WELFARE REFORM AND WORK BILL 2015-16

EQUITY'S RESPONSE

Background

1. Set up in 1930, Equity is a trade union which represents over 40,000 actors, performers and other creative professionals working in the UK across the arts sector and creative industries, including over 5,000 student members. Equity is not affiliated with any political party.

2. The average income from self-employed entertainment work is less than £10,000 per annum (net profit) and our typical members would therefore be classed as low income. In this respect, many members access social security payments during periods of low employment or use tax credits to supplement their employment income.

Clause 10 – Freeze of certain tax credit amounts for four tax years.

3. The Bill proposes to freeze tax credit amounts for each of the tax years from 2016-17 to 2019-2020. We are concerned about the impact this and the other measures in the Bill and related measures in Statutory Instruments will have on our members' ability to sustain themselves in the entertainment profession.

4. Our sector is one which could be characterised as low paid, despite improvements to minimum rates on standard contracts which have come about through collective

bargaining with employer bodies. Members' earnings are intermittent and unpredictable but traditionally government has recognised the value of the entertainment industry to the UK economy and specifically introduced measures enabling the sector to sustain their self-employment between jobs[i]. This resulted in amendments to the Social Security (Categorisation of Earners) Regulations 1978 which enabled member to pay Class 1 NICs on self-employed contracts and hence access Jobseeker's Allowance more easily and have employed earner assessments of means-tested benefits[ii].

5. Since their introduction in April 2003, tax credits have been a valuable source of support for many members, especially those struggling to establish a foothold in the profession or juggling their self-employment with a low-paid PAYE job.

6. Recent analysis has shown that whilst the number of self-employed workers in the economy is growing, the amount being earned by those workers is falling. Median self-employment income is £43 per week lower than in 2007/08 which represents a 13% decline[iii]. As you go down the earnings scale, that finding exaggerates with the reduction being 18% at the 25th percentile. At the same time, these cuts taken together with other measures such as the taper rate increase to 48% and the reduction in the work allowance thresholds are hitting those at the lower end of the mid-income scale the hardest[iv]. Although there will be some compensating effect by an increase in housing benefit eligibility for those claiming it, this in turn will be offset by the loss of the family element of housing benefit in due course.

7. Our members are amongst the groups who will be most affected in terms of income loss with many of them having earnings levels across the range of the 20th to 25th percentiles. The original rationale for the introduction of tax credits was to provide in-work benefits which would help sustain employment[v] – we believe that this measure in combination with others is likely to have the opposite effect in our sector and deplete the talent pool available to maintain the competitiveness of the UK entertainment industry.

8. **Recommendation**: that the government should consider the adverse effects of this provision on all groups of lower-paid workers, including the self-employed working in professions with variable income such as the entertainment industry.

<u>Clause 11 – Changes to Child Tax Credit</u>

9. Under the proposed Clause 11 (4) (3B) there will not be an individual element of Child Tax Credit in respect of a child or qualifying young person unless:

a) He is (or they are) claiming the individual element of child tax credit for no more than one other child or qualifying young person, or

b) A prescribed exception applies.

10. Again we have major concerns about the effect of this measure on our self-employed members with children. The entertainment industry is an itinerant profession, with a pattern of employment that involves movement from one job to another in widely different locations and for varying periods. Members with children already face

considerable challenges in juggling childcare with the peripatetic nature of the job even when operating as one of a couple.

11. As a union we already have considerable anecdotal evidence of members leaving the profession due to the difficulties posed by managing childcare and the financial stress that causes – this measure can only make that exodus increase further.

12. In terms of the exceptions provided, we share the many concerns already expressed about the potential rape exception (reference to LITRG written evidence, Para 3.10). As a union with a growing BAME membership we note that the impact assessment on the proposed change under Clause 11 states "Ethnic minority households are more likely to be impacted by these changes. This is because they are, on average, more likely to be in receipt of these benefits and, on average, have larger families"[vi]. The impact assessment does not cite any evidence to substantiate this statement or indicate for which ethnic minority groups are likely to be most affected. However, if the impacts are as stated, we would urge the government to carry out a full Equalities Impact Assessment to measure which BAME groups will be most affected.

13. **Recommendation**: that the government considers the impact of this provision on those working in professions in which combining that work with childcare responsibilities is already challenging and involves additional expense. Further that a full Equalities Impact Assessment should be carried out to assess which ethnic minority groups will be most affected by this measure and what measures may need to be taken to mitigate that impact.

<u>Clause 16 – Loans for Mortgage Interest</u>

14. Under Clause 16(1) "*The Secretary of State may by regulations provide for loans to be made in respect of a person's liability to pay mortgage interest in relation to property occupied by the person as the person's home*".

15. This measure is relevant to many of our members who may, during periods of low employment, have needed to seek assistance with mortgage costs. Again, the itinerant and unpredictable nature of the profession means that a good year may be following by a not so good year. As Shelter has pointed out in its Parliamentary Briefing to this Bill, this will become an additional burden for households which are already struggling. Many members experience periodic debt issues and this will serve to create an additional debt unless it is administered in a way which facilitates repayment.

16. We are concerned about the nature of the repayment plans which will be put in place and when and how they will be triggered by earnings, bearing in mind our members' irregular earnings patterns. However, we do welcome the fact that the new system will do away with the need for waiting periods for help with SMI which has only served to increase debt levels historically. As self-employed workers with variable income our members often struggle to get mortgage finance, even if they can show a pattern of viable self-employment stretching over a decade or more, so any measures which will increase mortgage security whilst catering for variable income is something which would be welcomed by this union.

17. **Recommendation:** that repayment plans under this new provision are implemented in a way which takes into account professions where income is intermittent and variable; they should also incorporate sufficient flexibility to take account of this. We echo Shelter's call for an option to defer repayment until the property is sold.

Conclusions

18. Equity as a union works through its collective agreements to seek to better terms and conditions of work for its largely self-employed membership. In that sense, we are unusual in that whilst the bulk of the membership is self-employed for tax purposes they have 'worker' status for employment law purposes through our standard contracts and hence are able to argue for entitlement to National Minimum Wage, Holiday Pay and other worker status benefits.

19. Our earlier submissions on the draft Statutory Instrument for the Tax Credits (Income Thresholds and Determination of Rates) (Amendment) Regulations 2015 made clear the very considerable pressures which our members are already working under. The LGA announced in July 2015 that cuts in local authority spending in 2016 could add up to £3.3 billion and, within that, there will be further heavy cuts to culture budgets. At the same there have been widespread reductions in Arts Council funding affecting many of our members' job prospects, especially outside London.

20. Tax Credits were designed to assist workers in low paid work and help them sustain employment. However, the government's welfare measures are having the effect of putting more and more financial pressure on low-paid self-employed workers including many in the entertainment sector.

21. The government is currently auditing via the tax credits system the viability of many self-employments through its new strengthened test of self-employment and Equity as a union is working closely with HMRC to ensure that this test is applied fairly to our sector. We agree that support of this kind should only be given to those who can demonstrate legitimate and sustained self-employed activity but we fear that the proposals in the Bill, in combination with other measures, will simply deter many of our members from furthering their careers and increase the risk of a major loss of talent from what is currently a thriving and world-leading industry.

5nd October 2015

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[i] See for example HMRC Consultation Document 'National Insurance and Self-employed Entertainers', 15th May 2013, at para.2.1.

[ii] Repealed by the Social Security (Categorisation of Earners) (Amendment) Regulations 2014 with effect from 6th April 2014

[iii] '*Monitoring Poverty and Social Exclusion'*, Joseph Rowntree Foundation, 2014, p.70.

[iv] Andrew Hood, 'Benefit changes and distributional analysis', Institute for Fiscal Studies (IFS), at http://www.ifs.org.uk/uploads/publications/budgets/Budgets%202015/Summer/Hood_distributional_analysis.pdf

[v] HM Treasury, The Child and Working Tax Credits, *The Modernisation of Britain's Tax and Benefit System* 10, London, 2002

[vi] IMP Assessment, Child Element, July 2015, para.31.