SELF-EMPLOYMENT IN UK LAW

Abstract. The United Kingdom has noted a rapid increase in the number of self-employed persons in the last forty years. This has prompted a return to the debate on the regulation of this category of workers. What are the key characteristics of the self-employed? Are they covered by labour law and social security regulations? This chapter answers these questions by looking at the legal framework applicable to the self-employed in the UK. In section 2, the author characterizes the main tendencies regarding self-employed activity in the United Kingdom as presented in a report of the Office of National Statistics for 2020. In sections 3 and 4, she analyses the definition and the legal framework that guarantee protection applicable to the self-employed. The author places particular emphasis on the tri-partite character of the British legal system in individual employment law, which includes certain categories of self-employed in the British definition of worker. Finally, section 5 is devoted to the ever more popular phenomenon of “bogus self-employment” and the legal mechanisms designed to combat it.

Keywords: self-employment, employment status, United Kingdom, legal framework, social security, tax law.

SAMOZATRUDNIENIE W ŚWIETLE PRAWA ZJEDNOCZONEGO KRÓLESTWA

1. INTRODUCTION

The UK labour market has witnessed a sharp rise in the number of people in self-employment over the last four decades. While the self-employed represented just 6.6% of the British workforce in 1979 (Gootschall, Kroos 2003), this number had more than doubled by 2020 (15.3%). In the last quarter of 2019, there were more than 5 million self-employed people in Great Britain,\(^1\) up from 3.2 million in 2000 (ONS 2020a). One of the key drivers of the increase in self-employment has been the growing importance of the service sector. Recent market structural trends like the globalisation and digitalisation of the British economy, the emphasis on numerical flexibility through franchising and outsourcing, and the advent of platform work have transformed the British labour landscape, precipitating a ‘boom’ in self-employment (Prassl 2018; Schulze Buschoff, Schmidt 2009). Commenting on the increasing importance of this category, former Prime Minister David Cameron characterised the self-employed as the “lifeblood of the UK economy” (Borghi, Mori, Semenza 2018, 414).

The ‘renaissance’ of self-employment (IZA 2013, 19) has sparked debates over the legal definition of this category of workers. Definitions in this context are particularly important, not just as a matter of nomenclature or semantics, but because they form the “vehicle for the delivery of rights and entitlements” (Davidov, Langille 2006, 4). The classification status of a person determines their legal rights and obligations under employment, tax, and social security law. As a general rule, while employed persons are protected under employment legislation, the same is not true for the self-employed. The latter are not entitled to basic labour rights such as protection from unfair dismissal, nor are they entitled to statutory sick pay, maternity rights, statutory redundancy pay, rest breaks, paid holiday and others. At the same time, the self-employed enjoy a basic level of social protection and are subject to favourable tax legislation that allows them to keep a greater part of their income.

The aim of this chapter is to outline the legal regulation of self-employment in the UK. Section 2 analyses the main trends in self-employment, as they appear in the 2020 Report of the Office of National Statistics (ONS 2020b). Section 3 examines

\(^1\) For the purposes of this chapter, the terms ‘UK’ and ‘Great Britain’ are used interchangeably.
the legal definitions of self-employment in British labour, social security, and tax law. Particular emphasis is paid to the tripartite structure of the UK legal system in employment law that includes certain categories of self-employed persons in the UK ‘worker’ definition. Section 4 analyses the rights and responsibilities of the self-employed under British employment, social security and tax law. Finally, Section 5 looks into the rising phenomenon of ‘sham self-employment’ and describes the legal mechanisms that have been adopted to combat it.

2. TRENDS IN SELF-EMPLOYMENT

The self-employed are a largely diverse and heterogeneous group, consisting of different categories of working people who display very different characteristics (Blanchflower 2000). Relying on the most recent report of the ONS (ONS 2020b), this section analyses the main demographical and entrepreneurial characteristics of the self-employed in the UK.

2.1. Types of self-employment

First, a distinction needs to be drawn between those of the self-employed who themselves employ employees (‘self-employed employers’) and those who work for themselves (‘solo self-employed’ or ‘own-account workers’). As Earle and Sakova write (Earle, Sakova 2000, 580):

(…) it is useful to distinguish self-employed employers from own-account workers, those who work alone or with the cooperation only of unpaid family helpers, because the former represent clear cases of genuine entrepreneurship: they are creating jobs for others, implying that they have had some success in their business, that they have been able to hire capital and other inputs to work with their employees, and that they are most likely engaged in self-employment voluntarily. (…) By contrast, the status of own-account workers is much less clear: although some of them might be successful entrepreneurs, others might instead be displaced workers from declining firms and sectors, forced to engage in whatever activity necessary to ensure their survival.

In the UK, the increase in self-employment has been almost entirely driven by the second category, namely ‘solo self-employment’. In fact, the UK displays one of the highest numbers and levels of growth of solo self-employment among all OECD countries, ranking ninth in the table of OECD countries with the highest number of solo self-employed among their population (OECD 2021; Giupponi, Xu 2020). In 2019, for instance, the solo self-employed represented 92.7% of all the self-employed in the UK. Out of 4,973,000 self-employed people, only 365,000 reported having personnel (7.3%). The majority of those who employed others took on only one or two employees (98,000 and 79,000 respectively), with only 9,000 self-employed people reporting having more than 10 staff members.
Further distinctions can be drawn within the ‘solo self-employed’ category. The self-employed with no staff operate under various business forms. The majority of the solo self-employed work for themselves (68%). Nearly 19% report running their own business, with a further 14.3% stating that they are the sole director of their own limited company. Freelancers make up 12.3% of the total self-employed population, followed by partners (10.6%), sub-contractors (10.2%) and agency workers who represent only 3.3% of all persons in self-employment.

2.2. Gender

Self-employment is more prevalent among men than women. Self-employed men make up two thirds (66.5%) of the self-employed population (3,307,000 individuals) while women account for the remaining third (33.5% or 1,667,000 individuals). This gender divide is not present among employees, where both sexes are equally represented (men account for 50.2% of all employees, while women make up the rest).

2.3. Age

The self-employed are, on average, older than employees. Almost 10% of the self-employed are aged 65 years or over, compared to only 2.7% of employees. Self-employment is more popular among those who are 45 to 54 years of age (1,317,000 persons) and those who are between 55 and 64 years old (1,103,000 persons). Combined, these two categories make up half of the entire self-employed population (48.7%). By contrast, employed persons in these age groups account for only 38.1% of all employees. The smallest group are those aged 16 to 24 years, which make up only 4% of all the self-employed.

2.4. Occupations

In terms of their occupational profile, the self-employed cover a wide range of industries. While most of them are engaged in traditional sectors like construction, transport, agriculture, and manufacturing (Pedersini, Coletto 2010; Meager 1991), the self-employed can now also be found in the so-called ‘new services sectors’ such as the health, education, and financial services (Diane 2016; Böheim, Ulrike Mühlberger 2009; Schulze Buschoff, Schmidt 2009). In 2019, the majority of self-employed workers in the UK were engaged in the following sectors:

1. Banking and finance (1,177,000 persons).
2. Construction (942,000 persons).
3. Public admin, education and health (678,000 persons).
4. Distribution, hotels and restaurants (568,000 persons).
5. Transport and communication (544,000 persons).
2.5. Geographical distribution

While the self-employed are found in all geographical areas of the UK, there are marked regional variations in self-employment rates. The areas with the highest proportion of self-employed people among their working resident population are Cornwall (21.5%), West London (20.3%), and Surrey and East and West Sussex (19.6%). By contrast, the areas that have the lowest numbers of self-employed are West Central and North East Scotland (9.9% and 11.7%, respectively) and South Yorkshire (11.3%).

2.6. Ethnicity

In the UK, self-employment levels differ among the various ethnic groups. While the self-employed represent 15.3% of the total workforce, this percentage rises for those with Pakistani or Bangladeshi ethnic origin. One in four people in the Pakistani ethnic group (24.9%) and one in five in the Bangladeshi ethnic group (19.1%) report being self-employed. Of those, almost half are engaged in the transport and communication sectors (45%). This number is exceptionally high considering that only 11% of the rest of the self-employed workforce is occupied in these fields. Lower rates of self-employment are encountered among those from white (15.2%), black (11.2%) and Chinese (13.4%) ethnic backgrounds.

Overall, the self-employed in the UK are a diverse group that encompasses people who display markedly different entrepreneurial and demographical characteristics. The vast majority of the British self-employed do not employ others but work for themselves. Compared to their employed counterparts, the self-employed are more likely to be male, older, and immigrants who are based in London and South East England.

3. LEGAL DEFINITIONS

In the UK, there is not a common definition of ‘self-employment’ for all areas of law. While convergent definitions have progressively been adopted for tax and social security purposes (Casey, Creigh 1998), a different conceptualisation exists for labour law. Hence, a person can be treated as ‘self-employed’ for tax and social security purposes and as a ‘worker’ under UK employment law. This section examines the legal concept of ‘self-employment’ as it has been developed in UK employment law and social security and tax law.

3.1. Employment law

In UK employment law, a statutory definition of ‘self-employment’ does not exist. Instead, the ‘self-employed’ are treated as a residual category that is identified by reference to ‘employees’: those who are not working under a contract
of employment are ‘self-employed’ (argumentio a contriario). The UK framework finds its origins in the historic divide between ‘masters’ and ‘servants’. According to this conceptualisation, an individual is either a dependent ‘employee’ engaged under a ‘contract of service’ or an independent ‘self-employed person’ who works under a ‘contract for services’ (Freedland 1995). The criteria for making the distinction have not been laid down in legislation but have been developed by the courts through case law. Over the years, four criteria have emerged as relevant for the assessment: (i) control; (ii) integration; (iii) business reality and; (iv) mutuality of obligation. To ascertain the presence of these criteria, the courts rely on a matrix of indicators such as: the duty to obey orders, discretion on working hours and place of work, supervision, disciplinary or grievance procedures, inclusion in occupational benefit schemes, method of payment, ability to hire others or use substitutes, provision of equipment, assumption of business risks, duration of contract, regularity of employment, right to refuse work and others (Deakin 2020). No single element is determinative for the assessment. Instead, the courts look at all of the facts of the case and reach a decision based on law and the reality of the situation.\(^2\) Individuals displaying characteristics that are traditional to an archetypical employment relationship are classified as ‘employees’. Those who are not are deemed ‘self-employed’.

Even though the UK system has retained the original distinction between ‘employees’ and ‘self-employed persons’, it has evolved to include an intermediate category of working persons, namely ‘workers’. In the 1970s, the strict binary divide between ‘employment’ and ‘self-employment’ was challenged by the introduction of employment equality and anti-discrimination acts which broadened their scope of protection to include certain categories of dependent self-employed workers. The Equal Pay Act 1970, the Sex Discrimination Act 1975, and the Race Relations Act 1976 introduced the category of ‘employed persons’ which covered individuals with “contracts personally to execute any work or labour” (Fredman 2011; Freedland 2003).\(^3\) Relying on this idea of personal work contracts, the Employment Rights Act (ERA) 1996 established the in-between category of ‘worker’. According to Section 230(3) ERA, a ‘worker’ is “an individual who has entered into or works under (or, where the employment has ceased, worked under) (a) any contract of employment (in other words an ‘employee’), or (b) any other contract, whether express or implied and (if it is express) whether oral or in writing, whereby the individual undertakes to do or perform personally any work or services for another party to the contract whose status is not by virtue of the contract that of a client or customer of any profession or business carried out by the individual.” From the statutory definition, it follows that individuals will be


\(^3\) Similar conceptions were also introduced earlier in the Trade Disputes Act 1906 and the Employment Protection (Consolidation) Act 1978.
’workers’ if they are employees (limb (a)) or they satisfy the following cumulative limb (b) criteria:

(i) They work under a contract. The contract does not have to be written; oral or implied contracts count as well. It suffices that there is a minimum expectation that there will be work available for which the person will be remunerated (exchange of work for wages).  

(ii) They have to personally supply the services. If they have the right to hire employees or use substitutes, they will not be considered ‘workers’. Courts, however, will disregard substitution clauses if they have been inserted into the contract with the intention of preventing a finding of ‘employment’ (Davies 2009).  

(iii) They are not in business for their own account.  

(iv) They are not in a position of selling a service to a client or a customer.  

(v) They are in a relationship of ‘subordination’ vis-à-vis the principal, meaning that they are under his control or supervision.

Since ERA 1996, the same ‘worker’ definition has been used in other instruments such as the Trade Union and Labour Relations Act 1992 (Section 296(1)(b)), the National Minimum Wage Act 1998 (Section 54(3)), and the Working Time Regulations 1998 (Section 2). A similar conception has also been adopted for the purposes of the Equality Act 2010. As Section 83(2)(a) states, the Equality Act covers every person who is engaged under “a contract of employment, a contract of apprenticeship or a contract personally to do work” (emphasis added). Even though Section 83(4) refers to the persons engaged under one of these contracts as ‘employees’, case law has confirmed that the category of ‘employee’ under the Equality Act 2010 is, in fact, identical to that of ‘worker’ under the ERA 1996 (Freedland, Prassl 2017, 16; Barnard, Blackham 2015).

Overall, a tripartite structure has emerged under which one can be an ‘employee’, a ‘worker’ or a ‘self-employed person’. Those who are genuinely in business on their own account will continue to be treated like ‘self-employed persons’ and will be excluded from labour protection (see below). Those, however, of the self-employed that provide personal services to a principal while being under its control or supervision will be classified as ‘workers’ and will be afforded a level of employment protection (see Section 4 below).

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6 James v Redcats (Brands) Ltd. [2007] IRLR 296.
3.2. Social security and tax law

Unlike employment law, the UK social security and tax law systems have not developed a tri-partite taxonomy for the classification of working persons. The UK tax and social security frameworks remain firmly structured around the binary divide between ‘employment’ and ‘self-employment’. As far as social security and tax provisions are concerned, an individual is either a dependent ‘employee’ or an independent ‘self-employed’ person. The same individual, however, can be both employed and self-employed in relation to different engagements (Freedman 2001, 41). While certain differences exist between the tax and social security frameworks, since the 1990s a conscious effort has been made to align the two fields to reduce compliance and administrative costs (Freedman, Chamberlain 1997; Sandler 1993). Nowadays, the concepts of ‘employee’ and ‘self-employed’ used in the two areas of tax and social security are largely similar in that persons who are treated in a certain way for tax purposes are usually treated in the same manner for National Insurance (NI) purposes (Casey, Creigh 1998).

In tax and social security law, there are no statutory definitions or tests for distinguishing between ‘employed’ and ‘self-employed’ people. Section 4 of the Income Tax (Earnings & Pensions) Act (ITERA) 2003 stipulates that the term ‘employment’ includes “any employment under a contract of service, any employment under a contract of apprenticeship, and any employment in the service of the Crown.” No further explanations are provided. With regard to National Insurance Contributions (NICs), the Social Security Contributions and Benefits Act (SSCBA) 1992 distinguishes between ‘employed earners’ and ‘self-employed earners’ using the following definitions (Section 2(1)):

(a) An ‘employed earner’ is “a person who is gainfully employed in Great Britain under a contract of service, or in an office (including elective office) with emoluments chargeable to income tax under Schedule E” while

(b) A ‘self-employed earner’ is “a person who is gainfully employed in Great Britain otherwise than in an employed earner’s employment (whether or not he is also employed in such employment).”

Section 122(1) of the SSCBA clarifies that the term ‘employment’ includes “any trade, business, profession, office or vocation” while the term ‘contract of service’ includes “any contract of service or apprenticeship whether written or oral and whether express or implied.” Undoubtedly, these definitions are somewhat circular and provide little help in distinguishing between ‘employed’ and ‘self-employed’ persons (Seely 2016).

The criteria used to classify individuals have been developed through case law. While there is not one standard test for determining the status of a person, the following indicia have been found to be relevant for the assessment: working on one’s own account, assumption of financial risks, control over the working
activities, ability to hire substitutes, ability to turn down work assignments, provision of tools or equipment, exclusivity of the relationship, and others.\textsuperscript{9} The decision is a mixed question of law and fact and it is highly fact sensitive. As Lord Justice Nolan said in \textit{Lorimer} (agreeing with the views expressed by Mummery J.),

\begin{quote}
[i]n order to decide whether a person carries on business on his own account it is necessary to consider many different aspects of that person’s work activity. This is not a mechanical exercise of running through items on a check list to see whether they are present in, or absent from, a given situation. The object of the exercise is to paint a picture from the accumulation of detail. The overall effect can only be appreciated by standing back from the detailed picture which has been painted, by viewing it from a distance and by making an informed, considered, qualitative, appreciation of the whole. (…) Not all details are of equal importance in any given situation. The details may also vary in importance from one situation to another.\textsuperscript{10}
\end{quote}

Self-employed persons are responsible for determining their own status and concomitant responsibilities for tax and social security purposes. To help individuals make the assessment, the HM Revenue and Customs (HMRC) Department has created an online tool which individuals can use to check their employment status and calculate their tax and NICs. It has also published the Employment Status Manual (EMS) which codifies the case law in the area of tax and social security law, providing examples of when working people can be found to be ‘in business for their own account’.

In an effort to combat tax evasion, HMRC introduced, in 2000, the ‘off-payroll’ working rules. Also known as ‘IR35’, the off-payroll working rules apply to individuals who provide personal services through intermediaries (i.e., through their own limited company, through an agency, or other employment businesses). Up until now, the responsibility for determining the status of the individual lay with the intermediary organisation. From 6 April 2021, however, the IR35 rules changed: all public authorities and medium and large-sized clients are responsible for deciding the employment status of the individuals they engage through intermediaries. The decision and the reasons behind it should be clearly described in the Status Determination Statement (SDS) which will be passed on to the workers and the intermediary organisation. The latter will remain responsible for determining the status of persons who are engaged (through their company) in small-sized businesses in the private sector.


\textsuperscript{10} \textit{Lorimer} (n 9).
4. REGULATORY FRAMEWORK

4.1. Employment law

Self-employment arrangements are considered to be subject to civil and commercial law and not to employment law (Buschoff, Schmidt 2009, 154). In the UK, this means the common law rules on contract. The self-employed do not have the employment rights afforded by statute to employees but the rights and responsibilities set out in the contract they have agreed with the customer or client. More particularly, the self-employed do not enjoy the following rights which are given only to those classified as ‘employees’ (i.e. those with a contract of employment):

(i) protection from unfair dismissal,
(ii) statutory sick pay,
(iii) statutory maternity and paternity leave and pay,
(iv) statutory redundancy pay,
(v) national minimum wage,
(vi) rest breaks, paid holiday, and limits on night work,
(vii) protection against unauthorised deductions from pay.

At the same time, the self-employed have some rights and responsibilities under the Health and Safety at Work etc. Act 1974. As Section 3 stipulates,

(1) It shall be the duty of every employer to conduct his undertaking in such a way as to ensure, so far as is reasonably practicable, that persons not in his employment who may be affected thereby are not thereby exposed to risks to their health or safety.

(2) It shall be the duty of every self-employed person [who conducts an undertaking of a prescribed description] to conduct [the undertaking] in such a way as to ensure, so far as is reasonably practicable, that he and other persons (not being his employees) who may be affected thereby are not thereby exposed to risks to their health or safety.

(2A) A description of undertaking included in regulations under subsection (2) may be framed by reference to –

(a) the type of activities carried out by the undertaking, where those activities are carried out or any other feature of the undertaking;

(b) whether persons who may be affected by the conduct of the undertaking, other than the self-employed person (or his employees), may thereby be exposed to risks to their health or safety.

From the above, it follows that health and safety laws do not apply to the self-employed who (i) work for themselves; (ii) do not employ others; (iii) do not

11 The Health and Safety at Work Act was amended in 2015, following the recommendations of the Löfstedt report which called for deregulation in the area of health and safety.
work in a specified field or activity and; (iv) their work does not put others at risk. The solo self-employed, however, who work at the premises of their principal are afforded health and safety protection.

The self-employed are also protected from discrimination when hired by a public institution (i.e. public school) or a private organisation that performs public functions. This is because all public authorities have a ‘public sector equality duty’ to: (a) eliminate unlawful discrimination; (b) advance equality of opportunity between people who share a protected characteristic and those who do not and; (c) encourage and foster good relations between people who share a protected characteristic and those who do not (Equality Act 2010, s. 149). This duty applies to the treatment of all persons with a protected characteristic (the protected characteristics are: age, marriage or civil partnership, race, sex, disability, gender assignment, religion or faith, pregnancy or maternity, and sexual orientation), regardless of their employment status.

A greater level of employment protection is afforded to those self-employed who are classified as ‘workers’. Solo self-employed persons who are not in business on their own account but work under the control of a principal (that is, ‘workers’), are entitled to the following rights (employees enjoy these rights too because they are covered under limb ‘a’ of the worker’s definition considered above):

(i) protection against unlawful deductions from wages (Wages Act 1986),
(ii) protection of health and safety (Health and Safety at Work etc. Act 1974),
(iii) national minimum wage (National Minimum Wage Act 1998),
(iv) statutory minimum level of paid holiday (Working Time Regulations 1998, reg. 13),
(v) statutory minimum length of rest breaks (Working Time Regulations 1998, reg. 12),
(vi) right not to work more than 48 hours on average per week (Working Time Regulations 1998),
(vii) statutory sick pay (Social Security Contributions and Benefits Act 1992, s. 151),
(viii) right not to be treated less favourably if they work part-time (The Part-time Workers (Prevention of Less Favourable Treatment) Regulations 2000, reg. 5),
(ix) right to be automatically enrolled in a pension scheme (Pensions Act 2008, s. 3),
(x) right not to be discriminated against and to equal pay (Equality Act 2010, s. 13 and 66, respectively). Dependent self-employed persons who qualify as ‘workers’ are entitled to protection against unlawful discrimination if they are refused work on the basis of a protected characteristic. Furthermore, persons with disabilities have the right to ask their employer to make ‘reasonable adjustments’ to accommodate their disability.

(xi) Protection against whistleblowing (Public Interest Disclosure Act 1998, s. 2). It has been adjudicated that the members of a Limited Liability Partnership
LLP classify as ‘workers’ for the purposes of protection against retaliatory action for reporting wrongdoing in the workplace.\textsuperscript{12} LLP members who are dismissed for reporting unlawful activity can claim unlimited damages.

Overall, unlike genuine self-employed persons who are widely excluded from employment protection, the dependent, solo self-employed workers who are not in business for their own account (‘workers’) enjoy a certain level of protection. ‘Workers’ are entitled to many of the same rights afforded to ‘employees’ (IZA 2013; Böheim, Mühlberger 2009). At the same time, they do not have certain core employee entitlements such as minimum notice periods, the right of protection against unfair dismissal, the right to request flexible working, the right to statutory redundancy pay, the right to request time off for emergencies and others. The Employment Relations Act 1999 confers powers to the Secretary of State to expand the level of protection afforded to employees to other categories of working persons who do not currently benefit from employment rights. This power, however, has never been used.

4.2. Social security and tax law

The British social security system finds its origins in the Beveridge Report of 1942 (Cmnd. 6404). Published in the midst of World War II, it set the foundations of the UK ‘Welfare State’, proposing widespread reforms such as the expansion of the National Insurance system and the creation of the National Health Service (Timmins 1995; Hills, Ditch, Glennerster 1994). The universal welfare system that was established on the basis of the recommendations of the Beveridge Report came under attack in the 1980s by Conservative governments which placed greater emphasis on ‘enterprise culture’ and on the individual’s responsibility to care for themselves (Meager, Bates 2001). Relying on the idea of ‘economic citizenship’ (Lister 1990), the Thatcher administration stripped away a large part of the social safety net, “dismantling in effect the Welfare State and the principles of social insurance that underpinned it” (Boden 2005, 3). While subsequent Labour governments have adopted protective social security measures to provide a level of coverage to those in need, the British social security system has arguably not returned to its post-war Welfare State foundations (Boden 2005, 18).

I. Contributions

The British social security system is funded by tax revenues and National Insurance Contributions (NICs) paid by employers, employees and the self-employed. The contributions are used to support the healthcare system and to pay for social security benefits such as state pensions and tax credits. While the financial burdens of the social security mechanism are, in principle, collectively

\textsuperscript{12} Bates van Winklehof (n 8).
shared by both employees and the self-employed, the rate of their contributions
differ. Employees pay income tax and primary Class 1 NICs under Schedule E
on the payments from their work. These are automatically deducted from their
wages under Pay As Your Earn (PAYE). Their employer is also liable to pay
secondary Class 1 NICs on the employee’s earnings. The self-employed, by
contrast, are not taxed on their monthly income but on the annual profits from
their commercial activities (Schedule D). They also pay Class 2 and Class 4
NICs depending on their profits (individuals whose profits exceed £8,632 pay
additional Class 4 NICs). The biggest issue that arises, in this context, concerns
the calculation of earnings. While employee income is largely transparent and
hence, easily calculated for tax and social security purposes, the same is not true
for the earnings of the self-employed. These are not automatically calculated and
deducted through PAYE but it is up to the self-employed to determine and declare
their taxable profits to HMRC.

The solo self-employed and those who employ others can further take
advantage of favourable tax provisions for Limited Liability Companies (Ltd).
Employers prefer to hire the self-employed who provide their services through
a company because this allows them to cut costs: they do not have to provide
them with employment rights or pay secondary Class 1 NICs (as they do for
employees). It is not an uncommon phenomenon, for instance, for people working
under permanent employment contracts to be asked to set up a Limited Company
as the “legal vehicle for the supply of their services” (Davies 2010, 311; McGregor,
Sproull 1991). Individuals also often prefer this method because it allows them
to save a greater part of their income by paying themselves dividends. Since 2018,
the non-taxable dividends allowance is £2,000. After that, incorporated persons
are taxed according to their Income Tax band. The basic rate on dividends over the
allowance is set at 7.5%, with the higher and additional rates climbing to 32.5%
and 38.1%, respectively. Individuals running a Private Limited Company (Ltd)
or a Limited Liability Partnership (LLP) will also have to pay corporation tax
on business profits at 19%. In general, the self-employed are subject to favourable
fiscal legislation, paying taxes and NICs at a lower rate than their employed
counterparts (HMRC 2015; Boden 2005).

II. Entitlements

Besides being able to benefit from advantageous tax and NICs arrangements,
the self-employed enjoy many of the same social welfare benefits afforded
to employees. More particularly, the self-employed are entitled to:
(a) Free healthcare

The British National Health Service (NHS) is publicly-funded by general taxation supplemented by NICs. It is universal in that it provides comprehensive and free (at the point of delivery) health services to all UK residents, including the self-employed. Individuals who transition from self-employment to dependent employment (and vice versa) do not have to pay additional taxes, make alternative arrangements or change healthcare systems; they are already covered by the NHS (Schulze Buschoff, Schmidt 2009, 154)

(b) State pension and pension credit

Just like employees, the self-employed are entitled to a basic State Pension. Under the previous regime, employees were entitled to Additional State Pension (also known as ‘State Second Pension’) which was based on their earnings as well as the NICs (Class 1) they paid or were credited with. In 2016, the UK government introduced a new flat-rate State Pension which operates under new rules. The new State Pension is based entirely on a person’s NI record. Persons who have paid NICs for 35 years can get up to £175.20 a week (for the tax year 2020/2021), a sum which comes to approximately £9,000 per year. Employees can get more than the maximum amount if they have built up entitlements to the Additional State Pension under the old regime. Individuals unable to show a 35-year NI record will get less than the full amount.

The self-employed are also entitled to Pension Credit, a benefit provided to those who have reached the state pension age and are on a low income. The Pension Credit consists of two parts: (i) the Guarantee Credit and (ii) the Savings Credit. The Guarantee Credit tops up a (self-employed) person’s income by £173.75 a week if they are single and by £265.20 if they are married or in a civil partnership. The Savings Credit, on the other hand, is available only to those who have reached State Pension age after 6 April 2016 and have made some provision towards their retirement by saving or by contributing into a pension other than the basic State Pension. The additional income provided by the Savings Credit can be up to £13.97 a week for single persons and £15.62 for married couples and civil partners.

Overall, while the self-employed are entitled to basic State Pension and Pension Credit, the amounts that these provide are not enough to support them in old age. Unlike employees who are automatically enrolled into a pension scheme (Pensions Act 2003, s. 3) and who have an employer who makes contributions on their behalf, the self-employed largely have to make their own arrangements for older life. They can, for instance, subscribe to a stakeholder or an occupational pension plan and receive tax relief on the amounts they invest thereof. However, this will not be feasible for all of the self-employed. Many self-employed have a low and irregular income that makes it difficult for them to show a 35-year NI
record, let alone invest in personal pension plans. Research shows that 67% of the self-employed are concerned about being able to make ends meet in older life (Lima-Matthews 2018) while just 31% save into a pension plan (Money Advice Service 2020).

(c) Tax allowances and credits

The self-employed are entitled to the same tax free personal allowance as employees which, for the year 2020–2021, was set at £12,750. Furthermore, the self-employed have access to many of the same tax credits as employees. The term ‘tax credit’ is rather misleading. As Boden writes, ‘tax credits’ are “social security benefits that are targeted at people who are in work and who, because of their circumstances, might be regarded as being on a low income” (Boden 2005, 12). Tax credits are meant to provide a basic safety net to all (including the self-employed) against disruptions to earnings by supplementing their monthly income. The main benefit available to the self-employed is Universal Credit.

Universal Credit (UC) was a major part of the UK government’s Welfare Reform policy. Introduced in 2013 in an attempt to simplify the welfare system, it rolled six means-tested benefits and tax credits ((i) Income-Based Job Seeker’s Allowance; (ii) Income Related Employment and Support Allowance; (iii) Income Support; (iv) Working Tax Credit; (v) Child Tax Credit and; (vi) Housing Benefit) into a single monthly payment. To be eligible for UC, applicants must live in the UK and must be (cumulatively): (i) under the State Pension age; (ii) on a low income or out of work and; (iii) have £16,000 or less in savings (between them and their partner). Those eligible receive a standard allowance of £409.89 a month if they are over 25 and single, and £594.04 a month if they are a couple (for both).

Additional help is available to individuals (including the self-employed) who:

i. Have children. More precisely, individuals who have children can get an extra monthly amount of £281.25 for their first child and £235.83 for the second child. Additional elements are paid for disabled (£128.25) and severely disabled (£400.29) children.

ii. Have a disability or a health condition that prevents them from working. Unlike employees who are entitled to sick pay, the self-employed do not have statutory protection against illness. The self-employed who have a health condition or a disability that affects their working activity can apply for UC and get an extra £341.92 a month. Furthermore, the self-employed who have a health condition or a disability that limits their ability to work and who have paid enough NICs (or have accumulated enough NI credits) in the 2 years before the year of their claim, can also apply for a ‘New Style’ Employment and Support Allowance (‘new style ESA’). This is a contributory benefit that consists of a fortnightly payment that can be claimed on its own or at the same time as UC. Finally, extra financial support
is provided (in the context of UC) to those who care for a severely disabled person for at least 35 hours a week (additional £162.92 per month).

iii. Need help with housing costs. There is no standard amount provided to those who need help with covering their rent and service charges. The amount paid depends on age and circumstances. Those who own a house might also be eligible to apply for a loan to help with their interest payments or mortgage.

In general, the amount of UC a person receives depends on their particular circumstances. These are assessed every month to determine and adjust the level of supplementary income provided. Benefit caps also apply to limit the total amount of credit a person can receive. On top of UC, self-employed women are entitled to Maternity Allowance. Those who have paid Class 2 NICs for at least 13 of the 66 weeks before the child is due will get £151.20 a week or 90% of their average weekly earnings (whichever is less) for 39 weeks. Self-employed women, however, who have not paid enough NICs will only get £27 a week for 39 or 14 weeks (depending on other eligibility criteria). Overall, the self-employed are enrolled in and deal with the social security system in a similar way to employees, being entitled to many of the same social protections (Schulze Buschoff, Schmidt 2009, 154; IZA 2013).

4.3. Other measures for the self-employed

Over the last few years, the UK government has launched several initiatives to support entrepreneurism and the self-employed. In 2011, it introduced the New Enterprise Allowance to help unemployed persons transition to self-employment. The programme is available to everyone over 18 years of age that receives a: (a) Jobseeker's Allowance; (b) Employment and Support Allowance; or (c) UC without being in employment, education, or training. Those who enter the programme are assigned a business mentor who provides them with guidance and support while they develop a business plan and for the first six months of the operation of the business. Once a claimant has demonstrated that they have a viable business plan, they receive financial aid which consists of £65 a week for the first 13 weeks and £33 a week for the following 13 weeks. Depending on other factors, persons might also be eligible to apply for a start-up loan, if the business requires it. The financial support removes the collateral constraints that small businesses face and reduces the income risk associated with entering self-employment (Cowling, Mitchell 1997). In 2017, the UK government broadened the eligibility criteria of the New Enterprise Allowance scheme to include not just those who are unemployed but also those who have an existing business and receive UC because their earnings fall below the minimum income floor. These people have to attend a Link Up: Start Up (LUSU) workshop before they get access to financial support and a mentor.

Moreover, in 2012, the UK Department for Business, Innovation and Skills (BIS) launched the Start Up Loans scheme to help entrepreneurs set up businesses
in all UK industries and sectors. The scheme provides financial help and mentoring to individuals who want to start or grow their business but are unable to borrow from mainstream lenders. Everyone who: (a) is over 18 years of age; (b) lives in the UK and; (c) has a UK-based business that has been operating for less than 2 years or plans to start one, can apply for a loan. Unlike traditional business loans that are unsecured, these loans are backed by the government. There is no early repayment fee or application fee. Individuals can borrow between £500 and £25,000 which they have to repay over a period of 1–5 years at a fixed interest rate of 6% per annum.

In addition to the New Enterprise Allowance and Start Up Loans schemes, the UK government has launched several other initiatives to support entrepreneurism such as the Annual Investment Allowance, Capital Allowance, Entrepreneurs’ Relief, Seed Enterprise Investment Scheme, the Arts Council Grant Scheme, the Design Council Spark, Innovate UK innovation vouchers and support grants (GOV.UK 2021). Finally, in the face of the coronavirus pandemic, the UK government has adopted a variety of measures to mitigate the economic impact of the lockdowns on businesses and the self-employed. The Coronavirus Job Retention Scheme (CJRS) has been introduced to help employers retain and pay their personnel in the midst of the pandemic (‘furloughing’), while the Self-Employment Income-Support Scheme (SEISS) has been put in place to provide financial support to the solo self-employed. As of December 2020, £14.5 billion worth of payments have been made to supplement the income of the self-employed. Finally, enhancements have been made to the UC scheme to ease the eligibility criteria and provide support to a larger part of the population.

Overall, the status of self-employment in the UK comes with certain advantages. The self-employed pay, in principle, lower levels of taxes and NICs than employees, have access to free healthcare and basic state pension, get subsidies to help finance their business, and enjoy many of the same tax credits and allowances as employees. However, this image of protection can be misleading. As Boden writes, “although self-employed people ostensibly receive largely similar social insurance protection in the UK, the reality of the situation is that they may still be exposed to a different range of risks” (Boden 2005, 22). The self-employed who work on their own account do not enjoy protection from unfair dismissal, whistleblowing, unfair deductions from pay and discrimination in the private sector. They also do not have basic employment rights such as the right to sick pay, maternity leave and pay, redundancy pay, rest breaks, paid holiday, and national minimum wage. Only a certain proportion of them, those who are dependent upon a principal and not genuinely in business for their own account, enjoy some employment protection. At the same time, the financial support they get through tax credits and allowances is not enough to guarantee that they will not fall into poverty. The self-employed have little protection against disruption to earnings due to unemployment, sickness, and old age. While UC was introduced to simplify
and modernise the social security system, it has arguably left many self-employed people worse off (Millar, Bennett 2017; Dwyer, Wright 2014; Gillies et al. 2013). Finally, the low level of state pension presupposes that the self-employed save into occupational or stakeholder pension plans, something which is particularly difficult given their often low and irregular incomes. Hence, even though the self-employed have certain advantages over employees (in that they pay less taxes and NICs), they enjoy a lower level of social protection.

5. SHAM SELF-EMPLOYMENT

The term ‘sham self-employment’ describes the situation where a person is deliberately (mis)classified (by themselves or by the employer) as ‘self-employed’ to avoid tax, NICs, and employment responsibilities. The bogus self-employed do not display the characteristics typically associated with entrepreneurship such as decision-making power regarding the business, financial autonomy and responsibility, and the accumulation of assets (EWCS 2013; Shane 2003). Instead, they are in a similar position to employees, being economically dependent upon, and subordinate to, a principal. For this reason, it is said that the arrangement disguises a true employment relationship.

In the UK, the phenomenon of ‘sham self-employment’ has been on the rise, attracting the attention of politicians and government officials. In a question asked during the Budget debate on 15 March 2017, the Chancellor recognised that “there is a problem of bogus self-employment” (UK Parliament Written Questions, Answers and Statements 2017). As he said, “there is a problem of individuals being advised by high street accountants that they can save tax by restructuring the way they work. We do believe that people should have choices, and we do believe that there should be a diversity of ways of working in the economy – we just do not believe that that should be driven by unfair tax advantages.” In research conducted for the Union of Construction Allied Trades and Technicians (UCATT), Harvey found that 30% of all persons working in the British construction industry in 2008 were ‘false self-employed’ (Harvey, Behling 2008). Based on this figure, Harvey estimated that tax evasion through ‘bogus self-employment’ costs the Exchequer around £1.7 billion per year. Similar numbers have also been reported by Jamie Elliott. In his 2012 Report for UCATT, The Great Payroll Scandal, Elliott calculated the revenue loss at £2 billion per year (Elliott 2012). More modest numbers have been reported recently by the Citizens Advice Bureau (CAB). After conducting in-depth interviews with 491 self-employed, the charity found that 1 in 10 persons in self-employment are wrongly classified. As they noted in their report, there are about 460,000 bogus self-employed persons in the UK, costing the Exchequer £341 million per year (Citizens Advice 2015).
In an effort to combat bogus self-employment, the UK government issued, in 2000, the off-payroll working rules (‘IR 35’) for persons providing services through intermediaries (see above). As the legislation prescribes, the self-employed who are in a similar position to employees will be considered ‘employed for tax purposes’. Furthermore, the Finance Act 2014 stipulates that agencies have to pay NICs and submit quarterly electronic returns for any payments made to workers without deducting PAYE contributions. HMRC uses the information provided by the returns to tackle false self-employment through intermediaries (Heyes, Hastings 2017, 19). The legislation was expected to extend coverage to 200,000 self-employed persons (Heyes, Hastings 2017).

Arguably, the courts have been the most active actors in combatting bogus self-employment. In the *Mitchell*\(^{13}\) and *Dhillon*\(^{14}\) cases, the UK tribunals did not hesitate to expose the bogus nature of the self-employment arrangements in question and to re-classify the individuals as ‘employees’ for the purposes of tax law. As the court held in *Dhillon* (paying particular emphasis to the fact that the employer had asked for legal advice on how to structure the agreements to avoid a finding of ‘employment’),

the picture here is of a business-savvy appellant which entered into detailed written agreements to provide delivery services for its customers (...) and built up a network of men to drive its lorries. (...) The drivers were (...) essentially “day labourers” engaged on terms that were unwritten, uncomplicated and non-negotiable. This was the manner in which the appellant chose to run its business and control its main cost (apart from the lorries themselves). Short term though the engagements were, it is our perception, stepping back and looking at the whole picture, that “master and servant” (while somewhat outdated phrases today) is an apt description of the relationship between the appellant and its drivers. Mr Dhillon, the managing partner of the appellant, was, in our perception, very much the ‘boss’ in this relationship; and it is this, combined with the near-total absence of evidence that the drivers were running their own businesses, that leads us to decide that the drivers were employees of the appellant rather than self-employed contractors.\(^{15}\)

Similar judgements have also been delivered in the employment law context. Courts have been increasingly reluctant to give effect to substitution clauses or clauses that deny any obligation to provide or to accept work, when these have been inserted into a contract with the sole intent of circumventing employment legislation (Fredman, Du Toit 2019; Bogg 2012; Davies 2009). As it was held in *Uber*, courts “can disregard the terms of any contract created by the employer in so far as it seeks to characterise the relationship between the employer and the individuals who provide it with services (whether employees or workers) in a particularly artificial way.”\(^{16}\) When the terms of the contract “do not reflect


\(^{14}\) *RS Dhillon and GP Dhillon Partnership v. HMRC* [2017] UKFTT 17 (TC) (3 January 2017).

\(^{15}\) Ibid, paras 88–89.

\(^{16}\) *Uber B.V. (UBV) and others v. Aslam* [2018] EWCA Civ 2748, para 54.
the reality of what is occurring on the ground,”\(^{17}\) the courts may disregard them “to prevent form undermining substance.”\(^{18}\) In making the assessment, particular attention should be paid to the relative bargaining power of the parties when deciding the terms of the agreement. As the Supreme Court Uber judgement read (reiterating the words of Lord Clark in Autoclenz),

\[\text{\ldots} \text{the relative bargaining power of the parties must be taken into account in deciding whether the terms of any written agreement in truth represent what was agreed and the true agreement will often have to be gleaned from all the circumstances of the case, of which the written agreement is only a part. This may be described as a purposive approach to the problem. If so, I am content with that description.}^{19}\]

Overall, the recent Supreme Court decision in Uber solidified what had become apparent in earlier judgements, namely the shift away from the ‘contract approach’ to a ‘purposive approach’ to the law, according to which emphasis should be paid to the reality of the working relationship. Bogus solo self-employed persons who are found to be under the control and supervision of their principal will be re-classified as ‘workers’ for the purposes of UK employment law and will be given a level of employment protection.\(^{20}\)

6. CONCLUSION

Recent market structural trends like the globalisation and digitalisation of the modern world and the shift towards franchising and outsourcing have left many British workers standing uncomfortably in the ‘grey area’ between employment and self-employment. As the number of solo self-employed increases, the need has arisen to re-examine the main characteristics and legal framework applicable to this category of workers. This chapter has analysed the legal regulation of self-employment in the UK. As has been shown, while the self-employed enjoy certain fiscal advantages, they are not adequately protected from disruption to earnings due to sickness, unemployment or old age. The majority of the self-employed are not entitled to labour protection, with only a small number (those who are subordinate to a principal and do not work for their own account) being able to enjoy some core employment rights. At the same time, the level of social insurance afforded to the self-employed through state pension and tax credits is not enough to guarantee that they will not fall into poverty if they retire or become unemployed. Hence, many of the self-employed have to make their own

\(^{17}\) Ibid, para 66.
\(^{19}\) Uber B.V. (UBV) and others v. Aslam and others [2021] UKSC 5 reiterating Lord Clarke in Autoclenz (n 2), para 35.
\(^{20}\) Uber B.V. (UBV) and others v. Aslam and others [2021] UKSC 5, [2018] EWCA Civ 2748; Dewhurst v. Citysprint UK Ltd ET/2202512/2016 (5 January 2017); Pimlico (n 8); Autoclenz (n 2).
provision to mitigate the financial and labour market risks that their status entails. The situation is even more precarious for those who are bogusly self-employed. Many persons that are in a similar position to employees are wrongly classified by their employers as ‘self-employed’ in order to avoid employment, tax and NICs legislation. This deliberate misclassification of persons creates worker insecurity and costs the Exchequer millions in lost funds. As Boden suggests, it may be that the UK needs to address the outcome or impact of its insurance and employment law policies on self-employed people, rather than the input side alone (Boden 2005, 22).

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