volatility of income associated with being self-employed.”⁶ IPSE research found 37% of IPSE members do not have a pension, and 16% have no retirement savings at all. 19% of respondents said pension products do not offer sufficient flexibility for them to be able to save. In addition, there is little incentive for the self-employed to put aside money for retirement when there is no equivalent to an employers’ contribution.

Pensions are essential in ensuring a high enough income at retirement age for a good quality of life. The variable income and work patterns of many self-employed do not lend themselves well to traditional pensions and a new model is needed.

Many independent professionals choose to pursue alternative investment vehicles to plan for their retirement, such as property or shares. However, these are not necessarily secure or appropriate ways to save for retirement and alternative long-term flexible savings vehicles are now necessary to increase pension uptake for the self-employed. As highlighted in the Deane Review, “accessibility to the pension fund to cover periods of not earning would be highly desirable.”⁷

This type of product would encourage the self-employed to save for retirement by allowing them to access cash in times of financial hardship or when income fluctuates, reducing the perceived risks of self-employment to new entrants, and improving the very low uptake.

One option put forward by Smart Pension would be a “pot follows member” policy, whereby the engager would have to add contractors to their auto-enrolment membership and pay contributions alongside the contractor. However, many self-employed individuals take on work via their own limited company. As a result, there is a need to ensure the policy change covers self-employed people who contract directly for work, leaving those using personal service companies to provide auto-enrolment pensions in their own right. This means it would also be necessary to remove the present exception to auto enrolment for one-employee companies.

⁵ Ibid.

⁶ Ibid.

⁷ Ibid.

Some in the policy debate have suggested ‘nudging’ the self-employed into private pensions through auto-enrolment⁸. This would involve increasing Class 4 National Insurance Contributions from 9% to 12%, given the employer contribution under automatic enrolment will be 3%. However, given the problems created at the last Budget when the Chancellor sought to raise Class 4 NICs, it would be important that any such measure is approached with care. Auto-enrolment for the self-employed would also need to be simple to opt-out of and not unnecessarily deprive the self-employed of much needed money when their income level drops.

These contributions could be diverted into a pension, provided they also contributed at a specified level. Based on automatic enrolment, a minimum gross contribution of 5% (including tax relief) may be required. This contribution could be diverted into a Lifetime ISA, which is discussed below.

Extend LISA eligibility criteria

While proposals such as the Lifetime ISA (LISA) are welcome as a potential solution to retirement saving for the self-employed, it must go further. From April 2017, LISAs were available to those between the ages of 18 and 40, who are able to deposit up to £4,000 a year until the age of 50. Those with a LISA receive a 25% Government bonus on top of savings when withdrawn tax-free at 60.

According to the Office for National Statistics (ONS), the average age of a self-employed person is 47, which suggests that the current age eligibility criteria is a significant barrier to uptake.⁹ 46% of respondents in IPSE’s survey said they are ineligible to use the LISA due to their age, and only 14% said they intended to use a LISA to save for retirement. Of those that said they do not intend to use or are unsure whether they will use a LISA, 63% said this was because they did not know enough about it, indicating the need for better signposting.

Additionally, the LISA should allow for a maximum withdrawal without losing the bonus or interest so the self-employed can save responsibly for retirement to allow for fluctuating incomes. This could be combined with increased maximum yearly payments to encourage greater long-term savings.

Recommendation: Extend the age eligibility criteria for the LISA so the self-employed, whose average age is 47, including those aged 60 and above, the fastest growing demographic, are able to save effectively for their retirement.

Allow for a maximum withdrawal from the LISA without losing the bonus or interest so the self-employed can save responsibly for retirement while facing fluctuating income. This could be combined with increased maximum yearly payments to encourage greater long-term savings.

Better signpost the LISA so the self-employed can benefit from it as an alternative long-term saving vehicle for their retirement. As with the new State Pension eligibility criteria, this

⁸ Royal London (2016) ‘Britain’s “Forgotten Army”: The collapse in pension membership among the self-employed – and what to do about it. Available online:

<https://www.royallondon.com/Documents/PDFs/2016/Royal%20London%20Policy%20Paper%204%20-%20Britain's%20Forgotten%20Army.pdf>

⁹ Office of National Statistics (2014) ‘Self-employed workers in the UK – 2014’. Available online:

<http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/infographics/self-employed-workers-in-the-uk/index.html>

information could feature as part of a central Government portal hosting advice and support for the self-employed as proposed in the Deane review.

State Pension

Our research showed the State Pension age was not an important factor in determining when the self-employed plan to retire, suggesting the recent increases to which, have had little impact on retirement attitudes. It also found that only 14% said reaching the eligibility age to access their State Pension was a main factor in determining when they would retire, indicating many will work past the State Pension age. 37% said they intend to work past the State Pension age because they believe they would be unable to financially support themselves if they retired, with 79% citing financial security as an important factor in determining when they would retire.

It is a concern that 11% of independent professionals whose age qualifies them for the new State Pension did not know if they were entitled to it, signaling the need for better signposting. If demographic trends continue, the proportion of self-employed people that the LISA excludes will only increase over time.

Recommendation: Better signpost new State Pension eligibility criteria to improve awareness and ensure the self-employed can plan and save effectively for their retirement. This information could feature as part of a central Government portal hosting advice and support for the self-employed, as proposed in the Deane review.

Fairer maternity and paternity rights

With regard to maternity and paternity rights, IPSE urges government to implement the recommendations set out in the Deane Review.

Four out of every ten independent professionals are women, and the number of mothers working independently has increased by 80% since 2008¹⁰. Unfortunately, women who choose to have children when they are self-employed are at a significant disadvantage compared with employees. This is because much less support is available from the state for the self-employed.

For example, if you are an employee you are eligible for Statutory Maternity Pay (SMP). This is set at 90% of average weekly earnings for six weeks, and then drops to £138.18 for 33 weeks. SMP is paid by your employer, who then claims this back from the Government.

However if you are self-employed, you may be eligible for “Maternity Allowance”, not “Statutory Maternity Pay”. This is paid directly to you by the Government. In this case you will receive only £138.18 for 39 weeks, there is no period where you will receive an amount proportionate to your earnings. This means that for six weeks a self-employed person will receive much less than an employee. In addition, eligibility for paternity benefits is very unclear for the self-employed.

The self-employed should also receive 90% of their average earnings for six weeks. This should be based on the last two years of self-employed earnings and subject to sufficient National Insurance

¹⁰ Kitching, J., 2017, ‘Exploring the UK Freelance Workforce’.

Contributions having been made. It should be paid directly to the self-employed in the same way Maternity Allowance currently is.

Total earnings over a 24-month period would be averaged out over a weekly basis. For example, if an individual has only worked three months in the last two years they would only receive a small amount. Therefore, this system would maintain the principle that exists within SMP that only those who have been in steady work for some time should be rewarded and it would prevent abuse.

The two-year period also takes into account the variability in income the self-employed face. For example, if an individual took on lower paid self-employed work in the six months prior to claiming Maternity Pay, but had earned a high amount in the 18 months before then, the system would account for this.

Recommendation: Enable mothers who are self-employed to claim Statutory Maternity Pay, to replace the existing 'Maternity Allowance' and radically re-examine how the self-employed are treated for maternity and paternity-related benefits. This would mean that rather than receiving a low fixed payment from the Government, mothers working in this way would receive 90% of their income for six weeks in the same way that employees do.

Paternity benefits should also be re-examined as eligibility in this area is similarly unclear. As a first step, guidance published by the Government should be reviewed to ensure it meets the needs of the self-employed and independent professionals, with consideration given to completely reviewing paternity pay for the self-employed.

The case for better childcare support

Women continue to be responsible for the majority of domestic childcare in the UK. In 2013, women reported doing 23 hours of domestic childcare each week, compared to 10 hours for men¹¹. At the same time, the UK's self-employed workforce has grown to around 4.8 million. Of these, 1.9 million are highly skilled or professional freelancers. 40% of this group are women, and 287,000 are known to be working mothers. None of these self-employed people are currently eligible to receive support for their childcare costs in the way PAYE workers can. There has been drastic growth in the number of mothers working as freelancers: between 2008 and 2015 the number increased by 70%.

Tax-free Childcare (TFC) will provide a 20% top-up towards working families' childcare costs, up to £2,000 per year for each child. In place from early 2017 it is available for children up to the age of 12.

In the 2016 Budget the Chancellor confirmed that families with the youngest children will enter TFC first, with all eligible families due to be brought in by the end of 2017. The existing childcare vouchers scheme will be closed to new entrants from April 2018.

Unlike childcare vouchers, Tax-free Childcare will be available to the self-employed – a positive move IPSE welcomed. IPSE is concerned, however, at the way the Government plans to roll out TFC. By opening TFC first to families who have the youngest children, including those that already have access to childcare vouchers, self-employed parents will be delayed in getting access to this important support. This will particularly affect the growing numbers of self-employed women.

¹¹ National Centre for Social Research (2013) 'British Social Attitudes 30: Gender roles – an incomplete revolution?'

Recommendation: In order for the benefits of TFC for self-employed women and the wider economy to be realised sooner, we believe the scheme should be opened to self-employed parents first. Targeting self-employed parents first would also provide a sample in which the initial success of the rollout can be assessed. This evaluation can be fed-back into improving TFC for families overall as the rollout progresses, supporting a smoother transition to TFC for parents who currently use childcare vouchers.

Q4. How can we facilitate and encourage professional development within the modern economy to the benefit of both employers and employees?

Training

The tax system, perversely, does not reward the self-employed for training in the same way as employees. Training for new skills is not tax-deductible, but training for improving existing skills is. This acts as a barrier for self-employed people that want to equip themselves with different skills that might allow them to increase their earnings.

The Resolution Foundation note the typical earnings of the self-employed fell by £100 a week between 2006-07 and 2013-14¹². Making training for new skills tax-deductible for the self-employed could enable the lower paid to retrain into high skilled work. Furthermore, with over 800,000 self-employed working in the construction industry, a skilled workforce will be vital if government is to achieve its ambitions as set out in its Industrial Strategy.

With regards to the gig economy, on-demand platforms are deterred from offering training to gig economy workers as many companies believe this would point towards employment, meaning they would also be entitled to other employment benefits. This creates a perverse incentive for on-demand platforms not to provide training which could upskill the self-employed.

Recommendation: Make training for new skills tax-deductible for the self-employed as it is for employees, enabling them to take on higher paid work and increase their earnings.

¹² Resolution Foundation (2016) 'Typical earnings of the self-employed lower than 20 years ago'. Available online: <http://www.resolutionfoundation.org/media/press-releases/typical-earnings-of-the-self-employed-lower-than-20-years-ago/>

Q5. How can we harness modern employment to create opportunities for groups currently underrepresented in the labour market (the elderly, those with disabilities or care responsibilities)?

Preparing young people for the modern world of work

Self-employment and enterprise should be integrated in all relevant areas of the curriculum. This can be achieved through implementing a Life Skills Module encompassing enterprise in primary and secondary education, along with embedding optional or mandatory enterprise modules in vocational subjects and other relevant areas. This would ensure those without outstanding academic grades or those who choose business over academia have the confidence and knowledge to enter self-employment or start their own businesses, either when they leave formal education or later in life.

Backing those with disabilities

Self-employment, including online platforms, offer the opportunity for underrepresented groups such as those with disabilities to increase their activity in the labour market. Research from the Labour Force Survey 2015 shows disabled workers have a self-employment rate of 16%, compared to 13% for non-disabled workers. Self-employment offers the opportunity to achieve a better work-life balance. For a disabled person, another beneficial factor with regard to self-employment is the independence of working from home. For those with mobility problems, they can manage whole projects from the comfort of their own home, mitigating problems associated with travel, for example. Occupational therapists can provide support in making the home working environment as comfortable as possible.

IPSE believes the New Enterprise Allowance (NEA), has played an important role in helping the disabled succeed in self-employment. According to the Mone Review¹³, the NEA programme has resulted in over 70,000 people becoming self-employed. Those helped include 8,590 disabled people, underlining the scheme's role in empowering those who are disadvantaged¹⁴.

However, more can be done to support claimants as they establish and grow their business. For example, the NEA does not currently have any objectives to encourage participants to aim for the minimum income floor threshold to become eligible for Universal Credit. NEA claimants' business experience should be monitored with tailored advice and business support designed to achieve this.

Recommendation: BEIS should explore innovative programmes to support the disabled to succeed in self-employment. IPSE agrees with recommendation 2e in the APPG on Disability report, *Ahead of the Arc*, which states that BEIS should work with an Advisory Panel of Disabled Entrepreneurs to pilot three Inclusive Entrepreneurship Programmes across the UK. This should be independently evaluated and form the basis of an Inclusive Entrepreneurship Programme.

¹³ The Baroness Mone OBS (2016) 'Boosting enterprise in more deprived communities'. Available online: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/511542/boosting-enterprise-in-more-deprived-communities.pdf

¹⁴ Gov.uk (2016) 'Pre-Work Programme, New Enterprise Allowance and Youth Offer statistics'. Available online: <https://www.gov.uk/government/news/baroness-mone-publishes-be-the-boss-review>

Q6. How can government – nationally or locally – support a diverse ecology of business models enhancing the choices available to investors, consumers and workers?

A fairer, more efficient tax system

The best way government can encourage businesses to thrive is through an efficient and fair tax system. As it stands, our tax system is no longer fit for purpose. It is based on the traditional employer/employee model, and as self-employment continues to grow, the problems with this model become clearer. The government's attempts to address this question have not been joined-up and have resulted in misjudged and ill-conceived policies. A fair tax system will help to resolve this.

The government must take a number of bold steps to resolve this:

- **A strategic review of the tax system** – Misjudged policies around IR35, national insurance and Making Tax Digital (MTD) have all rightly attracted criticism, as they have hit the self-employed. The government needs a more strategic approach to considering how modern working practices can be addressed in the tax system. This should include a comprehensive review chaired by an independent expert.
- **IR35 damage control** – By shifting the IR35 burden to agencies and end clients in the public sector, the government has caused many independent professionals to terminate their contracts and move to the private sector. Public sector projects are stalling as a direct result of this. The government must learn lessons from the chaos caused by the changes to IR35 in the public sector. It must not consider rolling out a similar measure in the private sector, as many independent experts have predicted. Such a move would have a calamitous effect on the UK economy.
- **Create a bespoke tax system for freelancers** – The government should create a bespoke tax system for freelancers - the 'Freelancer Limited Company' (FLC). This would clarify the tax and employment status of independent professionals and protect government revenue.
- **Simplify Making Tax Digital** – Making Tax Digital should not be made mandatory until 2025 at the earliest. It can be introduced on a voluntary basis before then. The largest businesses should be targeted first, with those under the VAT threshold initially exempt. The requirement for quarterly reporting should also be removed, as this will increase compliance and accountancy costs for businesses.

Rolling out workhubs

No economy can be built without the right infrastructure and the self-employed economy is no different. To enable individuals to both become self-employed and be self-employed: access to broadband, reliable mobile phone reception, workhubs and effective road and rail infrastructure is crucial.

Businesses with premises are already exempt from paying rates, yet those without premises are forced to pay them indirectly as they are a significant part of the operating costs of many workhubs, which are often run by collectives of self-employed workers. Cutting business rates for workhubs would encourage the enhanced rollout of such facilities and help the self-employed grow their businesses.

Steps can also be taken to incentivise the use of empty council properties as workhubs, as has been done by trialing the use of incentives for residents to buy run-down housing stock at low prices to encourage regeneration and renewal. This should also be trialed with commercial premises that a council may have. For example, an online map of empty properties could promote development.

The planning system also needs to be simplified to allow empty commercial properties to change their use. Helping retail properties to be easily reclassified as office space can allow new workhubs to be opened quickly and help to regenerate the high street.

Better broadband

To ensure self-employment is viable and economic growth is spread across the whole UK, better broadband coverage is essential. Evidence from Comres has shown this is an important reason why the freelancing sector has struggled to diversify from London and the South East. Indeed a fifth of self-employed people in Scotland and Wales have stated they have struggled to work to their full potential due to broadband issues, almost double the number in London. This is particularly an issue in rural areas, where Ofcom found in 2016 that almost half of premises are unable to receive speeds above 10Mbit/s, with superfast coverage just 37%.

To tackle this, government should prioritise 4 actions:

1. **Commit to 100% access to broadband by 2020** - On top of this, a maximum ratio between the fastest and slowest speeds would help to address the urban/rural economic divide. Government should also explore extending the Broadband Connection Vouchers scheme, currently in place in 22 cities to provide vouchers of up to £3,000 to deliver better broadband for businesses. Microbusinesses would really feel the benefits if the scheme was extended to rural areas where coverage is often very poor.
2. **Guarantee new housing developments have fibreoptic broadband** - Government has made significant commitments in recent years to new developments. Through the Homes and Community Agency, which will also decide on the infrastructure needed, a new town with 10,000 homes will be built on a former RAF base at Northstowe.

Government will also be backing the development of a new garden city in Bicester, which will include 13,000 homes. The government must use these opportunities to ensure these significant housing projects have broadband fit for the modern economy – working with housing associations, or through the Homes and Community Agency when projects are directly commissioned. Fibreoptic broadband offers far greater speeds than standard broadband, with Virgin Media offering up to 152Mbit/s and BT 76Mbit/s.

3. **Ensure WiFi enabled across rail networks** - As part of the negotiation of new rail franchising agreements, government should ensure all trains are equipped with free WiFi, in standard as well as first class. By 2020, no commuter or inter-city train service should be without WiFi in the UK. Independent professionals often need to work on the move, and a dearth of good WiFi on trains can be frustrating and a real drain on productivity. Local metro networks such as Manchester Metrolink, London Underground, and Merseyrail would also benefit from this policy
4. **USO must deliver real change** - the Digital Economy Bill will improve access through the Universal Service Obligation, giving every home and business in the country the legal right to

have a 10Mbps connection installed if they request it (It is thought up to 2.4 million properties are still without a 10Mbps connection). Government must ensure this obligation is really universal and those in the remotest areas are not excluded.

Q7. Could we learn lessons from alternative forms of representation around the world, for example the Freelancers Union in New York, which focuses on access to health insurance, or the California App Based Drivers Association which lobbies companies like Uber on behalf of drivers?

Policymakers should closely analyse international examples for best practice. The UK already has well developed membership organisations however, which offer vital support to freelancers.

IPSE is the leading membership body for the self-employed, representing over 67,000 freelancers in the UK. We offer a number of useful products for our members, including illness/injury insurance, jury duty insurance, group pension rates, access to a free tax and contract helpline and networking opportunities.