# EXCLUDED

## The Self-Employed Excluded from the Self-Employed Income Support Scheme

The Self-Employment Income Support Scheme (SEISS) was announced on 26 March 2020 in parallel to the Coronavirus Job Retention Scheme (CJRS), with support at 80% of trading profits. HMRC identified 3.4 million who were eligible for SEISS[1], based on information held from their self-assessment returns for tax years 2016-2017, 2017-2018 and 2018-2019.

However, hard edges to the eligibility criteria have left 1.6 million self-employed workers outside of the scope of the scheme through no fault of their own, with three key exclusions and one further scenario as follows:

- requirement of a minimum of 50% of trading profits from self-employment
- newly self-employed who had not submitted a 2019-2020 tax return could not benefit from the scheme
- total trading profit had to be £50,000 or less
- businesses with low to no profit over the 3-year profit calculation period

The first two criteria often go hand in hand. Thus, many have found themselves excluded on the basis of both criteria.

This paper considers the situation for those excluded due to not being in profit, being in loss or with low profits.

ExcludedUK has a wealth of evidence from case studies illustrating how those who have fallen foul of the SEISS eligibility criteria have been plunged into debt and for many poverty. This is also a group of people who often have never found themselves in such a position, having never relied on benefits before.

As financial expert Martin Lewis (Money Saving Expert) pointed out in the Treasury Committee meeting of 9 December 2020:

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[1] www.gov.uk/government/statistics/self-employment-income-support-scheme-statistics-august-2020/self-employment-income-support-scheme-statistics-august-2020

"The one [category] that we need to focus on are the people who were able to support themselves before, who were perfectly financially independent without mainstream support from the State, who were in businesses and sectors like travel, events or entertainment or hospitality and who solely because of this pandemic are not able to support themselves, and my concern is it would be short-sighted of the State to provide them with no support at all so they continue to languish and they move into that category of people that will permanently be in financial trouble and will permanently need to be a burden on the State. And by not providing short-term support to get them through to the end of this pandemic, and that includes limited company directors, it includes the newly self-employed, it includes the other excluded categories, all of whom were in viable work, to use the Chancellor's term, is a short-sighted mistake that will cost us more in the long run. We need to get people over this hump, and then back to their jobs, back working, back paying taxes."[2]

According to accountants QuickBooks, 3 million people faced having to pay tax bills double the normal size by the deadline of 31 January 2021 "as bills already deferred from last year begin to pile up"[3].

The Resolution Foundation's report "Long Covid in the labour market" of 18 February 2021 states that according to their survey 3 in 10 self-employed workers equivalent to 1.5 million people "said that while their profits had fallen as a result of Covid-19, they had not been eligible to receive a grant through the scheme. This exclusion could have longer-term consequences, too, as those who were not eligible for the SEISS were two-and-a-half times more likely to say they planned to leave self-employment than those who received a grant"[4].

For those self-employed people who have been excluded from SEISS and recently submitting their tax returns it has been a bitter pill to swallow, having to pay tax on their pre-Covid incomes from their decimated 2020 income. ExcludedUK called for tax to be waived for those affected as a gesture that would offer some help to these people. However, there was no response to these calls by the Treasury. Moreover, for those who took advantage of the tax deferral for payments due 31 July 2020, the financial strain at this time has been all the harsher.

For those who have taken out Bounce Back Loans, reminders are starting to be sent out informing people that their repayments are due to commence in the new few months. Loans and deferrals were never the solution.

The Treasury Committee report of 15 February 2021 further highlighted the gaps in support first identified in its report of 15 June 2020, emphasising its recommendations to the Treasury to amend the eligibility criteria so as not to exclude these three groups[5].

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[2] https://youtu.be/ZpMUD9TPSXI
[3] www.telegraph.co.uk/tax/return/taxpayers-owe-4bn-hmrc-thousands-struggle-pay-bills/
[4] www.resolutionfoundation.org/app/uploads/2021/02/Long-covid-in-the-labour-market.pdf
[5] https://committees.parliament.uk/publications/4703/documents/47210/default/

ExcludedUK full supports these recommendations and urges the Treasury to adopt these recommendations.

## The Self-Employed Excluded from SEISS Due to Low to No Profit

### Overview

According to a Government release, 500,000 have found themselves in a position of not being in profit over the 3-year profit calculation period[6]. In addition to this figure of 500,000, there will be those whose profits are so low that whatever support SEISS afforded them was negligible, again often due to being in the early stages of setting up in business.

This may be the case for those newer to self-employment with the expenses that come with setting up in business, for those who have invested during a growth phase, or those who have perhaps suffered a difficult trading period which could be for a variety of reasons (eg. family, illness or injury, childcare, carers).

There is no data available regarding how many may have received negligible support, but we can say that +500,000 have been excluded on the basis of little to no profit, whereas if income had been taken into account, more meaningful support could have been provided for many.

The requirement for eligibility to be calculated on the basis of profit rather than income has put many at an unfair disadvantage.

### Case Study Examples:

- A self-employed photographer with premises was excluded for having built his studio in 2018 and as a result his business suffered a loss that year that was greater than his profits in 2017 and 2019 by just over £100

- A beauty consultant since 2018 works from a converted studio in her home. She invested over £4k to set up her business and showed a loss in 2018-2019. Yet her 2019-2020 tax return showed her profit was over £20k so had to pay tax of over £8k. She has lost £15k in revenue from closure over the last year. Had she not been excluded and received the SEISS grant, she would not have had to take out a Bounce Back Loan. SEISS would have enabled her running costs to be covered instead of having to use the money put aside to pay her tax return, which she cannot now pay.

- A new B&B owner purchased her property in 2017. It necessitated a complete refit which took almost 18 months costing £60k. The B&B was due to open in 2020 when the pandemic hit. 2018 saw a loss of £26k, 2019 a loss of £5k and 2020 saw closure due to Covid-19. Projections for 2020 were for £70k, they made income of £15k with outgoings at £3k/month, a Bounce Back Loan and £13k on credit cards. They have enough to pay the bills till Easter, then nothing. They will lose their home as they live

[6] www.gov.uk/government/statistics/self-employment-income-support-scheme-statistics-august-2020/self-employment-income-support-scheme-statistics-august-2020

in the property, and the £60k investment they made to make their business, which was sustainable, successful

- A fully self-employed sole trader over +30 years, presenting puppet shows at museums, schools and events was excluded due to not being in profit for the 3-year calculation period, yet was in profit in 2019-2020. His profits rise and fall according to periods when he needs to invest in equipment. As a result of the pandemic, his turnover has reduced +90%, yet his business outgoings, although reduced, still continue at a level that his turnover cannot meet eg. he does not have use as much fuel in his vehicle, yet still has to make payments on it, tax and insure it, as well rental of storage space. Whilst his business is open, the places where he works have been effectively closed. He was unable to access Universal Credit

## Potential Solutions

**1. Consider income rather than profit for SEISS eligibility**

Many businesses ay still be viable even if profit is low due to a variety of reasons as set out above. It would therefore be fair to consider income rather than profit in assessing eligibility for SEISS.

**2. Backdated payment**

It is only fair that support be backdated in order to achieve parity in support for those thus far excluded, and on the basis of income as above.

## Conclusion

Many in this category have viable and sustainable businesses, yet due to timing, are in a position where they have been disadvantaged by trying to grow their business essentially, through investment in equipment, setup costs or other means of growth. Just as for the newly self-employed, if 2019-2020 tax returns were taken into account and if eligibility was based on income rather than profits, this would result in a fairer outcome and those excluded by this category would for the most part be eligible for support.

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***Report prepared by Sonali Joshi (Founder - Director of Policy & Communications, ExcludedUK), Chris Scott (ExcludedUK)***
***sonali@excludeduk.org***
***www.excludeduk.org***

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