Self-employed earnings

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Introduction

Claimants with earnings from self-employment must self-report these each month, this includes nil earnings. This is to ensure that Universal Credit payments take into account all household earnings. Monthly reporting allows Universal Credit to be adjusted monthly and also helps claimants to keep simple records which give them a stronger hold on their business finances.

Universal Credit self-employed earnings reporting requirements are closely aligned to HM Revenue and Customs new cash basis for small businesses. This means claimants will need to record all money when it actually comes into and goes out of their business, allowing them to keep similar records for both Universal Credit and tax self-assessment purposes.

What a claimant needs to report

The claimant is required to report all payments actually received by the business, not money owed to the business, in the assessment period, including:

- all payments for goods or services provided
- tips and gratuities that are taken for a service provided, for example, as a hairdresser or taxi driver, must be included as a payment into the business. This also includes social media gifts received by online creators and influencers and these should be declared as self-employed income
- payment in kind, Self-employed claimants must also report any payment in kind that they may receive. They must also specify the amount they would usually have charged for the product or service provided and for which the payment in kind has been accepted. For example, a claimant who is a self-employed hairdresser gives a customer a haircut for which they ordinarily charge £15.00 but accepts a food parcel as payment in kind. They must report £15.00 as the cash in and no value is given to the food parcel
- vouchers, goods or non-cash items, – reported as what the claimant would usually have charged for the goods or services provided

- all refunds or rebates from Income Tax, VAT or National Insurance contributions
- the sale or transfer of business assets previously declared as a self-employed receipt
- certain grants and subsidies depending on whether they are treated by HM Revenue and Customs (HMRC) as taxable income

and the following categories of actual payments out of the business, not unpaid bills, in the assessment period:

- permitted expenses, such as regular costs for rent, stock or equipment
- Flat Rate deductions, for example, for the use of a car or home for business
- Income Tax
- National Insurance contributions
- relievable pension contributions

All payments out of the business as detailed above, must have been incurred reasonably and must have been incurred wholly and exclusively for the use of the business. Where a cost is incurred for mixed use, business and private use, only the cost related to business use should be reported.

If the claimant has not paid out anything under any one of the categories, they must report nil deductions.

Foster care is not treated as self-employment for Universal Credit, so fostering allowances and fees are not treated as earnings. See Foster carers.

How a claimant reports self-employed earnings?

Claimants who declare that they expect to have self-employed earnings will be issued with a Universal Credit self-employment guide. This provides guidance on the self-employed earnings reporting process as well as information on gainful self-employment, minimum income floor and start-up period.

Claimants must report earnings received during the assessment period on or after the last day of the assessment period. Claimants can report earnings through their account or by telephone, if required. A payment won't be made until they have reported their earnings, including nil earnings.

To ensure consistency for claimants paid by cheque, a date must be agreed with the claimant which will be used each month as the pay date.
Claimants cannot report earnings from self-employment for any assessment period where the previous earnings report is missing.

When an overlap occurs, the claimant will be required to report for the earliest assessment period for which earnings have not been reported before. This has to be done before earnings for any subsequent assessment period can be reported.

If a claimant fails to report income and expenses and it has been 1 calendar month the service will identify these claims and generate consider claim closure action, see Claim closure Claimant fails to provide evidence section.

Self-employed earnings - losses

Self-employed claimants often have months where they have a lot of expenses for example paying for supplies, and then a spike in earnings for example when invoices are paid. Universal Credit treats the losses as nil earnings and then potentially closes the Universal Credit claim or takes account of high earnings when there is a spike. For more information see Treatment of earnings under heading Surplus earnings.

From the 11th of April 2018 when a self-employed claimant incurs a loss in-month, this loss will be taken into account when assessing earnings in future assessment periods. For those who are gainfully self-employed the minimum income floor continues to apply.

When calculating the balance for purposes of calculating losses, any pension contributions are not included. This prevents the claimant from overpaying pension and receiving a higher amount of Universal Credit.

Self-employed losses:

- apply to the self-employed claimant only, and cannot be applied to the partner
- follows the claimant in cases where they separate from their partner
- are disregarded if the self-employment business ceases and the claimant is no longer self-employed
- can be offset against profits from another business carried out by the claimant, but they cannot be offset against their partner’s self-employed earnings or their own or their partner’s employed earnings
- are retained and re-applied where a reclaim is made and the claimant is still self- employed in the same self-employed business

Example

Derek is self-employed market trader in receipt of Universal Credit. In his current AP he reports actual receipts of £750, permitted expenses of £2,300 (including stock he has bought to sell over the coming months), and that he has paid income tax and national insurance contributions of £200.

His self-employed earnings are calculated as follows:

AP 1: £750 (receipts) - £2,300 (expenses) - £200 (tax & NI) = -£1,750.
Derek’s self-employed earnings figure for Universal Credit is nil in this AP. The minimum income floor is £987 and is applied. Derek carries forward a loss of £1,750 to the following AP.

AP 2: £800 (receipts) – £500 (expenses) - £200 (tax & NI) - £1,750 (unused losses) = -£1,650.
Derek's self-employed earnings figure for Universal Credit is nil and the minimum income floor of £987 applies. Derek carries forward a loss of £1,650 to the following AP.

AP 3 to AP 8: Derek's income and expenditure remain steady throughout the following 6 APs, reducing his unused losses by £100 in each AP. His self-employed earnings remain at nil and the minimum income floor of £987 applies throughout. At the end of AP 8 Derek has unused losses of £1,050 to carry forward to AP 9.
AP9:   £2,000 (receipts) - £500 (expenses) - £200 (tax & NI) - £1,050 (unused losses) = £250.
Derek has a good trading month which extinguishes his unused losses. His self-employed earnings for this AP are £250, still below the minimum income floor of £987, which continues to apply.