

Working Tax Credit and self-employed claimants

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1 Executive Summary

Key Findings: entry into self-employment

In general, choosing self-employment predated awareness of WTC with claimants instead choosing self-employment because it suited their lifestyle:

- Many had young children and wanted more flexibility than they anticipated would be granted by an employer
- Some were drawn into a self-employed career by a longstanding interest or passion
- Others noted that their chosen area of work generally required them to act in a self-employed capacity (for example a motorcycle instructor)
- Some were disabled and saw self-employment as a way to work that suited their needs.

Key Findings: claimants' understanding and experience of the checks

- Many claimants understood that the outcome of the checks would affect their WTC award, though there were a few notable exceptions where claimants were unaware that their WTC might stop (and said they would have submitted evidence much more diligently if they had been aware of this).
- Many claimants however did not fully appreciate the purpose of the checks, i.e. that the additional questions were to establish whether their self-employment conformed to the strengthened criteria of being organised, regular and with a view to realising a profit¹. Claimants were more likely to assume the checks were a new or adjusted part of the application process, a spot check, or a general attempt to reduce the number of people receiving benefits.
- Some disabled claimants appeared unaware that HMRC would take their disability or health condition into account when assessing their claim.

Key Findings: claimant journey after failing to meet the strengthened criteria

- Many claimants whose evidence did not meet the strengthened criteria nevertheless remained in self-employment (even though their WTC had been stopped). However, they generally did not increase their revenue to make up for the income shortfall, appeal the decision or plan to apply for WTC again. Claimants said that their business in its current form fitted around their lifestyle, and other responsibilities limited how much they could actively grow their business. They managed financially by living more frugally, borrowing from family or sometimes taking out short-term loans or making more use of a credit card. That said, a

¹ This means that to qualify for WTC claimants must: make a profit or have clear plans to make one, work regularly, keep business records such as invoices and receipts, and follow any regulations that apply to their work, for example having the right license or insurance.

small number did aim to increase their revenue or improve their organisation of the business - some with the aim of applying again for WTC.

- Some claimants sought employment after failing to meet the criteria, although they described that they had been planning a move away from self-employment for some time anyway, to earn a more regular income and to gain benefits such as holiday and sick pay; it was common for these claimants to have taken action to move into employment before or around the time they received the request for self-employment evidence), therefore they said the move into employment was not a reaction to losing their WTC award.
- A few claimants successfully sought out other support to replace their lost WTC award, such as Employment and Support Allowance (ESA).

Key Findings: claimant journey after meeting the strengthened criteria

- Claimants whose evidence met the strengthened criteria commonly remained in self-employment. Most of these claimants planned to continue running their business as they had previously, particularly those with a long-established business. A few who felt dependent on WTC were disconcerted by the checks on their self-employment activities, and so planned to keep more organised records or develop their business further, to increase their chances of remaining eligible for WTC in the future.
- Some claimants aspired to increase their self-employed profit to become financially independent of benefits, however this was often an ambition for some point in the future (commonly when children were older and more independent) rather than something they were currently working towards. Other claimants did not have specific plans to become financially independent of WTC, saying instead that they were doing what they could for now and they would see what the future held.

Key findings: Universal Credit

- Nearly all claimants had heard of Universal Credit, but most knew very little about it. Some mentioned negative press but many simply did not know what it was. A few had investigated a little further and found out that it was 'not in their area'.

Conclusions

Claimants generally understood the outcome of the checks would affect their WTC award, but many did not understand the overall purpose of the strengthened criteria. Businesses that were organised and regular were meeting the strengthened criteria. Some claimants did not submit evidence due to uncertainty about how to fill in the form, or difficult family circumstances around the time that evidence was required (but did not contact HMRC about this). Those not meeting the criteria, or electing not to provide evidence, were mainly those not running organised or profit-seeking businesses. Some disabled claimants appeared unaware that HMRC would take their disability or health condition into account when assessing their claim.

Based on the above, some suggestions for improved communication going forward included: more explicit communication around the strengthened self-employment criteria and the purpose of the checks, more guidance about providing evidence for those uncertain about what was required to demonstrate the viability of their business, tailored guidance for disabled self-employed claimants, and signposting to guidance and advice on ways to grow a business.

2 Background, objectives and methodology

Working Tax Credit (WTC) provides in-work support for people on low incomes, including financial support with childcare costs.

For WTC claims prior to April 2015, the requirement for people who were self-employed was that their work was done for payment, or in expectation of payment, and that they met the remunerative work conditions.

Since April 2015, a new self-employment check has been applied, so that in order to qualify for WTC a self-employed claimant will need to be undertaking an activity which is carried out on a commercial basis with a view to realising a profit. Their self-employment also needs to be organised and regular².

The check for self-employment therefore requires self-employed claimants to provide evidence to HMRC that they are working on a commercial basis, such as receipts, expenses, records of sales and purchases.

This change also means that there are greater similarities between the criteria for receiving WTC as a self-employed person and the criteria for receiving Universal Credit under the same circumstances.

Aims and Objectives

Since the introduction of the new self-employment check in April 2015 there has been little available evidence on what claimants do after either providing, or failing to provide, sufficient evidence to meet the criteria. .

The objectives of the research are therefore to understand:

- Why claimants chose to become self-employed in the first place
- What actions were taken by claimants after failing to meet the criteria for the new self-employment checks?
- Among those that did meet the criteria, what impact does claiming WTC have on their business?

Methodology

IFF Research conducted 51 in-depth interviews between July and September 2018. Nearly all were conducted face-to-face, with a few carried out by telephone at the request of the claimant.

36 interviews were carried out with claimants who did not meet the criteria, and 15 interviews with those who had met the criteria.

The interviews were also distinguished between claimants who had made a new claim for WTC and those whose existing claim was being subject to the checks. Among those who did not meet the

² This means that to qualify for WTC claimants must: make a profit or have clear plans to make one, work regularly, keep business records such as invoices and receipts, and follow any regulations that apply to their work, for example having the right license or insurance. [DN – duplicated above – don't need this twice]

strengthened criteria, interviews were also stratified by those who were still eligible for, and continued to receive, Child Tax Credit (CTC), and those who were not eligible to receive CTC and so subsequently received no further tax credits. It was thought that those who still received CTC may interpret the loss of their WTC in a different way, compared to those who did not receive any tax credits.

The numbers of those recruited within each group are shown in the table below:

Result of checks	Claim type		Total
	Existing claim	New claim	
Met the criteria	8	7	15
Did not meet the criteria (but still received CTC)	12	3	15
Did not meet the criteria (and did not receive CTC)	14	7	21
Total	34	17	51

The interviews took place throughout England with a spread across London, the South East, East Midlands, West Midlands and North East. Interviews lasted 50-60 minutes on average.

The details of the individuals were provided to IFF Research by HMRC. All individuals had experienced the checks and had been notified of an outcome. Recruitment of individuals monitored demographic criteria to ensure the research covered a range of claimants; this included ethnicity, income, age, gender, whether registered with a disability and business sector.

Reporting

Qualitative research allows us to explore the experiences of individual claimants in rich detail and provide genuine examples and stories. However, these findings cannot be taken as representative of the claimant population, they are simply a detailed and useful window into the genuine experience of *these particular claimants*. The use of words such as 'most', 'many', 'some', and 'few' are illustrative of the data collected in this research only.

3 Entry into self-employment

Claimants interviewed worked across a broad range of sectors:



Author



Bouncer



Knitwear



Taxi driver



Electrician



Motorcycle instructor



Hypnotherapist



Toymaker



Hairdresser



Carer



Blogger



Restaurant owner

Reasons for moving into self-employment

There were four common reasons given for entering self-employment (the research included both those who had always been self-employed, and those who had moved into self-employment).

The reasons given most commonly related to lifestyle or personal interest and are discussed below. Very few said that Working Tax Credit (WTC) was a factor in their decision, i.e. the ability to claim WTC under the 'old rules' had not encouraged claimants to move into self-employment. In most cases, self-employment predated any awareness of WTC.

Family or lifestyle

One of the most common reasons for entering self-employment was the flexibility it offered and the ability to work around family or lifestyle commitments, for example dropping off and picking up children from school or looking after younger children at home. Some parents felt that standard shift patterns were not conducive to raising a family and that the only option was self-employment so that they could be in control of their own hours.

"I really don't want to work for somebody...I've done it...nine to five...I remember running to breakfast club to drop my child off...then running to go and get him, and it would be after six all the time, it's exhausting...I might make less money, but I feel better."

Existing claim, met the criteria, stayed self-employed

Some claimants specifically mentioned that they wanted to be able to spend more time with their children while they were growing up. It was common for these parents to say that once their children had grown older and more independent, they would be open to working for an employer again.

Passion

Several claimants indicated that their primary reason for being self-employed was to pursue their passion. Most of these claimants were self-employed in creative sectors such as writing or acting.

Necessity

In some sectors, self-employment was described as the only easy or common route into working in a particular industry, for example a motorcycle instructor explained that there were very few 'traditional' employment opportunities which would enable her to pursue this career.

Claimants such as builders and electricians explained that being self-employed was all but a necessity, as the opportunities and agency work available to them were much greater as a self-employed person.

Disability

Some claimants were disabled and said self-employment allowed them to work in a way flexible to their needs. A few described themselves as 'unemployable' and felt that self-employment was the only option.

"I'm practically unemployable ... my legs can give way at any point with a shooting pain which is fine in your own home but not in someone else's office."

Existing claim, did not meet the criteria, claiming other benefits

Influence of WTC on entry into self-employment

For most, the decision to become self-employed was driven by family or other circumstances, and often this decision predated any awareness of WTC. The transition to claiming WTC was often prompted by a change in financial or personal circumstances, for example the end of a relationship and therefore the loss of a partner's income, or the business was at a stage where it was not doing well. At this point, some claimants looked for financial assistance they might qualify for. Many of those who had an existing claim and had received WTC for years alongside their self-employment, described WTC as an important extra source of income, often in terms of managing cash flow.

"I was very reliant because you take a project on but you are not paid straight away, you're paid when you have finished that project, so that was a really important part to get the everyday expenses going, food, transport, whatever, just the normal living... it helps a lot because without tax credits I wouldn't be able to be self-employed."

Existing claim, did not meet the criteria, stayed self-employed

That said, a few claimants were encouraged to enter self-employment in the knowledge that they would have the 'safety net' of WTC while the business got up and running. Two examples of this were a B&B owner and a writer. However, in these cases, the idea of being self-employed still came first, rather than as a means through which to start claiming WTC.

"I was 100% reliant on receiving WTC when I started getting them - we were empty in winter with no money coming in, so it was crucial I had a trickle coming in to put food on the table if nothing else."

Existing claim, did not meet the criteria, stayed self-employed

There were also a few claimants who had moved to self-employment after claiming out of work benefits such as Jobseekers Allowance. These claimants described themselves as having a good work ethic and preferred to be working than claiming benefits while looking for work.

"My attitude has always been I need to earn a living rather than be signing on... claiming Working Tax Credit and working, and still not earning enough to get by, is I suppose a bit like signing on, but at least you're putting in the effort."

New claim, did not meet the criteria, stayed self-employed

"It's all about the pride of getting up and going to work and showing your family the way you should do things. I don't like being on benefits."

New claim, did not meet the criteria, scaled down self-employment

4 Understanding and experience of the self-employment checks

Understanding of the purpose of the checks

Most claimants understood that they had been contacted by HMRC to check their eligibility for Working Tax Credit (WTC) and that the outcome of the checks could result in a change to their tax credits award.

That said, it was common for claimants to misunderstand the overall purpose of the checks – specifically to establish how regular, organised and profitable their self-employment was. Claimants often assumed that this must just be a different kind of renewal³, a spot-check or a general attempt to reduce the number of people eligible for benefits by making the application more difficult. Many claimants did not realise that the criteria had been strengthened.

“They just want to find reasons to take tax credits away ...I realise I've probably not been running my business in the 'proper' way with all the records, but not all businesses are like that.”

Existing claim, did not meet the criteria, stayed self-employed

A few claimants felt that the consequences of the checks were not made clear enough in the communications they received, and did not realise that their WTC award might be affected by the answers they gave. One claimant felt that if she had been made aware of the potential consequences of not providing sufficient evidence, then she would have put significantly more effort into collating and submitting the required documentation.

“This information should be a standalone letter, in red – ‘the criteria for Working Tax Credit is changing, make sure you qualify, or you may lose your money’”

Existing claim, did not meet the criteria, stayed self-employed

Experience of providing evidence

HMRC provided a checklist of evidence types which claimants were required to provide (this can be seen in Appendix 2).

Claimants were asked what they could remember about providing evidence for the new self-employment checks – what evidence they submitted and whether they had any difficulty sourcing the evidence needed.

Most respondents were able to recall the overall type of evidence they had submitted for the checks, though some were a little hazy on the specifics. The section below discusses the experiences of the following different groups of claimants: those who described having access to the necessary evidence, those who struggled to find certain types of evidence, and those who did not feel they had sufficient evidence and so did not submit anything.

Some claimants reported having access to all of the evidence required, though nevertheless could find it time consuming and challenging to collate the evidence in a way that met the

³ Tax credit claimants need to renew their claim on an annual basis to ensure they are still eligible, sometimes by providing evidence about their current circumstances.

requirements of the check (a few claimants noted that the information required was in a different format to what they had put together for their tax return).

"[I remember I needed to submit] what I do, what hours, what my earnings are, describing my work, details of my clients, my income and outgoings, profits. I had to send in my qualifications which I had to look for, I qualified ages ago. Finding it all was quite difficult ... I know some people are self-employed and who would have found it extremely scary."

New claim, met the criteria, stayed self-employed

There were some instances of claimants who had gathered what they felt was 'all' the required evidence, but they still did not meet the criteria, as the information they provided was evidently not of sufficient quality. Of those who felt they had sent in everything required, around a third met the criteria.

"It took me a while to get all the information together, but they got all of it. Fortunately, I have a friend whom I work alongside, and what I hadn't got she had got. It wasn't the easiest thing in the world, but it was all there. I just had to put it all into one place."

Existing claim, did not meet the criteria, claiming other benefits

A few had help from their accountant, friends or family when collating the evidence.

There was another group of claimants who reported that they did not have access to all of the evidence requested on the form. These claimants described the following gaps in what they had available:

- A craftsman sold items at craft fairs for cash and did not have evidence of who his customers were as there were no records of who had purchased items. He had also not consistently kept records of his sales;
- A taxi driver was not able to provide evidence of hours worked as he had never kept a record or diary, he did not always drive regular hours due to his ill health (hence this highlighted that his self-employment would probably not be considered 'regular'); and
- An actor had never considered a business plan or kept a record of the hours she had spent learning lines or marketing herself.

Where claimants did not have evidence immediately available, some compiled it from other sources, for example some described collating sales information from bank statements or creating retrospective purchase records (for genuine purchases). Others phoned customers to ask for addresses to create a more comprehensive customer database. A few described putting together a business plan or a rate card specifically to submit for the checks.

Generally, claimants who put together evidence in this more piecemeal way, did not meet the strengthened criteria.

CASE STUDY: AN ARTIST PROVIDED SOME EVIDENCE BUT STRUGGLED TO DEMONSTRATE HOW SALES MATCHED HOURS WORKED



- The claimant is an artist and designs gender neutral wooden toys for children, along with creating prints and action figures.
- He first claimed WTC in 2014 but his tax credits were accidentally stopped when he quit his part time job. When he submitted a new claim more recently, his application was unsuccessful.
- The respondent is still self-employed but getting by with help from his parents, who he lives with.

The respondent has been employed in the past but suffers from depression and anxiety and so has found that being self-employed suits him and enables him to work in an area that he really enjoys. When he reapplied for WTC, he was surprised that the criteria had changed, he had previously been very reliant on them as they enabled him to run the business as well as meeting his basic needs.

He recalls being asked for a business plan and sales data. He was able to provide the sales data that he had available and an existing business plan, however he was not able to provide evidence of his hours worked and show how this linked to his sales. He spoke to HMRC to try to explain his situation and understand how he could provide the correct information but reported not understanding what he should do as a result.

He appealed the decision, but this was unsuccessful. Since then, he has made changes to the business such as becoming more focused on prints which he finds are easier to sell than toys and take less time to make so it is easier to attribute time spent working to sales made. He is currently living with his parents who are helping to support him financially, but he hopes to reapply for WTC once he has the necessary evidence and business model in place.

A small number of claimants decided not to submit any evidence at all. They felt that trying to collate the evidence from the sporadic records they had kept over the years would be a 'lost cause', and they wanted to spend the time earning money from their business instead. In a small number of cases, personal circumstances meant that they had not submitted any evidence.

The case study below illustrates an example of a claimant did not submit evidence because she was uncertain about what to submit, and had experienced a recent death in the family which reduced her motivation to spend time on her claim.

CASE STUDY: SALON MANAGER WHO DID NOT SUBMIT ANY EVIDENCE



- The claimant runs her own hairdressing salon. She lives with her partner and their child.
- She has been self-employed on and off all her life, along with periods of employment. A friend told her about WTC and she first submitted a claim when things were not going well financially.
- The respondent did not submit sufficient evidence but is still self-employed and receives CTC.

The respondent set up her business as she wanted to be independent and felt there was a gap in the market for caring for Afro-Caribbean hair. She found setting up her business challenging due to the amount of work there was for her to do single-handed.

She applied for WTC after her friend told her about it and she was struggling with a low income. She received the letter from HMRC, asking her to submit more information about her customers and hours worked. The claimant found it very stressful trying to account for the time she spent at the salon, because while she might be on site for a whole day she might only be working with a customer for a few hours. She did not know how much of her organising and cleaning tasks she should include in her calculations, and sometimes would chat to friends between clients and did not know how to account for this. She was afraid of getting this information wrong – either putting down too many hours or too few - as she didn't want to be perceived as lying. She had also heard about claimants having to pay money back money if they were incorrectly paid and was frightened of this happening.

"I can be in the salon from 9 until 5 but only have one customer, what do I put down for that?"

At the time that she was trying to compile this evidence, her father passed away and so she hosted several family members at her home who travelled to the UK for the funeral. She described it as being a very stressful time and the confusion over the hours felt 'too much'. As a result, she did not submit any evidence and therefore did not receive WTC. She feels that she may not be eligible anyway due to the irregularity of her hours and so is not planning on applying again.

She is getting by with the help of family although things are tight financially.

Communication and understanding of the outcome of the check

Of those who did not meet the strengthened criteria, around two thirds had provided a considerable volume of evidence that nevertheless was not considered sufficient to meet the criteria, whereas around a third had not provided enough evidence (including those who did not provide anything).

Generally, claimants understood that they had or had not met the criteria, however they were less sure of the reasons why. Among those who did not meet the criteria, some were surprised and had expected that they would receive WTC.

Some recalled being told the outcome of the checks by HMRC, either by a letter or a phone call. However, others could not recall the outcome being communicated to them, and simply assumed they had or had not met the criteria depending on whether they had continued to receive WTC or not –

these claimants were generally sure of what the outcome of the checks would be and so did not feel the need to contact HMRC to follow up.

Many who submitted evidence that did not meet the new criteria did not understand the reasons for this and felt that the explanation they received was insufficient. Some had contacted HMRC as a result to ask for a statement of reasons.

It is also worth noting that there was confusion amongst a few claimants who said they had met the criteria, but their records from HMRC stated they had not. One potential explanation for this could be that while WTC had stopped, the claimant had continued to receive Child Tax Credit (CTC) or other benefits and were unclear of the specific composition of their income.

5 Claimant journey after failing to meet the strengthened criteria

This chapter explores what claimants did after they failed to meet the strengthened criteria for the new Working Tax Credit (WTC) checks.

Propensity to appeal or reapply

Most claimants who did not meet the criteria, did not appeal the decision or plan to apply again in the future; there were several reasons behind this.

The majority did not appeal

Those who decided not to appeal commonly gave the following reasons:

- They felt the evidence they had available would never meet the new criteria (a taxi driver working ad hoc hours for example);
- They found the process of applying too difficult or stressful to try again – some of these claimants had mental health conditions or had experienced a difficult period in their life around the time of their initial claim;
- They could manage without WTC and so did not feel the additional time or effort required for another application or an appeal would be 'worth it'.

Across all three of these groups, claimants felt that the time required to appeal or reapply was off-putting among those who did not meet the criteria. Often they cited spending a considerable amount of time understanding what was required of them and collating the evidence the first time.

Others they felt the checks placed too much scrutiny on their business, negating the benefits of the 'freedom' which they felt self-employment offered, for example the requirement to produce a business plan or more closely record their hours and income than they perceived they needed to for tax purposes.

"Within the timeframe they had for me to send the stuff back, I started to think 'I've got a house with no mortgage, I should just go and borrow some money against that' [instead of providing evidence], so that's what I did. [I'd] Rather that than have something where I was going to be scrutinised and have to say this is what I'm doing at this point of the day."

New claim, did not meet the criteria, stayed self-employed

There was a small number who did not know an appeal was possible.

Mixed results among those who disputed the decision

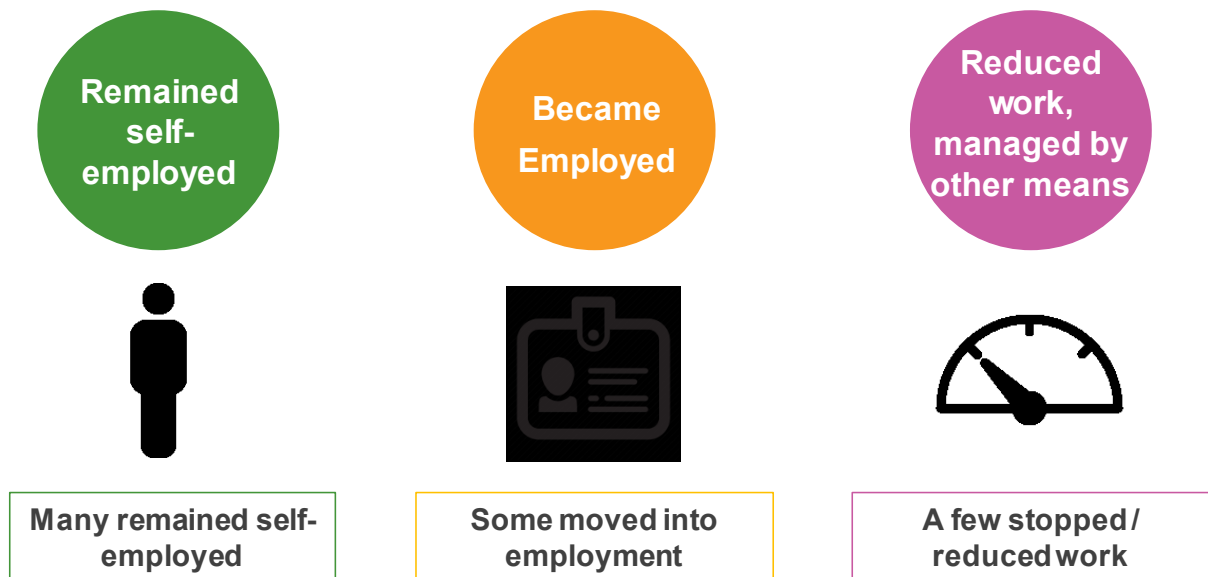
One or two claimants mentioned "appealing" the decision, however it was not completely clear from the interviews whether these claimants had successfully navigated the formal appeals process; their health conditions and/or relatively chaotic lives meant they had difficulty recalling exactly how they had disputed the decision. These claimants were not successful, and did not appear to fully understand why this was.

Other described routes taken to disputing the decision included writing a 'number of letters' to HMRC, however this was reportedly unsuccessful with the respondent not receiving a response from HMRC, and it was not clear that they had followed the formal appeal route. Another claimant had made a formal complaint over the handling of her claim due to her disability and family circumstances, and hoped this would result in the decision being overturned, but had not yet received a response.

In two instances claimants were initially told they had not met the criteria, but they felt this decision must be incorrect because they had supplied a lot of evidence and felt their business was viable. They disputed the decision immediately by contacting HMRC by telephone and reported that the decisions were overturned swiftly, without the need for a formal appeal. As no formal appeal process was undertaken, these claimants were classified as having met the criteria for the purposes of the research.

Summary of journey after failing to leave the strengthened criteria

It was most common for claimants to have remained self-employed. Others had become employed, and a few had scaled down their self-employment but not replaced this with employment elsewhere (for example because they were approaching retirement age and felt they no longer needed to work very much, or due to a worsening health condition) and managed on savings or existing/alternative benefits.



The following sections explore the actions of each of these groups in turn.

Claimants remaining in self-employment



Claimants were most likely to remain in self-employment; most claimants had initially moved into self-employment because it suited their lifestyle, and despite the results of the checks wanted to retain the benefits of self-employment such as flexibility and greater control over their work.

There were a small number of claimants who did not feel adversely affected by the loss of their WTC award, and so remained self-employed but continued as they always had done.

Many claimants however described being adversely financially affected by the loss of their WTC, as these claimants were not typically earning very much and felt reliant on the extra income that WTC had provided.

However, these claimants rarely planned to develop or grow the business to earn more from it. They often did not consider themselves to be entrepreneurial in nature and many had become self-employed so that they could look after their children or other members of their family, or because they were disabled or had health conditions, and so felt unable to spend more time or energy on the business than they were already. Several (largely existing claimants) described a chaotic period in their lives around the time of the new checks, such as illness, relationship breakdown or a family bereavement, which reduced their inclination to work further on their business.

Claimants commonly looked to manage the financial loss of WTC by managing on what they had, borrowing, or increasing their income via some part time work or other benefits, discussed below.

Managing on existing income

Many claimants said they simply tried to manage on their existing income. This meant 'tightening their belts' and generally living more frugally. Several were already claiming other benefits such as Child Tax Credit, which continued to help them. A few said they had attempted to find alternative benefits as a replacement but had found they were not eligible for them. As above, these claimants decided to remain self-employed rather than enter employment as it suited their lifestyle which often involved caring responsibilities.

Increased borrowing

Some claimants continued, or increased, borrowing from family members (most commonly parents and sometimes siblings), to bridge the shortfall in income. Some described a long-standing cycle of this type of family borrowing and repaying due to ongoing low income, which was exacerbated by losing their WTC award but not directly caused by it. A few had moved back in with their parents because their financial situation felt particularly precarious; again, this was not necessarily caused by the loss of their WTC but was a symptom of a more serious overall financial problem.

Other claimants without access to financial help from family (or sometimes in addition to it), had made use of riskier sources of borrowing such as 'pay day' loan companies, or increased their use of a credit card. Once again, this was not generally a direct result of their WTC award stopping (the amount they borrowed was not necessarily the amount they were now 'short' for instance), but the reduced income put more pressure on already stretched finances.

Some described feeling very stressed about their financial situation.

Increased income through employment or benefits

Other claimants, who did some paid work alongside their self-employment, increased the employed hours they worked to boost their income. For example, a self-employed hairdresser had previously also worked in a salon for one day a week, but after her WTC award was reduced, she sometimes worked two days a week in the salon to increase her income.

A small number of claimants found that they were entitled to alternative benefits (generally related to a health condition) after their WTC was stopped, such as ESA or Personal Independence Payment (PIP). These alternative benefits helped to balance out the income lost. While claimants were not necessarily specific about whether the amounts of WTC and the alternative benefit/s were equivalent, they reported the latter helped to balance the shortfall.

Increased income through development of self-employment

While most claimants did not make changes to their business after they failed to meet the criteria, a few had looked to increase their self-employment revenue or change some element of their business in response to the check results. For some claimants this was to put themselves in a better position to re-apply for WTC in the future. These claimants considered themselves to be more entrepreneurial in nature and as a result were more open to looking into new ways to make a profit. Further, these claimants were more likely to have entered self-employment to pursue a passion or interest and were less likely to have caring responsibilities or be living with a health condition. Claimants developed their business in the following ways:

A few planned to increase their self-employed earnings by focussing on more profitable areas of the business, such as selling higher value items or concentrating their efforts on elements of their service that were more efficient:

- A graphic designer and property manager decided to almost eliminate the graphic design element of her job and focus instead on managing properties and offering her project management services.
- A bookseller increased her profit by selling rarer and higher value books in place of the mid-range titles she had previously focussed on (more details provided in the case study overleaf).

CASE STUDY: BOOKSELLER IMPROVED EXISTING BUSINESS BUT DOES NOT PLAN TO REAPPLY FOR WTC



- The claimant sells second-hand books online across multiple platforms. She is a single mother and has four children. She also has caring responsibilities for two other disabled family members.
- She has been self-employed since 1999, however at the point of the checks she had just submitted her first claim for WTC. She did not meet the criteria and so has not received WTC.
- The respondent is still self-employed and receives CTC and Child Benefit.

The claimant originally became self-employed as she had a young son and needed the flexibility around caring responsibilities. Although she has been self-employed for 15 years, it was recently that she applied for WTC (after hearing about it via word of mouth) in order to boost her income. She provided all the required information, although she found it difficult to collate her accounts information and did not have any help with the process, which meant that she found it stressful due to her other caring responsibilities.

Although she doesn't plan to apply for WTC again as she felt the process had knocked her confidence, she has made changes to the business since the checks. She is shifting the focus of her business to selling high-end books where she feels the profit margins will be higher and she will see a greater return. She is also considering taking on a part time job to increase her income now that her children are older.

A few claimants began to think differently about marketing their business, for instance utilising social media or making connections with other suppliers, rather than relying on word-of-mouth as they had previously.

"HMRC did bring up a good point about how I market myself, it has always been word-of-mouth and there has always been enough work from that, then I set up a Facebook page so far as had one job from it. It did force me to ask those questions of myself whether I needed to market myself more intensively because previously I've never had to advertise."

Existing claim, did not meet the criteria, stayed self-employed

A few described a new determination to keep more consistent records of the hours they had worked, income generated, and customers.

A few planned to add to their self-employment revenue with a second business, usually within a sector they had previously worked in, or an existing area of interest.

Some had plans to reapply for WTC in the future and felt that by making these positive changes to their business they increased their chances of being able to meet the criteria next time. Others had found the process of gathering the necessary evidence for the checks time consuming and stressful and did not wish to undergo the process again.

"I found it really stressful, because I don't like doing paperwork and you know your life is on the line. You are being investigated and depending on what you put on the paper, you get capsized."

Existing claim, did not meet the criteria, stopped working and claimed benefits

CASE STUDY: AN ACTOR HAD DIFFICULTY PROVIDING EVIDENCE, BUT AIMS TO IMPROVE SELF-EMPLOYMENT AND APPLY FOR WTC AGAIN



- The claimant has been an actor since 2005 and has two children, both are grown up but one still lives at home.
- She had claimed WTC since 2013 but did not meet the strengthened criteria so her payments stopped and she has a 10-year payment plan to pay back the WTC money she previously received.
- She is now receiving DLA and using inheritance to support herself while she tries to increase her income.

The claimant has been acting sporadically since 2005 alongside caring responsibilities and first claimed WTC in 2013 when she started acting full time. She felt that she would not be able to provide any of the evidence requested as part of the new checks, because she had never considered making a business plan or keeping a diary of hours worked (including learning lines and other tasks such as marketing herself). She felt the new checks were not suitable for work like hers.

"A lot of your time is actually taken up with researching a role and learning a script, that might take me 3 days to learn it and that's 3 days working solidly. But I've never written it down."

She also mentioned that if she had known from when she first received WTC that she was meant to keep records then she could have done, but now had nothing to submit.

However, once the respondent stopped receiving WTC she reassessed her finances and decided to start an additional business selling aromatherapy items which she hopes to build up to support her acting, and once established will submit a new claim for WTC. She feels that she wouldn't have had the motivation to pursue this business had she continued receiving WTC, and now plans to increase her earnings in the future to the point that she doesn't need to claim any tax credits or benefits.

"It's probably done me a favour if I'm being truthful. My goal is to not actually rely on any benefits whatsoever, it might not happen within the next year but I'm hoping within the next 5 years."

Claimants who became employed

Became
Employed



Some claimants had moved into employment after not meeting the strengthened criteria to pass the new checks as a self-employed person. Claimants would generally claim WTC after moving into employment.

This move into employment was not generally in response to the result of the checks, i.e. claimants were not turning to employment because they had failed to get WTC as a self-employed person. Rather, the move into employment was something these claimants had considered doing for a while.

Some claimants (often those newer to self-employment) had found that self-employment was not working for them, and their failure to meet the criteria was a symptom of this. They described struggling with the administration, organisation and responsibility required to run a successful business, and so had been considering a move back into employment anyway. Others had struggled to make the money that they had hoped to make from their self-employment, and so had been looking for

employment anyway in order to increase their income. One claimant described that while she was looking for work, she had been advised by Jobcentre Plus to apply for WTC as a self-employed person in the interim, in case she was eligible.

A few other claimants moved into employment not to increase their earnings, but because it would provide a guaranteed regular income, and benefits such as holiday and sick pay.

Some of these claimants described that their children were now older and more independent, and so they themselves felt freer to move into employment.

Claimants commonly became employed in sectors they had previously worked in prior to moving into self-employment, or some increased their previously part-time employment hours to full time. This was seen as the most reliable route back into employment, though that said, few claimants were looking to move into a completely new area.

Claimants who scaled down their working



A few claimants who had been self-employed, largely stopped working after failing to meet the criteria to qualify for WTC. This group comprised a few claimants who were disabled or had health concerns, or were nearing retirement age, and these circumstances had a large influence on their decision to stop working. Those with health conditions were generally more financially vulnerable than those scaling down as they approached retirement. However, this was not true of all claimants with a disability or health concern who did not meet the criteria, some made no changes to their work following the outcome of the checks.

Disabled claimants or those with health conditions

A few claimants had a long-standing disability or worsening or fluctuating condition. These claimants were often not able to work very many hours, or very consistently, and so had never earned a lot of money from their self-employment. Losing WTC created financial difficulty for these claimants due to their low income, however they did not feel able to increase their earnings or make other substantial changes to their business. These claimants were generally thinking of 'winding down' their self-employment anyway due to the low income it created and the health difficulties they experienced, though a few felt demotivated to continue after finding they were not eligible for WTC any longer.

Most of these claimants did not report making HMRC aware of their disability, but this was not something that was explicitly asked during the discussion, so it is not known whether they knew this was possible or not.

To manage financially, some who were already claiming other benefits such as ESA or PIP generally tried to manage on these and adjusted their spending habits to live more frugally and offset the loss of WTC.

Some looked for alternative benefits after failing to meet the criteria for the checks and a few discovered they were eligible for benefits such as ESA and PIP, which helped them to manage financially after losing WTC.

Retirement

A few older claimants were reaching retirement age and were already reducing the amount of time spent on their self-employment. Some described self-employment that was more akin to a hobby that earned them some extra money and did not appear to be regular or profit-seeking.

Sometimes these claimants had access to savings or the financial support of a partner, and so were not too adversely affected by the loss of their WTC. Others were more concerned about their finances but did not feel able or inclined to make substantial changes to their self-employment at that stage in their life or find employed work. They said they would manage as best they can by being frugal until they receive their pension.

6 Claimant journey after meeting the strengthened criteria

Most claimants remained in self-employment, although a few moved into employment, discussed below.

Claimants remaining in self-employment



Most claimants continued their business as normal after meeting the criteria; they had generally received WTC for several years alongside their self-employment and so continued to run their business in the way that suited them.

Changes to self-employment as a result of meeting the criteria

There were a few claimants who described relying very heavily on WTC and who were concerned that the checks meant they may not be eligible for WTC in the future. These claimants described a new determination to maintain organised records of their business hours and transactions to protect their claim and in a few cases to try and earn more from their business to ensure it would be seen as making a profit.

It is important to note that some of these claimants did not necessarily consider themselves to be 'entrepreneurial' in their approach and did not always think in terms of profit or pushing to grow the business or develop their service or products further. Rather, they had found a way to make money to fit around their lifestyle or level of health, and it earned them enough to get by.

Use of WTC to move towards financial independence

In most cases, WTC supplemented an already low income and provided a safety net in the context of unpredictable earnings, or a measure of security during an off-season.

Claimants varied in how much they were consciously planning to become financially independent in the future.

Several did intend to increase their earnings in the future with the aim of no longer claiming WTC, often by increasing their working hours or gaining additional qualifications once their children started school or grew older.

Others felt they were doing as much as was currently possible and they would continue in the same vein and take the future 'as it came'. That is not to say that claimants were complacent about receiving WTC or were 'holding back' their self-employment efforts and allowing WTC to pick up the shortfall. These claimants already ran their business in an organised and regular way, and described their business as currently fitting around their other responsibilities such as childcare, such that actively growing the business did not feel possible for them at this point in time.

Many claimants reported that they disliked claiming WTC. For some this was related to the practicalities of claiming; the need to inform HMRC about any changes to circumstance, or provide further evidence when asked, negated the freedom they had sought from self-employment. Others

disliked being reliant on government support as it made them feel financially vulnerable, and not in control of their own circumstances.

That said, many claimants did not consider WTC to be a 'benefit' as such; it was considered distinct from out-of-work benefits. These claimants reported working hard and were proud to be running what they considered to be a successful business and earning money.

Claimants becoming employed



After meeting the new criteria, some claimants nevertheless moved out of self-employment and into employment.

Some claimants making this move described wanting to earn more money than they were able to as a self-employed person. Alternatively, employment did not necessarily mean an increase in earnings but allowed for a more reliable income, and the security of sick pay and holidays. A few described that this was made easier because their children had grown older and were more independent, allowing for longer working hours.

Often claimants returned to the same job or sector they had held before becoming self-employed and planned to remain in employment for the foreseeable future. The decision to move into employment was down to circumstances and personal choice, and unrelated to the checks.

7 Universal Credit

Universal Credit (UC) is replacing several working age benefits⁴ along with Working Tax Credit (WTC), meaning claimants of WTC will eventually be invited to claim UC.

This research will inform whether the government should make any changes to support for the self-employed, including UC. Therefore, it is useful to understand to what extent claimants of WTC are aware of UC, and in this context, how much claimants know about claiming UC as a self-employed person.

Nearly all claimants had heard of UC, but many said they knew very little about what it was. Many did not know how it was similar or different to other benefits (including tax credits) or whether it was suitable for self-employed people. Most did not appear to be aware that it would replace a number of other benefits.

Some claimants mentioned negative press they had seen, with a few fearful of reports of a long gap between payments.

A few had checked their eligibility online and discovered that they were not currently eligible for UC due to their location⁵ and had therefore thought no more about it.

A few were positive about UC, either from personal experience (for example one claimant mentioned her mother was claiming UC and was happy with it) or because they had heard it would mean that 'everything would be in one place', which was liked.

One claimant reported claiming UC, though had no experience of claiming as a self-employed person because he had been effectively 'signed off' after a work capability assessment due to his severe arthritis. He did not report that his experience of claiming UC was very different to claiming WTC.

⁴ <https://www.gov.uk/universal-credit>

⁵ This reflects UC rollout at the time the research was undertaken (2018); from the beginning of 2019 UC will have been fully rolled out across all areas. However Managed Migration – the process by which all claimants on certain legacy benefits – including Working Tax Credit – will move onto Universal Credit, has yet to take place. This will be tested on a small scale during 2019.

8 Conclusions

Much of the evidence suggests that the policy is working as intended and WTC is being paid to those who are genuinely working

Businesses that were organised and regular were meeting the strengthened criteria.

Following the checks, some claimants had developed their business to increase their income, or to make their self-employment even more organised or regular. It was not only claimants who had not met the criteria that had made these improvements; some claimants who had met the strengthened criteria were also motivated to improve their business further.

Claimants generally understood that the new checks might affect their tax credits award (although did not understand the fuller reasons behind the new criteria). However, there were some notable exceptions where claimants were unaware that their award might be affected and so did not provide evidence with the diligence they might have done, had they known.

Some claimants did not meet the criteria because they either chose not to submit evidence or they were unable to submit sufficient or any evidence.

There were some instances where a claimant did not submit sufficient (or any) evidence due to personal circumstances, uncertainty about how to complete the form or a lack of understanding about how the test would affect their claim.

There may be an opportunity for HMRC to refine its checks to ensure relevant questions are being asked for different sorts of businesses, for instance, cash only business for which claimants may not have records created automatically because they do not, for example, rely on bank statements to show sales.

The eligibility requirements for disabled claimants are different to non-disabled claimants, however the disabled claimants included in this research did not mention informing HMRC about their disability, and so they may not have been assessed correctly. There could be scope here to make the journey for disabled self-employed claimants smoother through improved guidance on what they should tell HMRC about (e.g. DLA payments) in order for HMRC to better understand their circumstances.

9 Appendix A: Discussion guide

A: Introduction and warm up

- Introduce self and IFF Research – an independent research company, working on a study for HMRC
- IFF has been commissioned by HMRC to carry out this research. The research involves interviewing people that have experienced the new tax credits ‘checks’, for people who are claiming Working Tax Credit for their self-employed activities. To complete these ‘checks’ people need to give evidence to HMRC about their self-employment activities, to demonstrate that it is organised and regular. You might have been asked to provide information about who your customers are and what profit you intend to make etc. Depending on the evidence that people provided, some people continued to receive Working Tax Credit, and some people’s Working Tax Credit payments would have been reduced or stopped. We are interviewing people whose tax credits payments were unchanged and those whose payments were reduced or stopped. This will help HMRC better understand whether these checks are working as intended and to understand the impact of the check (and its result) on people.
- The specific objectives of the research are to:
 - Understand what, if any, actions you took once HMRC had decided about your self-employment and ongoing entitlement to Working Tax Credit
 - Learn about your experiences of providing information about your self-employed activities.
- Participation is entirely voluntary, and your responses will be treated in confidence.
- You can stop this discussion at any time, or decide not to answer any of the questions, and don’t have to give a reason
- Recording – get permission to digitally record to use for detail and quotes, but no-one will be identifiable
- If you agree to an audio recording, then you can request a copy of this audio recording until the end of November 2018 when the recordings will be deleted.
- The personal data that we used to contact you, that we received from HMRC in order to conduct this research, will also be deleted at the end of November 2018.

9.1 Firstly, can you tell me a little bit about yourself?

- Who do you live with?
- Do you have children?

9.2 I'd like to understand a bit more about what you are doing at the moment with regards to work?

- Are you employed / self-employed?
- On out of work benefits?
- Looking for work?
- None of the above / managing financially in some other way

IF SELF-EMPLOYED

9.3 Tell me more about your business/self-employment?

- What do you do?
- What does a typical day look like for you?
- How many hours per week do you work?
- How has this changed over time?

Section B: Journey to self-employment

I'd like to now understand more about your career, experience and when you first became self-employed.

9.4 When did you first decide to become self-employed?

9.5 Have you always been self-employed?

IF ALWAYS SELF-EMPLOYED

9.6 Why did you decide to be self-employed rather than work for an employer? What were you expecting from being self-employed?

- What factors influenced your decision?
 - Flexibility of working patterns?
 - Childcare / other caring responsibilities?
 - Partners' income / job?
 - Income?
 - Independence?
 - The type of job or role you wanted to do is commonly one that requires self-employment e.g. delivery driver
 - Other [Please record]

IF MOVED TO SELF-EMPLOYMENT

9.7 Why did you decide to move to self-employment after working for an employer? What did you expect from self-employment?

- What factors influenced your decision?
 - Your experience / career to date?
 - Flexibility of working patterns?
 - Childcare / other caring responsibilities?
 - Partners' income / job?
 - Income?
 - Independence?

The type of job or role you wanted to do is commonly one that requires self-employment e.g. delivery driver

ASK ALL

9.8 And thinking about what it's actually like being self-employed, how does the reality match with what you expected?

- a) what are the benefits in reality?
- b) What challenges, if any, have you experienced as a result of being self-employed?**
 - [IF ANY] How did you overcome these?
 - Were you prepared for this to be a challenge when you became self-employed?

Section C: tax credits

My next few questions are about tax credits.

INTERVIEWER CHECK A4 ANSWER FROM SCREENER

9.9 You have spoken to us on the phone already about whether you still receive tax credits or not. I think you said that:

INTERVIEWER GIVE APT CHOICE FROM A4 ON SCREENER AND ANSWER TO 1.2:

- a) **HMRC were satisfied with the evidence you provided about your self-employment and so you continued / started to receive WTC**
- b) **HMRC were not satisfied with the information you provided about your self-employment and so your Working Tax Credit stopped / was not awarded, but you are receiving Child Tax Credit**
- c) **HMRC were not satisfied with the information you provided about your self-employment and so your Working Tax Credit was stopped / not awarded, and you do not receive Child Tax Credit.**

Is that right?

IF THERE IS A MISMATCH BETWEEN PARTICIPANT RESPONSE AND WHAT IS LISTED IN THE SCREENER ASK CLAIMANT THE FOLLOWING:

There seems to be a mismatch between your understanding of the outcome of the checks and our records. **Do you have any idea why that might be?**

IF NOT RECEIVING WTC (b or c above)

9.10 Have you received Working Tax Credit in the past?

9.11 When was this?

9.12 How long did you receive it for?

9.13 Were you self-employed during the time you were receiving WTC?

ASK ALL

9.14 In the past, self-employed people did not explicitly have to aim to make a profit in order to be able to claim Working Tax Credit. Was this a factor in deciding whether to become self-employed?

- **How important was this as a deciding factor?**
- **Were other factors more important [and what were they]?**

9.15 When you first made a tax credits claim as a self-employed person, how would you describe your financial situation?

a) How reliant did you feel on receiving the Working Tax Credit while self-employed?

Section D: Experience of the new self-employment checks (15 minutes)

INTRO A: NEW CLAIMANTS ONLY

I'd now like to talk in a bit more detail about your most recent claim which I understand would have been made between March and October 2017. I'm particularly interested in what HMRC asked you about in relation to your self-employed activities.

INTERVIEWER NOTE - USE HMRC LETTER TO PROMPT RECALL IF PARTICIPANT IS UNSURE WHAT WE ARE REFERRING TO.

INTRO B: EXISTING CLAIMANTS ONLY

I'd now like to talk to you about when HMRC contacted you to ask you about your self-employed activities. You will have been asked to provide evidence about your self-employment like who your customers and suppliers are, how you are paid, how you advertise your business, and the profit you expect to make in the coming year.

INTERVIEWER NOTE - USE HMRC LETTER TO PROMPT RECALL IF PARTICIPANT IS UNSURE WHAT WE ARE REFERRING TO.

QUESTIONS FOR ALL

9.16 Did you understand why HMRC had contacted you?

9.17 What did HMRC ask you to do?

9.18 Were you aware that the information you gave to HMRC at that point could change your entitlement to Working Tax Credits

- At which stage did you become aware of this?

9.19 What evidence or information did you have to provide to HMRC?

- Business plans?
- Expenses, records of sales?
- Licenses / certificates to prove your line of employment?

9.20 And how much of this information did you provide? (All of it? Some of it? None of it?)

IF PROVIDED SOME OR NONE OF THE INFORMATION

9.21 What information did you *not* provide?

9.22 Why did you not provide these bits of information?

- What, if any, difficulties did you have giving this information?

9.23 Did you try to get any help with giving this information? Who from? Did you manage to get help? How helpful or unhelpful was this?

IF PROVIDED SOME OR ALL OF THE INFORMATION

9.24 Thinking about the information that you *did* provide, how easy or difficult was it to provide this information? Why?

- Thinking about any figures that you provided, how confident were you that these were correct / what HMRC were looking for?

9.25 Did you already have all the required evidence or information, or did you need to find it, or calculate it?

- What information did you have already?
- What information did you need to find / calculate?

9.26 Did you try to get any help with this? Who from? Did you manage to get help? How helpful or unhelpful was this?

ASK ALL

9.27 You were asked to provide this information because HMRC were checking that your self-employment was commercially based, organised, regular, and you were aiming to make a profit from it. Did you understand at the time that this was why this information was being requested?

- Could this have been explained better at the time? How?

9.28 What happened to your tax credits award as a result of providing this evidence?

- Did your tax credits award continue unchanged?
- Were your tax credits payments reduced or stopped?
 - *INTERVIEWER NOTE: Probe for understanding between WTC and CTC – probes might need adapting depending on their knowledge and their current situation as defined from the screener*

9.29 Were you expecting this result, or did this surprise you?

- What were you expecting, if anything?

IF WORKING TAX CREDIT PAYMENTS CONTINUED UNCHANGED

9.30 **How clear was it to you that you had given enough evidence for HMRC to accept you were entitled to receive Working Tax Credit?**

- Did you have to go through a mandatory reconsideration or an appeal to get this decision, or was the evidence enough the first time?

IF WORKING TAX CREDIT PAYMENTS STOPPED / DENIED

9.31 **How clear was it to you that your evidence was not sufficient for you to continue to receive Working Tax Credit?**

9.32 **Did you understand HMRC's reasons for stopping / reducing your payments?**

- I.e. Did you understand why HMRC considered that you didn't meet the criteria for organised, regular self-employment?

9.33 **Did you appeal against this decision? IF YES: What happened as a result of this appeal?**

ASK ALL

9.34 **Overall how would you rate your experience of providing the information / evidence that HMRC asked for about your self-employment?**

- Satisfied? Dissatisfied? Why?
- What was the most difficult aspect?
- Timescales?
- Effect on your self-employment?

Section E: Impact of the check on your self-employment

Finally, I'd like to talk about how the *outcome* of the checks has affected you and your self-employment. Of course, we have discussed that the outcome for you was that:

IF WTC unchanged: HMRC decided the information you gave about your self-employment was sufficient for you to keep receiving WTC

IF WTC stopped or denied: HMRC decided the information you gave about your self-employment was not sufficient for you to keep receiving WTC

IF WORKING TAX CREDIT UNCHANGED

9.35 [FROM Q1.2] And you said earlier that you are...

.... **Still self-employed? IF YES:**

9.36 Was your decision to stay in self-employment anything to do with the fact that you are [still] receiving Working Tax Credit?

9.37 Has being asked to provide evidence about your self-employment by HMRC had any effect on how you run your business?

9.38 What are your future plans? Are you planning to remain in self-employment?

- Why? Why not?
- What other options are you considering?

9.39 Are you looking to grow your income streams from self-employment? Or maintain them as they are?

- Why?
- If growing, by how much? How will you achieve this?

9.40 Will being in receipt of Working Tax Credit enable you to grow your business and increase your income?

IF WORKING TAX CREDIT UNCHANGED

9.41 [FROM Q1.2] **And you said earlier that you are...**

... No longer self-employed? IF YES:

9.42 **Can you tell me a bit about why you aren't self-employed anymore?**

9.43 **IF NOT CLEAR: What are you doing instead? How does this suit you better?**

9.44 **What, if any, benefits are you claiming at the moment? Still WTC? UC? Out of work benefits?**

9.45 **What are your future plans? Are you planning to return to self-employment?**

- Why? Why not?
- What other options are you considering?

IF WORKING TAX CREDIT STOPPED / DENIED...

9.46 [FROM Q1.2] **I think you said earlier that you are now...**

...employed? IF YES:

9.47 **Why did you seek out employment? Is this decision related to your WTC not continuing?**

9.48 **Do you/will you earn more or less than when you were self-employed?**

9.49 **Once you got a job did you try to reclaim WTC or claim Universal Credit? Were you successful?**

9.50 **Do you receive any other benefits? What are they?**

9.51 **Will you ever try self-employment again? Why / why not?**

- **Is this decision related to your WTC not continuing?**

...still self-employed? IF YES:

- 9.52 How do you now manage financially (in general, but particularly now that you do not have WTC payments)?
- 9.53 How, if at all, has losing / being refused WTC payments affected your self-employment?
- 9.54 Have you purposefully made any changes to how you run your business, as a result of losing / being refused WTC payments? What changes? Why?
- 9.55 Have you / are you planning to reapply for WTC? Why / why not?
- 9.56 Have you / are you planning to claim Universal Credit (UC)?
- 9.57 Have you / are you planning to claim any other out of work benefits? What?

...claiming out of work benefits? IF YES:

- 9.58 Why did you decide to claim out of work benefits rather than become employed?
- 9.59 What benefits did you claim?
- 9.60 How do you now manage financially (in general, but particularly now that you do not have WTC payments)?
- 9.61 Have you considered becoming self-employed again? IF NOT:
 - What is stopping you?
 - Is this related to your WTC award not continuing?

IF WORKING TAX CREDIT STOPPED, SELF-EMPLOYED AND CLAIMED UC

These are some questions about claiming Universal Credit...

- 9.62 What is your experience of claiming UC as a self-employed person?
- 9.63 How well does UC support you in your self-employment? Why do you say that?
- 9.64 How much do you know about the maximum and minimum amounts you can earn as a self-employed person claiming UC?
- 9.65 What, if anything, do you know about the Minimum Income Floor?

9.66 IF AWARE OF MIF: How do you find the Minimum Income Floor works for you?

IF WORKING TAX CREDIT STOPPED, SELF-EMPLOYED AND HAVE NOT CLAIMED UC:

So you've let us know that your WTC payments stopped / did not continue, but you are still self-employed, and you've not claimed Universal Credit...

9.67 What, if anything, do you know about Universal Credit?

- **Do you know anything about claiming Universal Credit as a self-employed person?**

9.68 How much do you know about the maximum and minimum amounts you can earn as a self-employed person claiming UC?

- **What, if anything, do you know about the Minimum Income Floor?**

INFORMATION IF NECESSARY:

The **Minimum Income Floor (MIF)** in Universal Credit is an assumed level of earnings for self-employed people, which is calculated based on what an employed person could expect to earn for working in similar circumstances.

The MIF is used to calculate how much UC will 'top up' your self-employed earnings.

Your 'standard' UC amount will be calculated using the MIF. If you have a slow month and earn less than this amount, you won't receive any more UC. If you make more money than your MIF, your UC will reduce accordingly.

ASK ALL

9.69 IF NOT COVERED: And what are your future plans?

PROBE AS APPROPRIATE BASED ON PREVIOUS ANSWERS:

- Become employed / continue as employed?
- Continue with self-employment / start another business?
- Claim out of work benefits?
- Manage financially in some other way, i.e. with support from family, or savings?
- Something else?

9.70 Why is that?

- IF RELEVANT: Have these plans been influenced by your WTC not continuing / not being awarded?

9.71 Are you aiming to increase your earnings further in the future? IF YES:

- By how much?
- How will you achieve this?
- IF RELEVANT: Is your decision to do this related to your WTC not continuing / not being awarded?

Section G: Wrap up

9.72 Thanks for your time today. Is there anything else related to what we have been talking about today that you'd like to add?

9.73 Would you be willing to be contacted again should we need to clarify any of the information you have provided today?

Yes	
No	

9.74 As a thank you for participating in this research, we would like to make a £35 payment to you via cheque. Please advise on details:

Cheque Payable to (<i>insert details</i>)	
Record address where cheque should be sent:	

Thanks again for your time.

I declare that this interview has been carried out under IFF instructions and within the rules of the MRS Code of Conduct.		
Interviewer signature:	Date:	
Finish time:	Interview Length	Mins

10 Appendix B: Initial letter and evidence check list



Applicant 1 & Applicant 2
1a Street Avenue
Cul-d-sac Place
LYTHAM ST. ANNES
FY8 4AN

Tax credits

Tax Credit Office
SO752 - AS14 G3 T2 HHPreston
PR1 4AT

Phone 03000 540928
Monday to Friday 08:00 - 17:00

Web www.gov.uk

Date 14 February 2018
Our Ref SO752/AS14/CO6/G3/T2/F6/HH
NI number AA123456A

We need to check your tax credits claim

Please fill in and return the enclosed evidence checklist and make sure you send us the evidence you tell us about.

The evidence we need you to send us is shown on the evidence checklist enclosed. Failure to do so could affect your tax credit payments.

Your tax credits award

TCUH01

We have tried to phone you about your award for tax credits to decide whether we can continue to pay it.

What you need to do by 1 November 2017

If you are a Foster Carer or Shared Lives Carer, please call us to discuss what evidence we may need from you before you send any documents to us.

Answer all of the questions on the enclosed evidence checklist.

Send us the evidence we have asked for on the evidence checklist enclosed, for the period 6 April 2017 to 6 June 2017 and for the period 1 August 2017 to 1 October 2017. We cannot accept any evidence supplied via electronic media such as email, USB sticks, flash drives or compact discs.

- consider if you have any additional evidence you can send us to demonstrate your self-employment is carried out on a commercial basis, with a view to making a profit and is regular and organised
- send the completed evidence checklist (**keep page 2 of this letter for your records**) and evidence to the address shown on the cover sheet

If we don't hear from you by 1 November 2017, we will make a decision using the information we currently hold

What happens next

Please remember that it is important that you give us accurate information when you claim tax credits and tell us about changes in your circumstances.

Please read the enclosed leaflet WTC/FS2, 'Tax credits examinations'. This explains why we examine awards and what your rights are. Please keep this leaflet.

If our check shows that you have made an error, we will consider whether you must pay a penalty as shown in the enclosed leaflet WTC7, 'Tax Credits penalties'. We will not charge you a penalty if you have taken care to give us correct information but still made a mistake.

For more information about your tax credits claim, go to **www.gov.uk/browse/benefits/tax-credits** for more information about your tax credits claim

If you wish to contact us about this letter, please call 03000 540928 quoting your National Insurance number AA123456A.

If there is anything about your health or personal circumstances that may make it difficult for you to deal with this check, please tell me so that I can help you in the most appropriate way.

HMRC may observe, monitor, record and retain internet data which is available to anyone. This is known as 'open source' material and includes news reports, internet sites, Companies House and Land registry records, blogs and social networking sites where no privacy settings have been applied.

You may wish to get help from a professional adviser, or a welfare rights organisation such as Citizens Advice. If you have an adviser acting for you, please show them this letter.

Evidence checklist – Please complete and return to us with the supporting evidence by 1 November 2017

Name Applicant 1

National Insurance number aa123456a

Evidence we need	Examples of evidence you should send	Sent?	Evidence sent/reason not sent
Who your customers are. Work you have done for them or goods you have supplied them with.	List of customers Customer invoices Sales invoices CIS payslips Customer contracts	No <input type="checkbox"/> Yes <input type="checkbox"/>	
Who your suppliers are. Expenses you have paid.	List of suppliers Any wholesale trade card you hold Purchase invoices Expense receipts Rent receipts	No <input type="checkbox"/> Yes <input type="checkbox"/>	
How you are paid for the work you have done or goods you have supplied.	Bank account statements from your business, personal or PayPal accounts Credit card statements	No <input type="checkbox"/> Yes <input type="checkbox"/>	
Prices you charge for goods or services.	Price list Hourly or daily rate Quotes	No <input type="checkbox"/> Yes <input type="checkbox"/>	
Appointments/bookings you have. Business records you keep.	Diary or appointment book showing bookings you have taken or made Record book showing daily takings, expenses, mileage	No <input type="checkbox"/> Yes <input type="checkbox"/>	
How you advertise your business.	Leaflets, flyers, web address, screen prints of social media activity, shop window or van signage, A-boards or any other examples & receipts	No <input type="checkbox"/> Yes <input type="checkbox"/>	
Relevant trade qualifications you have.	Qualification certificate	No <input type="checkbox"/> Yes <input type="checkbox"/>	
Your business insurance.	Copies of any business insurance documents (for example – public liability)	No <input type="checkbox"/> Yes <input type="checkbox"/>	

Business premises you have where you carry out your business. Insurance for these premises.	Business premises lease documents, contract or rental agreement Business run from home tenancy agreement or mortgage provider confirmation if applicable Chair rent agreement	No <input type="checkbox"/> Yes <input type="checkbox"/>	
Vehicles used for your business. Any relevant insurance documents.	Business vehicle rent agreement or lease if applicable Insurance policy for vehicles used in the business	No <input type="checkbox"/> Yes <input type="checkbox"/>	
Any licenses or registration for your trade.	Copies of licences and certificates Registration documents required by local authorities and national bodies for some trades	No <input type="checkbox"/> Yes <input type="checkbox"/>	
Anyone who helps you manage your business affairs.	Management contract Self employed contract E-mails Letters Most recent profit and loss accounts	No <input type="checkbox"/> Yes <input type="checkbox"/>	
Future plans for your business.	Business plan	No <input type="checkbox"/> Yes <input type="checkbox"/>	

Details for Applicant 1

Please give us your contact telephone number

Do you have a Unique Tax payer Reference (UTR) number?
 No Yes

What is your UTR?

What date did you start trading?

What is the nature of your business and what type of work does it involve?

Details for Applicant 1

Why did you choose this type of self-employment?

How much profit do you expect to make from 6 April 2017 to 5 April 2018?

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Have you been trading for more than 3 months?

No Complete the following table with the details since the start of your trading

Yes Complete the table with the last 16 weeks hours worked (including all time spent in the running of your business)

Week number	Date (week commencing)	Hours worked (including time you spent running your business)	Self-employed income	Self-employed expenditure
Week 1				
Week 2				
Week 3				
Week 4				
Week 5				
Week 6				
Week 7				
Week 8				
Week 9				
Week 10				
Week 11				
Week 12				
Week 13				
Week 14				
Week 15				
Week 16				

Details for Applicant 1

Give us a breakdown of the hours you work (including time you spent running your business for example bidding for work or applying for funding) during a typical working week

Tell us how you decided the price you charge for the service or goods you provide. For example hourly rate or daily rate you charge in comparison to your competitors or your profit margin if you sell goods

If you intend to grow or develop your business to increase your profits, tell us how you intend to do this

Do you intend to reduce business costs to increase your profit? If so, tell us how

Is there anything else you want to tell us about your self-employment?

Evidence checklist – (write down the evidence sent and return this page to us)

Name Applicant 2

National Insurance number bb123456b

Evidence we need	Examples of evidence you should send	Sent?	Evidence sent/reason not sent
Who your customers are. Work you have done for them or goods you have supplied them with.	List of customers Customers invoices Sales invoices CIS payslips Customer contracts	No <input type="checkbox"/> Yes <input type="checkbox"/>	
Who your suppliers are. Expenses you have paid.	List of suppliers Any wholesale trade card you hold Purchase invoices Expense receipts Rent receipts	No <input type="checkbox"/> Yes <input type="checkbox"/>	
How you are paid for work you have done or goods you have supplied.	Bank account statements from your business, personal or PayPal accounts Credit card statements	No <input type="checkbox"/> Yes <input type="checkbox"/>	
Prices you charge for goods or services.	Price list Hourly or daily rate Quotes	No <input type="checkbox"/> Yes <input type="checkbox"/>	
Appointments/bookings you have. Business records you keep.	Diary or appointment book showing bookings you have taken or made Record book showing daily takings, expenses, mileage	No <input type="checkbox"/> Yes <input type="checkbox"/>	
How you advertise your business.	Leaflets, flyers, web address, screen prints of social media activity, shop window or van signage, A-boards or any other examples & receipts	No <input type="checkbox"/> Yes <input type="checkbox"/>	
Relevant trade qualifications you have.	Qualification certificate	No <input type="checkbox"/> Yes <input type="checkbox"/>	
Your business insurance.	Copies of any business insurance documents (for example – public liability)	No <input type="checkbox"/> Yes <input type="checkbox"/>	
Business premises you have where you carry out your business. Insurance for these premises.	Business premises lease documents, contract or rental agreement Business run from home tenancy agreement or mortgage provider confirmation if applicable Chair rent agreement	No <input type="checkbox"/> Yes <input type="checkbox"/>	

Vehicles used for your business. Any relevant insurance documents.	Business vehicle rent agreement or lease if applicable Insurance policy for vehicles used in the business	No <input type="checkbox"/> Yes <input type="checkbox"/>	
Any licenses or registration for your trade.	Copies of licences and certificates Registration documents required by local authorities and national bodies for some trades	No <input type="checkbox"/> Yes <input type="checkbox"/>	
Correspondence with manager, agent, accountant who helps with your business affairs	Managment contract Self employed contract E-mails Letters Most recent profit and loss accounts	No <input type="checkbox"/> Yes <input type="checkbox"/>	
Future plans for your business.	Business plan	No <input type="checkbox"/> Yes <input type="checkbox"/>	

Details for Applicant 2

Please give us your contact telephone number

Do you have a Unique Tax payer Reference (UTR) number?
 No Yes

What is your UTR?

What date did you start trading?

What is the nature of your business and what type of work does this involve?

Why did you choose this type of self-employment?

How much profit do you expect to make from 6 April 2017 to 5 April 2018?

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Have you been trading for more than 3 months?

No Complete the following table with the details since the start of your trading

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Week number	Date (week commencing)	Hours worked (including the time you spent running your business)	Self-employed income	Self-employed expenditure
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Week 6				
Week 7				
Week 8				
Week 9				
Week 10				
Week 11				
Week 12				
Week 13				
Week 14				
Week 15				
Week 16				

Please give us a breakdown of the hours you work (including the time you spent running your business for example bidding for work or applying for funding) during a typical working week

Please tell us how you decide the price you charge for the service or goods you provide for example hourly rate or daily rate you charge in comparison to your competitors or your profit margin if you sell goods

If you intend to grow or develop your business to increase your profits, tell us how you intend to do this

Do you intend to reduce business costs to increase your profit? If so, tell us how

Additional information

If you have answered 'No' to any of the previous questions, please give an explanation in the box below.

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IFF Research illuminates the world for organisations businesses and individuals helping them to make better-informed decisions.”

Our Values:

1. Being human first:

Whether employer or employee, client or collaborator, we are all humans first and foremost. Recognising this essential humanity is central to how we conduct our business, and how we lead our lives. We respect and accommodate each individual's way of thinking, working and communicating, mindful of the fact that each has their own story and means of telling it.

2. Impartiality and independence:

IFF is a research-led organisation which believes in letting the evidence do the talking. We don't undertake projects with a preconception of what "the answer" is, and we don't hide from the truths that research reveals. We are independent, in the research we conduct, of political flavour or dogma. We are open-minded, imaginative and intellectually rigorous.

3. Making a difference:

At IFF, we want to make a difference to the clients we work with, and we work with clients who share our ambition for positive change. We expect all IFF staff to take personal responsibility for everything they do at work, which should always be the best they can deliver.



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