

## How to help the self-employed through this crisis with...

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There has been much discussion over the last few days about the desirability of a universal basic income (UBI) for the United Kingdom. Demand for this has only grown since Friday when the Chancellor announced a highly discriminatory scheme of income support for those employees, but no one else, laid off as a result of coronavirus. This leaves the self-employed, in particular, in an exceptionally difficult situation that cannot be justified on any social or economic basis because they, like those employees who have lost their jobs, are the victims of circumstance at this point of time.

So the question is whether a UBI might address this issue. I have been in discussion with quite a number of other interested parties on this point in the last week, and I am expecting a statement soon, but feel it worth exploring the issues as soon as possible given the urgency of the crisis that we are facing. That requires that it be understood just what a universal basic income is.

The UK based [Citizen's Basic Income Trust](#) defines a basic income (which might also be described as a universal basic income) as having five characteristics:

- \* **'Unconditional'**: A Citizen's Basic Income would vary with age, but there would be no other conditions: so everyone of the same age would receive the same Citizen's Basic Income, whatever their gender, employment status, family structure, contribution to society, housing costs, or anything else.
- \* **'Automatic'**: Someone's Citizen's Basic Income would be paid weekly or monthly, automatically.
- \* **'Nonwithdrawable'**: Citizen's Basic Incomes would not be means-tested. If someone's earnings or wealth increased, then their Citizen's Basic Income would not change.
- \* **'Individual'**: Citizen's Basic Incomes would be paid on an individual basis, and not on the basis of a couple or household.
- \* **'As a right of citizenship'**: Everybody legally resident in the UK would receive a Citizen's Basic Income, subject to a minimum period of legal residency in the UK, and

continuing residency for most of the year.

Just reading this list makes clear how many problems that a UBI would create at this moment.

Firstly, note that what the government has at present offered is a guarantee of, in effect, a maximum of £24,000 of income to a person on an annual equivalent basis at this point of time. This is, however, taxable, meaning that around £350 a month could be expected to be paid on this sum in tax and national insurance, leaving a net income of about £1,650 a month. This is considerably in excess of most UBIs being discussed at this point in time, and unavoidably means that there must be an interaction between any UBI and the tax system if parity is to be created. We have no capacity at present to create that interaction. To avoid that we would, then, require a lower UBI to be payable to the self-employed at present and it is, of course, appropriate to ask if that is fair.

Secondly, many might also ask whether it is appropriate to pay a universal benefit at this point of time when there going to be so many other additional cost for the government to face, particularly if most people (and this is true present) will remain in employment throughout this crisis. Whilst I have no doubt that governments can, must and should run deficits at present but I am not in favour of unnecessary, and maybe duplicated, cash injections. It could, of course, be argued that if a universal basic income be paid then for those in employment this sum should then be deducted from payments made to them as wages, and that their employer should then pay the UBI deducted from them back to the government to prevent double payment. Technically, this is possible. However, massive complications could arise. In the first instance, it would have to be ensured that the government could get a UBI to everyone, and as I note below, there is no guarantee that that is the case. Then, employers would have to operate the scheme properly, and that cannot be guaranteed. And in some cases, some people may then end up doubly out of pocket for a while. That would be extremely unfortunate. So I am not persuaded.

Thirdly, at a time of national crisis, when it is already going to be the case that HM Revenue and Customs are going to be under massive stress because of sickness, social isolation and (it has to be said) the impact of cuts then to expect them to add the payment of a UBI into the national accounting system in a matter of days or weeks is an extraordinary demand: it is extremely doubtful that the capacity to do this exists.

Fourthly, there is a basic information problem. As a matter of fact HMRC do not hold accurate details for everyone in the UK. Nor do they know who everyone in the UK is. There is no database of such people. The national insurance register is incomplete, and some people have duplicate numbers. In addition, by no means everybody has taxable income, or benefits, and there is no one integrated dataset the covers all people in

employment, on benefits, or pensions as well as those who are not working as well, but the universal principle of UBI would require this, and it is simply not in existence. The chances of errors would be enormous as a result and significant social costs would arise as a consequence. There would also be a massive delay in getting a UBI working, and that cannot be tolerated now.

Fifth, Even if the Revenue knew to whom UBI should be paid they do not, as a matter of fact, have bank account details for all those who would be recipients. They have no need for this information for most employees, for example.<sup>14</sup> So payment might not happen.

Sixth, it is also important to note that there are still quite a significant number of people in the UK who do not have a bank account, and so could not receive a UBI by direct transfer. The number is less than 10% of adults, but it is still significant.<sup>15</sup> There is a real problem to be addressed here, come what may, but this is not that moment.

Add all these facts together and right now there is no obvious way in which, in purely practical terms, a UBI could solve the immediate cash flow crisis that many people in this country are going to face.<sup>16</sup> Of these by far the largest number will, following the Chancellor's announcement of support for employees,<sup>17</sup> be those self-employed people who will have seen their incomes collapse as a consequence of coronavirus.<sup>18</sup> I stress, I am not saying that there are no other groups who need support: there are, but this group is the next and most immediate priority and they are the reason why most people who are demanding a UBI are doing so.<sup>19</sup>

I think that there has to be a better mechanism for delivering a UBI to these people, at last at present. This has to be through the<sup>20</sup> HMRC self-assessment system. I happened to note that Heather Self, who has a long record of thinking about tax systems,<sup>21</sup> agrees this morning but what I am proposing is a little different to, and I think fairer than, the system Heather suggests.

My suggestion is in X parts, but some facts have to be considered first

In practice, what Sunak has offered to employees is a maximum of £24,000 pounds a year, which for an average person, after tax and National Insurance of about £4,200 on this sum would leave them with a net income per month of about £1,650. As a matter of fact, this is higher than the average self-employed earnings in the UK at present. The importance of this figure is that any support to the self-employed should not involve payment to them of tax and National Insurance that would, then, be subject to later recovery, if appropriate.

Then it is important to note that unlike employees self-employed people have considerable variations in their earnings from time to time. For this reason it is unfair to provide support now on the basis of, for example, the last tax return which may be wholly unrepresentative of a self-employed persons income overtime. I am instead

suggesting that support be provided on the basis of their average net declared earnings declared from self-employment over the last three years. If they have underdeclared those earnings, that is their problem, I am afraid. If they have a loss during the period that should be ignored for these purposes.

The self-employed person should, then, be permitted to make a claim of 80% of this average figure for their earnings over the last three tax years subject to a maximum, in this case, of £20,000 (there is no point in being spuriously accurate) per annum to allow for likely tax that would have been paid.

The self-employed person could then claim this sum in monthly instalments to add to their income this year. I stress, that income would remain taxable.

This claim could be done by simply making payment through the HMRC payment on account system through which payment could also be made.

That said, the possibility of fraud (and it is significant) would have to be addressed. I suggest three measures. First, for this year the self-employed will have to declare their billings per month on their tax returns. This is really not hard.

Second, if during a month their billings per month multiplied by the ratio of their net profit to turnover as shown on their last three tax returns plus the amount claimed in coronavirus support exceeded £1,666 in any month then the excess will have to be repaid in full: there is a duty to make sure overclaims do not arise now. This is not a difficult figure to calculate. HMRC could easily provide a calculator.

Third, to prevent billing being delayed to permit claims to be made, if total net earnings in the year (presuming there is a recovery after lockdown) exceed £24,000 then a repayment of support provided will be expected in 2021/22. A tapering mechanism may be appropriate: full repayment might, for example, be required if income exceeds £36,000, but this would need to be tested and I have not yet had time to do that.

Fourth, a self-employed person would be required to take into consideration other sources of income when making their claim: it must not be possible that their total income with the claim included should exceed £1,666 in gross terms. If they did make a claim without taking this factor into account all excess payments made would be refundable, in full on demand.

Subject to these factors HMRC should now simply pay requests made.

I would be inclined to extend this scheme to small landlords as well, but quite specifically subject to them granting their tenants rent holidays.

And I would be planning a considerable increase in staffing at HMRC to check the claims in due course. Their closure and consolidation programmes must end now.

Do this and I think the problem for the self-employed would be substantially solved.

Comments are very welcome.