



# **Targeted Income Grant Scheme v.2**

## **Gaps in Support APPG**

**Updated:** 12 February 2021

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## 1. Introduction

I believe that the Targeted Income Grant Scheme (TIGS) is a workable solution that caters for the vast majority of those groups who have not received meaningful support. Using the adage that the Chancellor used when referring to the introduction of SEISS, however, he said: "...don't let the perfect be the enemy of the good." I have applied the same theory to this paper as it has been prepared in a very limited time with limited resources.

In terms of designing this scheme, I have had the benefit of already designing the Directors Income Support Scheme (DISS), so I have been considering some other options for that. I have been working with the secretariat at the Gaps in Support APPG and discussing the various suggestions that have been made by the APPG and other parties. I have not, however, been working with any of the campaign groups or any of the industry bodies. Both the DISS scheme and the TIGS scheme have, however, now received unanimous cross-party support from the Gaps in Support APPG.

The Targeted Income Grant Scheme (TIGS) is a headline scheme that incorporates various different groups who have been left out<sup>1</sup> of government support, which can be seen in the list below. There are invariably going to be crossovers between the different cohorts and data for those in the 'work for yourself' sector is definitely not exact and, in some cases, lacking entirely.<sup>2</sup>

I have looked at the data for all these cohorts and compared them with other numbers currently in circulation, namely those provided by ExcludedUK and the other campaign groups. All the numbers have been revised and are evidenced by base data from the ONS or other verifiable sources. The figures are shown in Table 1 below and include the claim rate<sup>3</sup>.

The actual number of people that can be helped by the various schemes will be dependent on the options taken by the Treasury. The total number for the whole population of those left out is currently 2.93m but, that includes 1.157m in the micro-entities bracket.

The overall figures are in Table 1.

Groups	ExUK	Adjusted	Claim rate
Newly self-employed	200k	151k	80k
Self-employed earning >50k profit	225k	200k	105k
50/50 Trading profit less than non-trading profit	1.175m	1.271m	667k
PAYE Freelancer	390k	165k	95k
<b>Total</b>	<b>1.99m</b>	<b>1.78m</b>	<b>947,000</b>
Limited Co Director	710k	1.157m <sup>4</sup> (946k – 2m)	607k
<b>Total</b>	<b>2.7m<sup>5</sup></b>	<b>2.93m</b>	<b>1.55m</b>

The adjusted figures are those that I have obtained myself and the claim rate is explained below.

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<sup>1</sup> The total amount of self-employed are approximately 5 million and 3.4 million have claimed SEISS. So, there are 1.6 million self-employed left out from SEISS. There are, however, other groups that are not technically self-employed that add to the over 3 million total.

<sup>2</sup> I have already reported on the lack of data in this sector when I was at the Office of Tax Simplification. I think the questioning in the Labour Force Survey also needs to be brought up to date.

<sup>3</sup> This is the adjusted figure minus 30% eligibility and 75% of people who claim.

<sup>4</sup> There are between 946,000 and 2 million small companies with directors and it depends on whether the DISS or TIGS grant is adopted as to how many are helped. I have based these numbers on the micro-entities bracket.

<sup>5</sup> See Annex B – Total numbers

## 2. Targeted Income Grant Scheme

The Targeted Income Grant Scheme (TIGS) is designed to be a targeted solution for specifically identified areas of those that are those left out from meaningful government support. Below is a list of the targeted cohorts and the headline solution:

- Newly self-employed
  - the 4<sup>th</sup> grant for SEISS; or
  - A TIGS grant £3,500
  
- PAYE Freelancer
  - the 4<sup>th</sup> grant for SEISS; or
  - A TIGS grant of £7,500
  
- Ltd Co Directors
  - Directors Income Support Scheme (DISS); or
  - A TIGS grant of £7,500
  
- 50/50 trading and non-trading income (updated)
  - the 4<sup>th</sup> grant for SEISS; or
  - A TIGS grant of £7,500
  
- > £50 k trading profits (updated)
  - The 4<sup>th</sup> grant for SEISS; or
  - A TIGS grant of £7,500

Those that have been left out of meaningful support are the ones that I have identified as those that can be provided with a possible solution. Each cohort has its own policy principles. These are designed to limit fraud and ensure that it is a solution that can be implemented quickly and is not too labour intensive.

### 3. Newly Self-employed

ExcludedUK	200k	ONS 2019/TSC 2020
Adjusted	151k (3%)	ONS CSE UK - April 2020 <sup>6</sup>
Claim rate	80k	Estimated

#### 3.1 Who are the newly self-employed?

3% of self-employed people (151,000) have been self-employed only since after the end of the tax year ending 2019, meaning that they are not eligible for the Self-employment Income Support Scheme (SEISS).<sup>7</sup> ONS data cover January to December 2019, these estimates will not include people who have become self-employed since the start of 2020 and might under-report the extent of newly self-employed people.

The newly self-employed have missed out on Government support due to entering self-employment between the 5th April 2019 and the launch of the scheme in March 2020.

On 31 January 2021, those who were newly self-employed for the tax year 2019 - 2020, will have submitted their first self-assessment. Although this will only be for one year's trading it does give HMRC some valid data in order to provide some support without there being an inherent risk of fraud. It is also not too labour intensive because the evidence is in the self-assessment which HMRC already have in their systems.

#### 3.2 Reduction of cohort

It is likely that the population of 151k will reduce due to not being eligible, it may also reduce further by those people who do not make a claim. In SEISS, the reduction was approximately 30% who were ineligible and a further 75% who made a claim.

#### 3.3 Policy principles

The policy is based on those self-employed people who had not submitted a tax return on 31 January 2020 because they had only recently started in self-employment. With this cohort, however, they only have one year of trading and it is likely that as a new starter they may not have made much profit or may in fact have made a loss. In view of this fact, it would not be equitable to provide this cohort with the fourth SEISS grant because it would not be fair to those self-employed who had got three years trading and profit. It may also be that they would not benefit much under the SEISS scheme because they do not have sufficient figures from the first year of trading, that is common in most new businesses.

The Government could, however, elect for the fourth SEISS grant. If that is not the case then the following may be an alternative.

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<sup>6</sup> ONS - Coronavirus and self-employment in the UK – April 2020 (CSE UK 2020)

[https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/coronavirusandselfemploymentintheuk/2020-04-24#:~:text=By%20the%20fourth%20quarter%20\(Oct,up%20from%2012%25%20in%202000.](https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/coronavirusandselfemploymentintheuk/2020-04-24#:~:text=By%20the%20fourth%20quarter%20(Oct,up%20from%2012%25%20in%202000.)

<sup>7</sup>SEISS Direction:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/882593/SEISS\\_Direction\\_Final\\_-\\_SIGNED.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/882593/SEISS_Direction_Final_-_SIGNED.pdf)

### 3.4 Grant details

- the 4<sup>th</sup> grant for SEISS; or
- A TIGS grant of £3,500<sup>8</sup>

### 3.5 Figures for cohort

The suggestion would be then, to give a taxable grant of £3,500 to each individual who fits the criteria below. As the figures from this cohort are actually less than the previously reported figures, the likely figure for eligibility and claim rate would be:

151,000 (-30%) = 105,700

105,700 (-25%) = 79,275

Approximately 80,000 new starters x £3,500

### 3.6 Cost of scheme

Targeted Income Grant Scheme for the Newly Self-employed (TIGS NSE)

80,000 x £3,500 = **£280 m** (TIGS grant)

### 3.7 Eligibility criteria

- 1 year's trading from April 2019 – April 2020;
- from a trade or profession;
- Self-assessment to have been submitted on 31 January 2021;
- Temporarily unable to trade or are currently trading but impacted by reduced demand due to the COVID-19 pandemic<sup>9</sup>.
- Trading has been impacted by a decline in trading profits as a result of the Covid-19 pandemic.
- Are still trading and have an intention to continue trading.
- 2019/20 trading profits were less than £50,000.
- Partnership profits – partner's share is less than £50,000
- Provide a Unique Tax Payer's (UTR)

### 3.8 Not eligible

- Commenced trading after 5 April 2020;
- Are already in receipt of SEISS;
- Are a limited company;
- State Aid;
- Failing to comply with a Covid-19 Prohibition Notice;
- Received a fine for a Covid related offence.

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<sup>8</sup> The scheme in Northern Ireland for the newly self-employed is a one-off grant of £3,500.

<https://www.nibusinessinfo.co.uk/content/newly-self-employed-support-scheme>

<sup>9</sup> This could be quantified by say a 40% reduction in trade due to Covid but, I think that would be hard to administer.

### 3.9 Caveat

It has come to my attention that there are many employed people who are being de-employed and told to come back as self-employed. So, it is likely that there will still be a number of those who started in self-employment after April 2020 who will, again, be left out.

## 4. PAYE Freelancer

ExcludedUK	390k	ONS 2019/TSC 2020
Adjusted	165k +	ONS CSE UK 2020
Claim rate	95k	Estimated

### 4.1 What is a PAYE Freelancer

A PAYE Freelancer is someone who identifies as self-employed for tax but, is paid on payroll for some or all of their work. It may be that they also carry out self-employed work separately. So, they are a freelancer when self-employed but PAYE when not and, crucially, they are not an employee. It is most likely that they are a limb b worker but that is irrelevant for these purposes. The problem is that this cohort cannot claim SEISS because over 50% of their income comes from the PAYE work. This is further complicated by the fact that because they are not employees, they are not entitled to the CJRS. So, this has left them falling between two schemes.

### 4.2 Current assumptions

The initial data was taken from ExcludedUK based on the figures for freelancers and agency workers, see below:

### 3. PAYE Freelancer<sup>10</sup>

*This is a large and varied group and how they are counted in the figures depends on the proportion of income from PAYE vs self-employment.*

*There are 3 different scenarios:*

- If paid 100% via PAYE, they would not be eligible for SEISS and would therefore be part of the 1.6m excluded - they could try to claim CJRS, but in many cases their employers have refused to furlough them*
- If paid via a mix of PAYE and self-employment but total income was less than 50% from self-employment, they would not be eligible for SEISS and would therefore be part of the 1.6m excluded*
- If paid via a mix of PAYE and self-employment but total income was more than 50% from self-employment, they would be eligible for SEISS (therefore be part of the 3.4m included)*

*In TSC report of 15 June 2020, ONS data for 2019 is quoted stating, "15.6% of self-employed people categorised themselves as 'freelance' or 'agency'. Among +5 million self-employed, we estimate that around 780k people in this group could be freelancers"*

*We have assumed a 50 / 50 split of the total 780k:*

- 390k have been included as PAYE Freelancers on the 100% PAYE side*
- 390k have been included on the less than 50% self-employed SEISS side (part of those ineligible due to the 50% rule i.e.. 390k out of estimated 1.175m)*

<sup>10</sup> <https://www.excludeduk.org/three-million-breakdown>

### **Treasury Select Committee - June 2020**

*51. According to ONS data for January to December 2019, 15.6 per cent of self-employed people categorised themselves as “freelance” or “agency”. In a population of more than 5 million self-employed, we estimate that around 780,000 people in this group could be freelancers. We received a significant number of submissions from this group who told us that they were ineligible for the support schemes.*

#### **4.3 Revised assumptions**

The problem with this assumption is that a ‘freelancer’ is self-reporting that they are a freelancer under the self-employed category, so this may exclude those who are paid on payroll<sup>11</sup>. It may be that this cohort is actually an ‘agency worker’, as they are paid on-payroll. An agency worker takes up 3.3% of the 5 million, thus 165k. The category of PAYE Freelancer is also paid on-payroll direct by the employer so, they would not be classed as an agency worker. There are no statistics that I can find to represent this cohort but, there is a question in the Labour Force Survey (LFS) which asks, ‘Do you pay your own tax and NICs or does the organisation?’<sup>12</sup>

It may be that they are part of the 50/50 rule<sup>13</sup> of 1.463m with trading profits of less than non-trading profits where they work as self-employed and on PAYE but, they would only be a subset of this group and not the 5 million.

In the Labour Force Survey, the questioning refers to a ‘reference week’ and asks the individual if they have done any paid work in the last 7 days, either as an employee or as self-employed. The first problem is that the PAYE Freelancer is likely to have intermittent work and in any given reference week may or may not be working, there is no regularity. So, the knock-on effect to the LFS and, consequently the statistics, is that they are unlikely to be representative generally.

Other than those assumptions based on the figures for agency workers, I have not been able to obtain any evidence of the amount of people in this cohort. I spoke to the CEO of the Film + TV Charity<sup>14</sup> because they are likely to have this type of freelance PAYE worker in the entertainments industry and she confirmed that 165k would be a good estimate.

#### **4.4 Reduction of cohort**

The figure for the PAYE Freelancer would be reduced on the same basis as the newly self-employed in 1.1 above. It is likely that the population of 165k will reduce due to not being eligible, it may also reduce further by those people who do not make a claim. In SEISS, the reduction was approximately 30% who were ineligible and a further 75% who made a claim.

#### **4.5 Policy principles**

The policy is based on the PAYE Freelancer not being able to claim support from SEISS because of the 50/50 rule<sup>15</sup> and not being eligible for furlough under the CJRS, it is further compounded by the fact that they have no employment rights.

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<sup>11</sup> Annual Population Survey – ONS <https://www.nomisweb.co.uk/articles/1167.aspx>

<sup>12</sup> Annex A 7.1 Labour Force Survey – Question on who pays your tax?

<sup>13</sup> Where over 50% of the claimant’s income has to come from their trading income i.e. their non-trading income must not be more than 50% of their trading income.

<sup>14</sup> <https://filmtvcharity.org.uk/>

<sup>15</sup> Footnote 4 above.

It may be possible to assess them on the basis of either their total income from PAYE or combining their trading and non-trading income, as this makes up their total income in any case. If this total PAYE or combined income is below the current SEISS limit of £50k, then they should be able to make a claim on that basis. The self-assessment tax return will include returns for both employment and self-employment for that individual.

#### 4.6 Grant details

It is recommended that the claim be based on either:

- a) the 4<sup>th</sup> grant for SEISS; or
- b) A TIGS grant of £7,500 (this is based on the maximum claim under the SEISS grant)

If the claim is for a) there will be a query over whether it can be back-dated. Whereas with b) this would be a one-off figure and much simpler to administer.

#### 4.7 Figures for cohort

The revised figures would be:

165,000 (-25%) = 123,750

123,750 (-30%) = 86,625

Approximately 95,000 PAYE Freelancers (allowing for a 10% error) claiming under 4<sup>th</sup> grant for SEISS with an average of £2,500 for 3 months = £7,500; or a grant of £7,500:

#### 4.8 Cost of scheme

Targeted Income Grant Scheme for the PAYE Freelancer (TIGS PF)

95,000 x £7,500 = **£712.5 m** (TIGS grant)

#### 4.9 Eligibility criteria

- Combined trading profits were less than £50,000
- Have submitted a self-assessment tax return including both trading and non-trading income.
- Temporarily unable to trade or are currently trading but impacted by reduced demand due to the COVID-19 pandemic.
- Are still trading and have an intention to continue trading.
- Provide a Unique Tax Payer's (UTR)

#### 4.10 Not eligible

- Are already in receipt of SEISS;
- Have received or are receiving CJRS;
- Are a limited company;
- State Aid;
- Failing to comply with a Covid-19 Prohibition Notice;
- Received a fine for a Covid related offence.

#### 4.11 Caveat

It is likely that the grouping of those denied furlough<sup>16</sup> are covered, at least in part, by the PAYE Freelancers group. It is stated that one of the problems for this group is that they have been denied Furlough under the CJRS. The campaign groups for the denied furlough also report that their cohort includes PAYE freelancers and agency workers.

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<sup>16</sup> Denied Furlough – see **Annex B – Total numbers** and 7.1 Denied Furlough

## 5. Limited Company Directors

ExcludedUK	710k	TSC Report 2020/IPSE
Adjusted	946k – 2m	BEIS BPE 2020
	1.157m	Micro-entities
Claim rate	607k	Estimated micro-entities

### 5.1 What is a limited company director

The limited company directors (LCD)<sup>17</sup> are a group that have been left out of any meaningful support. It is acknowledged that the LCD can claim under the Coronavirus Job Retention Scheme (CJRS) but, they can only claim for 80% of the basic salary<sup>18</sup> which I believe is £585 per month. In addition to this though, they cannot work. The SEISS scheme, however, does allow the self-employed to continue working.

The Directors Income Support Scheme (DISS), which I also drafted, was proposed<sup>19</sup> to allow the Treasury to provide help for these LCDs. DISS is based on the trading profits of the company contained in the CT600 corporation tax return, rather than dividends. It has been presented to the Financial Secretary to the Treasury – Jesse Norman. An initial conversation was had with Jesse Norman in early December 2020 to talk through the scheme but, there has been no further response as yet. Obviously, I would recommend the DISS policy but, if not DISS then, I would propose this alternative scheme.

### 5.2 Current assumptions

The initial data was taken from ExcludedUK based on the figures for Ltd Company Directors, see below:

#### 4. Ltd Company Directors<sup>20</sup>

*This is a group for which there is significant confusion over whether they are technically self-employed or not. They operate in a manner which is akin to being self-employed but are excluded from SEISS. SEISS is based on 'earned' income and therefore this group, who pay themselves primarily via dividends (or what would be classed as repayments towards of a director's loan when not in profit) along with a smaller portion as a PAYE salary, are excluded.*

*While they have access to CJRS for their PAYE salary, 80% of this is typically £575/month. However, many simply cannot furlough themselves, for fear of losing their business, or can only furlough themselves in a limited capacity thus receiving considerably less support. We therefore consider this group to be excluded, in line with TSC report ONS figure is 715k (October 2019)*

*IPSE referred to a figure of 710k as quoted in the TSC report of 15 June 2020. There will have been some unaffected, while there will be some small limited companies with more than one director excluded, we consider this to cancel out and therefore have gone on the basis of the Treasury Committee report.*

<sup>17</sup> On 14 January 2021, Northern Ireland announced their new Limited Company Director's Support Scheme.

<sup>18</sup> Suggested at £8,788 per year for 2020

<sup>19</sup> Proposed by ForgottenLtd, the FSB and the ACCA.

<sup>20</sup> <https://www.excludeduk.org/three-million-breakdown>

### 5.3 Revised assumptions

There is no confusion over the status of a limited company director, they are not self-employed. The revised figures are current as of October 2020 and represent the following:

- 2 million actively trading small companies
- 946,000 non-employing companies\*
- 1.157 million micro-entities\*\*

\*According to the Business Population Estimate, a non-employing company is assumed to have only one working director.

\*\*A micro-entity has 2 out of the following:

- a turnover of £632,000 or less
- £316,000 or less on its balance sheet
- 10 employees or less

These are all part of the actively trading small company population.

### 5.4 Reduction of cohort

The figure for the Limited Company Director would be reduced on the same basis as the newly self-employed in 1.1 above. It is likely that the population of 946k will reduce due to not being eligible, it may also reduce further by those people who do not make a claim. In SEISS, the reduction was approximately 30% who were ineligible and a further 75% who made a claim.

### 5.5 Policy principles

If the DISS policy is not adopted, then the policy principle would be for a one-off grant to be paid to this cohort. The grant needs to be sufficient to enable them to kickstart their business when they are able due to Covid-19 restrictions. Giving a grant that is less than this would, in my opinion, be wasted money because it would be insufficient resources to kick start the business.

### 5.6 Grant details

It is recommended that the claim be based on either:

- c) Directors Income Support Scheme (DISS); or
- d) A grant of £7,500.

If the claim is for a) there will be a query over whether it can be backdated on the basis of SEISS. Whereas with b) this would be a one-off figure and more simple to administer.

### 5.7 Figures for cohort

The revised figures would be if non-employing companies:

<b>Non-employing companies</b>	<b>946,000</b>
• 70% eligibility (including trading profit threshold)	<b>662,200</b>

<ul style="list-style-type: none"> <li>75% claimed</li> </ul>	<b>496,650</b>
<b>Small limited companies</b>	<b>2m</b>
- Less the non-employing companies	<b>1,054 m</b>
2 director average	<b>2,108 m</b>
<ul style="list-style-type: none"> <li>70% eligibility (including trading profit threshold)</li> <li>75% claimed</li> </ul>	<b>1,475 m</b> <b>1,106 m</b>
<b>Micro-entities</b>	<b>1.157 m</b>
<ul style="list-style-type: none"> <li>70% eligibility (including trading profit threshold)</li> <li>75% claimed</li> </ul>	<b>809,900</b> <b>607,425</b>

The spend would be on the same basis but revised for the micro-entities or actively trading small companies.

## 5.8 Cost of scheme

Targeted Income Grant Scheme for the Ltd Company Director (TIGS LCD)

607,000 x £7,500 = **£4.55 bn** (TIGS grant)

## 5.9 Eligibility criteria

- One directorship per person;
- Person of Significant Control (PSC) – (only individuals can apply)
- You must actively work in the company;
- Total projected trading profits for 2020-21 are less than £50,000;
- 50% of total income are from trading income;
- Temporarily unable to trade or are currently trading but adversely affected by the COVID-19 pandemic;
- Have been trading in the previous three years;
- Are still trading and have an intention to continue trading;
- Provide a Unique Tax Payer's (UTR); and
- Company reference number.

## 5.10 Not eligible

- Investment companies
- Non-executive directors
- Are already in receipt of SEISS;
- Cannot claim CJRS concurrently;
- State Aid;
- Failing to comply with a Covid-19 Prohibition Notice;
- Received a fine for a Covid related offence;
- If the company is technically insolvent.

## 6. 50/50 trading – non-trading income

ExcludedUK	1.175m	TSC 2020
HMRC FOI	1.73m <sup>21</sup>	Survey of Personal Incomes <sup>22</sup>
Revised	1.436m	ONS SEISS statistics: January 2021
Adjusted for PAYE Freelancer (-165k)	1.271m	Estimated
Claim rate	667k	Estimated

### 6.1 Who are the 50/50 group?

According to the Institute of Fiscal Studies (IFS)<sup>23</sup>, more than half of the 50/50 group<sup>24</sup> have a personal income below £25,000 per year. So, according to the IFS, extending SEISS to include this group would target many people on low and moderate incomes.

45% of the ineligible group are made up of women who have a combined income. This is compared to only 35% of women who have more than 50% of their income from self-employment.

The profits per year for half the group are in the region of £5,000 per year, so extending SEISS to this group would also mean the average payments would be quite low.

The Official Statistics<sup>25</sup> for SEISS for January 2021 state that 86% or 1.4 m are ineligible for SEISS because of the 50/50 rule.

### 6.2 What is the 50/50 rule?<sup>26</sup>

In order to be eligible for SEISS one of the conditions is that your trading profits from self-employment must be equal to or more than your non-trading income. Trading profits must also be £50,000 or less.

This condition has made approximately 1.436 million individuals unable to claim SEISS.

### 6.3 Trading income

This is trading income less losses averaged over a two- or three-year period to arrive at trading profits.

Average income from self-employment must form at least 50% of trading income over the last three tax years 2016/17, 2017/18, and 2018/19. If the individual was not self-employed in 2016/17 then the average is taken over two years. It cannot be taken over 2016/17 and 2018/19.

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<sup>21</sup> The HMRC FOI figure of 1.73m is from 2017.

<sup>22</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/895420/NS\\_Table\\_3\\_6\\_1718.xlsx](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/895420/NS_Table_3_6_1718.xlsx)

<sup>23</sup> IFS Briefing paper BN316 - Who is excluded from the government's Self Employment Income Support Scheme and what could the government do about it? <https://ifs.org.uk/uploads/BN316-Who-is-excluded-from-SEISS.pdf>

<sup>24</sup> The 50/50 rule states that where an individual has trading profits less than non-trading profits (for example, income from employment or investment income), they are ineligible for SEISS.

<sup>25</sup> Official Statistics - Self-Employment Income Support Scheme statistics: January 2021 - Published 28 January 2021

<https://www.gov.uk/government/publications/self-employment-income-support-scheme-statistics-january-2021/self-employment-income-support-scheme-statistics-january-2021>

<sup>26</sup> <https://www.gov.uk/guidance/how-hmrc-works-out-total-income-and-trading-profits-for-the-self-employment-income-support-scheme>

## 6.4 Non-trading income

This is the amount recorded as 'total income received' on the tax calculation, less trading income.

HMRC works out the non-trading income by adding together all your:

- income from earnings
- property income
- dividends
- savings income
- pension income
- overseas income
- miscellaneous income including taxable e.g.
  - Social security income
  - Bereavement Allowance
  - Carer's Allowance
  - Redundancy Payments
- Maternity Allowance – does not affect eligibility

The trading profits must be £50,000 or less, but more than nil. The self-employment profits were equal to or more than the non-trading income. If the non-trading income is more than the trading profits, then the individual will be ineligible for SEISS.

## 6.5 Denied access

According to an FOI request<sup>27</sup>, HM Treasury do not hold the information about how many people were denied access to the SEISS grant during the Covid-19 pandemic because of the 50/50 rule. HMRC, however, published analysis of the Survey of Personal Incomes<sup>28</sup> (SPI) for 2017-2018 which suggests that 5.75 million individuals were deemed as having some form of self-employment in 2017-18 and **1.73 million** received less than half of their total income from self-employment trading profits.

If this was known to HMRC then they knew that a great many of the self-employed would not be eligible for SEISS.

## 6.6 Current assumptions

This initial data was taken from ExcludedUK based on the figures for the 50/50 rule, see below:

- *Financial journalist Paul Lewis reported that HMRC had told him this group amounted to 1.75m:*  
<http://paullewismoney.blogspot.com/2020/03/self-employed-coronavirus-scheme.html>
- *However, we know the total ineligible self-employed is 1.6 million, therefore deducting 200k newly self-employed, 225k with +£50k trading profits gives a figure of 1.175m*
- *This group includes many unfair exemptions eg. income from pensions, redundancy, property rental, a PAYE*

<sup>27</sup> FOI2020/26658

[https://www.whatdotheyknow.com/request/674098/response/1609533/attach/3/FOI202026658%20Reply.pdf?cookie\\_passthrough=1](https://www.whatdotheyknow.com/request/674098/response/1609533/attach/3/FOI202026658%20Reply.pdf?cookie_passthrough=1)

<sup>28</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/895420/NS\\_Table\\_3\\_6\\_1718.xlsx](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/895420/NS_Table_3_6_1718.xlsx)

*job. Furthermore, many in the early stages of self-employment do not make much profit – they are surviving based on such additional sources of income and are thus excluded*

- According to the National Audit Office, HMRC estimated 1.4 million had earned less than 50% of their earnings from self-employment

## 6.7 Revised assumptions

It is likely that the figures obtained by the FOI request of 1.73 million individuals left out by the 50/50 rule is accurate. This is the largest proportion of those individuals and evidence indicates that some of this group will be PAYE Freelancers (165k). Anecdotal evidence appears to be showing that a proportion of this cohort are being unfairly left out because of the arbitrary nature of this rule.

## 6.8 Reduction of cohort

The figure for the 50/50 rule would be reduced on the same basis as the newly self-employed in 1.1 above. It is likely that the population of 1.73 million will reduce due to not being eligible, it may also reduce further by those people who do not make a claim. In SEISS, the reduction was approximately 30% who were ineligible and a further 75% who made a claim.

## 6.9 Policy principles

The policy is based on an adjustment to the rule. There are two possible adjustments:

- If both the non-trading income and the trading profits equal less than £50,000 the individual can claim SEISS.
- The 50/50 rule is adjusted to 60/40, where the trading profit has to be equal to or more than 40% of the non-trading income.

## 6.10 Grant details

It is recommended that the claim be based on either:

- a) the 4<sup>th</sup> grant for SEISS; or
- b) A TIGS grant of £7,500.

If the claim is for a) there may be a query over whether it can be backdated. Whereas with b) this would be a one-off figure and simpler to administer.

## 6.11 Figures for cohort

The HMRC figure from the FOI request is 1.73 m but this figure is from 2017. The ONS SEISS Statistics report there are 1.436m and these are current figures. The number of PAYE Freelancers would be deducted from this (1.436m - 165k = 1.271m). The claim rate would be 667k

## 6.12 Cost of scheme

Targeted Income Grant Scheme for the 50/50 (TIGS 50)

667,000 x 7,500 = **£5bn** (TIGS grant)

### 6.13 Eligibility criteria

- Combined trading profits and non-trading income were less than £50,000
- Have submitted a self-assessment tax return including both trading and non-trading income.
- Temporarily unable to trade or are currently trading but impacted by reduced demand due to the COVID-19 pandemic.
- Are still trading and have an intention to continue trading.
- Provide a Unique Tax Payer's (UTR)

### 6.14 Not eligible

- Are already in receipt of SEISS;
- Have received or are receiving CJRS;
- Are a limited company;
- State Aid;
- Failing to comply with a Covid-19 Prohibition Notice;
- Received a fine for a Covid related offence.

## 7. > £50k trading profits

ExcludedUK	225k	ONS 2019/TSC 2020
Adjusted	200k <sup>29</sup>	ONS SEISS Statistics – January 2021 <sup>30</sup>
Claim rate <sup>31</sup>	105k	Estimated

### 7.1 Who are the over £50k group?

This group represents those who have profits of over £50,000 per annum and it is estimated<sup>32</sup> that 80% of this group are men. Over half of the group have personal incomes between £50,000 and £100,000.

It could be argued that this group should not need financial support but, due to the cliff edge, someone with profits of £50,000 can receive significant support, whereas someone with £50,001 receives nothing. There is also an inconsistency with the Coronavirus Job Retention Scheme, which has no such cap. A high-income employee can be furloughed and receive £2,500 per month, or £7,500 per quarter, whilst the equivalent self-employed person receives no support. The people most affected are those in areas where the cost of living is generally higher.

In addition, those who have created more profits and, therefore, are higher rate taxpayers should be entitled to support as much as those who have less trading profits, so there is no upper cap on this policy.

### 7.2 Reduction of cohort

The figure for the Over £50k group would be reduced on the same basis as the SEISS<sup>33</sup> It is likely that the population of 200k will reduce due to not being eligible, it may also reduce further by those people who do not make a claim. In SEISS, the reduction was approximately 30% who were ineligible and a further 75% who made a claim.

### 7.3 Policy principles

The policy is based on the Over £50k group not being able to claim support from SEISS. There is no cap on this policy and the support provided can either be under the SEISS 4<sup>th</sup> grant or a grant of £7,500.

### 7.4 Grant details

- c) the 4<sup>th</sup> grant for SEISS based on no upper cap on trading profits; or
- d) A TIGS grant of £7,500.

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<sup>29</sup> Self-employment Income Support Scheme statistics: November 2020: <https://www.gov.uk/government/publications/self-employment-income-support-scheme-statistics-november-2020/self-employment-income-support-scheme-statistics-november-2020>

<sup>30</sup> <https://www.gov.uk/government/publications/self-employment-income-support-scheme-statistics-january-2021/self-employment-income-support-scheme-statistics-january-2021>

<sup>31</sup> This is the adjusted figure minus 30% eligibility and 75% of people who claim.

<sup>32</sup> Institute of Fiscal Studies (IFS) Briefing Note BN316 – “Who is excluded from the government's Self Employment Income Support Scheme and what could the government do about it?”

<sup>33</sup> Self-employment Income Support Scheme (SEISS)

## 7.5 Figures of cohort

The ONS<sup>34</sup> figures suggest that there are 200k individuals who have trading profits over £50,000. It is assumed that this figure is for the self-employed and does not include the limited company directors who might earn over £50,000.

If the limited company directors were included in the TIG scheme, then the grant should also apply to that cohort.

## 7.6 Cost of Scheme

105,000 x £7,500 = **£787.5 m** (TIGS grant)

## 7.7 Eligibility criteria

- Self-employed; or
- trading through a limited company (limited company director rules apply);
- Have been actively trading in 2019-2020;
- Actively trading for three years prior to 2020;
- 50% of total income is from trading profits;
- Temporarily unable to trade or are currently trading but adversely affected by the COVID-19 pandemic;
- Have been trading in the previous three years;
- Are still trading and have an intention to continue trading;
- Provide a Unique Tax Payer's (UTR); and
- Company reference number.

## 7.8 Not eligible

- Are already in receipt of SEISS;
- Cannot claim CJRS concurrently;
- State Aid rules;
- Failing to comply with a Covid-19 Prohibition Notice;
- Received a fine for a Covid related offence;

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<sup>34</sup> <https://www.gov.uk/government/publications/self-employment-income-support-scheme-statistics-january-2021/self-employment-income-support-scheme-statistics-january-2021>

## 8. Other groups

### 8.1 Denied furlough

ExcludedUK	100k	HMRC RTI May – May 2020
Adjusted	?	?
Claim rate		Estimated

This group is made up in part of the PAYE Freelancers<sup>35</sup>. There are, however, a group of zero-hours workers that have been denied furlough. According to the Labour Force Survey<sup>36</sup> there were 1,068 million people working under a zero-hour contract in April June 2020. This is 3.3% of people in employment on a zero-hour contract.

### 8.2 Trading profits of £0 or made a loss

Self-employed with trading profits of £0 or made a loss	543k	SEISS statistics: November 2020
Individuals may be counted more than once if they have trading profits which meet more than one criteria.		

### 8.3 Maternity/Paternity/adoption

I do not have sufficient data on this group.

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<sup>35</sup> Section 3 PAYE Freelancer.

<sup>36</sup> EMP17: People in employment on zero hours contracts -

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/emp17peopleinemploymentonzerohourscontracts>

## 9. In numbers

### 9.1 General self-employment

5 million	self-employed 4 <sup>th</sup> Q 2019 – ONS Coronavirus and self-employment in the UK (CSE UK 2020)
4.5 million	Jul-Sept 2020 ONS 10 Nov 2020 EMP14: Employees and self-employed by industry
3.4 million	were eligible for SEISS – but some of the eligible businesses were not adversely affected by Coronavirus
2.3 million	claimed both SEISS grants 1&2 (£13.5bn)
1.6 million	did not meet SEISS criteria

### 9.2 Self-employment Income Support Scheme (SEISS) support<sup>37</sup>

- Around 5 million individuals reported self-employment income for the tax year 2018 to 2019 and had their data assessed for potential SEISS eligibility.
- Via this process, 3.4 million self-employed individuals were identified as potentially eligible for the SEISS scheme.
- By 30 September 2.3 million (67%) of the potentially eligible population had claimed a second SEISS grant with the value of these claims totalling £5.7 billion
- The average value per claim was £2,500
- Around 91% of claimants are aged between 25 and 64 years old.

### 9.3 Of the 1.6 million that did not meet the SEISS criteria:

- **1.4 million** (87%) had trading profits less than non-trading profits (eg. income from employment or investment income) – the so-called 50-50 rule;
- **0.5 million** (33%) had trading profits of £0 or made a loss; and
- **0.2 million** (11%) had trading profits over £50,000.

(N.B. Individuals may be counted more than once if they have trading profits which meet more than one of these criteria which explains why the figures sum to more than 1.6 million)

### 9.4 Fast choices by government provide generous income support to most workers, but leave some with nothing and others with too much – Institute for Fiscal Studies (IFS)

Some self-employed may struggle financially as they have to wait until early June to get cash through the SEISS. Some of them, however, can also claim benefits in the short run and many could be financially better off than if crisis had never happened.

**Almost half of the self-employed would see their family income fall by at least 40% in the short run if their work has dried up before the SEISS grants are paid in June.** A quarter of self-employed people earning less than £50,000 a year do not have enough liquid assets (between themselves and any partner) to cover three months' lost earnings, and 15% don't have enough to cover a single month. This makes it important for the government to deliver quick access to loans and universal credit to ensure people avoid hardship.

**Many of the self-employed whose income dries up will receive both universal credit now and 80% of their historical earnings for three months at the start of June.** Their total compensation is more than 80% of their earnings and could be more than 100%.

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<sup>37</sup> SEISS <https://www.gov.uk/government/publications/self-employment-income-support-scheme-statistics-october-2020/self-employment-income-support-scheme-statistics-october-2020>

**If self-employed workers see only a small fall in their profits, half will have a family income more than 20% above its usual level** once the SEISS is fully in place, since they get the full SEISS even if they only see a small reduction in their profits.

**A quarter of the self-employed will be financially better off than they would have been without the crisis even if their business shuts completely.** This can happen if the 20% of lost earnings not made up by the SEISS is outweighed by the benefit giveaways. It can also happen if they would now – even in the absence of the coronavirus – be earning much less than they averaged from April 2016 to April 2019. In that case their current lost earnings are less than they receive through the SEISS which is based on, higher, historical earnings.

## 10. Annex A

### 10.1 Labour Force Survey – Question on who pays your tax?

<p><b>NITAX</b>  <i>Do you pay your own National Insurance and Tax or is this usually deducted by the organisation(s) you work(s) for, for example, your client, employer, agency etc.</i></p> <ol style="list-style-type: none"> <li>1 Pay your own National Insurance and Tax</li> <li>2 Pay your own National Insurance or Tax but not both</li> <li>3 National Insurance and tax deducted by the organisation(s) you work for, for example, your client, employer, agency, etc</li> </ol> <p><b>ONS</b> ✓                      <b>GOV</b> ✓                      <b>SPL</b>                      <b>EUL</b></p> <p><b>APPLIES TO SELF EMPLOYED OR THOSE NOT PAID DIRECTLY BY THEIR EMPLOYERS</b>          IF STAT=2 (self-employed)          OR PDWG10=2 (Employees who are not paid a salary or wage by an employer)</p>	<p><b>UK</b> <b>EQ</b></p>
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### 10.2 Labour Force Survey – checking status

<p><b>SELF</b>  <i>May I just check, are you / were you...</i></p> <ol style="list-style-type: none"> <li>1 paid a salary or wage by an employment agency?</li> <li>2 a sole director of your own limited business?</li> <li>3 running a business or professional practice?</li> <li>4 a partner in a business or professional practice?</li> <li>5 Working for yourself?</li> <li>6 a sub-contractor?</li> <li>7 or doing free-lance work?</li> <li>8 none of the above</li> </ol> <p><b>ONS</b> ✓                      <b>GOV</b> ✓                      <b>SPL</b> ✓                      <b>EUL</b> ✓</p> <p><b>APPLIES TO SELF EMPLOYED OR THOSE NOT PAID DIRECTLY BY THEIR EMPLOYERS</b>          IF STAT=2 (self-employed)          OR PDWG10=2 (Employees who are not paid a salary or wage by an employer)</p>	<p><b>UK</b> <b>EQ</b> <b>INDIVIDUAL</b> <b>PROMPT</b> <b>CODE ALL THAT</b> <b>APPLY (UP TO 4)</b></p>
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## 11. Annex B – Total numbers



Groups	ExUK	Adjusted	Claim rate
Newly self-employed	200k	151k	80k
Self-employed earning >50k profit	225k	200k	105k
50/50 Trading profit less than non-trading profit	1.175m	1.271m	667k
New starters PAYE	300k	?	-
Denied furlough	100k	?	-
PAYE Freelancer	390k	165k	95k
<b>Total</b>	<b>2.39m</b>	<b>1.78m</b>	<b>947,000</b>
Limited Co Director	710k <sup>38</sup>	1.157m <sup>39</sup> (946k – 2m)	607k
Maternity / Paternity	491k	?	?
<b>Total</b>	<b>3.59m</b>	<b>2.93m</b>	<b>1.55m</b>

<sup>38</sup> This figure is, I believe, based on a sole director or non-employing company.

<sup>39</sup> There are between 946,000 and 2 million small companies with directors and it depends on whether the DISS or TIGS grant is adopted as to how many are helped. I have based these numbers on the micro-entities bracket.