Manchester Metropolitan University

Rt Hon Rushi Sunak MP, Chancellor of the Exchequer
Rt Hon Steve Barclay MP, Chief Secretary to the Treasury
Rt Hon Alok Sharma MP, Secretary of State for BEIS

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Dear Sirs,

We write as some of the UK's leading experts in entrepreneurship policy to express our concern regarding the vulnerability of many small and medium-sized enterprises (SMEs) and self-employed workers during the winter phase of the Covid19 pandemic. We have observed the Government's rapid and wide-ranging action to support entrepreneurs and understand the complexity of the policy problems you face. Overall, we applaud the range and scale of support provided to many millions of business owners and individuals since March but there are a number of exclusions that we would urge you to address. These exclusions relate to the many Directors, self-employed, freelancers and contractors who are crucial to the operation and success of many other SMEs throughout all sectors and regions of the economy.

Accordingly, we would like to propose some further policy actions that can be automated within current Treasury systems, require proportionate effort and could offset 'exclusions', while mediating the threat of fraud.

'Excluded' Business Directors

Policy Option 1: Amend the Job Furlough Scheme to allow Directors of firms employing fewer than 250 people to furlough themselves but still be permitted to work. This would enable them to claim the PAYE element of their income, while investing time in innovation/pivoting or trading to cover business costs and ensuring business survival. This amendment would bring the furlough scheme in line with the permission to keep trading under the Self-Employment Income Support Scheme. Backdate this offer to March 2020.

Policy Option 2: Offer all Directors who also earn some income from the business through PAYE a monthly stipend of £1,000 or 1/12 of dividends drawn in the last accounting period, whichever is the lower, for the period March 2020-March 2021.

'Excluded' Self-Employed

1. **The New(ish) Self-Employed and Workers Who Grew Self-Employment to Be Their Main Job in 2019-20**

   I. **New(ish) self-employed:** We estimate that 443,631 self-employed workers commenced trading prior to the pandemic (i.e., after 6th April 2019).

II. **Workers who grew self-employment to be their main job:** We estimate that 116,470 workers had self-employed as their main job in the month prior to the pandemic but self-employment was not their main job in 2018-19 and so they were unlikely to be eligible for SEISS under the >50% of income rule.

Policy Option: Validate self-employment and eligibility under the >50% rule via a Self-Assessment made for 2019-20 by 31 October 2020 (paper version) or Jan 31 2021 (online). Backdate SEISS payments to March 2020 and ensure prospective eligibility. To mitigate the risk of fraud, the Treasury could choose to make an announcement that the situation for these groups is undergoing serious policy consideration but not announce the policy until January 2021.

2. Self-Employment Constitutes <50% of Income

I. **Hybrid or early-stage entrepreneurs:** these are not all 'hobbyists' who earn revenue in addition to a full-time job. They include entrepreneurs who build their trade over several years before exiting employment, creative workers responding to clients who prefer to engage with them on an employed or self-employed basis and parents or young people 'cobbling together' available employment and self-employment under constrained conditions. Self-employed income can be a vital part of household economy for hybrid entrepreneurs. Their employment may also be insecure (such as agency work) and so put them at risk of being excluded from the Job Retention Scheme.

II. **Unearned income:** there have been reports of entrepreneurs earning <50% of their income from self-employment during 2018-19 due to a one-off event such as receipt of life insurance on the death of a partner, draw-down from a pension, inheritance or business sale (sometimes motivated to invest in a business).

Policy option: Develop an evidence-based measure of the proportion of income additional to employment that tends to signify a 'hobbyist' and amend the >50% rule accordingly. For example, it may be that a rule such as >20% of income from self-employment would support hybrid or early-stage entrepreneurs who rely on self-employment income.

3. Self-Employed Profits of >50k

In a short-term crisis it is logical to assume that the self-employed earning >£50k could rely on savings or borrowing. In a year-long crisis, this logic is much less convincing, particularly for breadwinners in areas of high housing cost earning £50-£100k. There is also contradiction with the Job Retention Scheme, where payment is capped for earners over £50k, not entitlement.

Policy option: Create equivalence with the Job Retention Scheme, capping SEISS payments in relation to an upper earnings threshold of £50k. Backdate payments to March 2020.

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4. **Self-Employed New Parents**

   In order to improve the fairness and logic of SEISS payments as a vehicle for estimating and compensating for losses *during the pandemic period*, it is vital that calculations exclude periods *prior* to the pandemic when parents were on leave (or, using a proxy, had a child under 1 year old). This action is particularly justified as new parents will have faced significant challenges in sustaining businesses during pregnancy and maternity/paternity periods and so warrant business support as they move forwards, not a hangover of disadvantages when they are now coping with a young family (and the associated disruption to care facilities caused) and trading in a pandemic.

   Policy option: Exclude periods of maternity and paternity pay from the calculation of SEISS or exclude years in which the parent had a child under 1 year old (whichever is actionable). Backdate payment uplifts where necessary.

We thank you for your ongoing work to support entrepreneurship through the pandemic. We would welcome the opportunity to discuss these various options with you at your earliest convenience.

List of signatories:

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