Universal Credit – Self Employment

What has changed?

The way that Universal Credit is assessed and the commitments that claimants must 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 decide their own hours, the rate they charge, and they provide their own equipment. The DWP applies 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 it considers 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. The 55% taper and any appropriate work allowance apply as standard to self-employed earnings.

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 decides a claimant is in gainful self-employment, as long as it can be shown the claimant is taking active steps to increase their earnings.

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 (eg. a carer in the no work-related requirements group) will not have the minimum income floor applied, regardless of how much they earn.

Diana has been a gardener for three years. She is single, has no children, no health conditions and no other caring responsibilities. For the current monthly assessment period she has earnings of £800. Her minimum income floor is £1,500.37 a month (35 hours a week x 10.42 x 52 / 12 less notional tax and National Insurance contributions of £80). Diana’s Universal Credit award is worked out based on income of £1,500.37 although she only earned £800.

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. Earnings must have been more than a specified amount 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.