Universal Credit – Self Employment

What has changed?

The way that Universal Credit is assessed and the commitments that claimants have to agree to are very different to how things work under legacy benefits. There is also a significant amount of jargon attached to self-employment under Universal Credit that makes it hard for advisers and claimants to navigate. The aim of this factsheet is to provide you with the information that you need to confidently advise your clients.

What is self-employment?

A claimant is considered to be self-employed if they are engaged in a trade, profession or vocation and they are in charge of their own hours, the rate they charge, and they provide their own equipment. The DWP apply a further test to self-employed Universal Credit claimants who would normally be expected to meet all of the work-related requirements to assess whether they consider them to be 'gainfully self-employed'.

'Gainfully Self-Employed'

The work is the claimant's main employment, it is organised, developed, regular and carried out in expectation of profit.

How are earnings calculated?

An award of Universal Credit is recalculated monthly, based on the actual income received during the claimant's monthly assessment period. Self-employed claimants must provide details of all actual receipts received, with a figure deducted for tax, national insurance, pension contributions and any allowable expenses. This must be reported on the claimant's journal. There are three additional rules that can affect how earnings are calculated for self-employed claimants.

Minimum Income Floor

After an initial 'start up period' (see below), the DWP can apply a minimum income floor to the earnings of self-employed claimants. Claimants will be treated as earning at least the minimum wage for someone of their age for the number of hours the DWP expects them to work. Where earnings are above this figure, the actual income will be used.

'Start up period'

During a 'start up' period, Universal Credit is worked out on actual earnings. A start up period will last for 12 months from when the DWP decide a claimant is in gainful self-employment (provided that the self-employment began within the last 12 months), as long as it can be shown the claimant is taking active steps to increase their earnings. Claimants will have a 12 month start up period regardless of when their self-employment started if they are managed migrated to UC, and from September 2020 if they migrate due to a change in circumstances.

The minimum income floor will only apply if the claimant is gainfully self-employed and would normally be expected to meet all of the work-related requirements. Self-employed claimants who fall into another conditionality group (e.g. a carer in the no work related requirements group) will not have the minimum income floor applied regardless of how much they earn.

Diana is a gardener. She is single, has no children, no health conditions and no other caring responsibilities. For the current monthly assessment period she has earnings of £300. Her minimum income floor is £1,165.18 a month (35 hours a week x 8.21 x 52 / 12 less notional tax and national insurance contributions of £80). Diana's Universal Credit award is worked out based on income of £1,165.18 regardless of the fact that she only earned £300.

Surplus Earnings Rule

If a claimant's earned income is high enough to take them off Universal Credit, and they reclaim within 6 months, income from the monthly assessment period where their earnings took them off Universal Credit can be taken into account. Your earnings must have been more than your 'nil UC threshold' (the amount of income that would take you off Universal Credit) plus £2500 for this rule to apply. This applies to self-employed claimants and employees.

Losses

If a self-employed claimant makes a loss in one assessment period, they are allowed to offset this deficit against any profit in future monthly assessment periods.