Universal Credit – Self-employment

The way that Universal Credit is assessed and the commitments that claimants must agree to are very different to how things work under legacy benefits. There is also a significant amount of jargon attached to self-employment under Universal Credit that makes it hard for advisers and claimants to navigate. The aim of this factsheet is to provide you with the information about how self-employment impacts Universal Credit claims.

What is self-employment?

You are considered to be self-employed if you are engaged in a trade, profession or vocation and you decide your own hours, the rate you charge, and you provide your own equipment. The DWP applies a further test to self-employed Universal Credit claimants (who would normally be expected to meet all of the work-related requirements) to assess whether it considers you to be gainfully self-employed.

You are **gainfully self-employed** if the work is your main employment, it is organised, developed, regular and carried out in expectation of profit.

How are earnings calculated?

An award of Universal Credit is calculated each month, based on the actual income received during your monthly assessment period. Any appropriate work allowance and the 55% taper apply as standard to self-employed earnings.

If you are self-employed, you must provide details of all actual receipts received, with a figure deducted for tax, National Insurance, pension contributions and any allowable expenses. This must be reported on your journal. There are additional rules that can affect how earnings are calculated when you are self-employed.

Minimum income floor

After an initial start-up period (see below), the DWP can apply a minimum income floor to the earnings of self-employed claimants. You will be treated as earning at least the National Minimum Wage for someone of your age for the number of hours the DWP expects you to work. Where earnings are above this figure, the actual income will be used.

Start-up period

During a start-up period, Universal Credit is worked out on your actual earnings. A start-up period will last for 12 months from when the DWP decides you are in gainful self-employment (either an existing claimant beginning self-employment or an existing self-employed person making a claim for Universal Credit) as long as it can be shown that you are taking active steps to increase your earnings.

The minimum income floor will only apply if you are gainfully self-employed and would normally be expected to meet all of the work-related requirements. If you fall into another conditionality group (eg. a carer in the no work-related requirements group) you will not have the minimum income floor applied, regardless of how much you earn.

Diana has been a gardener for three years. She is single, has no children, no health conditions and no other caring responsibilities. For the current monthly assessment period she has earnings of £800. Her minimum income floor is £1,655.06 a month (35 hours a week x 11.44 x 52 / 12 less notional tax and National Insurance contributions of £80). Diana’s Universal Credit award is worked out based on income of £1,655.06 even though she only earned £800.

Surplus earnings rule

If your earned income is high enough to take you off Universal Credit and you reclaim within 6 months, income from the monthly assessment period where your earnings took you off Universal Credit can be taken into account. Earnings must have been more than a specified amount to apply. This applies to self-employed claimants and employees.

Losses

If as a self-employed claimant, you make a loss in one assessment period, you are allowed to offset this deficit against any profit in future monthly assessment periods.