

Universal Credit and self-employment – questions and answers

Q. What is Universal Credit?

Universal Credit is a new benefit that supports people who are on a low income or out of work, and helps ensure that you are better off in work than on benefits.

Universal Credit will give you the support you need to prepare for work, move into work, or earn more. In return for this support, it's your responsibility to do everything you can to find work or increase your earnings.

Universal Credit is being introduced in stages. It's available to single people, couples and families in some areas of the country and it began rolling out to single claimants nationally from February 2015.

To find out more information see the [list of jobcentre areas where Universal Credit is available](#) and the [local authorities and jobcentre areas that will begin delivering Universal Credit over the coming months](#).

Q. Can I claim Universal Credit if I am self-employed?

Normally you cannot make a new claim for Universal Credit if you're self-employed, a company director or part of a limited liability partnership.

Once you have an established Universal Credit claim, if you decide to become self-employed, Universal Credit will provide support to help you grow your business.

Thousands of people take the decision to start their own business each year. If you are thinking about this to improve your future, GOV.UK provides a wealth of information to get you started at: www.gov.uk/browse/business/setting-up.

Q. What is the Minimum Income Floor (MIF) and how will it affect my Universal Credit award?

Universal Credit includes a 'Minimum Income Floor' (MIF) if you are gainfully self-employed, and your business has been running for more than 12 months. The MIF is an assumed level of earnings. This is based on what we would expect an employed person to receive in similar circumstances.

It's calculated using the National Minimum Wage for your age group, multiplied by the number of hours you are expected to look for and be available for work. It also includes a notional deduction for tax and National Insurance.

If your self-employed earnings are below the MIF we have calculated for you, we will use the MIF to work out your Universal Credit award instead of your actual earnings.

Q. What does it mean to be ‘gainfully self-employed’?

When you tell us you are self-employed, we need to decide whether self-employment is the most appropriate way for you to become financially independent. The first step towards making this decision is to assess whether you are ‘gainfully self-employed’.

This means that self-employment in a trade, profession or vocation should be your main occupation. It must also be organised, developed, regular, and carried out in expectation of profit.

Q. What information do I need to provide to prove that I am gainfully self-employed?

Your work coach at Jobcentre Plus will ask you about your business and earnings, and you’ll have to provide evidence to support this – things like tax returns, your Unique Tax Reference number from Her Majesty’s Revenue and Customs (HMRC), your business plan, customer lists, or marketing materials, are all acceptable.

In order to make a decision about whether self-employment is your main occupation, we will look at how many hours you spend undertaking self-employed activity and how much you are earning from it.

If we decide you are gainfully self-employed, you are exempt from all work-related requirements, meaning you can focus totally on your business.

Q. What should I do if I am both self-employed and employed?

We will make a decision about which activity is your main occupation as part of the ‘gainful self-employment test’ already covered above.

Your earnings from both self-employment and Pay As You Earn (PAYE) employment will be combined and taken into account to assess your Universal Credit award.

Q. What happens if I am not deemed to be gainfully self-employed? Is there an opportunity to reapply?

If we decide you aren’t gainfully self-employed we will expect you to commit to looking for a job.

You will still need to report any earnings from your self-employment so they can be taken into account when calculating your award of Universal Credit.

You can ask to be reassessed in the future, and we will look at your evidence, earnings and hours of work again.

Q. If you find that I’m not gainfully self-employed, does that mean I won’t have to pay tax on my income?

This decision won’t affect your reporting and tax obligations to Her Majesty’s Revenue and Customs (HMRC), so you must still pay any tax due on any income.

Q. What is the ‘start up period’ and how will it affect my claim for Universal Credit?

If we decide you are gainfully self-employed, and within one year of starting self-employment and you are taking active steps to increase your earnings, you will be eligible for a ‘start up period.’

This means the Minimum Income Floor will not be applied to you for up to a year, and you won’t be required to look for or take up alternative employment during that time. Your actual earnings will be taken into account to work out your Universal Credit award during this time.

You will be expected to take steps to build your business and increase your earnings, and we will ask you to provide evidence of this during your quarterly interviews. If you do not do this your start up period could be ended and the Minimum Income Floor applied to your claim.

Q. What information will I need to provide and how often?

You must report any earnings from self-employment to the Department for Work and Pensions monthly.

This allows your Universal Credit to be adjusted on a monthly basis, ensuring that if your income from self-employment falls, you won’t have to wait several months for a rise in your Universal Credit.

Self-employed earnings are reported on a ‘cash in, cash out’ basis, which is closely aligned with HM Revenue and Customs’ simplified cash basis accounting system, used for income tax. This means we will ask you to report the total receipts into the business and the details of payments out of the business, in the assessment period.

Record keeping and accounting is a process which businesses should already be doing in order to report your profits to Her Majesty’s Revenue and Customs (HMRC), so you should already have all the information you need for Universal Credit.

In addition, this regular monthly scrutiny of your business’ financial records should give you a better handle on how your business is performing and this will help you to prepare accounts for your end of year tax self-assessment.

Q. What if my partner is working?

Your partner’s earnings may affect the level of Minimum Income Floor applied to your claim in certain circumstances.

Household income is used to calculate the amount of Universal Credit you receive, so your partner’s earnings may affect your payment.

Q. What if my partner is also self-employed?

You would each have your own Minimum Income Floor, calculated depending on your circumstances, and these are combined to calculate your household award.

Q. What if I am a foster carer?

Foster carers are not treated as self-employed for Universal Credit purposes.

Q. Where can I find support to grow my business?

Thousands of people take the decision to set up their own business every year. Find ideas, help and support here:

www.gov.uk/browse/business/setting-up

Q. What happens if my self-employment changes?

You'll need to report any change in circumstances to the service centre as soon as possible.

Depending on the change, we may need to carry out a new gainful self-employment test to decide whether your start up period needs to be ended. This could happen if you have ceased trading, or were unable to work in your business any more, for example.

If your self-employment changes, for example if you decided to start a different kind of business, you would not automatically get another start up period, as you are only entitled to one for each self-employment and only once every five years.