

A tough gig?

*The nature of self-employment in 21st Century
Britain and policy implications*

Dan Tomlinson and Adam Corlett

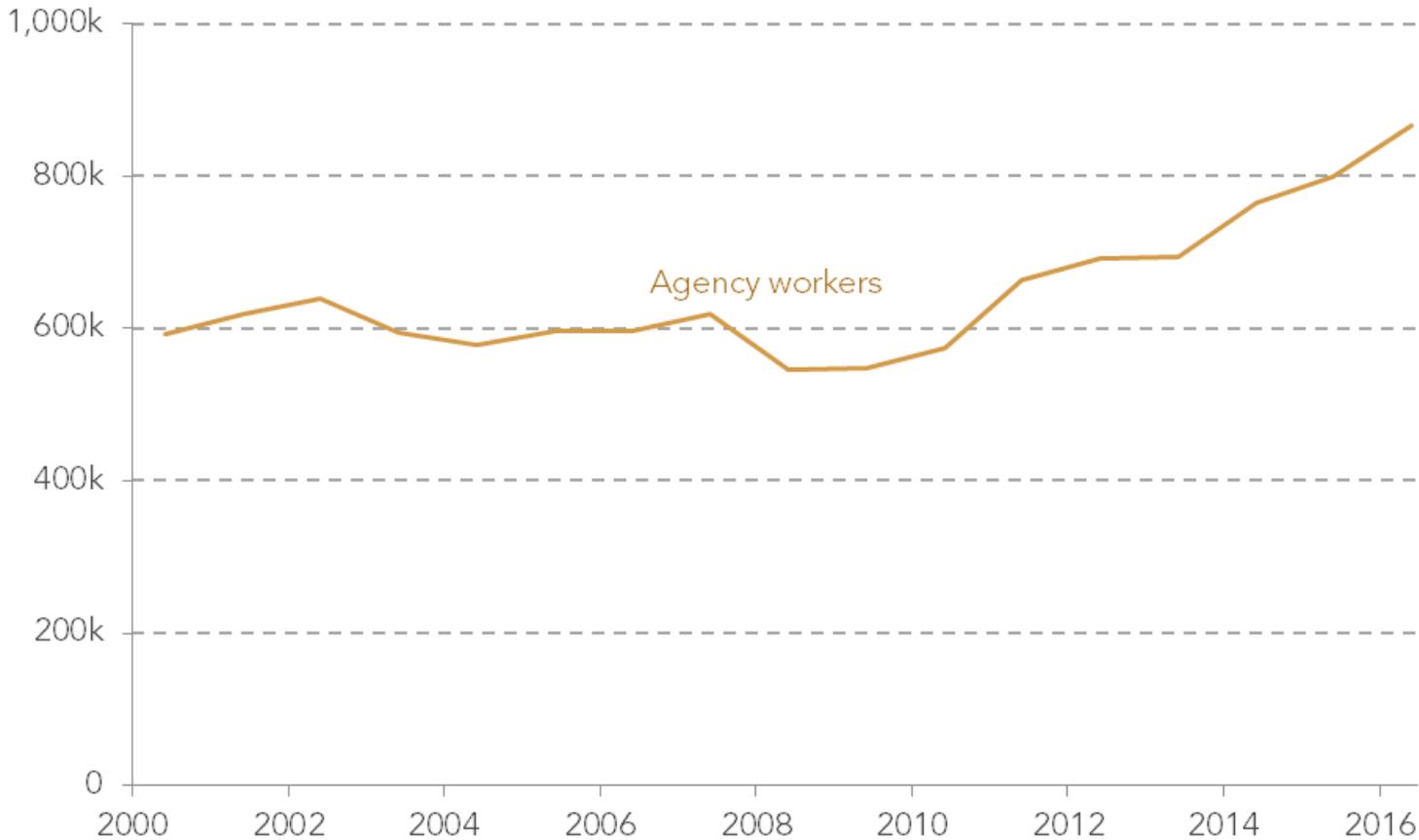
February 2017

Self-employment: first amongst equals

Several 'new' forms of working are on the rise



Changing nature of work in the UK, 2000-2016



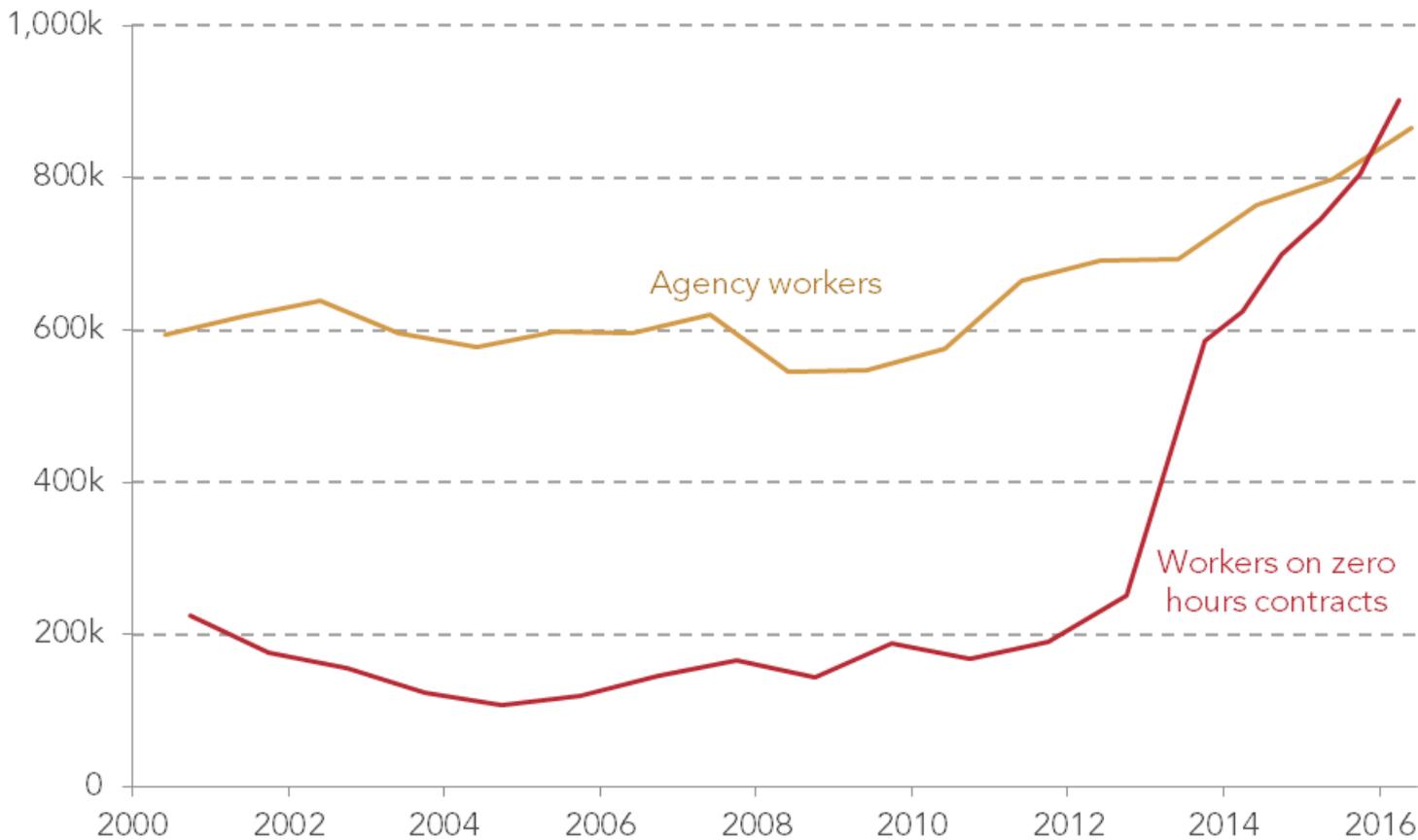
We have seen a 30 per cent rise in agency work since 2011

Source: Resolution Foundation analysis, ONS

Several 'new' forms of working are on the rise



Changing nature of work in the UK, 2000-2016



We have seen a 30 per cent rise in agency work since 2011

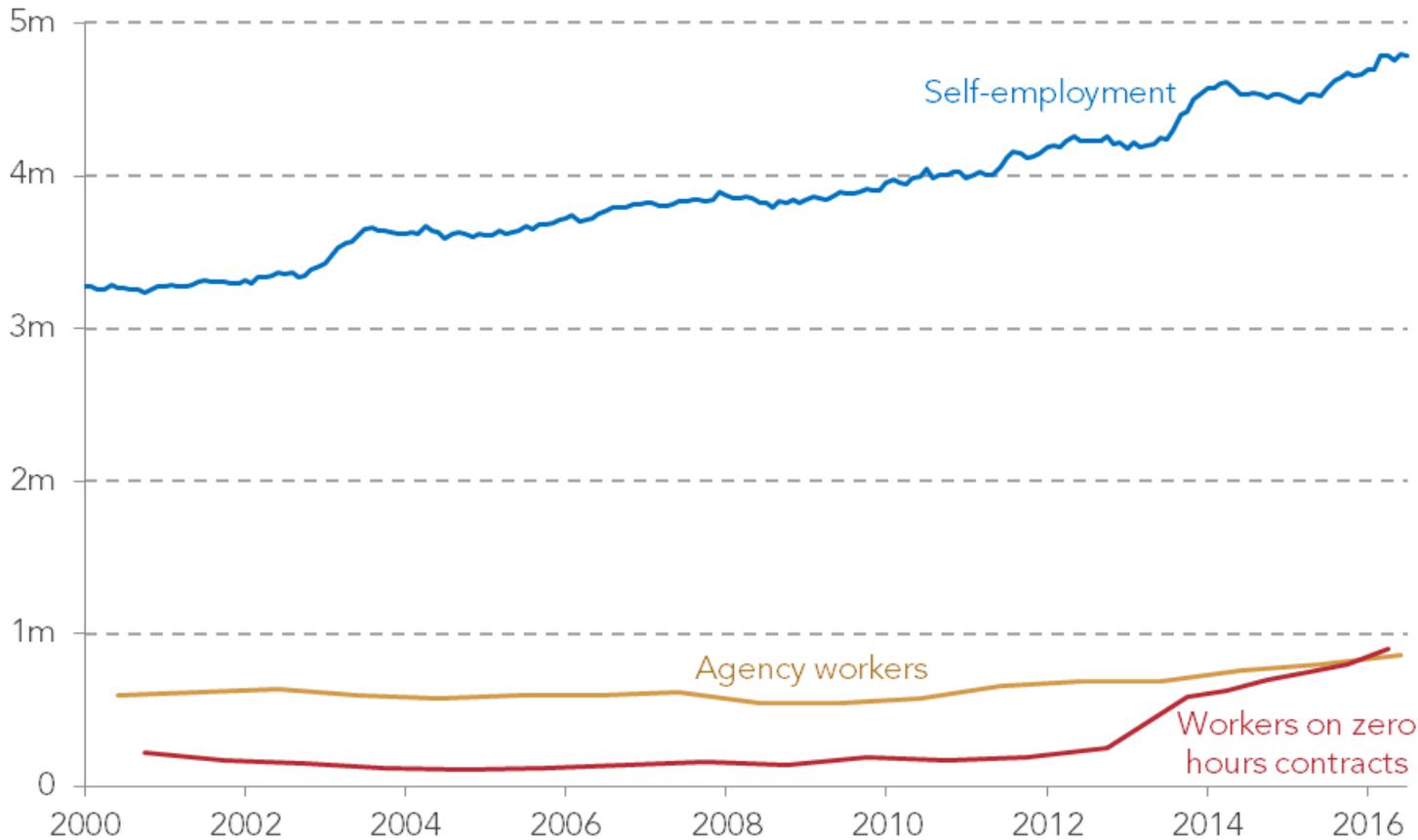
Reported rise in ZHC in part reflects much higher awareness

Source: Resolution Foundation analysis, ONS

Several 'new' forms of working are on the rise but self-employment dominates



Changing nature of work in the UK, 2000-2016



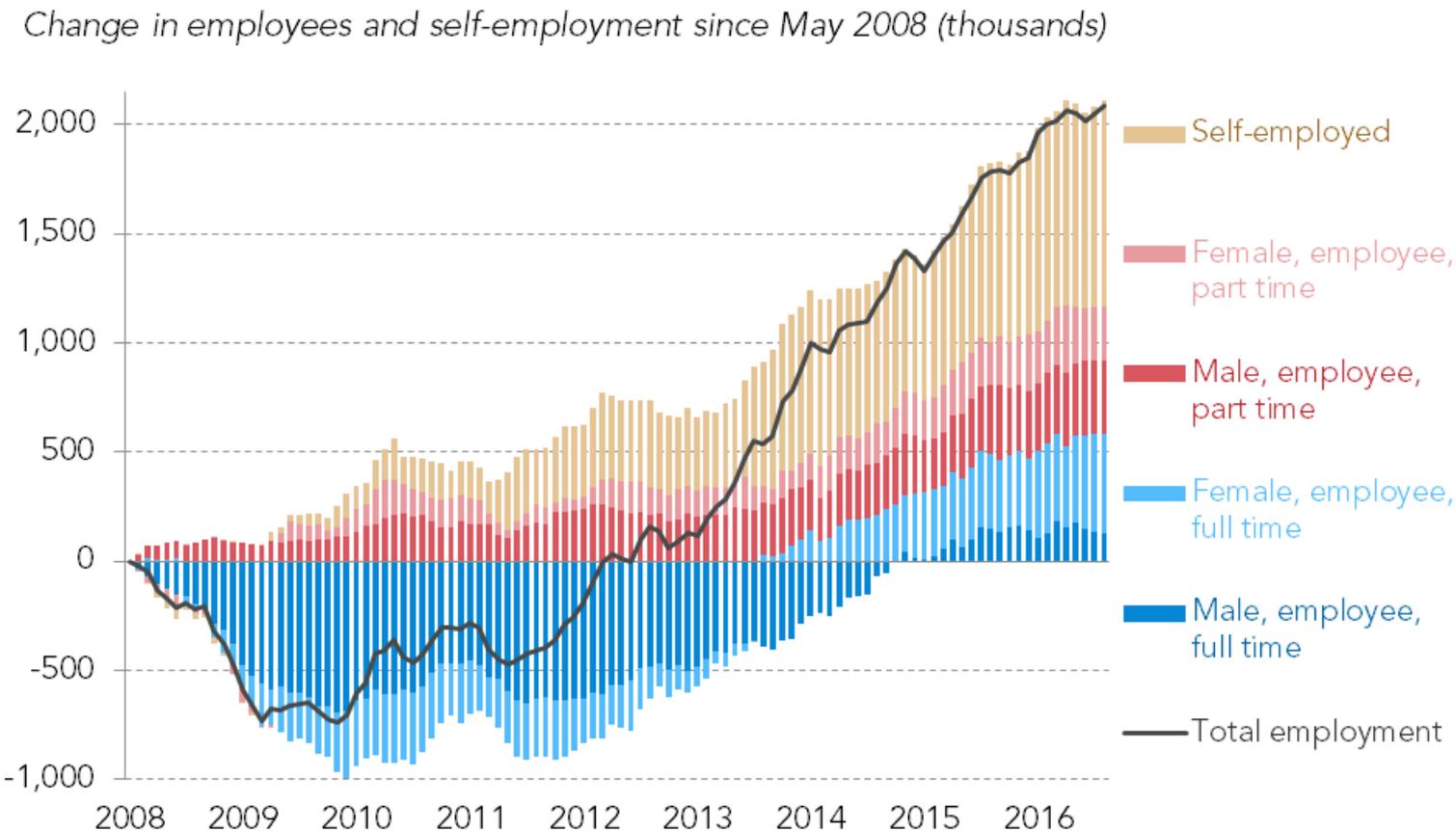
There are now 5m self-employed when we include those doing it as a second job

Source: Resolution Foundation analysis, ONS

Self-employment has driven much of post-crisis employment growth



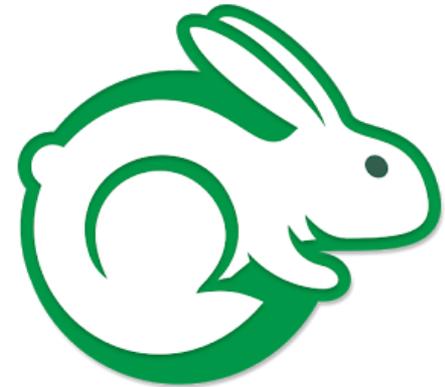
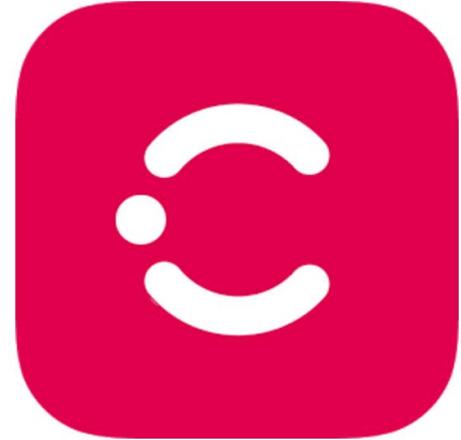
Self-employment has accounted for 45 per cent of all UK employment growth since Mar-May 2008



Notes: Total includes unpaid family workers and those on government employment and training schemes.
Source: Resolution Foundation analysis, ONS

Who are the self-employed?

The gig economy dominates the debate...



...but the self-employed are in a wide range of sectors that have never met an app



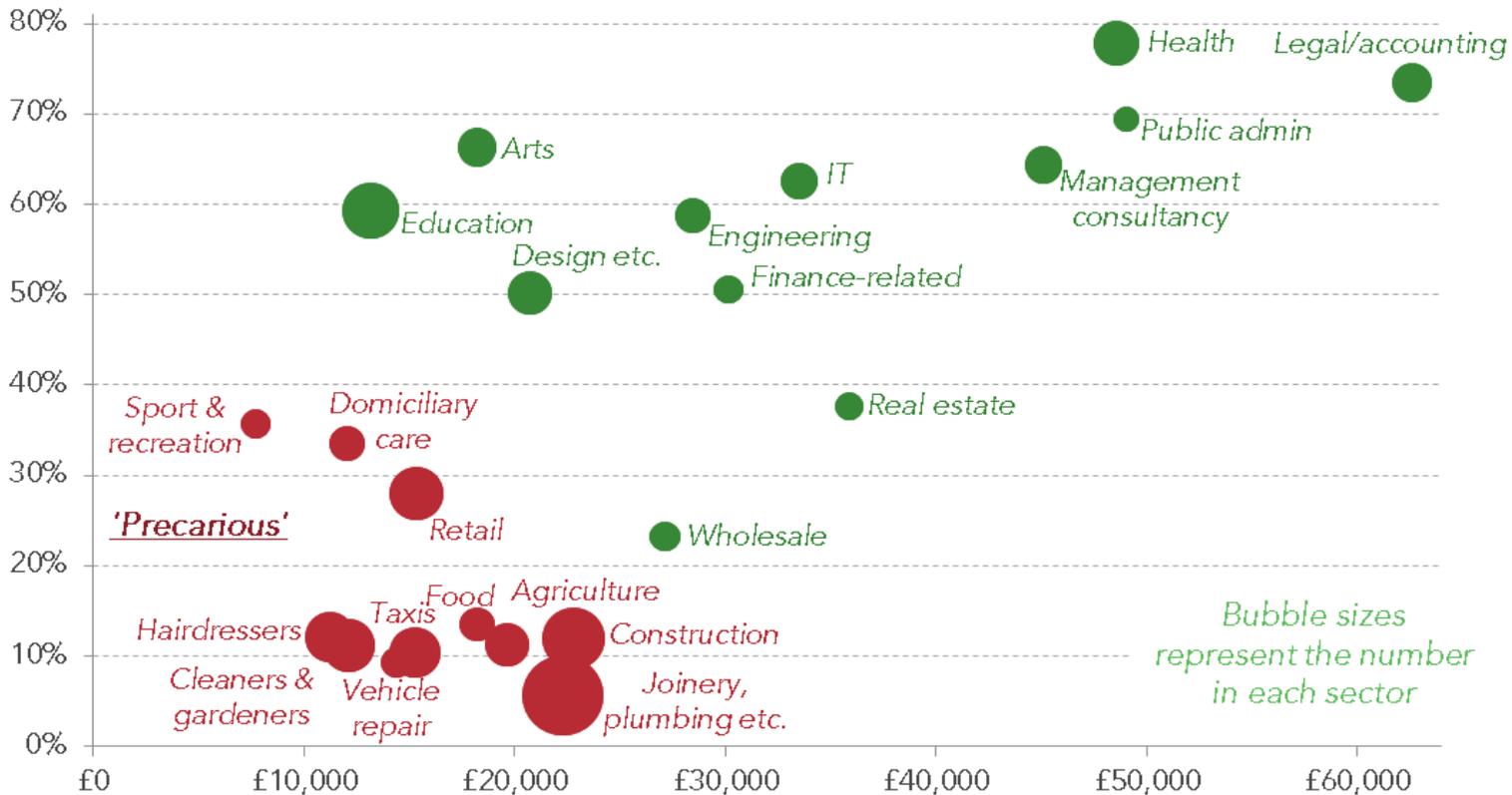
The largest sectors:

- 1) Joinery/plumbing
- 2) Construction
- 3) Education
- 4) Retail
- 5) Cleaning etc.
- 6) Taxis etc.
- 7) Hairdressing
- 8) Health
- 9) Agriculture
- 10) Design etc.
- 11) Legal/accounts
- 12) Creative/arts
- 13) Management consultancy
- 14) IT
- 15) Engineering

Anxiety about the (relatively) 'precarious' has rightly grown...



% with degrees vs mean annual income



Education-earnings link even clearer on hourly earnings basis

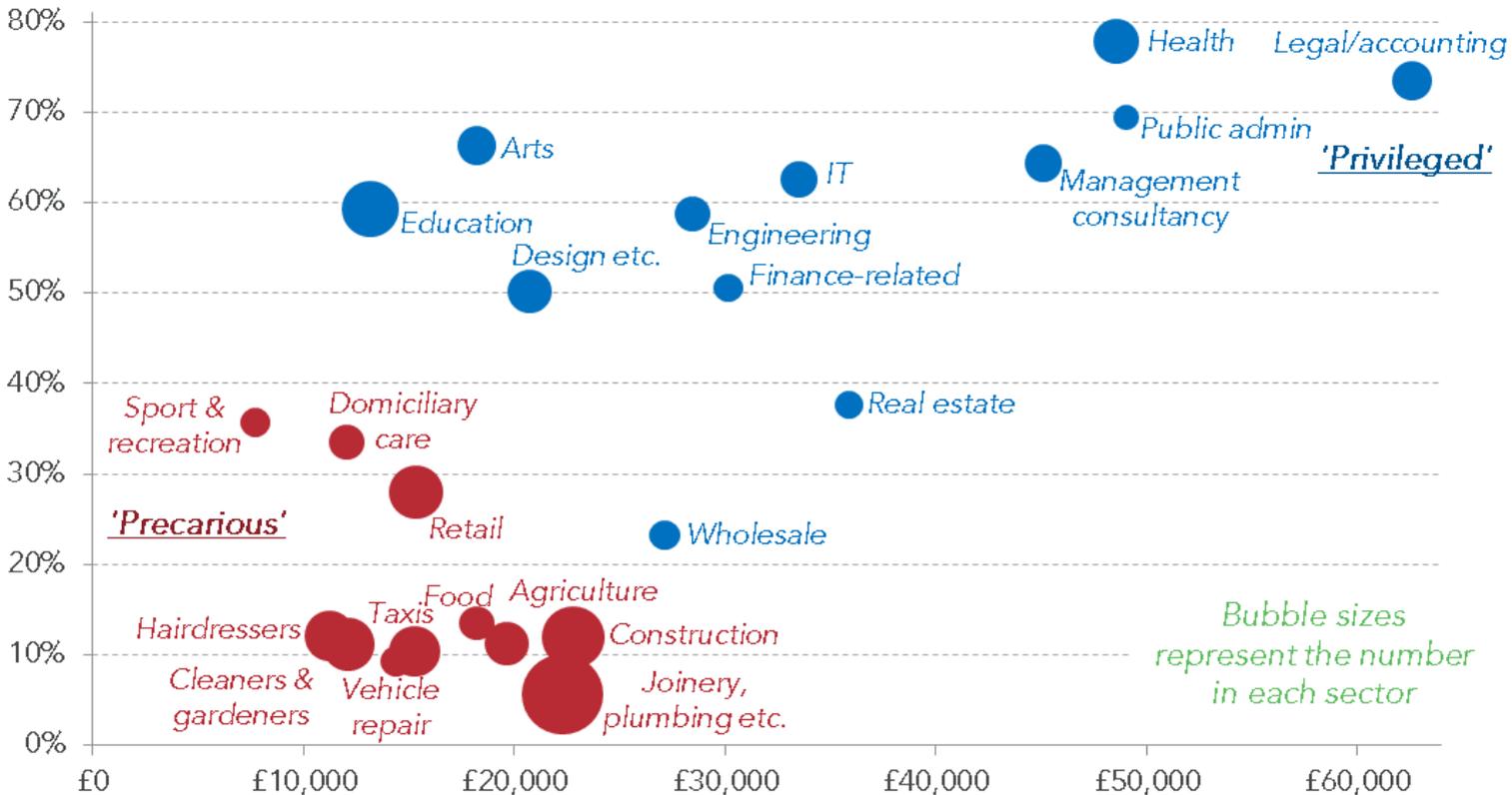
'Precarious' sectors include retail, cleaning, construction, taxis and hairdressing

'Precariousness' is relative – many in construction or plumbing earn above average

Anxiety about the 'precarious' has rightly grown but the (relatively) 'privileged' also deserve attention



% with degrees vs mean annual income

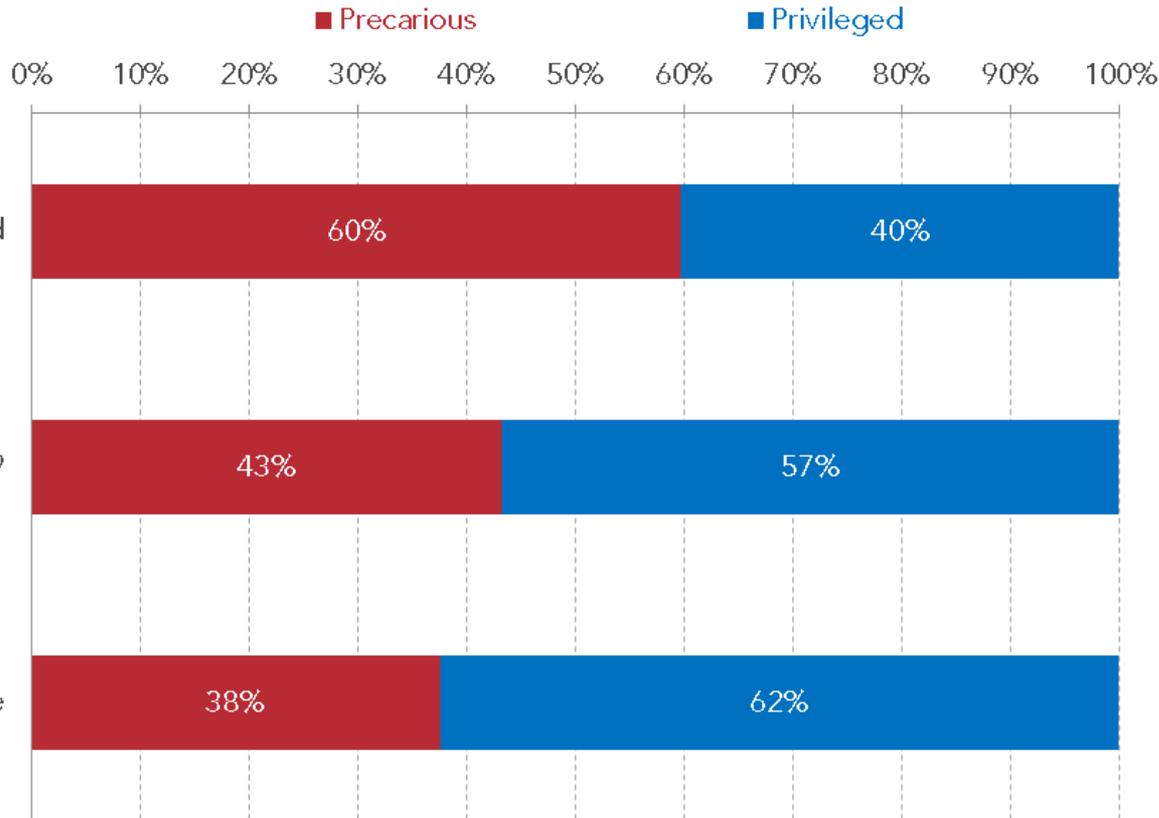


Underestimates incomes for highest earning sectors as retained profits not included

'Privileged' sectors include health, IT, consultancy and law

Again averages will hide many in these sectors feeling far from privileged

The 'privileged' sectors have driven recent self-employment growth despite being smaller



Fastest growth since 2009:

- Advertising (100%)
- Public admin (90%)
- Banking (60%)

Taxi driving only up 7% vs 22% total growth

The two tribes of self-employed are very different and point to different policy priorities



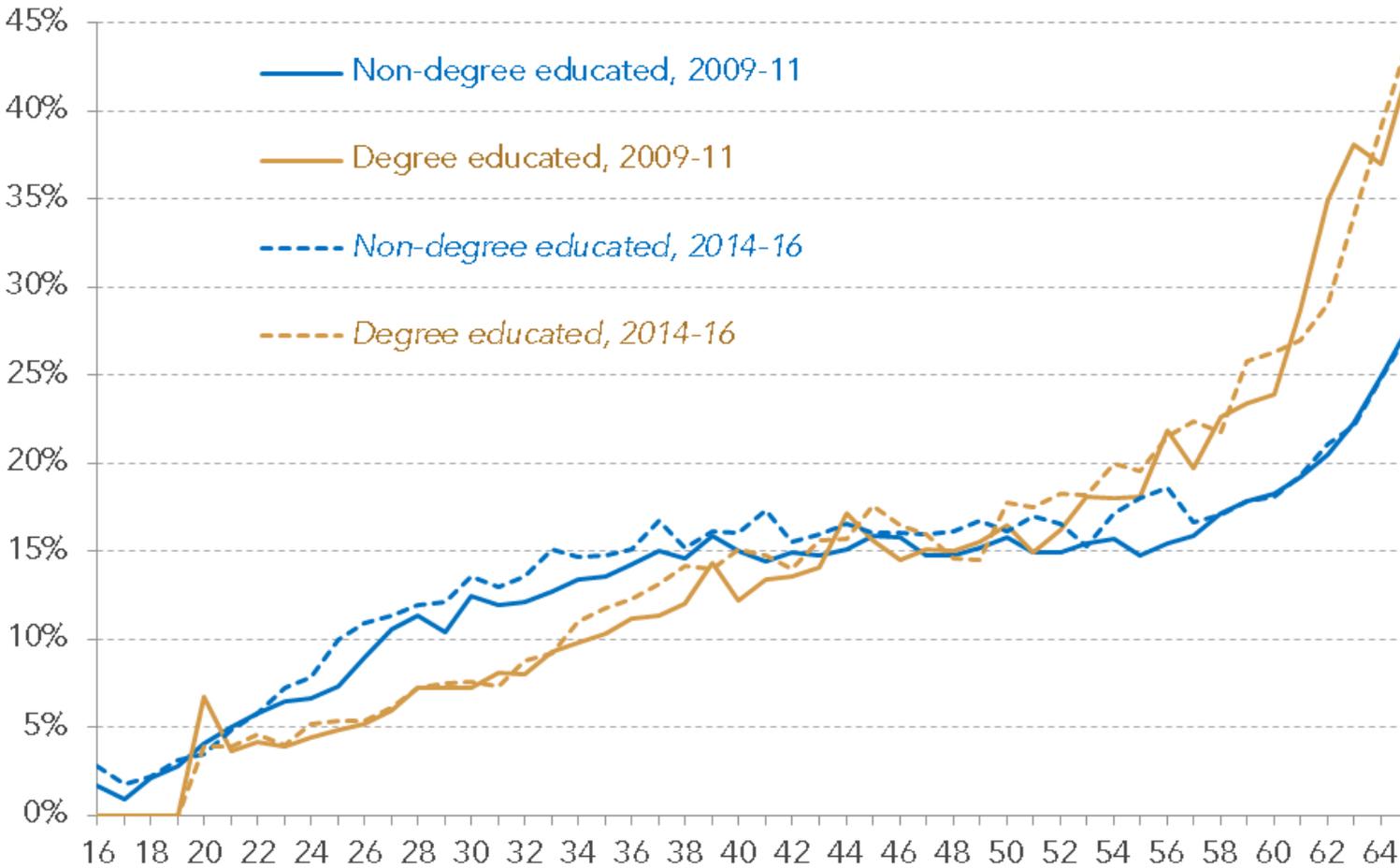
Those in 'precarious' sectors are more likely to:

- Be underemployed
- Not have received training in the past 3 months
- Live outside the Greater South East
- Not own their own home
- Have been born outside the British Isles
- Be young
- Receive tax credits

Age and qualifications reinforce a tale of two tribes



Self-employment as a share of all employment by age and educational attainment



Less educated increasingly more likely to be self-employed when young, but graduates nearly twice as likely to be self-employed in their 60s

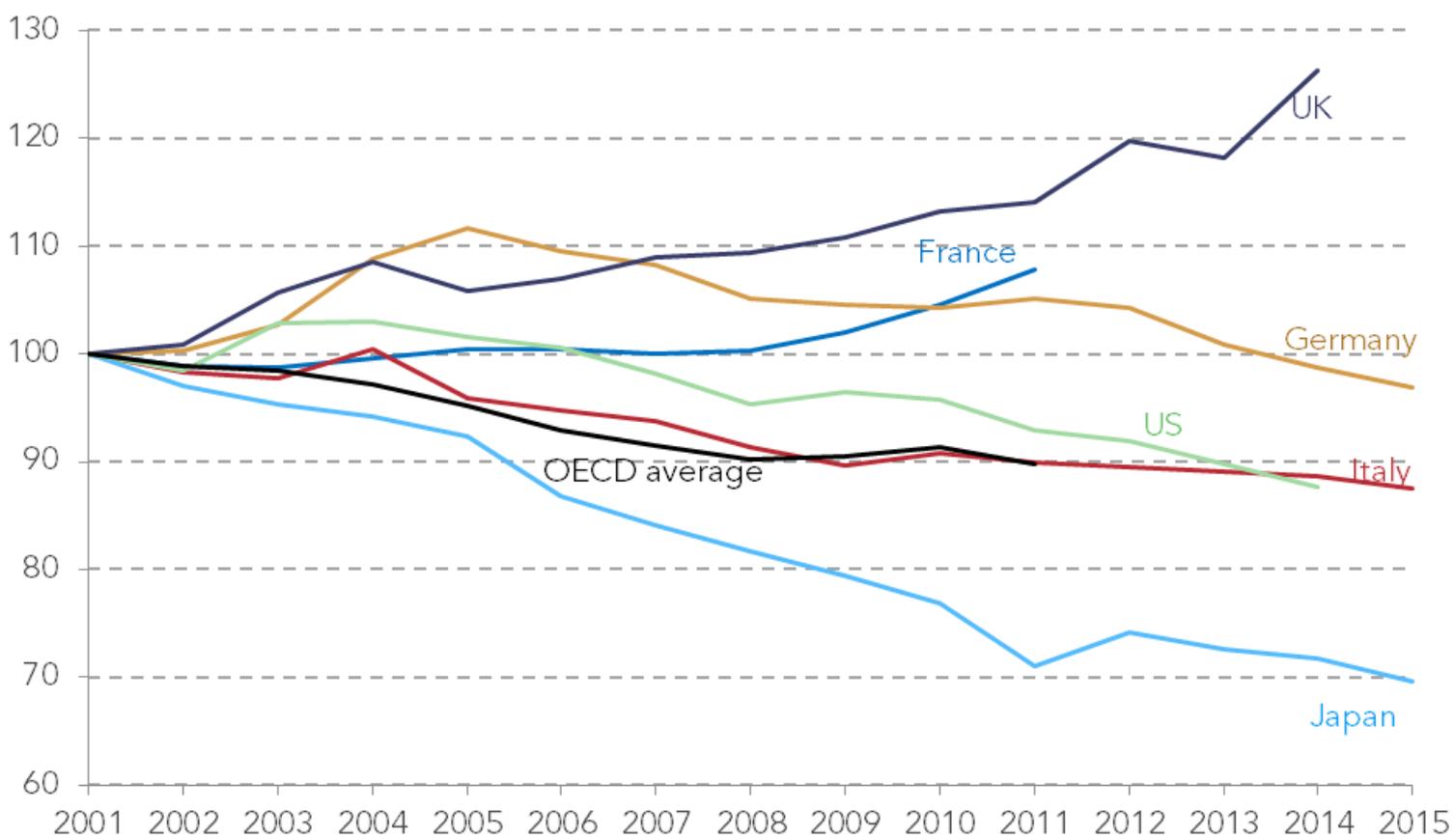
Ageing population in part explains growth in self-employment

What is causing it?

Global or technology trends? Not so much...



Change in self-employment as share of total employment (2001=100)



Source: Resolution Foundation analysis, OECD

Debate has focused on differences in employment rights which do matter for the 'precarious'...



"Court of Appeal rules against Pimlico Plumbers in worker-status case"

"Uber loses landmark tribunal decision over drivers' working rights"

Employment rights	Employee	Worker	Self-employed
Protection against unfair dismissal	✓	✗	✗
Maternity/Paternity leave	✓	✗	✗
Sick pay	✓	✓	✗
Minimum wage	✓	✓	✗
Working Time protections and holiday entitlement	✓	✓	✗
Discrimination protections	✓	✓	✓ / ✗
Health and Safety protections	✓	✓	✓

... but tax is a much bigger driver of rise in 'privileged' self-employment



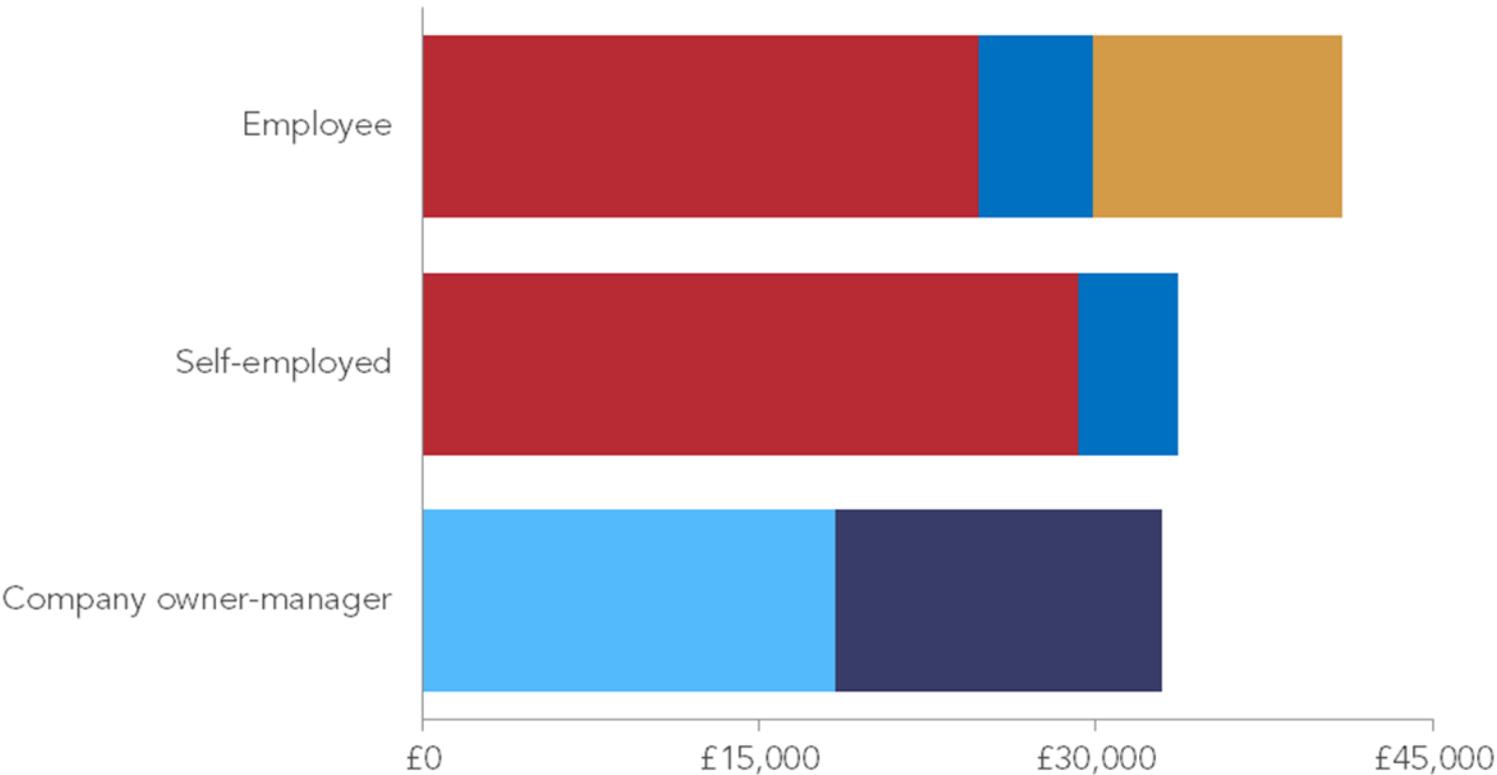
	Employee	Self-employed	Company owner-manager
Income Tax	Paid on earnings above Personal Allowance	Paid on profits above Personal Allowance	
Employee NICs	12% paid above Primary Threshold, 2% above Upper Earnings Limit	9% paid above Lower Profits Limit, 2% above Upper Profits Limit	As employees on earnings but incentive to limit those to below Secondary Threshold
Employer NICs	13.8% charged above Secondary Threshold	None	As above
Corporation Tax			20% on profits (after income taken as earnings)
Dividend Tax			7.5% for basic rate 32.5% for higher rate 38.1% for additional rate
Capital Gains Tax			Entrepreneur's Relief allows 10% CGT to be paid on retained profits

These tax differences are large with employer National Insurance the key



Tax paid on £100,000 of market income, by legal form

Income Tax Personal NICs Employer NICs Corporation Tax Dividend Tax



SE pay £7k+ less on total earnings of £100k. Tax incentive is only £200 on £10k total earnings

Planned corporation tax cuts to 17% will reduce owner-managers tax

Apprenticeship Levy increases incentive

Note: Based on 2016-17 tax system

Is this a problem?

Three reasons to pay attention



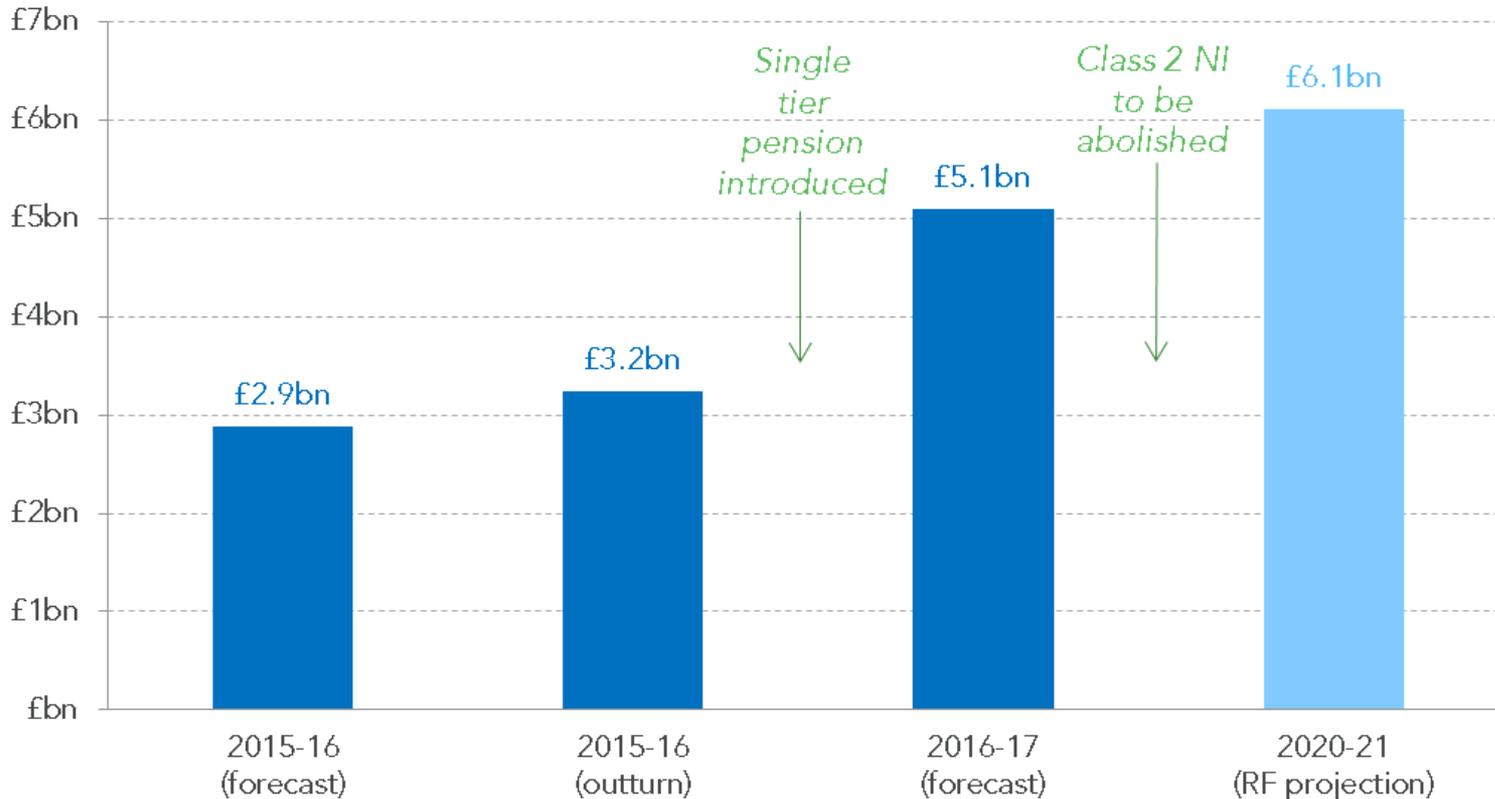
- Public finances
- Productivity
- Precarious minority

...but don't forget a flexible labour market has been key to UK reaching record employment. There are real trade-offs to be faced.

Public finances: tax base risks being undermined



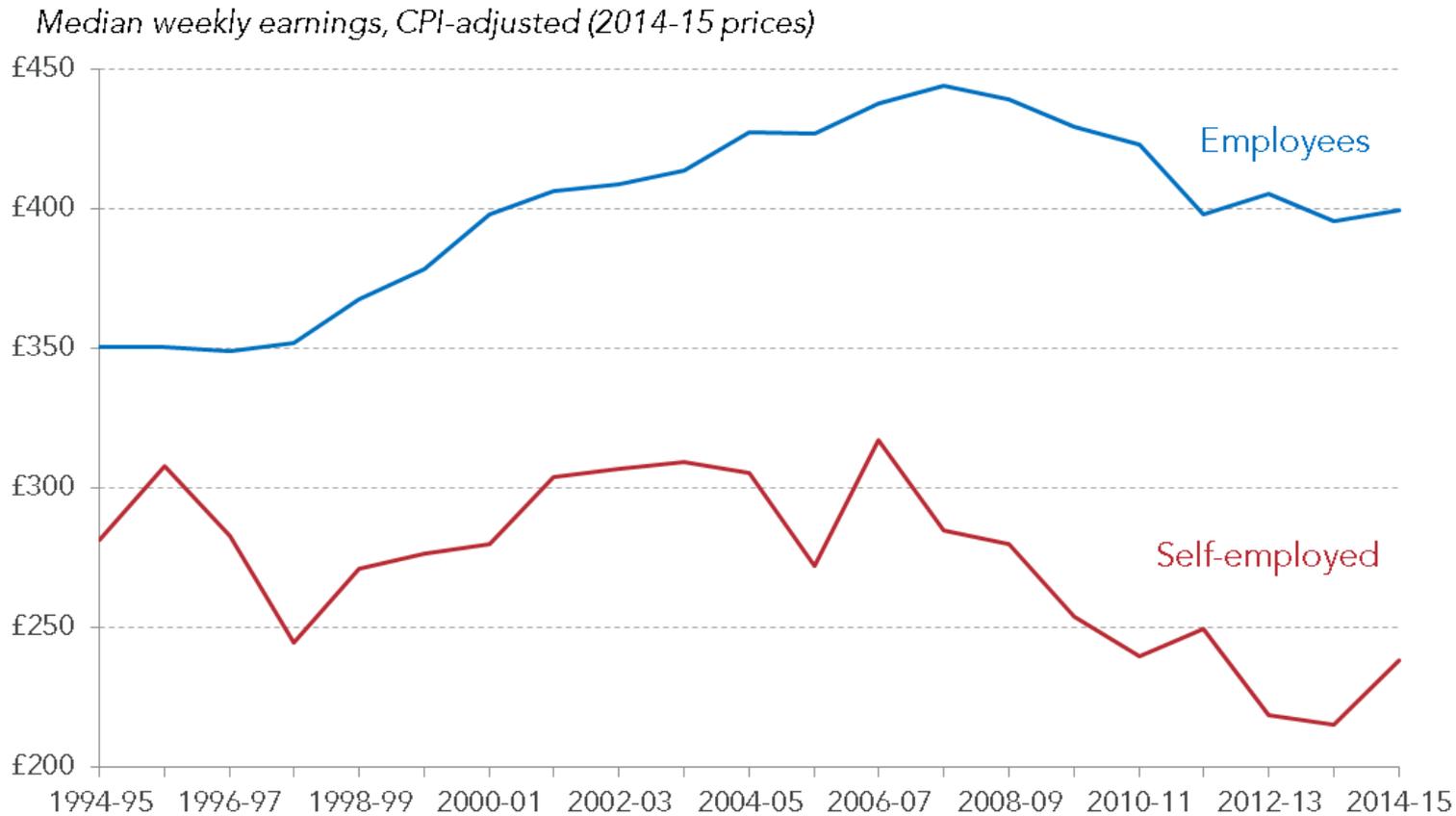
Real annual cost of reduced NI for self-employed not attributable to reduced pensions eligibility



'Privileged' sectors receive nearly 60% of benefit of lower NI despite making up only 40% of self-employed

OBR also estimate a £3½ billion Exchequer cost in 2021-22 from incorporations rising faster than employment

Productivity: low pay, no training and lack of employees indicate lower productivity



Only 13% of self employed engaged in training in the last 3 months, compared to 26% of employees

Under half a million of self-employed have employees themselves, a substantial fall since the early 2000s



While many enjoy the flexibility of self-employment:

- We now have 5 million people working outside the protection of most employment law
- The self-employed are more likely to be underemployed and want extra hours
- Low paid self-employed are less likely to save into a pension and are not part of auto-enrolment
- Old control: service rather than employment relationship much easier to break
- New control: Technology is shifting the individual flexibility/firm control balance

Some thoughts on policy options

Tax: strong incentive for higher earners to become self-employed should be reviewed



HM TREASURY



Tax: equalise employee National Insurance

- Raise basic Class 4 rate from 9% to 12%, in line with employees, to coincide with abolition of Class 2 NI
- Pros:
 - Simple
 - Reduce incentive to self-employment
 - Raises around £1bn per year
- Cons:
 - Increases incentive to incorporate
 - Increases taxes for earner on £15,000 by £50, requiring compensation for low income households



Tax: no easy answers but employer National Insurance is key

The bold (and implausible)...

- Abolish employer NI (costs £68 billion)
- Add employer NI to employee (basic rate of 40.2%)

...the more plausible (but still bold)

- Maintain employer NI but add a contractor transaction levy on firms using self-employed labour. Or...
- Replace employer NI with paybill levy including contractors

Revenue raised would need to compensate low-income losers. More challenging options could include all the self-employed, with platforms providing tax collection opportunities

Tax: we could also stop making the situation worse

- Enforce the law...
- Extend the requirement on public sector bodies to determine tax status of contractors to private sector
- Scrap corporation tax cuts from 20% today to 17% in 2020 that OBR estimate add £1.2bn to cost of rising incorporation
- Or increase dividend tax rates/reduce the £5,000 allowance to avoid CT cuts increasing the incentive for incorporation
- Scale back £2 billion Entrepreneur's Relief for Capital Gains
- Annual NICs aggregated across jobs has advantages, but has been ruled out by the government
- Stop raising the (internationally high) VAT threshold

Benefits: entitlement differences are now small



Department
for Work &
Pensions

Benefits: there is scope to continue narrowing, but not close, the gap with employees

- The big news: self-employed about to benefit from single tier pension, removing biggest gap with employees
- Next step is to extend Statutory Maternity Pay to self-employed (90% of earnings for first 6 weeks)
- Much bigger challenge to extend Contributory JSA given difficulty of assessing work status
- Action is also needed to drive up self-employed pensions saving, but auto-enrolment as currently designed is not a simple fit

Rights: gig economy highlights debates we should already have been having



Department for Business, Energy & Industrial Strategy



Rights: creativity will be required to provide greater protections

- Lack of clarity between worker and self-employed status underpins much current debate
- Courts/tribunals currently developing the law rather than Parliament deciding if what we want has changed
- The minimum wage cannot just be extended, but there may be subsets of self-employed (especially providing commodified labour to price setting platforms or firms) where a test of whether a reasonable person would earn the minimum wage could be applied
- We have the Taylor Review...

Conclusion



Self-employment has grown rapidly in 21st Century Britain, dwarfing other atypical work

While the self-employed have low average earnings, recent growth has been driven by higher income sectors

Policy should be looking to better protect those at the sharp end of the labour market...

...but also to reduce the large tax incentive for higher earners to classify themselves as self-employed