



STEPS TO GROWTH

Self-Employment: Part 2

Published: December 2024

 @fsb_policy

fsb⁸
Federation of
Small Businesses

ACKNOWLEDGEMENTS

This report was written by Emelia Quist, Head of Policy Research, Chris Russell, Senior Policy Manager and Phoebe Sarjant, Policy Advisor.

Special thanks to all those in FSB's media, public affairs and policy teams in Westminster, Scotland, Wales and Northern Ireland who provided insight and support, in particular Anna Slater, Deputy Head of Media, Fil Pollara, Senior Public Affairs Advisor, Tom Blenkinsop, Senior Public Affairs Advisor, Neil Hutcheson, Head of Policy (Northern Ireland); Stacey Dingwall, Head of Policy (Scotland); Dr Llŷr ap Gareth, Head of Policy (Wales). Special thanks also to former colleague Rebecca Hyslova for her work on this report.

Thank you also to all the FSB members and other small businesses and the self-employed who took the time to engage with our research which underpins this report. The quantitative research was carried out by Verve – the market research agency responsible for administering the survey. The report was designed by Cactus Design Limited – a small business based in Wales.

WHO WE ARE

The Federation of Small Businesses (FSB) is the UK's grassroots business organisation. We are a cross-party non-profit body that represents small business and self-employed members in every nation and region. In 2024, FSB celebrates 50 years of being the authoritative voice on issues affecting the UK's 5.5 million small businesses, microbusinesses and the self-employed.

FSB is the UK's largest business group and leading business campaigner, focused on achieving change which supports smaller businesses to grow and succeed. We also provide our members with a wide range of vital business services, helping them to start, run, and grow successful businesses through high quality protection and support. This includes 24/7 legal support, financial expertise, training and events, debt recovery and employment/HR advice – alongside a powerful voice heard by governments at all levels.

Our local, national and international activism helps shape policy decisions that have a direct impact on the day-to-day running of smaller businesses. We work for their interests through research and engagement with our members and by effective campaigning - influencing those in power through policy analysis, public affairs, media and public relations activity. Our advocacy work starts with our expert external affairs team in Westminster, which focuses on UK and England policy issues, the UK Government, Parliament and media and communications engagement. Further to this, our teams in Glasgow, Cardiff and Belfast work with governments, elected representatives and media in Scotland, Wales and Northern Ireland.

CONTENTS

Foreword	4
Infographics.	5
Recommendations	6
Breaking down barriers	8
Universal Credit and the Minimum Income Floor	9
Health	12
Late payment.	15
Training for the self-employed	17
Maternity Allowance	20
Childcare	24
Tax compliance.	26
Methodology	29

FOREWORD

Self-employment can be incredibly rewarding, but without the right support, even the most driven entrepreneurs will struggle. In the second part of our four-part series on entrepreneurship, we dive into the obstacles people face when going it alone—and how to remove them once and for all.

The Federation of Small Businesses (FSB) was created 50 years ago to remove barriers for the self-employed. The nature of business and policy means barriers to entrepreneurship continue to arise and affect individuals at different stages of the enterprise journey.

One of the biggest challenges is Universal Credit (UC). UC can offer valuable financial stability for those starting out. However, it unfairly penalises self-employed workers through the Minimum Income Floor (MIF), which assumes they earn a fixed amount each month, whether they do or not. This reduces their UC payments and makes it harder to get help when their income dips. That's simply wrong.

Staying competitive in today's fast-moving, tech-driven world means constantly updating skills. Yet access to affordable training remains a challenge. Subsidised training programmes could provide entrepreneurs with the tools they need to thrive in an ever-changing landscape.

Health is another concern for entrepreneurs. Forty-four per cent of entrepreneurs and 64 per cent of sole traders worry about not getting paid if they fall ill.

Add to that the persistent issue of late payments, a problem that the smallest businesses and freelancers struggle most with due to the power imbalance with a large customer and subsequent inability of small business owners to address it. A large unpaid invoice will have a disproportionate impact on a sole trader. For too long, this has led to cash flow problems and slowed down growth.

Family life is of great importance to entrepreneurs, many start their own businesses because of it. Policies such as the Maternity Allowance have been excluded from previous reviews on family friendly rights and the policy hasn't evolved in years despite a growth in female entrepreneurship. Policymakers need to be bold and enable new parent entrepreneurs to sustain their businesses. This could have a profound impact on reducing the amount of time women spend out of paid work because of caring responsibilities.

Entrepreneurs have for too long not been considered in policy decisions and face a detriment compared to employees on a range of crucial issues. We're very pleased that the Government has answered our calls by committing to new measures to tackle late payments to support entrepreneurs. This includes the new Fair Payment Code and forthcoming legislation requiring all large businesses to include payment reporting in their annual reports.

To truly reap the rewards self-employment has to offer, we need a system that supports everyone fairly. Entrepreneurs should be empowered to build their businesses without barriers in the way. By facing these challenges head on, we can create an environment where self-employment is an option for everyone.



Tina McKenzie

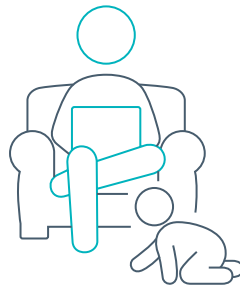
FSB Chair, Policy and Advocacy

STEPS TO GROWTH



28%

of sole traders say **better access to Universal Credit** would support them **to start and/or grow their business**



44%

of entrepreneurs say that **struggling to balance work and family life** is a challenge



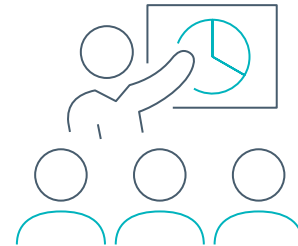
59%

of those in **construction** have experienced **poor payment practices**



44%

of entrepreneurs say **not getting paid** if they fall ill is a challenge



35%

of sole traders identify keeping their **skills and/or knowledge of their sector up to date** as a challenge



23%

of **women aged 45 and under** say **better access to the Maternity Allowance** would improve their ability to start or grow their business



22%

of those in business experience **feelings of isolation**



24%

of entrepreneurs find **managing their own tax affairs** and **complying with tax rules** a challenge

RECOMMENDATIONS

Universal Credit

The Department for Work and Pensions should:

- Extend the Start-up Period, which protects Universal Credit payments of newly self-employed business owners by exempting them from the Minimum Income Floor, from 12 to 24 months.

Health

The Department for Work and Pensions should:

- Reclassify Individual Income Protection (IIP) as earned income under Universal Credit.
- Review whether insurance products are facilitating contemporary best practice in a return to work.

Late payments

UK Government should:

- Include retention payments within the maximum 30 days payment terms standard and set retention payments to a maximum of 3 per cent of total contract value, as well as including them in Duty to Report requirements. In addition, support and expand project bank accounts, and ringfence retention payments so they cannot be used for working capital, to disincentivise abuse of the system.

Training for the self-employed

HMRC and HM Treasury should:

- Turn training tax deductions for the self-employed into training tax credits, with higher rates of tax relief for those with lower levels of qualifications.
- Introduce legislation that expands the areas in which the self-employed can claim tax relief for training purposes so that it includes anything which is not recreational.

The Department for Business and Trade should:

- Fund the expansion of the EnterprisingYou programme in Greater Manchester to all parts of the UK, with the programme continuing to be delivered at a local level.

The Department for Education should:

- Give Skills England the explicit aim to consider the skills needs of the self-employed and address any skill gaps.

Maternity Allowance

The Department for Business and Trade should:

- Include the Maternity Allowance in relation to the self-employed in any future review of the parental leave system.

The Department for Work and Pensions should:

- Increase the Maternity Allowance for the self-employed in the first six weeks and bring more closely in line with Statutory Maternity Pay.
- Review funding for Universal Credit and reclassify Maternity Allowance so that it is not treated as “unearned income” for the purposes of Universal Credit, so that when self-employed women access it, their Universal Credit is not cut.
- Increase awareness on how to access the Maternity Allowance through signposting and targeted messaging for self-employed women.
- Fund a subsidy scheme for pregnant sole traders to cover the replacement costs associated with stepping away from the business for up to nine months, allowing them to take a period of maternity leave.

Childcare

HM Treasury should:

- Raise the UK’s Tax-Free Childcare allowance from £2,000 to £3,000, to ease the burden of childcare costs on parents.

The UK Government should:

- Ease the burden on independent childcare providers by implementing sustainable and fair funding rates for the existing and new funded childcare hours and by creating a 100 per cent business rates relief for childcare providers in England and Northern Ireland, reflecting the discount already in place in Scotland and Wales.
- Increase awareness of the UK’s tax-free childcare allowance and information on how to access and renew funded childcare hours, through targeted messaging and communications to new parents.

Tax compliance

HMRC should:

- Set a target to reduce business tax compliance costs by 30 per cent within three years to mitigate this disproportionate drain of resources and productivity.
- Review the IR35 regulations, with the aim of reducing complexity and improving understanding.

BREAKING DOWN BARRIERS

While there are considerable benefits associated with self-employment, there are also challenges which can discourage entrepreneurs and impede their business growth. In 2020, there were 6.0 million small and medium sized enterprises in the UK, 4.6 million of which were non-employers.¹ The pandemic made being self-employed a difficult experience leading to a drop in these numbers. In 2023, there were 5.5 million small and medium-sized enterprises in the UK, 4.1 million of which were non-employers. If we want to enable entrepreneurship and increase economic growth, we need to focus on raising these numbers back to pre-pandemic levels at the minimum.

This chapter will explore how self-employed individuals frequently face challenges that are not there for employees. This is often the case with public services. This includes difficulties accessing suitable support from Universal Credit due to rules on the Minimum Income Floor, lower awareness of childcare entitlements, lower uptake of training, problems maintaining an income when falling unwell, and difficult experiences with HMRC. Self-employed individuals also experience significant issues with not being paid on time.

Reducing the challenges faced by self-employed people will mean less individuals being deterred from becoming entrepreneurs in the first place and more sticking the course to develop thriving businesses. This is vital if we want to achieve higher levels of GDP growth.

“My business is so much of my life; I spend more time on it than anything else and it’s always in my head. It’s a rollercoaster ride and the highs are better than anything. The thrill you get from running your own business is euphoric. But the dips are really crap. Often, I think why I can’t get a job that I can stop at 5.”

James Robinson, Managing Director at Hello Starling, Wales

¹ Department for Business and Trade, Business population estimates for the UK and regions 2023: statistical release, October 2023, <https://www.gov.uk/government/statistics/business-population-estimates-2023/business-population-estimates-for-the-uk-and-regions-2023-statistical-release>

Universal Credit and the Minimum Income Floor

Self-employment is a viable route off welfare and into work for many people including disabled people as highlighted in FSB's 2022, Business Without Barriers report.² 34 per cent of those who have claimed UC say the ability to earn more than if they were an employee in the same or similar line of work (compared to an average of 29%) was an important factor. While 71 per cent say being able to better balance work and personal and/or family life is a benefit to being self-employed (compared to an average of 53%). The Government's objective to 'make work pay' can only be fulfilled if the welfare system adequately supports the self-employed while they are building up their business.

The opportunity to start a business should not be limited to those with substantial means. Self-employed people on UC are subject to an assumed level of earnings called the Minimum Income Floor (MIF).³ This uses the minimum wage and the recipient's expected hours of work to calculate what they would be expected to earn. If they earn below this rate, the MIF is used to calculate their UC payment rather than their actual earnings, while if they earn above the MIF their actual earnings are used. This is calculated monthly, which does not reflect the reality of payments for many businesses and is especially problematic for seasonal trades.

FSB research shows in the past three years eight per cent of sole traders have received UC. This might be an underestimate as survey respondents tend to be FSB members and longer established than the general self-employed population. Over half (51%) of those that have claimed UC say they set up their own business either due to caring responsibilities, their own health or that their personal circumstances aren't compatible with a conventional job (compared to 18% of small businesses on average).

Newly self-employed people are granted a 12 month 'start-up period', during which time their Universal Credit payments will be based on their actual earnings rather than being based on the MIF. Viable and ultimately successful businesses often take longer than a year to start up, with evidence pointing to the self-employed earning, on average, four times more in their third year than those who have been running a business for less than a year.

2 FSB, Business Without Barriers: Supporting disabled people and those with health conditions in the workforce, April 2022, <https://www.fsb.org.uk/resource-report/business-without-barriers.html>

3 Department for Work and Pensions, Universal Credit for the self-employed, accessed June 2024, available at: <https://www.gov.uk/government/publications/universal-credit-and-self-employment-quick-guide>

“I think people have a certain expectation of people on Universal Credit. But as well as jointly running a business, being a registered carer for my child, I also work two days a week as a carer for adults with learning difficulties.”

“Why is the start-up period a year long? It’s widely known that it takes three years for a business to be profitable. During the start-up period the support offered by the JobCentre is rubbish. Before you launch your business, they convince you that you’ll get all this support and help but it’s just the work coach ticking boxes. Why can’t there be mentoring for those wanting to start a business or networking encouraged with those in the same position?”

“I’m aware of lots of self-employed people locally, who’ve been making a livelihood out of their creativity for 15-20 years who are stopping it due to the rules around the Minimum Income Floor. Honestly, it feels like you can only start a business if you’ve got a partner in a steady, well-paying job. Seems like the government are saying you’re too poor to follow your dreams.”

FSB member, Retail sector, East of England

In March 2020 following the outbreak of Covid-19, the Government introduced a temporary suspension of the MIF. The Government removed the requirement for gainful self-employment tests and paused start-up periods. FSB campaigned heavily for continuation of the extension, succeeding to further suspend the MiF twice during the pandemic.⁴ FSB research undertaken during the pandemic found six per cent of business owners successfully applied for Universal Credit. Of those that applied for UC, 71 per cent were successful and 29 per cent were rejected because either had more than £16,000 in savings (10%) or for a reason other than savings (18%).

Just under three in ten (28%) sole traders say better access to Universal Credit for the self-employed would improve their ability to start and/or grow their business. In the long term, the MIF should be removed to reduce the penalisation faced by self-employed people on UC. In the short term, to help with this, the start-up period should be extended, and the MIF should be applied on a quarterly or annual basis. Our research highlights the benefits self-employed UC claimants can bring such as building a business which serves the community (38% compared to an average of 33%) and the potential to scale a business (44% compared to 31%) as a benefit to being self-employed.

4 FSB, TUC and FSB join forces to stop nightmare Friday 13th cut in support for Covid-impacted self-employed, November 2020, <https://www.fsb.org.uk/resources-page/tuc-and-fsb-join-forces-to-stop-nightmare-friday-13th-cut-in-support-for-covid-impacted-self-employed.html>

“For me, the start-up phase is really two to three years. The first year, the official startup phase, is really just getting set up. I’m not doing anything within the first year, and I’m very much in the ‘raising my profile’ stage. My first year is figuring out exactly what the business is, because even in the last three months, I’ve decided to change and tweak things slightly. It will be 2 to 3 years until I have a fully operational start-up.”

Helen Todd, Business Consultancy, Northern Ireland

Recommendations

The Department for Work and Pensions should:

- **Extend the Start-up Period, which protects Universal Credit payments of newly self-employed business owners by exempting them from the Minimum Income Floor, from 12 to 24 months.** For many, the application of the MIF after a year steals the chance to go on and lead successful businesses, taking account of the evidence surrounding the length of time needed to start-up a viable business. In addition, it is only possible for individuals to claim for another Start-Up Period if it is 5 years since their previous one and their new business is for a different trade, profession or vocation. This risks deterring entrepreneurs from quickly learning lessons and trying a different business idea. The gap between start-up periods should be amended to a shorter time period of two years and for new businesses that are in a similar field but not the exact same concept. Starting a business is difficult and often it does not work out. It is important to encourage entrepreneurs to learn the lessons from their first attempt.

Health

Over two fifths of entrepreneurs (44%) say not getting paid if they fall ill is a challenge. This is more pronounced for sole traders with 64 per cent stating this as a challenge. It is evident that innovative solutions for income protection during health-related business disruptions are needed to help support entrepreneurs during periods of vulnerability.

“In terms of what is difficult as a self-employed person, I would highlight dealing with unexpected events. Sickness, for example, where self-employed people do not get sick pay. I have personally taken out income protection insurance to protect myself against being unable to work because of illness, but I am considering whether to renew this policy next year because it is quite costly. If there were cheaper ways of doing this, through some kind of mutual assistance for example, then I would be interested in being involved.”

Hannah Swierstra, IT & Communication, Scotland

Despite concern from entrepreneurs about not being paid if they fall ill, almost three fifths (59%) say would not be willing to pay more tax or national insurance contributions if it meant an improvement in what they can claim from the state. Correspondingly, 30 per cent of sole traders agree with this statement. Those in business can take out income protection insurance if they cannot work because of illness or injury. With most Individual Income Protection (IIP) policies, there is a need to wait a minimum of four weeks after making a successful claim for payments to start, though this can range up to 104 weeks dependent on the policy. The payments are made either for a fixed amount of time, or until the policyholder is well enough to return to work, or when they retire, depending on the policy. FSB’s 2022 research on insurance found that only 4 per cent of business owners that don’t employ staff have IIP.⁵

Of the self-employed who received Universal Credit (UC) in the last three years, 67 per cent identified not being paid if they became unwell as a challenge. IIP is classed as unearned income under Universal Credit, meaning that if you are self-employed and claim IIP, UC is withdrawn on a £1 for £1 basis. According to the Association of British Insurers, 54 per cent of all IIP policyholders are estimated to have an entitlement to UC.⁶ ABI’s research also found that 39 per cent of IIP policyholders would face their entire entitlement to UC being removed if they claimed on their IIP policy.

5 FSB, Paying a premium?: Reforming the insurance market to work for small firms, July 2022, <https://www.fsb.org.uk/resource-report/paying-a-premium.html>

6 New Policy Institute, The impact of individual income protection on universal credit and the implication for policyholders, September 2019, <https://www.abi.org.uk/globalassets/files/subject/public/protection/npi-for-abi-final-report.pdf>

“We still work when we’re ill, so we take less time off. What would be beneficial in a self-employed world without sick leave are subsidies to help us pay for private medical care, particularly mental health support. Self-employment is incredibly lonely and takes a toll on mental health.”

FSB member, Professional Services, West Midlands

FSB’s, *Business Without Barriers* report found only 10 per cent of sole traders who are disabled or have a long-term health condition have used Access to Work.⁷ Awareness amongst sole traders is also particularly low, with 42 per cent having not heard of the scheme at all.

FSB findings also illuminate the social aspect of entrepreneurship, with 22 per cent of those in business expressing feelings of isolation or working alone. This is even more common among disabled entrepreneurs, where 30 per cent feel isolated.

“Last year I started HRT for peri-menopausal symptoms which had become quite problematic for me for several months, impacting on my mental health. We seem to be making some strides in organisations when it comes to women’s health, from period days through to menopause awareness training but I’m not sure how this can or will translate to self-employment.”

Hannah Swierstra, IT & Communication, Scotland

7 FSB, *Business Without Barriers: Supporting disabled people and those with health conditions in the workforce*, April 2022, <https://www.fsb.org.uk/resource-report/business-without-barriers.html>

Recommendations

The Department for Work and Pensions should:

- **Reclassify Individual Income Protection (IIP) as earned income under Universal Credit (UC).** Currently, for self-employed people on Universal Credit who claim IIP, their income from UC will be withdrawn at the same rate as they receive their IIP claim. Self-employed people claiming UC should be encouraged to take out IIP. However, there is little point of them taking out this insurance if it does not cover the additional earnings, they would be making but are unable to due to sickness. Research from the New Policy Institute in 2019 suggested that 39 per cent of all IIP policy holders would face their entire entitlement to UC being removed if they claimed on their IIP policy.⁸
- **Review whether insurance products are facilitating contemporary best practice in a return to work.** The Government should challenge the insurance industry as to whether there are ‘blue tape barriers’ in insurance policies that are preventing a return to work. For instance, it may be that those currently in receipt of payments related to permanent health insurance can enter into some kind of limited self-employment work but that phasing a return to work this way is not compatible with continued receipt of payments under the insurance policy. Insurance products should facilitate a gradual return to work in the same way that many employers have started to do.

8 New Policy Institute, The impact of individual income protection on universal credit and the implication for policyholders, September 2019, <https://www.abi.org.uk/globalassets/files/subject/public/protection/npi-for-abi-final-report.pdf>

Late payment

Small businesses continue to face a pervasive problem of poor payment practices, a problem which has plagued the economy for far too long. The impact on small businesses is severe, with late payment leading to small firms running into cash flow problems, having to rely on overdraft facilities, and facing slowdowns in profit growth.

FSB has long highlighted the impact poor payment practices have on small businesses. Thousands of small businesses are being held back not by a lack of ambition but by a systemic poor payment culture. FSB research shows 35 per cent of entrepreneurs say they have experienced poor payment practices (e.g. waiting for payments long after they're due). Disabled entrepreneurs are more likely to experience late payments with 43 per cent stating this is a challenge.

There are some sectors that are particularly impacted by poor payment practices; entrepreneurs in information and communication (43%) and professional, scientific, and technical activities (42%) are more likely to identify this challenge. However, those in the construction sector are most likely to state they have experienced poor payment practices with nearly three fifths (59%) stating so.

FSB's, 2023, *Time is Money* report found that late payments is a persistent problem in the construction sector. One of the reasons for this is the widespread use of retention payments, which can result in suppliers and subcontractors not receiving the full amount due for their work for several months, or even years, after completion of the project.

The extended periods of time over which retention payments are held, combined with the complex and often lengthy payment processes in the construction industry, can result in severe difficulties for small businesses, who may have limited resources and cash flow. These difficulties are compounded by the fact that the construction industry is highly competitive and often involves long payment chains, with multiple sub-contractors and suppliers working on a project. This makes it difficult for small businesses to pursue timely payment, especially if they are reliant on a main contractor or client to pass on their payments.⁹

9 FSB, *Time is Money: The case for late payment reform*, March 2023, <https://www.fsb.org.uk/resource-report/time-is-money.html>

Recommendation

UK Government should:

- **Include retention payments within the maximum 30 days payment terms standard and set retention payments to a maximum of 3 per cent of total contract value, as well as including them in Duty to Report requirements. In addition, support and expand project bank accounts, and ringfence retentions payments so they cannot be used for working capital, to disincentivise abuse of the system.** The payment of retention funds should also conform to the 30-day maximum length as per the current Prompt Payment Code and other recommended measures in this report. For any retention payment agreements, use of a segregated account opened by a third party (e.g. an escrow agent) for the purposes of holding cash should be required, given positive experience of project bank accounts, for example by Highways England. Devolved governments should take similar action in areas and public institutions they control.

Training for the self-employed

35 per cent of sole traders identify keeping their skills and/or knowledge of their sector up to date as a challenge. 30 per cent of entrepreneurs say free or subsidised training for the self-employed would better enable them to start or grow their business. This is particularly the case for individuals who have been running a business for between three and four years, with 52 per cent of these entrepreneurs saying they would value more training opportunities.

Previous FSB research, *Scaling Up Skills*, found that two in five self-employed (40%) had not been on any training or development courses over the past 12 months, and four in five (80%) are without a training plan, a training budget, or a relationship with a training provider.¹⁰ The self-employed have frequently been left out of the debate on training; the Department for Education's Employer Skills Survey does not even include them.¹¹ Yet they are a fundamental part of the labour market.

It is welcome that in March 2024, following campaigning from FSB, HMRC updated its guidance to provide further clarity on what training is tax deductible for self-employed people, including skills related to modernising an individual's business.¹² However, this has not changed the underpinning legislation, which means training courses for self-employed people in fields that are related to new business areas are not included.

10 FSB, *Scaling Up Skills*, Developing education and training to help small businesses and the economy, August 2022, <https://www.fsb.org.uk/resource-report/scaling-up-skills.html>

11 Department for Education, *Employer skills survey 2022: UK findings*, December 2023, <https://www.gov.uk/government/publications/employer-skills-survey-2022-uk-findings>

12 HM Treasury, *Spring Budget 2024*, March 2024, <https://www.gov.uk/government/publications/spring-budget-2024>

Case study

EnterprisingYou in Greater Manchester

In the 2018 Budget, it was announced that the Greater Manchester Combined Authority (GMCA) would work with the Federation of Small Businesses on a pilot to “*test what forms of government support are most effective in increasing training levels for the self-employed.*” On the back of this announcement, a programme called *EnterprisingYou* was launched in early 2020 for the self-employed residents of Manchester, earning less than £27,000 per annum.

Its aim has been broadened out to support participants to develop and sustain their business, increase their skill levels, and raise their income potential. The service included access to a personal business coach who accompanied the client through a personalised package of support. This included accessing a wide range of training and development courses and workshops, advice from specialists on certain subjects (e.g. on health and wellbeing support), and being matched with a peer mentor.

Despite difficulties of being launched just before the pandemic, the programme has been a great success. From the programme launch to March 2023, 2,910 self-employed or gig economy workers participated, with 2,059 completing the programme. Of those who participated:

- 99 per cent developed the key skills needed to run their business.
- 89 per cent increased or maintained profitability.
- 69 per cent experienced business growth directly due to the programme.

Moreover, there was particularly high engagement from underrepresented and diverse groups within the self-employed workforce, such as women, ethnic minorities, those aged above 50, and those with caring responsibilities. These groups are often not reached by other forms of business support services.

Of those who completed the programme, 15 per cent no longer claimed benefits with an estimated saving to the exchequer of £663,246. If rolled out nationally, based on performance within Greater Manchester, *EnterprisingYou* estimates that it would boost the revenues of self-employed businesses by £136.7 million.

Recommendations

HMRC and HM Treasury should:

- **Turn training tax deductions for the self-employed into training tax credits, with higher rates of tax relief for those with lower levels of qualifications.** We suggest that corporation tax relief for training could be set 100% for those employees with a prior Level 6 qualifications, boosted to 160% for those without a prior Level 6 qualification and boosted to 230% for those without a prior Level 3 qualification. At the moment, lifelong learning opportunities and in-work training is more likely to be undertaken by those who already have high-levels of qualifications and the higher the tax relief, the more likely it is to encourage behaviour change. For sole traders, this level of tax relief could be applied to their income tax.
- **Introduce legislation that expands the areas in which the self-employed can claim tax relief for training purposes so that it includes anything which is not recreational.** As a result of FSB's lobbying, the Conservative Government updated guidance on training tax relief for self-employed people in March 2024, which is very welcome. However, the Government could go further and introduce training tax relief for the self-employed for courses in subjects in which they would like to expand their business or to start new businesses.

The Department for Business and Trade should:

- **Fund the expansion of the EnterprisingYou programme in Greater Manchester to all parts of the UK,** with the programme continuing to be delivered at a local level. The programme has been a huge success for 1,000s of self-employed people in Greater Manchester, with 69 per cent growing their business as a result and 99 per cent developing the key skills needed to run their business. If rolled out nationally, based on performance within Greater Manchester, EnterprisingYou estimates that it would boost the revenues of self-employed businesses by £136.7 million.

The Department for Education should:

- **Give Skills England the explicit aim to consider the skills needs of the self-employed and address any skill gaps.** There are an estimated 4.1 million sole traders in the UK, around 12 per cent of the working population.¹³ Yet, the skills required to be self-employed are not often considered in developing our education and skills system.

13 Department for Business and Trade, Business population estimates for the UK and regions 2024: statistical release, October 2024, <https://www.gov.uk/government/statistics/business-population-estimates-2024/business-population-estimates-for-the-uk-and-regions-2024-statistical-release>

Maternity Allowance

At the end of 2022, women made up 37 per cent of all self-employed workers, an increase from 27 per cent in 2007. Many of these women may have chosen to start a family after becoming self-employed and many choose to do so in the future. FSB data shows that 53 per cent of women, compared with 39 per cent of men, say that struggling to balance work and family life is a challenge in running their own business. The low value of Maternity Allowance compared to Statutory Maternity Pay (SMP) can leave many self-employed mothers reducing the length of their maternity leave, or not taking leave altogether.

Currently the key difference in maternity pay is during the first six weeks. For women claiming SMP, for the first six weeks they receive 90 per cent of their average pay.¹⁴ On the other hand, for women receiving the Maternity Allowance, they are eligible for between £27 to £184.03 per week, depending on their National Insurance Contributions (NICs), or 90 per cent of their average pay (if that is lower).¹⁵ This is a starkly different level in pay, especially if a self-employed woman has not paid enough in NICs, then they might only be entitled to receive £27 per week.

“Running a business and having a family is the most difficult thing I have ever had to deal with. It means that I have the flexibility to pick up my children when I need, and I can spend time with my family, but it means that often I work until midnight after I put my children to bed. I don’t have the benefit of being able to switch off from work. The balance of family life and professional life means I am experiencing stress pains around my body. It is almost impossible for a female business owner to have children. There is also so much stigma around maternity, childcare, women having children, and women taking time off for parental leave.”

FSB Member, Architectural Design and Construction, North West England

FSB data shows that 23 per cent of women aged 45 and under say better access to the Maternity Allowance would improve their ability to start or grow their business. At the same time, DWP quarterly Maternity Allowance statistics for Great Britain show that there have been continually low levels of self-employed women accessing this maternity pay for several years.¹⁶ The latest published data shows that between the quarter September 2023 and November 2023 there were 11,960 new Maternity Allowance claimants, and of those 4,760 were self-employed, so only around 40 per cent of starts were self-employed women during this time period.¹⁷

14 UK Government, Maternity pay and leave, accessed August 2024, available at: <https://www.gov.uk/maternity-pay-leave/pay>

15 UK Government, Maternity Allowance, accessed August 2024, available at: <https://www.gov.uk/maternity-allowance>

16 Maternity Action, Claimants of statutory maternity & parental pay: available data, November 2022, <https://maternityaction.org.uk/2022/11/claimants-of-statutory-maternity-parental-pay-available-data/>

17 Department for Work and Pensions, Maternity Allowance quarterly statistics: September to November 2023, May 2024, <https://www.gov.uk/government/statistics/maternity-allowance-quarterly-statistics-september-to-november-2023>

The needs for self-employed mothers are different to those of employed mothers. Professor Julia Rouse’s research identifies the challenges in relation to pregnancy and maternity for self-employed women. Rouse highlights that for many self-employed women taking a period of maternity leave “may be practically impossible without threatening business survival”,¹⁸ and that “the self-employed [...] require rights that are equivalent to, but different from, the employed.”¹⁹

Unfortunately, policymakers do not tend to consider this. For example, despite FSB highlighting this issue in a consultation on parental leave in 2019 from the then Department for Business, Energy and Industrial Strategy (BEIS), the needs of self-employed mothers was not given consideration.²⁰ This could perhaps be because while most parental leave policy is overseen by BEIS and its successor, the Department for Business and Trade, the Maternity Allowance is a policy overseen by the Department for Work and Pensions. Whether or not this is the main reason, the needs of self-employed parents have frequently been overlooked.

Keeping in Touch Days

Women are entitled to work for up to ten Keeping in Touch (KIT) days during their maternity leave period when claiming Maternity Allowance; these ‘KIT days are intended to help you keep in touch with your workplace or, if you are self-employed, with your business’.²¹ This applies to both employed and self-employed women. However, employed women and self-employed women’s experience of maternity leave is vastly different, and the legislation fails to recognise these distinctions.

There are significant issues with this limit on KIT days for self-employed women, when trying to maintain a business. The restrictive policy of ten working days over 39 weeks does not effectively reflect how a business is managed.

“The limit on 10 KIT days for self-employed women does not make sense for a business owner, but it makes 100% perfect sense for an employee. The restrictions are really positive for employees, but extremely negative for a business owner. The policy does not make sense as not all pregnant women are the same, it seems like there is a rhetoric that women could not possibly be business owners. It is an equality issue.”

FSB Member, Architectural Design and Construction, North West England

18 J Rouse, Can You Hang On While I Give Birth and Breastfeed? Individualisation, Agency and Oppression in Entrepreneurs’ Maternity Plans, paper accepted for presentation at the Institute of Small Business and Entrepreneurship Conference, November 2009

19 J Rouse, Submission of Evidence to The Taylor Review of Employment Practices in the Modern Economy, May 2017

20 UK Government, Parental Leave and Pay Good Work Plan: Proposals to Support Families Government Response, February 2024, <https://www.gov.uk/government/consultations/good-work-plan-proposals-to-support-families#full-publication-update-history>

21 UK Government, Maternity benefits: detailed guide, August 2023, <https://www.gov.uk/government/publications/maternity-benefits-technical-guidance/maternity-benefits-technical-guidance#maternity-allowance-ma>

The Maternity and Parental Leave etc. Regulations 1999 (MAPLE 1999) allows employed women “reasonable contact from time to time between an employee and her employer which either party is entitled to make during a maternity leave period (for example to discuss an employee’s return to work)”.²² This does not bring an employee’s maternity leave period to an end. This reflects the nature of the employment relationship; however, the legislation does not afford self-employed women the same level of understanding.

If a self-employed woman were to work for half an hour, this would be counted as an entire KIT day. These rules are out of date and do not actively reflect how businesses are run. KIT days for self-employed women should allow them to undertake the minimum amount of work that is necessary to run their business.

Universal Credit and Maternity Allowance

There are significant issues facing pregnant self-employed women claiming Universal Credit (UC). Currently, when UC is calculated, Maternity Allowance is classified as “unearned income” and is deducted from UC award under the Universal Credit Regulations 2013.²³ This adversely impacts self-employed women who seek the Maternity Allowance and are already claiming UC. Especially considering that SMP is treated as “earnings” under the Universal Credit Regulations 2013, and so is partially disregarded from UC award.²⁴

FSB research shows that 19 per cent of women say that better access to UC for the self-employed would improve their ability to start and/or grow their business, compared with 11 per cent of men. This suggests that more female entrepreneurs are likely to access UC for the self-employed than male entrepreneurs, but particularly that more women would also like better access to UC for the self-employed.

To ease the burden on new parents, the UK Government should review how it calculates UC awards for self-employed women who are claiming Maternity Allowance. Maternity Allowance should not be considered “unearned income” for UC calculations given that maternity pay is already so low for those claiming Maternity Allowance.

22 Legislation.gov.uk, The Maternity and Parental Leave etc. Regulations 1999, SI 1999/3312, reg 12A, accessed October 2024, <https://www.legislation.gov.uk/uksi/1999/3312/contents>

23 Legislation.gov.uk, The Universal Credit Regulations 2013, accessed October 2024, <https://www.legislation.gov.uk/uksi/2013/376/contents>

24 Legislation.gov.uk, The Universal Credit Regulations 2013, accessed October 2024, <https://www.legislation.gov.uk/uksi/2013/376/contents>

Recommendations

The Department for Business and Trade should:

- **Include the Maternity Allowance in relation to the self-employed in any future review of the parental leave system.** The new Government has pledged to undertake a review of the parental leave system in its first twelve months. In 2019, FSB responded to the then Government's Parental Leave and Pay consultation²⁵ in which we highlighted the decision to exclude Maternity Allowance and the needs of self-employed women in the review. This was an error; the needs of all working mothers should be considered. To achieve this DBT should work with DWP who oversee the Maternity Allowance.

The Department for Work and Pensions should:

- **Increase the Maternity Allowance for the self-employed in the first six weeks and bring more closely in line with Statutory Maternity Pay.** Furthermore, the number of KIT days allowed by DWP to maintain one's business should be reviewed for self-employed mothers, they should be allowed to undertake the minimum amount of work that is necessary. Many of those women who 'go it alone' express that the statutory ten days are not enough to keep their business going, so they either risk a severe business disruption or losing their Maternity Allowance payments if exceeding the permitted number of KIT days.
- **Review funding for Universal Credit and reclassify Maternity Allowance so that it is not treated as "unearned income" for the purposes of Universal Credit, so that when self-employed women access it, their Universal Credit is not cut.** Self-employed women are more likely to access UC than men and they are more concerned about the sustainability of their income. We have already called for Maternity Allowance for the self-employed to be increased in the first six weeks and brought more closely in line with NMW, but since the level of funding is so low, those in need of the extra financial support should be able to access it if they are in need of it.
- **Increase awareness on how to access the Maternity Allowance through signposting and targeted messaging for self-employed women.** For example, this could be done by DHSC instructing NICE to update its clinical guidance on antenatal care to ensure that pregnant women receive advice and information on what financial support is available to them if they are self-employed. This should include information on the Maternity Allowance and links to guidance on how to access it.
- **Fund a subsidy scheme for pregnant sole traders to cover the replacement costs associated with stepping away from the business for up to nine months, allowing them to take a period of maternity leave.** This would allow pregnant sole traders to focus on recovering from labour and adjusting to life as a parent without having to worry about the sustainability of their business.

25 Department for Business and Trade and Department for Business, Good Work Plan: Proposals to support families, July 2019, <https://www.gov.uk/government/consultations/good-work-plan-proposals-to-support-families>

Childcare

Childcare is a vital resource for employed and self-employed people. The sustainability of the childcare sector and the high cost of childcare for parents continues to put a strain on working parents with young children. To support entrepreneurs with families, parents need to be able to have access to high quality childcare so they can balance their professional and personal life.

Entrepreneurs with young children require flexibility but without affordable and high-quality childcare options to support them, they can find it difficult to manage and grow their business. FSB research shows just over three in ten entrepreneurs aged under 45 (31%) chose to set up their business due to caring responsibilities.

“I am the primary carer for my children, and I run my own business. My childcare plans are a juggle between nurseries, informal childcare arrangements with my mum, and either my partner or me being at home. People in my industry do not consider the fact that I might have children and not be able to drop everything for my business. Even though the free childcare hours were introduced, the price we pay for my children to be at nursery has increased. Also, the reconfirmation system to access the free hours is overly complicated and there have not been enough clear instructions given by the Government on how to renew. It took six months for my husband and me to find out about childcare tax credits, no one told us about this. When you are a first-time parent, you don’t have a clue.”

FSB Member, Architectural Design and Construction, North West England

FSB evidence outlines that 44 per cent of entrepreneurs say that struggling to balance work and family life is a challenge in running their own business. This differs when broken down by the devolved nations: England (43%), Scotland (46%), Wales (40%) and Northern Ireland (53%).

England,²⁶ Scotland,²⁷ and Wales²⁸ have at least 30 hours of funded childcare available for 3- and 4-year-olds, though specific policies vary between each nation. In comparison childcare provision in Northern Ireland is not equivalent to this.²⁹

26 UK Government, Check you’re eligible for free childcare if you’re working, accessed July 2024, available at: <https://www.gov.uk/check-eligible-free-childcare-if-youre-working>

27 Scottish Government, Funded early learning and childcare, March 2024, <https://www.mygov.scot/childcare-costs-help/funded-early-learning-and-childcare>

28 Welsh Government, Get 30 hours of childcare for 3 and 4 year olds, accessed July 2024, available at: <https://www.gov.wales/get-30-hours-childcare-3-and-4-year-olds>

29 Northern Ireland, Department for Education, Frequently Asked Questions on the Early Learning and Childcare Measures 2024-25, August 2024, <https://www.education-ni.gov.uk/publications/frequently-asked-questions-early-learning-and-childcare-measures-2024-25>

There have been recent announcements made to assist with funding in Northern Ireland, which increases the Tax-Free Childcare allowance in Northern Ireland up from 20 per cent to 35 per cent, with the Northern Ireland Executive funding the additional 15 per cent.³⁰ Even though this is a welcome development, it is still relatively small in comparison to the availability of childcare provision throughout the rest of the UK, and equivalent funding should be available for childcare provision in Northern Ireland that works in practice for the country and uses the lessons learnt from the rollout of funded hours in the other devolved nations.

Recommendations

HM Treasury should:

- **Raise the UK's tax-free childcare allowance from £2,000 to £3,000, to ease the burden of childcare costs on parents.** This helpful scheme was introduced and rolled out in 2017, but the allowance has not been increased and since then, living costs have increased substantially. The Government should consider reviewing the level of funding available to properly reflect living costs and the cost of childcare.

The UK Government should:

- **Ease the burden on independent childcare providers by implementing sustainable and fair funding rates for the existing and new funded childcare hours and by creating a 100 per cent business rates relief for childcare providers in England and Northern Ireland, reflecting the discount already in place in Scotland and Wales.** Nurseries in England are under at least as much cost pressure as those in Scotland and Wales, with childcare providers under pressure to deliver the rollout of the Government's funded childcare hours, so there is a strong case for improved support with costs. As well, childcare provision in Northern Ireland has the least amount of Government funding in the UK, and providers should be supported so they can provide affordable childcare. This will help ensure the burden of costs can be kept lower for parents and there will be quality childcare available for small business owners and working parents.
- **Increase awareness of the UK's Tax-Free Childcare allowance and information on how to access and renew funded childcare hours, through targeted messaging and communications to new parents.** There is very low awareness and take-up of Tax-Free Childcare amongst parents. For example, this could be done by DHSC instructing NICE to review its clinical guidance for new parents, to ensure there is proper co-ordination on what support there is for childcare funding for new parents. The DHSC and NHS England could also review their guidelines for information for new parents and ensure that it includes information on accessing the government's funded childcare hours and instructions on tax-free childcare credits, this can be included in postnatal information packs for new parents, at midwife clinics, through health visitors and childcare centres.

30 Northern Ireland, Department for Education, Education Minister announces £25million package of measures for early learning and childcare in Northern Ireland, May 2024, <https://www.education-ni.gov.uk/news/education-minister-announces-ps25million-package-measures-early-learning-and-childcare-northern>

Tax compliance

The mere task of administratively setting up and registering a business often poses unnecessary challenges for newly self-employed businesspeople. The regulatory landscape in the UK can be intricate and navigating through the process of setting up a business, including registrations and compliance with various regulations, can be overwhelming for new entrepreneurs. These complex regulatory processes, in conjunction with poor or difficult to find guidance, can result in delays, increased administrative burdens, and potential legal pitfalls for start-ups, hindering their ability to launch quickly.

FSB research found that a quarter (24%) of entrepreneurs say it is a challenge having to manage their own tax affairs and comply with regulations. While streamlining processes on the Government's end would indeed help mitigate this challenge, effective business support can also play a part.

“Nobody tells you how to do everything. You’re going in completely blind. They don’t tell you how to register for VAT. They don’t tell you what a confirmation statement is. You find all that out as you go along. You do have to be everything – your admin, your marketing, your sales. You’re doing your actual job, and you have to do everything else too, all by yourself. It is hard.”

Tia Brookes, Director, K9 Hydro Care, West Midlands

“The biggest challenge to me in running my business is the administration: tax, accounts, and the process of arranging events including dealing with venues. If I had the spare money, I would employ someone else to do this for me.”

Sue Scargill, Rainbow Stripes, Nottingham

Figure 1: Growth in businesses with no employees by country and region

Source: DBT, Business Population Estimates, 2023

	2010-2020	2020-2023
England	42%	-9%
North East	41%	-7%
North West	36%	-5%
Yorkshire and the Humber	33%	-12%
East Midlands	38%	-5%
West Midlands	42%	-9%
East of England	32%	-7%
London	63%	-11%
South East	32%	-11%
South West	47%	-10%
Wales	11%	6%
Scotland	38%	-26%
Northern Ireland	35%	-27%
United Kingdom	40%	-10%

In the past, FSB has called on HMRC to set a target to reduce business tax compliance costs by 30 per cent within three years. The average small business owner spends 52 hours a year on tax compliance,³¹ and in addition spends an average of £4,100 on compliance costs like software or accountancy fees. This is a huge drag on productivity, and while tax administration cannot be reduced to zero, there is substantial scope for simplification and clearer rules. It was encouraging that in the 2024 Spring Statement, the Government announced that it would “monitor HMRC’s estimate of the net change in cost to businesses of meeting tax obligations from fiscal event measures.” Measurement is part of the answer, but now we need to see ministers set an ambitious target for HMRC to reduce the impact of the tax system on small businesses.

31 FSB, A Duty to Reform: Making tax work for small businesses in a digital world, October 2021, <https://www.fsb.org.uk/resource-report/a-duty-to-reform.html>

Recommendation

HMRC should:

- **Set a target to reduce business tax compliance costs by 30 per cent within three years to mitigate this disproportionate drain of resources and productivity.**

The average small business owner spends 52 hours a year on tax compliance, and in addition spends an average of £4,100 on compliance costs like software or accountancy fees.

IR35

IR35 regulations, introduced to prevent tax avoidance by individuals working through intermediaries, have posed significant challenges for small businesses and self-employed individuals. The complexity and ambiguity surrounding IR35 have led to confusion, administrative burdens, and financial strain, particularly for those operating as contractors or freelancers.

Evidence from previous FSB research showed that the IR35 requirements are very difficult to understand, with only 18 per cent of small businesses stating they knew when and where the tax was relevant.³² While there are ongoing efforts to improve the Check Employment Status for Tax (CEST) tool, in light of the challenges experienced by SMEs, there is a strong argument that the underlying regulations should be reviewed so as to reduce their complexity and better support the small business community and self-employed individuals.

Recommendation

HMRC should:

- **Review the IR35 regulations, with the aim of reducing complexity and improving understanding.** Focusing on simplifying the framework, reducing complexity, and improving understanding among small businesses and self-employed individuals, the overarching goal of this review should be to create a more transparent, fair, and supportive tax environment that fosters entrepreneurship, innovation, and economic growth.

³² FSB, A Duty to Reform: Making tax work for small businesses in a digital world, October 2021, <https://www.fsb.org.uk/resource-report/a-duty-to-reform.html>

METHODOLOGY

This report is based on the views of FSB members as well as the wider self-employed population across the UK. FSB undertook a mixed research approach consisting of a quantitative online survey, three focus groups which took place in November 2023 on Zoom. Interviews took place between November 2023 and July 2024.

The survey was nationwide in its reach and participants were invited to complete the survey via email and social media channels. The survey was administered by the research agency Verve and was in the field from 23 October 2023 to 2 November 2023. The survey questionnaire was completed by a total of 1,378 self-employed individuals. The survey findings are all weighted according to FSB membership weighting (to reflect the demographic balance of FSB members throughout the UK).

All percentages derived from the survey are rounded to the nearest whole number, which is why some percentages presented in the figures do not sum to 100 per cent. The focus groups took place via Zoom and purposefully drew from a variety of regions, sectors, and population demographics.

© Federation of Small Businesses

[fsb.org.uk](https://www.fsb.org.uk)

 FSB Westminster

 @fsb_policy

 @fsb_uk

If you require this document in an alternative format please email: accessibility@fsb.org.uk

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior permission of FSB. While every effort has been made to ensure the accuracy of the facts and data contained in this publication, no responsibility can be accepted by FSB for errors or omissions or their consequences. Articles that appear in the report are written in general terms only. They are not intended to be a comprehensive statement of the issues raised and should not be relied upon for any specific purposes. Readers should seek appropriate professional advice regarding the application to their specific circumstances of the issues raised in any article.

This report can be downloaded from FSB's website at www.fsb.org.uk