

SELF EMPLOYED POLICY GROUP - FINAL REPORT

Background

We were set up in May, 1975 with a two-fold task. First, to make recommendations on the position of the self employed with particular reference to their National Insurance contributions and benefits. Second, to act as a watch dog for the self-employed both inside Parliament and outside. We produced an Interim Report on policy in October, 1975. We have been active in our watch dog role and have worked closely with the Smaller Businesses Committee because many self employed are also small employers. Many of the problems are similar and require a common approach.

We have established close contact with outside organisations, particularly those representing the self employed, and we believe it important that this contact should be maintained after our main policy work is completed.

The Atmosphere

The self employed and the small businesses feel strongly that their existence is threatened by increased tax and other burdens. The bankruptcy figures bear eloquent testimony to this feeling. Although much of the blame is placed on the present Government, the previous Conservative Government is also criticized, in particular for introducing the new NI contributions. The present financial difficulties sharpen disillusionment with politicians. On the other hand, the efforts the Conservative party has been making recently are helping to improve the atmosphere and Mrs. Thatcher is regarded as genuinely sympathetic to the position of the small man.

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To capitalise on this better atmosphere we believe it is important to restate as often and as publicly as possible the Conservative belief that the self employed and the small firms are vital to our free society and to the restoration of our economic health. However, there is growing demand for specific Conservative proposals as distinct from present efforts to alter the policies of the Labour Government.

Another strong grievance is the alleged inadequate consultation with, and understanding of, the distinct problems of the small man. We have been told frequently that the views of the small man are not taken into account in Whitehall when decisions are made and that they are overshadowed by the big battalions of the TUC and the CBI. Nobody feels that the present small firm/^{unit} set up in the Department of Industry, with a junior Minister in charge, is effective. Nor do the Ministers who have actually held the office in this Government, or the previous Conservative Government. This points to the need to look at the Whitehall and Westminster machinery.

Recommendations

Our recommendations relate to the machinery of Government and National Insurance and private provision for the self employed. Other policy groups are dealing with the other main subjects of concern notably capital and income taxes, VAT and local rates.

Machinery of Government

There should be a senior Cabinet Minister with special responsibility for the self employed and small firms. We are not recommending a new Department, but a Minister senior enough to co-ordinate effectively the work of existing Departments and

views of

to ensure that the small firms are known and considered before policy decisions are made. We have noted that in a number of EEC countries and in the USA the small firm sector is represented at senior Government level and this is generally welcomed. We believe that a Ministerial appointment would be insufficient of itself to reverse the Whitehall bias in favour of the big battalions both nationalized and private. His work would need reinforcing through public scrutiny, support and criticism. This could best be done by a House of Commons Select Committee on the Self Employed and Small Businesses.

There is pressure for the appointment of a Shadow Minister. While we have sympathy with this, we do not press it because we appreciate that it might unduly tie the Leader's hand prior to her forming a Government.

These recommendations would receive strong but not universal support among the interests concerned. Many would see them as a most important policy pledge and gesture of determination to recognise the importance of the small man. Others would be suspicious of greater Whitehall entanglements

National Insurance Contributions

The new NI-contribution arrangements, and, in particular, the Class IV contribution for the self employed, caused an explosion of resentment. They were largely responsible for the formation of the new organisations representing the self employed although these now deal with all grievances.

The new Class IV contribution was seen as the last straw to people already burdened with increased taxes. Although resentment is diminishing and reluctant acceptance of the need for the contribution is growing, it is politically desirable

to sugar the pill. The new rates of contribution which started in April, 1976, have, to some extent, redressed the balance in favour of the self employed relative to employers/employees. It is now difficult to argue that as a group the self employed are at a disadvantage in their contributions although some detailed criticisms can be made about the present arrangements. For example, the lower limit for Class IV contributions which was introduced in April 1975, has remained unchanged at £1600 despite the fall in its real value. This has meant many self employed people have been drawn into the Class IV net by the effects of inflation.

For the self employed person higher up the scale the increase in the upper Class IV contribution limit in April 1976 from £3600 to £4900 p.a. means, for example, that a self employed person with taxable profits or gains of £5000 p.a. will be paying an extra £104 p.a. out of his net income. This compares with the 1976 Budget tax "concessions" for a £5000 p.a. family man with two children of £87.50.

It is significant that the self employed organisations are now paying more attention to tax relief on the NI contribution. The Party has already advocated tax relief on that part of the contribution which can be regarded as the employer's contribution and amendments to this effect ^{have been moved} in Finance bill debates. The Group therefore recommends that the employer element of the self employed NI contribution should be allowed to be set against tax.

The cost of allowing tax relief on all the Class II and Class IV contributions in 1975-6 would have been about £80 million (Hansard 22/5/75 WA Col. 572) so the cost of allowing the

employer element against tax would be in the order of £50 million. However, this would not involve any extra public expenditure because the NI contributions on employers and employees would be raised to cover this sum.

Benefits

On National Insurance benefits, we think it right to maintain the ineligibility to unemployment benefit. We see no objection in principle to making the self employed eligible to earnings related sickness benefit and the full range of injury benefits provided this is technically feasible. The Government is considering these matters at present.

The other main National Insurance grievance concerns the EEC arrangements. The EEC working party is considering how benefits, including medical benefits, now provided for employees who move between Member States could be extended to the self employed. We think it right that the self employed should be included and this element of discrimination against them removed.

Pensions

In our interim report we recommended that the maximum that can be invested each year in pension annuities for the self employed should be substantially increased. Under the provisions of the 1976 Finance Bill the limit has been raised to £2250, which goes a long way towards meeting our recommendation, but we believe that a new figure of £3000 should be introduced in the 1977 Finance Bill. This level should be kept under constant review or, better still, indexed so that it does not

lose its value. As well as the cash ceiling the percentage limit (at present 15%) also needs raising to take account of inflation since the limit was last raised in 1971. This is particularly important for the older person who has deliberately postponed taking out an annuity in order to put the maximum resources into his business.

Under the Social Security Pensions Act 1975, employees in occupational pension schemes are to have an element of inflation proofing of their pensions provided by the State. Nothing equivalent is provided for the self employed. We recommend that, if feasible, similar protection should be made available for their private pension arrangements. Alternatively, consideration might be given to allowing the self employed to contribute to the earnings related part of the new State pension scheme. These recommendations on National Insurance and private provision involve technical matters of which we are not equipped to put forward detailed recommendations. However, we believe that proposals can be worked out.

Public Inquiry

We do not propose that the Party should publically commit itself to these recommendations because, for example, the National Insurance position is likely to change yet again before we come to office.

However, we do recommend that a clear indication should be given that we are not satisfied with the social security arrangements for the self employed and that we intend to improve them. We therefore recommend that the Party sets up an inquiry in Government to examine their contributions and benefits and to

report to the Secretary of State. We recommend that this inquiry be of a public or semi-public nature which would permit representations to be made openly by interested bodies and would re-assure the self employed that their grievances were being properly examined by an impartial and expert body.

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