

# The ipse Manifesto

# BRITAIN'S SECRET WEAPON

**Unleashing Independent Professionals  
and the Self-Employed in the New Economy**

**ipse** The Association of  
Independent Professionals  
and the Self Employed

# The ipseManifesto

*Britain's Secret Weapon  
Unleashing Independent Professionals  
and the Self-Employed in the New Economy*

[www.ipse.co.uk](http://www.ipse.co.uk)

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# Foreword

**From Julie Stewart, Chairman, IPSE**

The revolution in the way we work is well under way – 4.6 million people are now self-employed in the UK, and this number is expected to top those working in the public sector by the end of 2016.

Individuals are realising the numerous benefits that come with the freedom to work flexibly, building their own businesses while managing their work/life balance.

It is clear that this is not a cyclical phenomenon. Self-employment has outstripped growth in permanent employment by three to one in the last decade, and this pattern will no doubt continue in the coming years.

Government is starting to recognise this structural shift, and important strides have been made to create a better environment for independent professionals and the self-employed to operate in. IPSE has contributed to the Office of Tax Simplification's forum and the IR35 Forum to address small business taxation. We have also worked closely with the Cabinet Office to create a Security Clearance Forum which helps to ensure Government departments are fair in their procurement processes for the UK's smallest businesses.

This piecemeal approach does not go far enough, though. Bold and joined-up thinking is needed if we are to unleash the huge potential of Britain's secret weapon – independent professionals and the self-employed. Government must ensure that policy is in place which makes it easy to both become self-employed and to be self-employed, action around infrastructure, regulation and tax is clearly needed here. Doing so will secure a bright economic future for the UK.

I am confident that this manifesto will play a vital role in taking the debate forward.



# Introduction: *THE NEW ECONOMY*

## About IPSE

IPSE is the Association of Independent Professionals and the Self-Employed. Independent professionals are a vital part of the labour market and they can go by many other names, such as freelancers, consultants and contractors. With nearly 22,000 members we are the largest association of independent professionals in the EU. We exist to support, promote and advise independent professionals to ensure they can fulfil their true potential, delivering growth and innovation for the UK economy.

## A manifesto for the new economy

Independent professionals and the self-employed are the future of the UK economy. They are flexible and highly skilled and their numbers are growing rapidly. With over 1.77 million<sup>1</sup> independent professionals in the UK they can no longer be ignored. The next Government has the opportunity to cement the UK's place on the world stage as an innovation-driven economy, by giving independent professionals and the self-employed the chance to thrive.

## What we believe

This manifesto sets out our vision for a new economy which unleashes the potential of the self-employed and independent professionals. We believe it should be:

- Easy to become self-employed
- Easy to engage the self-employed
- Easy to work as self-employed

In this manifesto we have set out a series of policies which enable these objectives. We have focused on addressing issues in the following areas:

- Recognition of independent professionals
- Starting out as self-employed
- Infrastructure policy to improve connectivity
- Regulation and barriers to business such as late payment and red tape
- Taxation of independent professionals and how to make this fair

Each section of this manifesto is prefaced with the view of experts in that topic or with a short biography of the experiences of a self-employed professional.

# Who are independent professionals?

## THE VALUE OF INDEPENDENT PROFESSIONALS

### Who are the self-employed?

The self-employed are workers without an employer. One in seven, around 4.6 million,<sup>2</sup> of the UK workforce are now self-employed and this has grown by around 39% since 2000.<sup>3</sup> The numbers are growing rapidly: 85% of the jobs lost in the recession were replaced by self-employed jobs,<sup>4</sup> and the number of those working for themselves is expected to exceed those in the public sector by 2016.<sup>5</sup>

### Who are independent professionals?

Independent professionals, also known as freelancers or contractors, are a subset of the self-employed who are highly skilled. They can work as managers, directors and senior officials in professional, associate professional and technical occupations.

There are now an estimated 1.77 million independent professionals in the UK, an increase of 70% since 1992.<sup>6</sup> Four in ten independent professionals are women, and the number of women going into freelancing has been increasing rapidly: up by 27% since 2008, with the proportion of mothers working as freelancers rising by 55% in this period.<sup>7</sup>

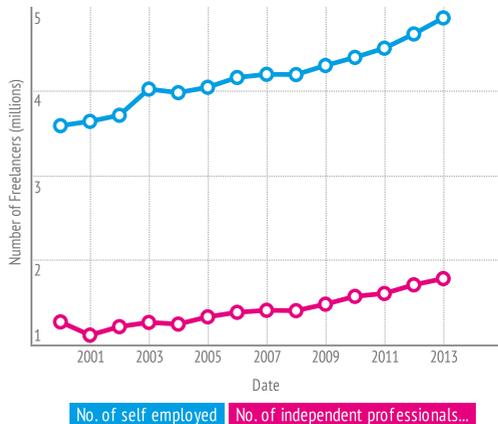
A growing number of the UK's most talented graduates and young professionals are now freelancers and those aged under 29 make up the fastest growing segment of the freelance workforce, increasing by 38% since 2008.<sup>8</sup>

### Why are they so important?

Independent professionals allow businesses to be flexible and innovative. They do this by enabling businesses to access exceptional skills and talent which is unavailable on a permanent basis, allowing firms to manage costs across peaks and troughs in demand.

As a result, independent professionals reduce risk whilst maximising performance and enabling innovation and competition.<sup>9</sup>

Independent professionals contributed £95 billion to business turnover in 2013,<sup>10</sup> more than the automotive industry.<sup>11</sup> They are vital to businesses and the wider economy because of the unique and distinct function they serve, something that 87% of SMEs and 77% of large firms agree with.<sup>12</sup>

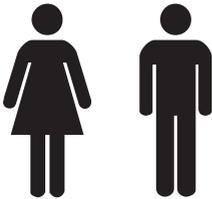
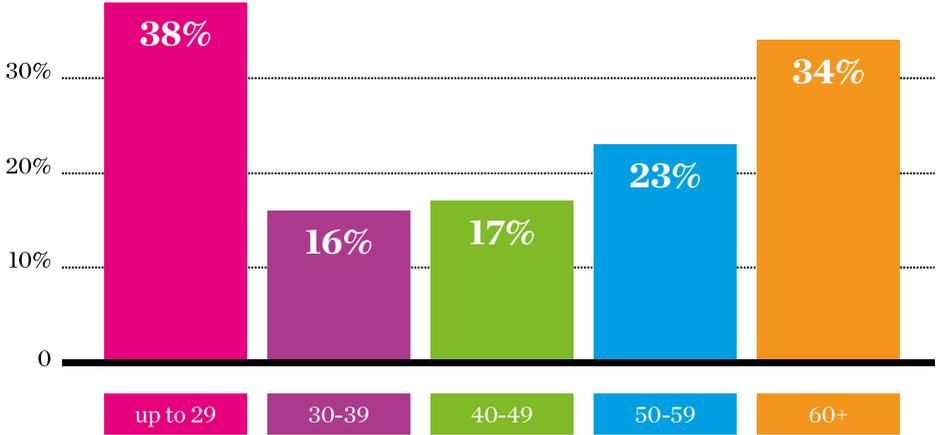


Growth in no. of self-employed and independent professionals in the UK

# Self-employment at a glance

INDEPENDENT PROFESSIONALS IN NUMBERS

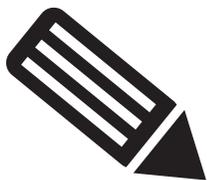
% increase in independent professionals between 2008 and 2013 by age group



4 out of 10 independent professionals are women.



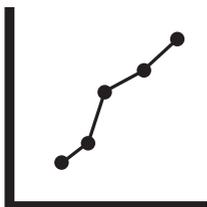
The number of mothers working independently has increased by 55% since 2008.



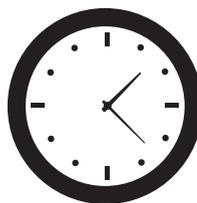
**Independent professionals make up 61% of all those working in artistic, media and literary occupations.**



**Freelancers contributed £95 billion to business turnover in 2012 (an increase of 8% from £88 billion in 2010).**



**84% of businesses state that independent professionals add value to the UK economy.**



**63% of businesses say the main benefit of hiring independent professionals is the flexibility and agility they provide.**

# Recognition: **IDENTIFYING AND SUPPORTING INDEPENDENT PROFESSIONALS**

## **PROFILE:**

**Professor Andrew Burke**

**Director, Bettany Centre for Entrepreneurship, Cranfield University**

Andrew Burke is one of the world's leading experts on entrepreneurship and innovation. He has conducted extensive research into the needs of freelancers and independent professionals. Below he explains why independent professionals are overlooked.

### **“Governments need to do more to recognise independent Professionals in policy”**

*Independent professionals are vital for the performance of the modern British economy, helping it to be more flexible, agile, entrepreneurial and innovative.*

*Not only do independent professionals enable such activity in the businesses to which they supply their services but they also play an active role in job creation and help to reduce the risks for companies engaging in entrepreneurial activity.*

*Sadly, there is a lack of awareness of the importance of independent professionals, and consequently, research data about this valuable group is hard to find. Governments need to do more to recognise independent professionals in policy so this unique group can be nurtured and be allowed to thrive.*

To see more of Andrew Burke's research visit:  
[www.ipse.co.uk/research](http://www.ipse.co.uk/research)



# Recognition:

## *IDENTIFYING AND SUPPORTING INDEPENDENT PROFESSIONALS*

All too often, policymakers focus on employees and employers, failing to recognise those who do not fall neatly within these two categories. Policies that have been created for the self-employed are neither clear nor fair, and instead seem as if they have hastily and awkwardly been constructed to bridge the gap between the two groups. This policy gap is even more acute for independent professionals, who are a distinct subset of the self-employed population with unique needs.

By recognising independent professionals in policy, this vital part of the UK's workforce can deliver their true potential to create jobs and increase entrepreneurship. To do this the Government needs to:

- **Recognise independent professionals in Office for National Statistics (ONS) statistics:** Current ONS statistics do recognise the self-employed, but in a limited manner. Given the rapid growth in self-employment, more data needs to be collected and analysed by the ONS to understand their needs. This data should also identify independent professionals, who fulfil a unique role. Research by Professor John Kitching of Kingston University identifies a definition and methodology which the ONS should adopt.
- **Ensure Government impact assessments for new policies estimate the costs for independent professionals running their own businesses:** Currently, impact assessments for new policies estimate the costs for SMEs, but not for the very smallest businesses — independent professionals.
- **Ensure legislation aimed at employees or agency workers clearly exempts the self-employed and independent professionals:** These workers are not employees, and although they may share some of the characteristics of agency workers, they willingly take on a greater degree of risk and their flexibility must be maintained.
- **Create a Minister for self-employment within the Department for Business, Innovation and Skills (BIS) with a specific focus on the needs of this group:** There is already a Minister for small business, why not for self-employment?



# Starting out: **ENABLING SELF-EMPLOYMENT & HELPING THE NEWLY SELF-EMPLOYED FLOURISH**

## **PROFILE:**

***Sam Forrest, Managing Director, Uni Media Mash Ltd***

Increasingly self-employment is an option for young people and not just for those transitioning from a long career in permanent employment. Sam Forrest started his business aged just 19, whilst studying Enterprise Development at the University of Huddersfield. Below he outlines the need for support from an early age for budding entrepreneurs.

**“Self-employment has risen in recent years and as time goes on it will become a much more mainstream career path. This should be encouraged in schools at a younger age”**

*Throughout my school life there was very little taught about being self-employed. In fact, it was rarely even mentioned as a viable career path, as the focus was on going to a good university, getting a good degree, and working your way up in a company before retiring. For me personally, once I got past the usual dreams of becoming a footballer, I knew that working for myself was what I wanted to do. I wouldn't say I received much advice on running a business at school or sixth form college, but the verbal support I received from my teachers was something I really valued.*

*I started on the Enterprise Development degree at the University of Huddersfield in September 2013. This course has been the perfect environment for starting my first large-scale business. It has provided me with some great opportunities to meet successful people in the business world. Furthermore, the Kirklees Youth Enterprise Centre (Kyec) has been extremely helpful, as without their £5,000 grant scheme I would be nowhere near the position I am in now.*

*Self-employment has risen in recent years and I feel that as time goes on it will become a much more mainstream career path. This should be encouraged in schools at a younger age. Of course, running your own business is very hard work, but the positives should be celebrated – aside from the pride of owning something I have grown myself, I love the excitement, knowing that my potential income is virtually unlimited. If this message can be shown to children from a young age I am sure that self-employment will rise further. Finally, if the Government can fund more schemes like the KYEC that would be brilliant. I feel very fortunate to have been in the right place at the right time, as unfortunately the scheme is ending this summer.*

To read Sam's story in full, visit [www.ipse.co.uk/samsstory](http://www.ipse.co.uk/samsstory)



# Starting out:

## *ENABLING SELF-EMPLOYMENT AND HELPING THE NEWLY SELF-EMPLOYED FLOURISH*

Sam's story shows just how valuable support can be in helping people become self-employed. This doesn't have to be purely financial; changes in mindset and culture within education, to recognise self-employment as a viable career option in the new economy, could go to great lengths to inspire young people to start their own businesses.

It's not just the young who can benefit from self-employment, but also parents wanting a better work/life balance and over-65s looking to build on the skills gained after a lengthy career. Sadly, a lack of advice, support and understanding can prevent this from happening. The perception of self-employment as risky also needs to be challenged. To achieve this, the Government must:

- **Ensure self-employment and entrepreneurship are on the curriculum at secondary and sixth form level:** The new economy of self-employment must be recognised in education. Young people should be equipped with the knowledge and skills to decide whether they wish to enter traditional employment, or work for themselves.
- **Ensure careers advice recognises self-employment and entrepreneurship as an option within further education and at university level:** Sam's story (see page 7) shows how intensive, focused help within a university environment can create new entrepreneurs – the job-creators of tomorrow. But such support shouldn't be limited to those studying specific courses on enterprise. Those studying other courses should have access to careers advice which encourages them to look beyond the traditional employers' 'milkround'.
- **Create a business-led self-employed mentoring scheme, administered by BIS:** The Government administers and oversees a number of training, mentoring and apprenticeship schemes for larger businesses. They can act as the source for advice on, and the administrators of, mentoring schemes for the self-employed too. This can be done via workhubs or Local Enterprise Partnerships, with BIS overseeing a website or single portal with details of businesses that wish to provide mentoring.
- **Provide targeted advice about self-employment within jobcentre Plus and via the Department for Work and Pensions' website to selected groups** such as recent graduates, working mothers and the recently retired. These groups can often struggle to find a route back into the labour market which takes into account their needs. Self-employment could provide this route, but individuals are discouraged from considering it due to a lack of information.

- **Change the tax treatment of training for the self-employed:** The tax system, perversely, does not reward the self-employed for training in the same way as employees. Training for new skills is not tax-deductible, but training for improving existing skills is. They should both be treated in the same way.
- **Create a new pension scheme for the self-employed, provided by the National Employment Savings Trust (NEST):** The Government's default auto-enrolment provider, NEST, should create a flexible pension solution for the self-employed, allowing them to withdraw the last two years of contributions without penalty. This would encourage the self-employed to save for retirement and reduce the perceived risks of self-employment to new entrants.
- **Enable mothers who are self-employed to claim Statutory Maternity Pay (SMP) and radically re-examine how the self-employed are treated for maternity and paternity-related benefits:** There is no reason why self-employed women should receive a different amount to employees when pregnant. Currently they are eligible for Maternity Allowance, which can be less than SMP.

In addition, eligibility for Maternity Allowance is unclear, whereas most employees are eligible for SMP. This disparity should be removed by allowing the self-employed to claim SMP based on an average of their earnings over the last two years, simplifying the system and making it fairer too. The Government should radically re-examine the way the self-employed are treated for maternity and paternity-related benefits, ensuring eligibility is fair and does not unfairly punish the self-employed.



# Infrastructure: ***BUILDING THE NEW SELF-EMPLOYED ECONOMY***

## ***PROFILE:***

*Debbie So, ImpactHUB*

The self-employed don't just need a better regulatory environment. They need a better built environment too, with good broadband, and the support of co-working spaces. Debbie So, of ImpactHUB Westminster, outlines this below.

### ***“This new way of working requires its own infrastructure”***

*The self-employed are driving a new way of working. They're motivated by personal passions, innovations, and the desire to decide for themselves how they work, when they work, what they work on – and indeed where they work. Although ‘reluctant’ entrepreneurship (where people cannot find other employment) may well have caused some of the rise in self-employment, that is no reason to ignore this burgeoning shift towards new ways of working.*

*In order for this shift to be positive, and to contribute to a more inclusive and resilient economy, the growing movement of ‘micro-entrepreneurs’ requires its own micro infrastructure – physical places to work and collaborate – and also the macro infrastructure – in the form of transport and digital infrastructure – that helps them connect and communicate with clients.*

*The Greater London Authority and many London Boroughs are starting to recognise this, investing both in research on incubators, accelerators and co-working spaces and supporting the delivery of places like the Old Vinyl Factory and Impact Hub Westminster. Rather than separate units for small businesses, these places offer not just the flexible environment the self-employed need but also the inspiring and networked places that support people's connectedness and well-being.*

*What's important to recognise is that this is no longer a city centre only phenomenon. Our prediction is that we'll see a need for an increasing co-investment in these facilities right across our cities, suburbs, towns and even villages.*



# Infrastructure:

## *BUILDING THE NEW SELF-EMPLOYED ECONOMY*

No economy can be built without the right infrastructure and the self-employed economy is no different. To enable individuals to both become self-employed and be self-employed: access to broadband, reliable mobile phone reception, workhubs and effective road and rail infrastructure is crucial.

It is no use reforming tax and regulation to better support the self-employed if they do not have the basic tools to exist and prosper as businesses. Alongside the obvious benefits that access to broadband and suitable road and rail infrastructure can bring, workhubs are proving particularly popular amongst the self-employed community. They provide excellent opportunities to network and work collaboratively for the growing number of independent professionals driving economic growth in the UK, particularly for younger self-employed workers.

In order to support this essential infrastructure for the self-employed economy, Government should:

- **Cut business rates for workhubs:** Small businesses with premises are already exempt from paying rates, yet those without premises are forced to pay them indirectly as they are a significant part of the operating costs of many workhubs, which are often run by collectives of self-employed workers. Implementing this policy would encourage the enhanced rollout of such facilities and help the self-employed grow their businesses.
- **Incentivise the use of empty council properties as workhubs:** Local councils have already trialled the use of incentives for residents to buy run-down housing stock at low prices to encourage regeneration and renewal. This should also be trialled with commercial premises that a council may have. For example, an online map of empty properties could promote development.
- **Simplify the planning system to allow empty commercial properties to change their use:** Helping retail properties to be easily reclassified as office space can allow new workhubs to be opened quickly and help to regenerate the high street.
- **Expand support for rural workhubs:** The Government must do more to promote innovation and the growth of new industries to ensure future economic growth – backing rural workhubs could make a real difference. It would help address rural isolation, make easier the rebalancing of the economy away from London and encourage the emergence of new businesses. Localised schemes already exist to support rural workhubs and these should be rolled out nationwide.

- **Commit to 100% access to broadband by 2020:** This would cement the UK as one of the world's leading knowledge economies. To do this the Government must commit to a maximum ratio between the fastest and slowest broadband speeds in the UK. This would help address the rural–urban economic divide and make homeworking easier for independent professionals and the self-employed.
- **Guarantee that new housing developments have fibre-optic broadband:** Our housing stock desperately needs expansion and the Government must work with key housing associations to ensure that developments have broadband fit for the modern economy. Many of the self-employed work from home and need to have the best internet access available.
- **Accelerate the rollout of 4G coverage:** 4G technology has allowed millions of people to be productive on the move, including the self-employed. Unfortunately, rollout remains slow. The Government should work with providers, especially in rural areas, to consider 'mast sharing', also known as 'onshore roaming', to help expand coverage.
- **Support mobile coverage on the London Underground:** Major European cities such as Paris and Berlin have had mobile phone coverage since the late 1990s and London must not be allowed to fall further behind. By 2020, 4G mobile coverage must be available across the Underground network.
- **Ensure that rail franchising agreements include a commitment to enabling WiFi across their networks:** Network Rail has committed to helping to fund the rollout of WiFi on trains. By 2020 no commuter or inter-city train service in the UK should be without WiFi. This should be available to all passengers at no extra cost on top of their ticket. Better contracts between the Government and train operating companies can ensure this happens.
- **Commit to implementing a National Infrastructure Plan in every Parliament:** A bold and proactive approach is imperative to put in place strategic road and rail infrastructure that is fit for a twenty-first century labour market. The current Government's National Infrastructure Plan is a bold step forward. This should be reviewed annually and discussed across parties, and all Governments should commit to publishing such a plan when they come into office. Such a cross-party approach has helped to ensure high-speed rail is on the agenda in the UK, and it can also be used to help other major projects come to fruition. The UK should not fall behind on infrastructure projects due to the short-termism of five-year electoral cycles.

# Regulation and barriers to business:

## ***CREATING A FAIRER MARKET FOR THE SELF-EMPLOYED***

### ***PROFILE:***

*Alison Battisby, Social Media Consultant, copywriter and blogger*

The self-employed face numerous barriers to running their business efficiently. They encounter a number of regulatory issues and also face issues of bad practice by businesses themselves. In particular, late payment affects the self-employed more than any other type of business and we believe strong legal sanctions are needed for those who fail to pay on time. Below, freelancer Alison Battisby shares her experiences of being paid late.

***“I have had very bad experiences, where I have had to chase clients for up to six months to pay an invoice”***

*I am a freelance Social Media Consultant and I work with up to 20 clients at any one time. Due to the nature of my business, I also use other freelancers to support me in times when I am busy. I operate on a 30-day payment term, so expect to be paid within the next month.*

*I have had very bad experiences where I have had to chase clients for up to six months to pay an invoice. It can be embarrassing, awkward, and can ruin relationships. In my line of work it's important for me to make a good impression with clients so that they can recommend me, so chasing for payment is not something I like doing. Clients that don't pay on time also make me not want to work with them again.*

*When I am not paid on time, it puts pressure on me as I have other freelancers to pay and business costs such as desk space, internet, stationery and travel. Luckily my business can be run for a relatively low cost but the stress of not being paid on time and the time it takes to chase late payments is not practical to deal with.*

To read Alison's story in full, visit [www.ipse.co.uk/alisonsstory](http://www.ipse.co.uk/alisonsstory)



# Regulation and barriers to business:

## *CREATING A FAIRER MARKET FOR THE SELF-EMPLOYED*

Independent professionals are the smallest of small businesses. They have no staff, no accounts department, no in-house legal team and no head office. In the right environment, the lack of these attributes is a bonus, enabling the very flexibility on which the engagers of the self-employed depend. However, this flexibility can also mean the self-employed are disproportionately affected by issues which larger businesses would barely notice. Bad business practice such as late payment can threaten a freelancer's livelihood.

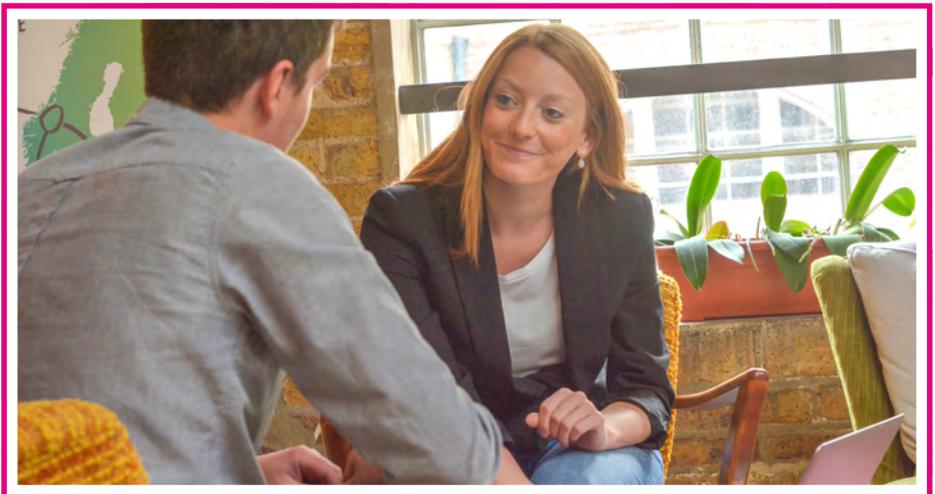
Red tape can be a mild annoyance for a large business but a huge administrative burden for an independent professional. Restrictive Government procurement contracts can be bid for with ease by a large multinational, whereas self-employed contractors find themselves jumping through seemingly innumerable hoops and restraints of trade. We believe it's time for this to stop. There must be a level playing field for all businesses so that the self-employed do not lose out by virtue of their size. To achieve this the Government must meet the objectives set out below.

### **On late payment and business practices:**

- **Strengthen the Prompt Payment Code and name and shame the worst offenders:** All signatories to the Prompt Payment Code must commit to paying interest on late payment at a level above the Government's legal minimum. Repeat offenders who have signed up to the code must be named and shamed.
- **Set up a small business conciliation service to resolve disputes:** In countries such as Australia, businesses can turn to an independent body to help settle disputes over late payment or contract terms. This avoids the need for lengthy court action, preserves business relationships and is self-funding if the body charges a small fee to its users for advice. We believe Britain should do the same. BIS should administer a small business conciliation service to help the smallest businesses get a fair deal, as should the devolved Governments in Scotland, Northern Ireland and Wales.
- **As a last resort, ensure strong statutory sanctions for late payers:** No business should face being paid more than 30 days late. The current rules on late payment should be strengthened so that the self-employed can resort to simple legal measures to get their money back.

## On Government procurement:

- **Split Government procurement projects up into smaller chunks:** Currently 25% of Government spend should go to SMEs. This doesn't go far enough. We believe that within this target a quarter should go to microbusinesses, including collaborations of independent professionals.
- **Simplify procurement processes:** All contracts and subcontracts for the self-employed and contractors should be advertised on a single online portal.
- **Ensure Government contracts are fair by publishing them for review:** Large framework contracts are often unfair and onerous. They are typically subject to extensive revision at great cost long after they were originally due to be implemented. These framework or template contracts should be published for consultation with interested groups before implementation. This 'open source' approach prevents problems down the line as has happened recently across the public sector.
- **Ensure the code of practice for security clearance is adhered to:** Government departments should follow this code of practice and ensure that those without pre-existing security clearance are treated fairly when applying for roles.
- **Remove onerous bidding requirements to enable consortia of self-employed professionals to bid for Government contracts:** Sometimes the self-employed can come together and form consortia or subcontracting arrangements and bid for contracts together. Sadly, Government pre-qualification questionnaires are onerous and can place requirements on businesses that preclude them from bidding, including asking for large liability insurance and large capitalisation requirements.



## On regulation:

- **Ensure the self-employed are not unfairly undercut by those on ‘intra company transfer’ (ICT) work permits:** The minimum salaries that workers on these permits must be paid should no longer include tax-free allowances and they must be set at a high rate to prevent displacement.
- **Align the scope of confusing employment legislation:** Currently, there are different definitions of an ‘agency worker’ within the law. These must be aligned. In particular, the scope of the Conduct Regulations and the Agency Workers Regulations must be clarified and aligned so it is clear the genuinely self-employed are out of scope.
- **Ensure freelancers are protected when they are consumers:** Businesses sometimes have fewer legal protections than individual consumers. They may be less able to return goods or demand money back for services. All customers of a business, whether they are businesses themselves or individuals, should have the same legal protections.
- **Make it easy for independent professionals to move between statuses:** The self-employed often move between employment statuses. In particular, those who run their own limited company may need to leave it dormant for a period of time as they return to employment or work outside of a company structure. Leaving a company dormant is expensive and is subject to a number of regulatory requirements that reduce flexibility. These barriers to flexibility must be removed.



# Taxation:

## **TREATING THE SELF-EMPLOYED FAIRLY AND ENABLING THEIR SUCCESS**

### ***THE EXPERTS' VIEW: A broken system***

For years experts have argued that the tax system is in need of radical reform. It fails to deal with the self-employed and small businesses adequately. In particular, legislation such as IR35 punishes rather than promotes the self-employed. Clarity, consistency and fairness are needed in the tax system for the new economy.

This isn't just IPSE's view - it's a view shared by some of the UK's top tax experts and by senior politicians too:

**“It is quite clear to us that IR35 causes many problems. I want to say that it is not working, but it is not entirely clear what it is designed to do”**

*Rt Hon The Lord Myners CBE<sup>13</sup>*

**“We have ended up with a jumble of inconsistencies, complexities and downright inequities which are hard to square with any coherent set of objectives”**

*Paul Johnson, Director, Institute for Fiscal Studies<sup>14</sup>*

**“We should abolish IR35 and let all the accountants, lawyers, contractors, organisations and politicians go and get a life, without IR35. There will be, in my view, no real, noticeable loss to the Exchequer”**

*Lord Palmer of Childs Hill<sup>15</sup>*

**“We don't want tax policy [...] to impact the genuine freelance market”**

*Philip Ross, Labour Finance and Industry Group<sup>16</sup>*

**“Tax should be assessed by reference to economic reality, not on our current hotch-potch of tax rules”**

*David Martin, Research Fellow, Centre for Policy Studies<sup>17</sup>*

*Quotes taken from a variety of sources and do not imply a direct endorsement of IPSE's policies.*

# Taxation:

## *TREATING THE SELF-EMPLOYED FAIRLY AND ENABLING THEIR SUCCESS*

### **An outdated tax system**

The UK's tax system is at breaking point. It was designed around the traditional model of employees and employers. It doesn't work for independent professionals and the self-employed and, as this sector of the labour market grows, failings in the way they are taxed become increasingly exposed.

Successive Governments have recognised this problem but, rather than take the necessary bold steps to address it, they've implemented small measures which have added to an already overly complex system.

### **IR35**

Brought in by the previous Labour Government and kept in by the Coalition, IR35 has been universally criticised. It's impossible to administer, impossible to fully understand and a prime example of overly complex tax legislation that helps no one. It yields a fraction of the revenue it was supposed to and creates expense and confusion for hundreds of thousands of taxpayers. Although recent efforts to improve administration are welcome, without major changes to the current tax system IR35 will remain an issue.

### **A tax system for the innovation-driven economy**

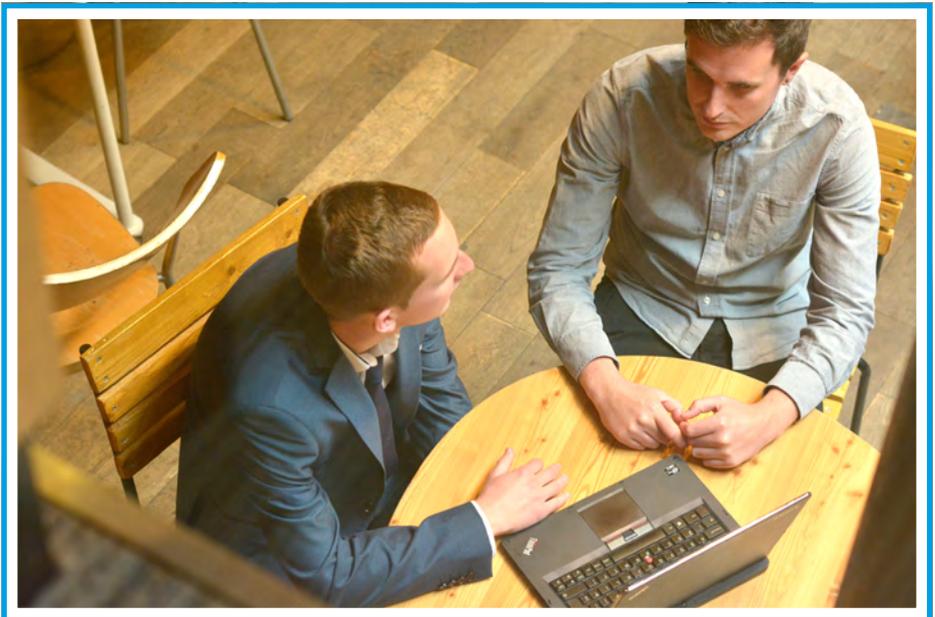
IPSE believes the Government must be bold in addressing the inherent structural issues with the tax system. We believe, as soon as it comes into office, the next Government must:

- **Seek to merge National Insurance with Income Tax:** This would bring about a major simplification, with several benefits, including reducing the administrative burdens on businesses, removing the obligation for the self-employed to pay employer's National Insurance contributions, and improving transparency and fairness. It would also make the abolition of IR35 possible, as stated by the Office of Tax Simplification.
- **Set up an independent body of experts to implement the merger of income tax and National Insurance:** Aligning Income Tax and National Insurance represents a major structural change and will not be without its challenges. IPSE therefore proposes that an independent body be set up, bringing together experts from Government and industry, to create a clearly laid-out framework and timetable for how this radical but necessary plan should be implemented.

- **Create a new, optional ‘freelancer limited company’ structure within the tax system, as an interim measure prior to a full merger:** This should be done in the next Government’s first Finance Bill. Such a structure would deliver clarity of employment status for independent professionals. It would be a specific, opt-in structure, open only to independent professionals, not large companies, which would exempt them from IR35 and treat them as a business.

It would provide these individuals with additional benefits and also require a less burdensome accounting structure. Precedent for this already exists in the form of the ‘simpler income tax for the smallest businesses’ scheme introduced in this Parliament, which charges tax on a cash accounting basis. This scheme would provide a way for independent professionals to have certainty before a merger takes place, rather than having to continue using the present outdated, unclear system.

- **Abolish the 24 month rule for the self-employed:** Currently employees can claim up to 24 months of travel expenses to and from the same place of work. This also applies to independent professionals. However, the rules surrounding this are unclear. For example, the ‘same place of work’ could be the same town, region, or a different branch of the same client company. This means freelancers find themselves unfairly punished for their flexibility – whilst they may move client or change roles, they still find themselves having to apply the rule at an arbitrary point, especially if they take on successive roles in a similar area. Abolition of this rule for the self-employed would help them to be more flexible.



## Conclusion: ***THE FUTURE – A NEW INNOVATION ECONOMY***

The way Britain works has changed almost beyond recognition over the last decade. Economists agree that the rise in self-employment is structural. In other words it is here to stay and any future Government needs to respond to this dramatic shift in the landscape of the UK's labour market. In particular, responding to the growth of independent professionals will ensure the UK cements its place as the world's foremost innovation-driven economy, with a bright future.

Our proposals provide a roadmap for creating this new economy, by unlocking the potential of independent professionals and the self-employed. We believe the next Government has the potential to do this by:

- **Recognising** the specific needs of independent professionals and the self-employed.
- **Supporting** new entrants to self-employment and nurturing existing self-employed professionals, particularly mothers and the over-65s.
- **Building** a self-employed economy, by making it easier for co-working spaces to operate and improving connectivity infrastructure.
- **Regulating** the market in a way that is light-touch but prevents bad business practice such as late payment.
- **Enabling** a flexible labour market by radically simplifying the tax system in the way it treats independent professionals.

The policies outlined in this manifesto are bold, positive, forward looking and realistic interventions. With the support of the business community and the self-employed, we can secure the UK's future as the world's most advanced innovation-driven economy for generations to come.

**“Bold and joined-up thinking is needed if we are to unleash the huge potential of Britain’s secret weapon – independent professionals and the self-employed”**

*Julie Stewart, Chairman, IPSE*

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