



# Falling through the cracks: the economic costs of the coronavirus pandemic for the UK's freelancers

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# Foreword



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## **The coronavirus outbreak is not just a health crisis – it is an economic crisis too.**

As the country has taken necessary measures to shut down everyday activity to protect public health and the NHS, there has been an immediate financial impact on people's jobs and livelihoods.

One of the groups most affected by the lockdown and social distancing are the UK's self-employed workforce. Comprising just over five million people, some 15 per cent of the working population, this group contributes a combined £305bn to the UK economy.<sup>1</sup>

Throughout March 2020, IPSE and other organisations that advocate for the self-employed heard countless stories from those who were seeing their future work and income being delayed, cancelled or disappearing altogether across several sectors.

Since then, several studies have given quantitative proof to back up this anecdotal evidence. An IPSE survey, carried out in the early stages of the crisis, found 91 per cent of freelancers saying they were concerned about the financial impact of coronavirus on them and their self-employed businesses, with 69 per cent saying demand for their work had decreased.<sup>2</sup> Our Freelancer Confidence Index, a quarterly economic health check of the sector, showed business optimism falling to historic lows.<sup>3</sup>

The ONS has also reported that 60 per cent of self-employed people saw their income fall between April 3 and April 30 – compared with just 22 per cent of employees – with almost a quarter having to use their savings to cover living costs.<sup>4</sup>

Given the scale of economic damage, it was important and right that the government – after lobbying by IPSE and others – took the decision to introduce specific help with its Self-Employment Income Support Scheme (SEISS). Open to sole traders with average trading profits below £50,000, this scheme has proved extremely popular, with more than 2.5 million people benefitting at a total cost of £7.2bn.<sup>5</sup>

But the self-employed community is diverse and there are many who don't qualify for the scheme. They also remain inadequately covered by other policy measures, such as grants, loans and changes to Universal Credit. As the findings of this report by the University of Edinburgh in association with IPSE highlight, highly skilled freelancers – particularly those who provide their services via a limited company – are one of the groups who are most acutely affected.

The results of this research illustrate that, for those freelancers without government support, a worrying few months beckon as income dries up and savings are eaten into. Amongst the most concerning findings are that three-quarters of freelancers have seen their incomes fall, and by an average of 76 per cent. 69 per cent have cash flow concerns, up from less than 10 per cent prior to COVID-19, and one in five expect their business to close down altogether. As well as the financial impact, this collapse has led to increased stress and worry.

As the UK Government begins to plot a path out of lockdown, IPSE believes that the financial support for the self-employed should be extended and expanded. The SEISS has been successful for those it targeted and the decision to extend it until August is welcome. But the government must ensure there is no cliff-edge in the support available, particularly for those freelancers in sectors such as the creative and hospitality industries, which may not reopen for many months. It should be extended for as long as the self-employed need it. Others who missed out altogether, particularly those who are limited company directors and the newly self-employed, also need access to a similar income support scheme to keep them afloat in the coming months.

To return to economic growth, the UK will need its flexible freelance workforce – the government should invest in them now in their time of need, so that they are ready to rebound quickly once the country begins to return to economic health.

Alasdair Hutchison

**Policy Development Manager**



# Introduction

From technology and finance to the creative arts, freelance managers, contractors and consultants contribute more than £144 billion to the UK economy each year. That's almost half of the registered self-employed's annual £305 billion contribution.<sup>6</sup> Hard-working freelancers support business growth, drive innovation and entrepreneurial dynamism.<sup>7</sup>

This first of its kind study demonstrates that many of these professionals now find themselves at a precipice due to the COVID-19 pandemic. Without support, their financial survival and ability to contribute to rebuilding the economy is in jeopardy. Our April 2020 survey of 1,402 freelancers demonstrates:<sup>8</sup>



**increase in freelancers' stress levels due to the coronavirus pandemic**



**have lost income – and by an average of 76 per cent**



**have cashflow problems – up from less than 10 per cent before COVID-19**



**expect to cease trading because of COVID-19**

“I have fallen through every single crack in this supposed raft of financial support measures. I cannot pay my bills. My income has gone from £4k a month to zero overnight. Despite paying taxes in this country for over 12 years, I am not eligible for any safety net from government [...] There is nothing I can do to work and pay my bills.”<sup>9</sup>



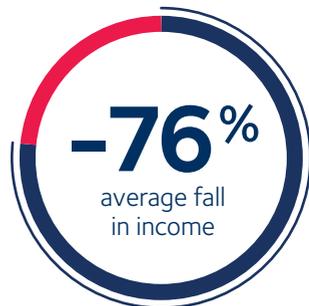
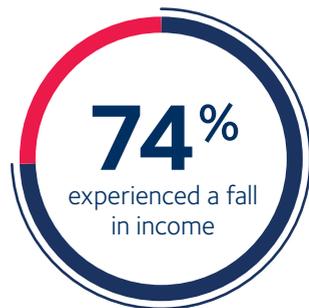
# A depressing decline in financial performance

Negative portrayals of the UK self-employed as low-skilled, poorly-paid agency workers and delivery drivers are common.<sup>10</sup>

However, there are different types of self-employment. Of the 1,402 self-employed freelancers we surveyed in late April 2020, 83 per cent run their own limited company and 70 per cent hold university degrees. Although present in all sectors, these skilled freelancers tend to operate in high value-adding sectors such as financial and insurance services (11 per cent), information communications (25 per cent) and professional, scientific and technical services (32 per cent). Eighty per cent of them earn more than the UK's annual household median income.<sup>11</sup>

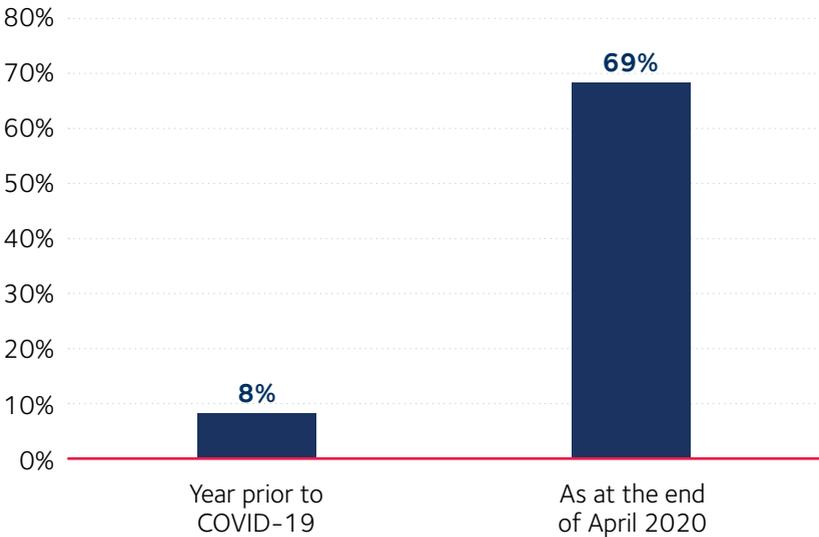
We anticipated the impact of the COVID-19 pandemic on freelancers would be significant because they have fewer employment rights and more unstable employment contracts than those in permanent employment.<sup>12</sup> However, we didn't expect the depressing decline in financial performance we found. Three-quarters have lost income due to the coronavirus outbreak.

The depth of this decline was also surprising. On average, freelancers' incomes have fallen by 76 per cent. On a positive note for some, 23 per cent have seen their income remain the same, and three per cent have seen it increase.



“The real effect of COVID-19 on my business is that the market is so quiet, I have not been able to get a new contract since it started. I know of other contractors that were let go as a result of COVID-19.”

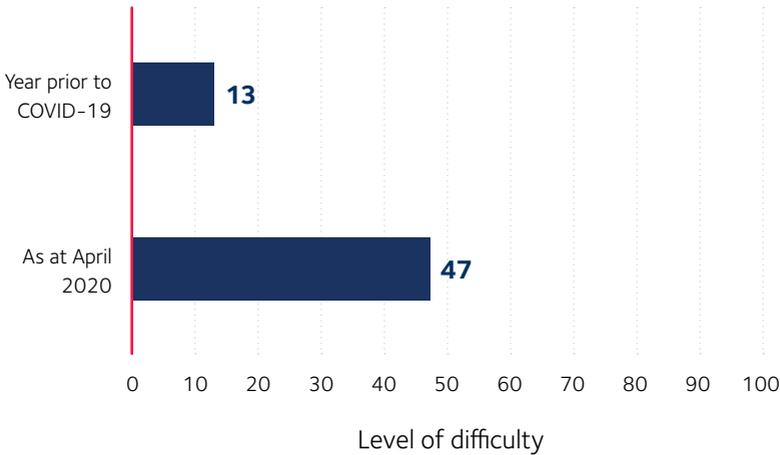
Figure 1 demonstrates 69 per cent of freelancers are now concerned with their cash flow – up from less than ten per cent before the COVID-19 pandemic.



**Figure 1:** *Percentage of self-employed with cashflow concerns*

We also asked freelancers how easy it was to cover their expenses and pay their bills prior to COVID-19 and currently. For both then and now, we used a 100 point scale where 0 meant not at all difficult and 100 is extremely difficult.

Figure 2 shows that the average level of difficulty increased markedly. Prior to the pandemic, the average level of difficulty on the 100 point scale was 13. Now the average level of difficulty in covering expenses and paying bills is 47.



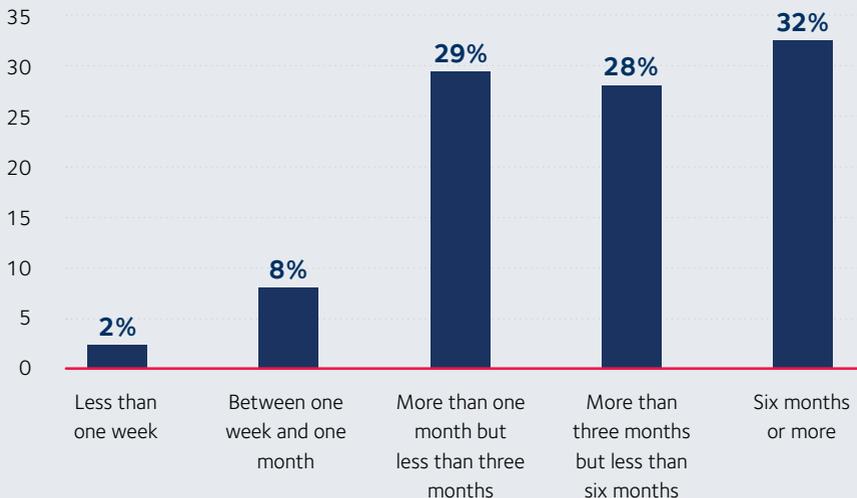
**Figure 2:** *Level of difficulty in covering expenses and paying bills*

“If I hadn’t been able to borrow £200 from my parents last week I would have needed to go to a food bank.”

# Extreme times call for extreme measures

With a great deal of work disappearing overnight, Figure 3 shows eight per cent expect to run out of money by the end of May 2020. While 29 per cent have finances to cover their bills and pay expenses until the end of July 2020 and more than one-quarter can survive for three to six months, a worrying 2 per cent said they wouldn't make it until the end of the week.

Many freelancers put aside money because their income fluctuates from month to month and year to year so it is not surprising that one-third have reserves that will last six months or more. Many also conserve resources to pay their VAT and tax bills.



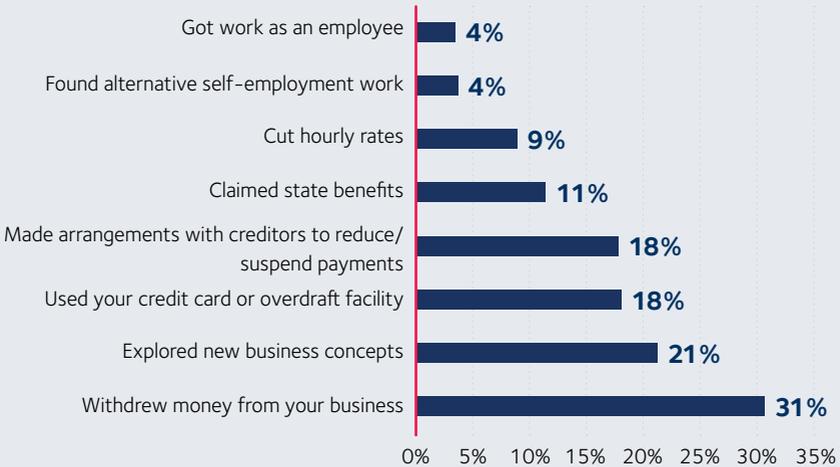
**Figure 3:** *Length of time that freelancers could cover their expenses and pay their bills*

“I have been largely unaffected by Covid-19 and able to work remotely [so far, however] in May, my client is closing their operation so there will be no further work for the foreseeable time. The effects of this situation are, for some, only starting to be felt.”

“I have some financial reserves due to good financial planning on my part. However, I expect that I will have to delay my retirement by several years due to the financial losses in the UK economy and the forthcoming downturn that will inevitably follow. I am in my mid 50’s and there is a real possibility I may not be able to secure work for quite an extended period.”

Figure 4 shows freelancers have adjusted to the deteriorating financial situation in four ways:

1. Nearly one-third withdrew money from their business to bolster their finances
2. One-fifth have considered developing a new business or other self-employment work
3. Others took out a loan, used a credit card, cut their rates or attempted to agree on new payment terms with creditors
4. A small number applied for Universal Credit or sought paid employment.



**Figure 4:** *Actions taken in response to cash flow concerns*

“I have about two or three months of money at the most before I start eating into the money I’ve set aside for corporation tax, self-assessment and VAT this year, as well as my accountant fees which will be about £5,000. The future at the moment is very bleak – we have four children who depend on my income. I am not a tax dodger and I would ask the government to help us.”



# Government support

In the early stages of the COVID-19 pandemic, the UK Government introduced an unprecedented support package for business, running to £330 billion or about 15 per cent of the country's GDP.<sup>13</sup>

The Coronavirus Job Retention Scheme, which supports employers to furlough staff by guaranteeing 80% of their wages up to £2,500 each month, is a crucial plank of this support. Furloughing is available for directors of limited companies. However, there are conditions. The amount that limited company directors can claim is based solely on their salaries and not on any dividends they take from their company. This may dissuade many if their salary levels are small or they have taken their salary later than the deadline of the 19th March 2020. Another condition of being furloughed is not being able to work. This is difficult for many business owners as it prevents them from running their own business.



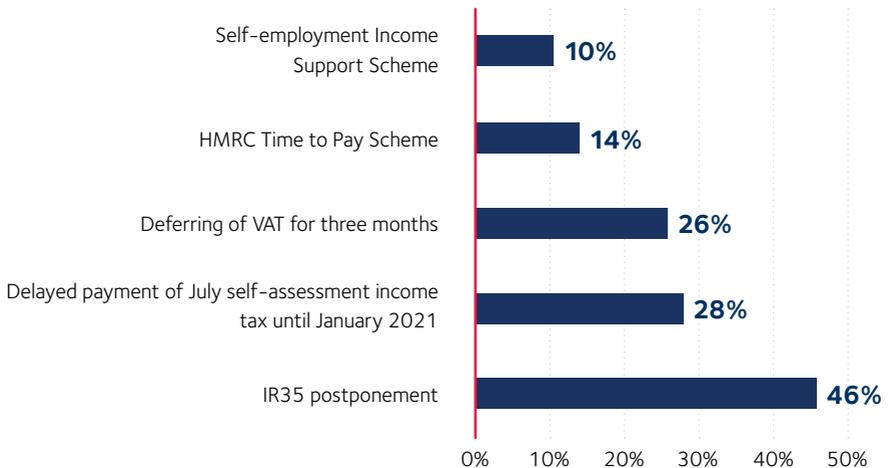
The government also unveiled a range of other assistance for business such as grant schemes and three specific measures for the self-employed:

1. It postponed April's planned changes to IR35 regulations to shift the onus for the designation of 'off-payroll' work from the contractor to medium and large firms for one year. The House of Lords has criticised this shift as disruptive, adding to business costs and leading to unintended consequences such as the early terminations of self-employment contracts.<sup>14</sup>
2. It introduced the Self-Employment Income Support Scheme (SEISS), which provides the self-employed (or members of a partnership) with a taxable grant based on 80 per cent of their average monthly profits up to a maximum of £2,500 per month. The scheme has already started making payments. So far, SEISS has proved extremely popular. More than two and a half million self-employed individuals have applied for the scheme, with the value of claims being £7.2 billion.<sup>15</sup> However, its eligibility criteria prevents the newly self-employed or those with annual profits of more than £50,000 from applying. It also shuts out an estimated 710,000 directors of limited companies who do not qualify because they chose to organise as a limited company rather than as a sole trader or partnership.<sup>16</sup>
3. The UK government relaxed the eligibility criteria and removed the minimum income floor to access Universal Credit to make it easier for the self-employed to apply. The monthly amount available for a single person over 25 years old is £409.89. For couples aged 25 and older, it is £594.04 per month.<sup>17</sup>

## Is the UK Government doing enough?

Our survey suggests the UK Government's support is not meeting many freelancers' needs at this crucial time. Figure 5 shows nine in ten believe the SEISS scheme will not help them. While 45 per cent welcomed the postponement of IR35 changes, the reality is that many medium and large businesses had already implemented new 'off-payroll' policies in anticipation of the switch, before the coronavirus outbreak.

Around one-quarter of the freelancers we spoke to saw value in the government's decision to delay July's self-assessment income tax payment until January 2021 and defer VAT payments for three months. One in eight said deferring tax liabilities through the HMRC Time to Pay Scheme was helpful. Still, more than one third feel none of the government's measures will help them.



**Figure 5:** Five most helpful sources of government support

“Overnight [I lost] £50,000 of work. [The] TV industry disappeared. Despite being a high earner tax contributor for 20 years, when I needed help, I was excluded from the SEISS. I have now [decided] to sell my house,[...] and work no more than three months a year. I will never again earn more than £50,000 as I have been disincentivised by the government. Just incredible.”

“I have had to reduce my day rate by 20% to stay on my current contract. As a limited company, the government has basically abandoned us and yet I expect I will still be required to contribute to the inevitable tax rises to pay for all the government support.”

“As a contractor working through a limited company, I am already having to deal with the impact of IR35 and have not been offered any government support. I have effectively lost all income with no prospect of further work in the near future.”

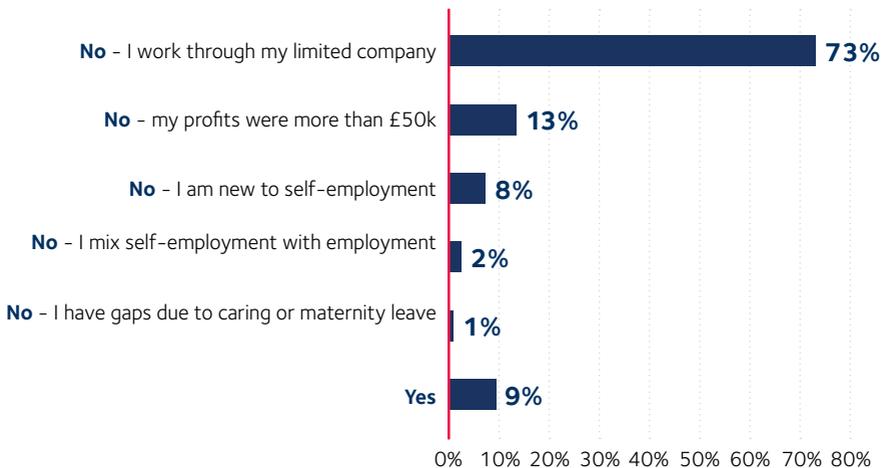
“A loan is not the answer; taking on debt right now would be foolish when I have no idea what my situation will be in 12 months.”



## Why isn't SEISS working for all freelancers?

Figure 6 shows that the reason why around three quarters of freelancers who responded to this survey are ineligible for SEISS is due to them choosing to organise their work through a limited company.<sup>18</sup> A far less common reason was the £50,000 threshold on profits (13 per cent)<sup>19</sup> while others were too new to self-employment to qualify for SEISS (8 per cent)<sup>20</sup>.

Figure 6 also shows that about one in ten freelancers who responded to this survey believe that they are eligible for SEISS. Unsurprisingly, this group is made up of sole traders or partners. These were asked about the usefulness of this support. About half felt that SEISS was sufficient for their needs, while another quarter felt that support of up to £2,500 based on prior trading profits was not enough for their needs. About one in eight thought that they couldn't wait until June 2020 for SEISS payments to start.



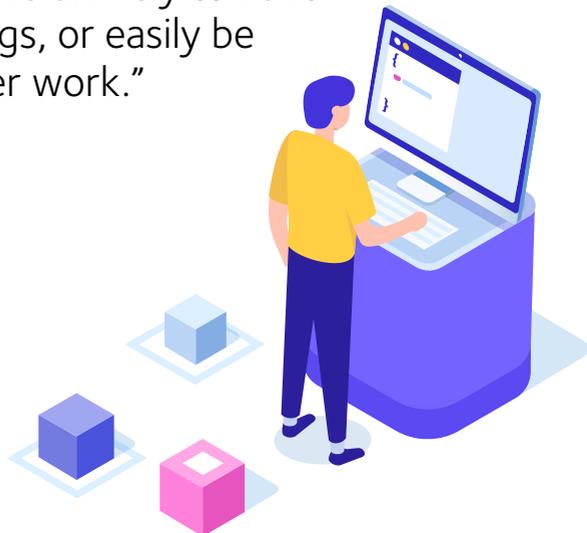
**Figure 6:** *The low uptake of SEISS among the sample*

“[I am] worried about lack of support to tie [sic] me over as a sole director/employee of a limited company. My partner, who is self-employed as a sole trader, earns about 20% more than I do and will get up to £2.5k while I will get nothing.”

“SEISS discriminates against self-employed by assessing eligibility and support amount based on earnings from up to 4 years ago while employees are entitled to support based on their last pay period[...] Every business has good years and bad years and that is the case with my business too. We have expenses that need paying out of the 80% but employed people do not. It is wrong, it is unfair, it’s unequal and discriminatory.”

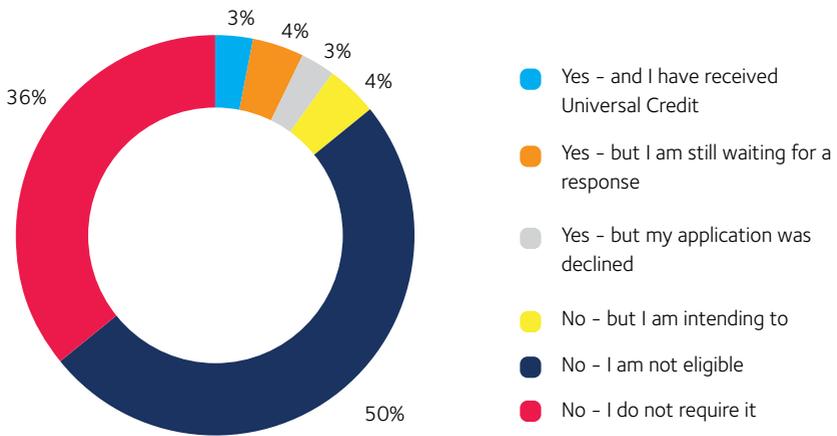
“I do feel it is very unfair that there is no support for directors of their own limited companies who take a substantial portion of their earnings as dividends. These people (assuming they’re like me) pay substantial taxes according to the law and are surely as entitled to state aid in a situation like this as anybody else.”

“The cliff edge cut off of £50K profits for self-employment is grossly unfair. Any number of mitigating factors such as being single, living alone, home schooling for the foreseeable, supplying 100% of your services to the hospitality sector among others mean that you are unlikely to have significant savings, or easily be able to find other work.”



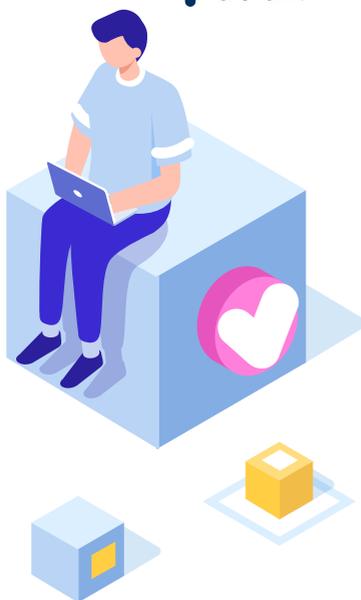
# Universal Credit

Figure 7 shows just three per cent have received Universal Credit. Four per cent have applied but are still waiting for a response, and three per cent have had their applications declined. Half believe they are ineligible for support.



**Figure 7:** *Using Universal Credit*

“I was made redundant in January. I went freelance until I found another job. I’m an art director. Now all work is cancelled. I have no income at all. I’m not entitled to UC as I have savings. I’m now expected to live on savings which is unfair. I have a family and we have no income at all.”



“Not sure if I qualify and it seems so complicated.”

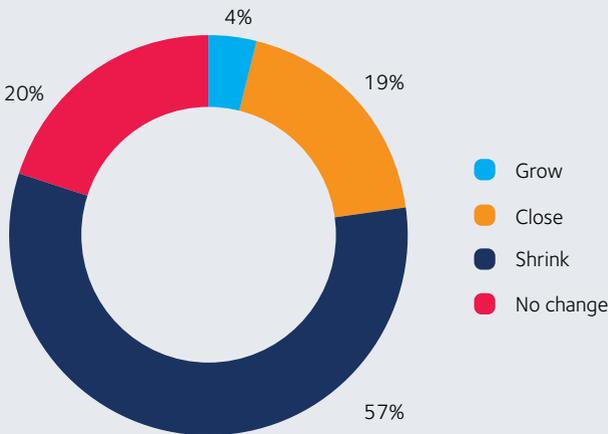
# Business prospects

We also asked freelancers to rate their stress levels before and after the coronavirus outbreak, on a scale of nought (not stressed at all) to ten (extremely stressed).

Before the COVID-19 pandemic, the baseline average score was 4.0, which reflects the fact self-employment is intrinsically stressful as freelancers seek to juggle competing and challenging tasks, often with limited information and resources. However, after the outbreak, the average rose to 7.2, an increase of 80 per cent. This points to the broader – often uncosted – challenges freelancers face during a crisis.



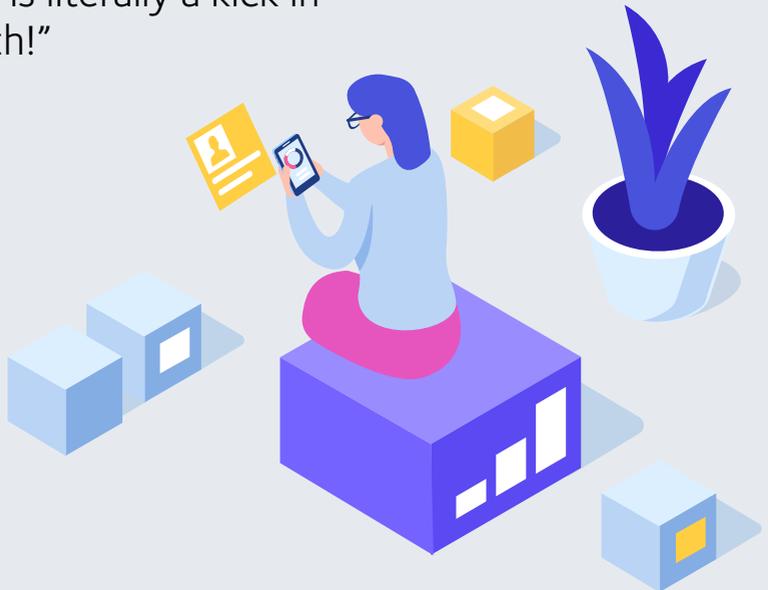
Like other business owners, freelancers are normally optimists about the future and expect negative events to happen to other people.<sup>21</sup> However, nothing about the COVID-19 pandemic is normal. Figure 8 shows that very few remain positive about growing their business. Three-fifths expect it will shrink and one in five expect to close down.



**Figure 8:** *Prospects for the business*

“My business will be lucky to survive this year. I also think the government’s handling of limited company contractors in this time is appalling.”

“It is affecting my mental health that having been a hard-working higher rate taxpayer I have been abandoned by the government and face potential bankruptcy. I am a dedicated dentist and give outstanding care to my patients and this is literally a kick in the teeth!”



# What's next for freelancers?

**“I expect to be without clients for another year or two, so I will probably close my business. The overall effect is that I will run down my savings and suffer a lesser retirement or even have no savings for retirement.”**

*This survey highlights in stark relief the uphill challenge facing many of the UK's skilled and highly capable freelancers and exposes a worrying gap in the support on offer to help them through this crisis.*

**“I am becoming distraught at the government's apparent desire to put small limited companies out of business and the knock-on effect this will have on unemployment, tax collection and mental health of all those affected.”**

*Without intelligent, targeted policy interventions the coronavirus outbreak may not only end freelancers' careers, and devastate their and their families financial futures, but jeopardise the UK's economic recovery prospects after the immediate crisis ends.*

**“Really worried how I am going to pay my mortgage and rent to continue my business. All business plans to expand put on hold. No support for new business owners, with first year in business being the hardest and most stressful.”**

**“I'm genuinely frightened about my future. I'm secretly in tears most days. I feel like a failure. Why can't I get help? Over 25 years I've given hundreds of thousands of pounds to the exchequer.”**



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8. We sent out an internet based survey to 25,167 IPSE members between 23-30 April 2020. We received 1,720 of which 318 responses were incomplete.
9. All quotes are taken from the comments of entrepreneurs who took part in the survey. We would like to thank them for their assistance.
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11. The average household income was £29,400 in 2019 (Source: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddisposableincomeandinequality/financialyearending2019provisional>).
12. Greene, F. J. (2020), *ibid*.
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15. <https://www.gov.uk/government/collections/hmrc-coronavirus-covid-19-statistics>
16. <https://www.ft.com/content/79ff5bd9-11aa-4790-bf71-0620023dee0f>
17. <https://www.gov.uk/universal-credit/what-youll-get>
18. In addition, respondents were asked about other schemes. However, less than 5 per cent of respondents thought the Coronavirus Business Interruption Loan Scheme (3 per cent), Changes to Universal Credit Minimum Income Floor (3 per cent), Small Business Grant Scheme (2 per cent) or grant funding of £25,000 for retail, hospitality and leisure businesses (1 per cent) were useful to businesses.
19. Respondents could choose one or more reasons for being ineligible.
20. Eligible individuals needed to have filed a tax return for 2018/19 so will have been self-employed prior to the 6th April 2019.
21. Greene, F. J. (2020), *ibid*.

