

Self employment is real: not just a tax arbitrage opprt...

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I am aware that there are those who think that I am at my best when I stick to tax issues, which many think my core expertise. I do not agree: I think a broader view essential to an understanding of tax, which is why I have embraced and now teach other aspects of the economics discipline. As a result I am wary in suggesting to anyone that they should not comment outside their obvious comfort zone. That said, I am baffled by [Jolyon Maugham's latest article](#) on what he obviously considers to be the unacceptable tax advantages of self employment, which he would wish Labour remove.

At the core of his argument (if I read it correctly, and it is not crystal clear) are two contentions. The first is that self employed status is used by some to secure a tax advantage (Jolyon claims, without providing workings, that it is £26 per £100 of self employed net pay) that they should not enjoy. He called this the arbitrage advantage of self employment.

The second contention is that the self employed secure a current fiscal advantage at cost of a secure social safety net provided by the state by way of a reduced entitlement to benefits. Again, Jolyon thinks this wrong.

I have real problems with these contentions, and in particular the apparent suggestion Jolyon makes that the way to resolve them is to bring the self employed within the social safety net and charge them for being included. This is, in my opinion, wrong for a number of reasons.

First, I acknowledge there is a real problem with artificial self employment. The answer to this is very simple: put the onus for all penalties on the 'employer' who would then have the liability for making payment for the missing national insurance contributions and the arbitraging possibility for unscrupulous employers seeking to evade their obligations would disappear.

Second, Jolyon wholly ignores the fact that the most egregious abuse in this area is not by the self employed as such, where my work and that of Danny Blanchflower has shown that average earnings excluding the self employed with profits of more than

£100,000 a year is barely enough in the majority of cases to create any tax or NI liability at all. It is instead by those who form limited companies and pay dividends to abuse the NI system. Here the abuse is now systemic and yet attracts no attention from Jolyon. This is very hard to understand as this is where arbitraging really takes place and new dividend taxation rules will not really address it.

Third, there is an implicit assumption, as I read it, in what Jolyon wrote that there is no substantial difference between employment and self-employment. This is wrong: the differences are profound. This is why Jolyon is wrong to think that the lower taxes paid by the self employed are always a subsidy that is arbitrated: you cannot arbitrage a real difference, only an artificial one or one that you can pretend exists when it does not. Whilst there is arbitrage abuse in self employment, without a doubt, to suggest that it happens in all cases of self employment is wrong: that would be to deny the existence of a real difference that not only exists where self employment is genuine but which requires both a different taxation treatment from employment, and because of the real problem that the self employed do and will always have in proving unemployment, in the contribution made to the social safety net via national insurance as well.

In other words, Jolyon's argument is based on false premises and so comes to incorrect conclusions.

In saying this I should declare I have been self employed for 31 years. And I am also now employed. And they are quite different. Let's not pretend otherwise. Or stigmatise the genuinely self employed.

What we should do instead is target the arbitrage, and I have already noted, above, how to do that.

And at the same time we should make sure that a viable social safety net is available to the self employed, which is the last thing that universal credit does.