

# Self-employment isn't working: sole traders and microbusinesses – the new 'left behind'

*By John Clancy, Visiting Professor, Centre for Brexit Studies*

In a time of great crisis and need, the striving, hard-working business folk who are actually the backbone of the U.K.'s most local economies have, astonishingly, been simply left behind by a floundering, out-of-touch Treasury, whose days must surely now be numbered. It has shown it cannot see beyond its limited business horizons in this present crisis. It has signally failed to protect a vast swathe of our business economy. But, more importantly, it also failed to protect the very real people in it.

It makes no sense economically of course (short-term, or long-term) but the failure to act initially to provide for sudden government-imposed self-employed unemployment, and the slowness then to find solutions has the capacity to lessen the efficacy of wider public health measures, as individuals and families in crisis sink, left behind, into daily poverty.

Rishi Sunak presented an initially exceptionally well-received package of measures to try to intervene into businesses' and households' economies. The intention was to enable the population as a whole, public sector or private sector, to stay at home, self-isolate, socially distance and concentrate together through an almighty effort of will to prevent the spread of disease.

Even though well received at the time, the gaping hole in that safety net was identified (even by the Chancellor) immediately: how to deal with the self-employed. Our tradesfolk, our plumbers and plasterers, our hairdressers and cleaners, yes, but also sole-trader professional-types and our farmers.

For them, well, the Treasury was working on it, you know, and...er...would get back to us on that one.

So our Micro businesses will have to wait. Micro businesses have 0-9 employees and more than half of all micro-businesses (53.8 %) are home-based, having the same business and residential address. They are our plumbers, our builders, our hairdressers and our mechanics. They are also our architects, designers, artists, lawyers and accountants.[\[1\]](#)

The ONS March 2020 statistics[\[2\]](#) show that there were a record 5.03 million self-employed people (15.3% of all people in employment), 194,000 more than a year earlier.

So what of them? And what of the self-employed business-alone, in particular?

The initial route was that if you were self-employed you, literally, could wait. The Treasury, via HMRC would literally get back to you when **they** were ready. If you'd got round to filing your 2018-2019 tax return, they'd eventually (probably by sometime in April/June) let you know that you were going to get something. Hopefully 80% of your monthly profits/income as established by a few years of tax returns. But, well, that would depend on what you put in those returns.....

If your tax returns didn't show much of a profit, well, sorry.....you're not a mature, grown business worthy of our attention. If you're at the start of your exciting self-employed journey and you either haven't got a tax return for 2018-19 or there's not a lot of profit to show as income from it yet, then you are simply a lesser business owner. If you actually started your business since April 5<sup>th</sup> 2019 you are literally on your own. As would any person with whom you work in a micro-business.

Then, to add insult to injury, whilst dropping this self-employed 'you're on your own' bomb the Chancellor gives a hint that there will also be a National Insurance reckoning coming after all this is over. Again, you can hear the Treasury officials noisily dusting down their old plans for that NI hike for the self employed that did for a previous chancellor.

The BEIS Business Population Estimates 2019[\[3\]](#) suggests there were 380,580 business births in the UK in 2018. Most of those are Micro-businesses and most of those are self-employed. The ONS have told us that there were 194,000 more self-employed than a year

earlier. [4] So how will those self-employed business-newbies be faring?

By their very nature, start-ups of microbusinesses and the self-employed will, in any event, barely make a taxable profit as they front-load investment in start-up capital; as they set against income (quite appropriately) significant spend on tools of the trade (literally and metaphorically), in technology and in marketing. They won't turn a profit. The treasury turns a blind eye to them then.

You are left to the tender mercies of Universal Credit. And Universal Credit's reputation has trailed long before itself across the nation. And a very poor reputation indeed it has, everywhere outside the Treasury and the DWP.

There were clear ways out of this, but the Treasury's fingerprints are all over the failure to act and indeed the ingrained fear of acting at all, which is the Treasury's default position. The fear of the new, fear of a deluge, fear that looking after these ordinary business folk might set very dangerous future precedents indeed.

It was obvious to all but the Treasury that direct hand-out payments without application were needed to those who fell through the wider safety net for most. There needed to be a lower-hanging net for the self-employed which did not look like normal.

If you had a tax return for 2018-19 or you got online and filed a draft one for 2019-2020 early, or even just registered as self-employed at HMRC then direct payments should have been processed straight away. The United States is sending every citizen \$1,200 and an extra \$500 for each of your kids just to start. This could have been reserved initially in this country for the 'difficult' notion of the hard-to-pin-down self-employed.

For tetchy treasury officials scared of helicopter money it could easily have been a forgivable loan (as the Americans call it). The assumption could easily be that you are fully entitled to it but if later facts emerge which indicate otherwise then it becomes a recoverable debt in a repayment programme.

Quite the opposite occurred. If you applied just for Universal Credit you'd get a loan to cover your first month-or-so's payment. You'll always have to pay that back. And good luck, by the way, in getting through online or on the phone.

We all know that the reputation in the wider population of Universal Credit means that many who need to will not apply. This is because both of that reputation, and the pure fact that many would not see themselves, however misplaced that might be, as applicants for welfare benefits. This understandable inertia and the fact that treasury models have always had baked into them that a goodly proportion of people don't apply, means that there will always be a clawback to the treasury of what is initially set aside.

This model might work in normal times. It is disastrous in our current crisis.

So by April 2<sup>nd</sup> one million mostly newly-unemployed-self-employed applicants found themselves in the Universal Credit queue. There may be a new or renewed sympathy for the pre-existing Universally Credited masses once the immediate medical crisis from the self-employed comes to an end.

Just as the Treasury has over decades (probably centuries) always had a view as to the deserving poor and the undeserving poor, there is a seemingly inevitable mirroring here amongst attitudes to businessfolk: a hierarchy of worth.

The help available to micro-businessfolk who were young (in real age and business age), out-of-the-ordinary and nimble was not there because it is a world simply beyond the Treasury models. Standard business, traditional business, mature business (and especially big business) would be rewarded with extra special help.

Talking to the former types, one of the biggest reasons microbusinesses have not received grant and loans help is because of initial barriers based on traditional business set ups which to prevent access to grants and loans. This is particularly so in the culture of assistance grants and loans being based on business rates and the rateable value of business premises as starting points locally. They seemed designed specifically to keep them away. And as

600,000 micro businesses and 2 million of those involved in them are based in the residential home addresses of their owners, they are shut out of that avenue.

So while the owner of a beauty salon with a premises in town finds him- or herself in the loop (as will those employed there) the self-employed hairdresser or nail technician (a huge self-employment sector, by the way) who is not employed there but rents a chair or the mobile provider about town are left to swing in the wind.

Even in the wider packages available the mantra of 'applying' is king. It is designed to create a bureaucracy. And there's nothing the civil service and especially the Treasury loves more than a bureaucracy. In this case, in case the bureaucracy gets overwhelming, it will be contracted out to the treasury's other preferred companions – the banks. The Treasury certainly understands them.

Apart from the inevitable slow-down that occurs, the banks have shown that they're not actually very good at this.

Instead of directing a moratorium on all credit cards payments, loan payments, energy bills, property taxes (unless, of course, they're Business Rates), mortgage payments, the consumer (self-employed in particular) must individually 'apply' to their provider for help. In Austria, Czech Republic and Italy universal moratoria are coming into place.

The best the UK can do is to pretend there are repayment holidays when there simply aren't. The Financial Conduct Authority announced plans to freeze loans and credit card payments as part of emergency measures on 2<sup>nd</sup> April. It was widely reported as so in any event. And the FCA said it was partly aimed at Business Owners. Of course, it wasn't. It related to applying if you were 'affected'.

So the Corona Virus Application Culture pervades. After a morning spent on hold for four hours on the phone for your Universal Credit, you then have to spend the rest of the day applying to your bank, every credit card company, your mortgage provider, your council, your car loan, your other loans, your mobile phone provider, your broadband provider etc. etc. etc.

The lockdown for those who are well is energy-sapping enough without this nonsense. And all of the bureaucrats and staff involved in serving the application culture involves unnecessary work at this time.

Micro-business owners and the self-employed rarely have the lobbying clout or political voices to speak truth to power and it shows. Perhaps (as I have said many times) the party of Labour (the clue's in the title) should use this current opportunity to speak for those who have nothing to give but their labour in micro-businesses, self-employment and SMEs.

Before this crisis hit, the Prime Minister (whom I wish good health) and the Chancellor had started a process of taking on the Treasury as an institution, it seemed. That institution's failings since have not done favours to it. As we exit the immediate crisis there should be a redoubling of these efforts, even a dismantling of it as an institution in its current form. It is not a crisis-ready institution.

Once this immediate crisis comes to an end, there will be an ineluctable undoubted economic crisis which will make the crashes and crunches of 2008-2010 seem like the walk in the park we may then be allowed to do again.

[1] (2018) Aston Business School's Enterprise Research Centre 'The State of Small Business Britain'

[2]<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/march2020>

[3] <https://www.gov.uk/government/statistics/business-population-estimates-2019>

[4]<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/march2020>