



**Entitlement to Social Welfare Payments  
of Self-Employed persons.**

**Presentation to the  
Joint Oireachtas Committee  
on Education and Social Protection**

**26<sup>th</sup> March 2014.**

**ISME, the Irish Small & Medium Enterprises Association**, is the main representative body for Irish SMEs, with over 9,000 member companies employing over 225,000. We welcome the opportunity to make this submission to the **Joint Oireachtas Committee on Education and Social Protection**.

The Small & Medium Enterprise sector (SME) which we represent, accounts for 99.8% of all enterprises, two thirds of employment and over 50% of all added value created in Ireland. These enterprises play a decisive role in Ireland's economy and society and are drivers of innovation and also ensure social and regional stability.

**We in the sector rely on the members of the Oireachtas to understand not only the role but also the needs of the SME sector and ISME, the only independent representative SME organisation will work with the members to achieve a comprehensive, sustainable and socially reliable private business sector.**

Within the SME sector there are 324,500<sup>1</sup> self-employed persons and their treatment as second class citizens with regard to social welfare is a deplorable situation which cannot be allowed to continue.

The Action Plan for Jobs 2014 states that the Government's ambition is for Ireland to be among the most entrepreneurial nations in the world and acknowledged as a world class environment in which to start and grow a business. It neglects to mention what happens when a business either fails or suffers a period of low activity, although the two issues are intrinsically linked.

**In order to cultivate an entrepreneurial environment, where people are inspired to take a risk, there must be an adequate contingency plan for those who run into difficulties.**

The social welfare entitlements disparity between the self-employed and PAYE workers acts as a disincentive for entrepreneurial activities within the Irish economy. The current system ensures that traditional paid employment is 'safer' and more secure than starting and running a business. There is currently an inadequate and in some cases no 'safety net' for those who attempt to generate wealth and jobs in this economy.

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<sup>1</sup> Quarterly National Household Survey, Q4 2013.

It is our experience that the vast majority of the self-employed, who subsequently become unemployed, have already invested their savings in an attempt to keep their business afloat. They therefore are very much on the breadline when their business closes, have no additional income and in many instances are highly indebted. The Minister for Social Protection has consistently outlined that despite constraints, the Government was determined to do its utmost to protect the most vulnerable in society. Among the most vulnerable in society at present, are the self-employed. This fact is borne out by the spokespersons for the St. Vincent de Paul and other similar organisations.

The current system in Ireland is completely unfair, based on antiquated, bureaucratic and cumbersome legislation. There is something badly wrong with a system that provides automatic welfare entitlements to employees in the event of a company closing, but will not give a red cent to the company owner, leaving thousands of individuals and their families on the breadline.

Self-employed persons who pay Class S PRSI are not entitled to claim Jobseekers Benefit. Instead they must satisfy a means test in order to claim Jobseekers Allowance. This means test is more complex than for former employees and gives rise to delays. Employed persons who wish to claim Jobseekers Benefit at the cessation of employment are entitled to do so based on the number of Class A PRSI contributions that they have made. This is an inherently unfair system which immediately penalises the self-employed, having no regard for the revenue and employment they may have created in the economy in the preceding years.

The State is treating the self-employed entrepreneurs as second class citizens and is ignoring the significant taxes and jobs generated by these individuals, which, in income terms, far outweigh the social welfare payments that they might receive. The failure to provide supports to entrepreneurs, who have lost their livelihoods, sends out the wrong message in promoting an enterprise culture and disregards and disrespects the significant contribution of these individuals to the Economy”.

In fact the system is driving our entrepreneurs to emigrate, in total contrast to the US where business failure is regarded as a badge of courage and entrepreneurs carrying the scars of business are seen as local heroes.

The facts are that a self-employed person is treated differently to their employees under the code:

#### EMPLOYEE

- Immediate entitlement to Benefits
- No means test.
- Personal savings not assessed.
- Other income not assessed.
- Cohabitee income not assessed.
- Value of All Property totally ignored.
  
- Invalidity – covered.
- Disability – covered.

#### SELF EMPLOYED

- No immediate entitlement.
- Fully means tested.
- All savings fully assessed.
- All Income fully assessed.
- Cohabitee income fully assessed.
- Value of property, other than family home fully assessed.
- Invalidity – Not covered.
- Disability – Not covered.

The most recent report from the Advisory Group on Tax and Social Welfare<sup>2</sup> notes that the means test for self-employed is more complex than it is for employed persons. The report suggests remedying this unfair situation through measures such as income disregards and changing the treatment of spousal earnings from self-employment. These recommendations must be implemented immediately to ensure greater parity between the treatment of employed and self-employed persons.

The recommendation of the Advisory Group on Tax and Social Welfare to increase the contribution by 1.5% for contingencies related to long term ill health and incapacity ignores the current realities of our business environment where many owner-managers simply cannot afford increased PRSI bills at this time. The Association proposes a solution, which is current in many EU countries and takes account of the trends towards new forms of self-employment, in that the self-employed and proprietary company directors be allowed choose a higher PRSI contribution for themselves to guarantee equal status if unemployed.

**Ireland compares poorly with our EU counterparts on this issue.** In most EU Member States social welfare coverage is more comprehensive, particularly in relation to work acquired injuries, than it is in our system. The lack of entitlement to Illness Benefit and Invalidity Pension is particularly problematic and unjust.

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<sup>2</sup> *Third report: Extending Social Insurance Coverage for the Self-Employed*, Advisory Group on Tax and Social Welfare. May 2013. Released September 2013.

The Irish system is happy to allow the self-employed to generate employment and wealth and to pay higher tax rates but in the event of these persons becoming ill or incapacitated they find themselves without the support given to their employees. This is an economically unsound disincentive to entrepreneurship as well as a morally repugnant state of affairs.

The Association recommends that the self-employed be allowed to choose a voluntary higher PRSI contribution to guarantee equal status with PAYE workers in relation social welfare entitlements. The most recent report by the Advisory Group on Tax and Social Welfare advised that such a system could lead to 'bad risks' and suggested that such contributions be compulsory.

Entrepreneurs should be given the very simple choice of opting in or out of an improved benefit system. If they choose to pay a higher PRSI charge voluntarily they should be entitled to all of the same benefits as their employees. Entrepreneurs who decide to continue to pay Class S PRSI with no top-up contribution would continue to claim the same benefits as are currently available.

**The report also notes that awareness of the entitlement to Jobseekers Allowance for the self-employed is low.** This situation cannot be allowed to continue and the recommended awareness campaign by the relevant departments must be launched immediately. Information deficits on the part of the self-employed regarding entitlements to social welfare payments and social insurance contributions must be rectified. The government has a responsibility to repay the significant contribution of entrepreneurs by ensuring that they have all of the relevant information necessary in the unfortunate event of their business closing.

It is clear that the current system treats the self-employed as second class citizens and effectively punishes them for being wealth creators and employment generators. In addition to hindering the creation of an entrepreneurial culture, this situation provides no incentive for people to conduct their business dealings within the legal frameworks. If there is no benefit to complying with self-employed tax laws and regulations certain unscrupulous people will simply conduct their business dealings 'off-the-books'. The system, as it stands, is an incentive for shadow economy activity.

It is bad enough that the self-employed are 'crippled' by the loss of their business and in many cases, their life savings, without being further penalised and humiliated by the State. What is urgently required is the reform of the Social Welfare Code to ensure that the self-employed, who become unemployed, are treated more sympathetically than is the case at present and are afforded equal opportunity to avail of the same social welfare entitlements.

**ISME therefore recommends that**

- **Self-employed and proprietary company directors be allowed choose a higher PRSI contribution for themselves to guarantee equal status if unemployed. This can be introduced as a simple choice of opting in or out of an improved benefit system. If they choose to pay a higher PRSI charge voluntarily they should be entitled to all of the same benefits as their employees. Entrepreneurs who decide to continue to pay Class S PRSI with no top-up contribution would continue to claim the same benefits as are currently available.**
- **The method of assessing the self-employed for Jobseekers allowance should be simplified with regard to income, spousal income, assets and savings.**
- **A national awareness and information campaign should be conducted, aimed at the self-employed in relation to entitlements and benefits and the effect of voluntary contributions. Information on the classification of different types of employment and the difference between contracts of and contracts for service must be included.**
- **The Association acknowledges that it is not the role of the social insurance system to promote and encourage entrepreneurial activities. However we must change the system that acts as a disincentive and inhibitor of entrepreneurship which significantly and unnecessarily penalises the self-employed.**

As stated at the beginning, we rely on the members of the Oireachtas to understand not only the role but also the needs of the SME sector and the needs of the 324,500 citizens who are discriminated against, because of their status as self-employed.