

Guide to Jobseeker's Allowance for freelancers

PCG: supporting and protecting freelancers, contractors and consultants

If you are out of contract for a particularly long period of time, to the point where it is causing you serious financial hardship, it may be wise to initiate a claim for Jobseeker's Allowance (JSA). However, your freelance status will affect your eligibility for JSA in a number of ways. You must be working less than 16 hours a week to claim JSA.

What is Jobseeker's allowance?

Jobseeker's allowance is a basic allowance designed to help with the cost of living, intended for those who are unemployed and actively seeking work. It aims to encourage claimants to find work by being a "conditional benefit". Claimants are required to sign a "Jobseeker's Agreement" forcing them to take specific steps to look for work, ranging from attending compulsory courses to providing proof that job applications have been made.

It can provide a useful supplementary income, helping contractors who are struggling to pay bills and household expenses. Depending on what kind of NI contributions you pay, you may have to fulfil certain means-tested eligibility criteria.

The term "Jobseeker's Allowance" in fact refers to two different benefits:

- Contribution-based Jobseeker's Allowance, JSA (CB), which is not means tested, but requires a minimum amount of Class 1 NI contributions to have been made in the last two tax years.
- Income-based Jobseeker's Allowance, JSA (IB), which is means-tested, taking into account savings and income.

To claim JSA, go to <http://www.jobcentreplus.gov.uk/> or call 0800 055 6688 (8am - 6pm Monday to Friday).

Contribution-based Jobseeker's Allowance

This benefit is what most people are referring to when they talk about "JSA" or "the Dole". It currently stands at £47.95 for under 25s and £60.50 for over 25s. After 9th April

2009 this will rise to £50.95 and £64.30 respectively. It is paid for a maximum of 6 months.

National Insurance Contributions

In order to be eligible you must have paid, or be treated as having paid Class 1 NI contributions, so if you are a sole trader or operate in a partnership (i.e. you pay Class 2 or 4 NICs) you will be ineligible. If you are paid a salary by your limited company, you will have paid Class 1 NICs and so are likely to be eligible.

There are two contribution conditions that need to be satisfied:

To meet the first condition full Class 1 NICs must have been paid in the relevant tax year on earnings that total at least 25 times the weekly "Lower Earnings Limit". The Lower Earnings Limit (LEL) is the point at which you become eligible for contributory benefits, the relevant tax year is either one of the last two completed tax years before the benefit year of the claim. The benefit year starts on the first Sunday of the calendar year in which you make a claim.

e.g. If you make a claim this year (Benefit Year 2009), you must have

paid full Class 1 NICs on earnings of:-

£2,100 in tax year 06/07 which is 25 x £84 per week - the LEL for 06/07, OR

£2,175 in tax year 07/08 which is 25 x £87 per week - the LEL for 07/08

To meet the second condition you must have either paid or have been credited with Class 1 NICs on earnings that total at least 50 times the weekly "Lower Earnings Limit" in both of the last two complete tax years before the benefit year of the claim. You are "credited" with a Class 1 NI contribution for each week you receive certain benefits such as JSA, Incapacity Benefit and Carers Allowance.

For example, if you claim in the benefit year 2009, you will meet the second condition if you paid Class 1 NICs or were credited with Class 1 NI on earnings of at least:

£4,200 in tax year 06/07 which is 50 x £84 per week - the LEL for 06/07 AND

£4,350 in tax year 07/08 which is 50 x £87 per week - the LEL for 07/08



If your salary was above the Lower Earnings Limit (LEL), but below the "Primary Earnings Threshold" (PET- the point at which you start paying NICs) you will not have paid any NI contributions. If this was the case then you are still treated as having paid NICs for any period when this applies, thus your eligibility is unaffected.

You are treated as having paid NI Contributions if you had a salary:-

Above £4,368 but below £5,035 in tax year 06/07
(PET = £97pw)

Above £4,524 but below £5,225 in tax year 07/08
(PET = £100pw)

Above £4,680 but below £5,435 in tax year 08/09
(PET = £105pw)

Note that here, "salary" does not include dividends, but refers only to the salary you pay yourself through your company's payroll. Please also note the figures given above may change without notice. Before coming to any conclusions about your eligibility check first, either with Jobcentre Plus, or by using an online benefits calculator. (See below for details)

Umbrella Workers

If you have been working via a PAYE umbrella structure, and if that umbrella is not paying you for periods out of contract, it is likely that you will have met the above criteria – check your payslips, or with the umbrella provider, if in doubt.

Pensions and Contribution-based JSA

Income from an occupational pension, private pension or similar over £50.00 per week is deducted penny for penny from the amount of Contribution-based JSA. So if you have a private pension of £55.00 per week, £5.00 is deducted from the Contribution-based JSA payable each week.

Income-based Jobseeker's Allowance

Income-based JSA is available regardless of NI contributions, thus if you are a sole trader and therefore treated as "self employed" for tax purposes (i.e. you pay Class 2 or Class 4 NICs) you could be

eligible for this, even though you cannot claim Contribution-based JSA. It is subject to rigorous means testing, so earnings, pensions and other income are taken into account.

The basic benefit rate for a single person is the same rate as JSA (CB). Extra amounts are paid for couples and lone parents and additional "premiums" are also added to special groups e.g. if you are disabled or a carer.

You can claim both Contribution-based JSA and Income-based JSA at the same time. Even if you are not eligible for Income-based JSA at the start of your claim, as your income is considered too high, you may become eligible after your JSA (CB) has run out.

Couples (JSA IB)

Unlike Contribution-based JSA, if you are married or in a couple, and you live together, you can claim for our partner and could receive a "couple's rate" of £94.95 (£100.95 after 9th April 2009). This will depend on the amount of income you and your partner actually receive. It is assumed by the Government that when cohabiting, a couple is co-dependent financially. As a result, eligibility considerations may apply to both partners. Where one of you works but the other does not, this may seriously affect your eligibility. In many cases both partners will need to make a 'joint claim' and meet all the eligibility conditions. This will apply if either of you was born after 28 October 1947 or you do not have any dependent children living with you.

"Capital" - Savings and Dividends

Jobcentre Plus define savings and similar as "capital". If you have capital/savings of more than £16,000 you will be ineligible for Income-based Jobseeker's Allowance.

If capital/savings greater than £6,000 are possessed the amount of JSA is reduced. This is normally by £1 per week for every £250 of capital/savings or part thereof, up to £16,000. If you have savings of more than £16,000 you will be ineligible for Income-based Jobseeker's Allowance.

If you are a limited company director, then "Savings" as defined by Jobcentre Plus, includes both business and personal "capital". Thus, business assets, including the total value of your company, will usually be taken into account as "capital" when means-testing. In practice, this means that if you have a reasonable "buffer" of funds either in your company or set aside as personal savings, you will not be eligible for JSA (IB) until the total of all these funds has been diminished to less than £16,000.

If you pay yourself with dividends in addition to your salary, these may count towards your savings limit. Jobcentre Plus will ascertain whether you are the "beneficial owner" of any dividends by ascertaining whether you still have access to this money, and if you do, it could contribute towards the £16,000 savings limit of JSA (IB). In order to prove this, you may have to be prepared to detail and explain any recent significant and regular drawings from your business.

If you are a "self employed earner",



i.e. you are a sole trader, operate in a partnership, or are a Class 2 NIC payer, and you personally own all or some of the assets of your business, then business assets may be ignored as capital. If you have ceased working as a self employed earner when you claim, you are allowed a reasonable period to allow your business assets to be sold and if you have stopped work due to ill health or disability your business assets can be ignored for up to 26 weeks. It is sometimes difficult to distinguish between business and personal assets. The test is whether the assets are part of the fund employed and risked in the business.

Other Benefits

JSA(IB) is a "passport" benefit - if you are eligible, your entitlement to other benefits is often also secured. In particular maximum housing and council tax benefit are usually available to JSA(IB) claimants. The forms for these benefits will typically be included in the claim pack you receive for either type of Jobseeker's Allowance. It is also much easier to claim free prescriptions, free dental treatment, and free school meals. Your claim pack will detail many of the additional benefits available to you.

You will be assessed for the benefits below at the same time as your assessment of eligibility for Jobseeker's allowance, if you choose to claim them.

Housing Benefit

Housing benefit is intended for those who rent their property. The amount you receive varies depending on the level of savings and income you possess, in much the same way as for Income-based Jobseeker's Allowance. The maximum Housing Benefit payable is your rent less any charges for water, fuel or similar bills if these are normally included with it, and a deduction for any "non-dependents" (people over 18 other than your partner) who live with you.

If you have a private landlord, your local authority may decide how much rent can be paid according to the number of bedrooms that your family is assessed as needing. For example, a couple with two children under 10 are assessed as needing two bedrooms. The maximum amount of rent that can be paid is then based on the rent for that number of bedrooms in the area



around where you live, and not the rent you actually pay.

Council Tax Benefit

Eligibility for Council Tax benefit is assessed at the same time as Housing Benefit using the same data you provide. Usually, successful JSA (IB) claimants will receive the maximum Council Tax benefit, which would cover 100% of your Council Tax bill. Even if you do not succeed in receiving JSA (IB), an application for this benefit should still be made.

Help paying your mortgage and other housing costs

If you are entitled to Income-based JSA you may be able to get help with the mortgage interest on your home (as long as it is not a second home). This is called "Support for Mortgage Interest" (SMI).

"Support for mortgage interest" pays the interest on the first £200,000 of any outstanding mortgage, for up to two years (different rules apply if you have claimed SMI before 5 January 2009). The interest rate currently paid by the government for SMI is 6.08% and has been fixed until at least July 2009. For many claimants this may be higher than the interest they currently pay on their mortgage, meaning it will cover some of their repayments also.

Eligibility for SMI is broadly the same as for JSA (IB), though it will normally only be paid once you have been in receipt of Income-based JSA for 13 weeks. If you are refused a claim for Income-based JSA, because your income or savings are too high, you will still be treated as having served the 13 week waiting period in some

cases. This occurs if you receive Contributory JSA for 13 weeks, and if you then subsequently become eligible for Income-based JSA.

If you qualify for Income-based JSA you can also get help with eligible service charges; ground rent and interest on loans for certain repairs and improvements to your home.

Proving you have stopped working as a result of market conditions

Both types of Jobseeker's Allowance require you to prove that you have stopped working as a result of market conditions and not "voluntarily", as "sanctions" (i.e. ineligibility for a set period and/or a reduced rate) are applied to those who leave their job without good reason. For a freelancer, this would involve being able to provide evidence that market conditions have made your trading environment unfavourable.

Proof of the last 12 months' worth of earnings may need to be provided - including evidence that these have reduced enough to make running the business difficult, to the point where it is either unviable, or the business is struggling to meet its costs. This evidence needn't be in the form of formal accounts, however in most cases Jobcentre plus will want to see:

- Profit and loss accounts for a 12 month period ending in the year of your claim
- Trading accounts for a 12 month period ending in the year of your claim
- Any balance sheets from the last year

- Contact details for an accountant, if you have one
- Details if you have sold any business assets shortly before your claim

Eligibility Considerations

Both type of JSA require that you are:

- Resident in Great Britain throughout the claim
- Unemployed, or working less than 16 hours a week
- Not in full time education (more than 16 hours of "guided learning", e.g at an FE college, per week)
- Capable of work (If you are not deemed to be capable of work, then you may be eligible for "Employment and Support Allowance")
- Not unemployed of your own doing, i.e. you must not have been dismissed from your last contract due to misconduct nor must you have left voluntarily without good reason.

Your obligations when claiming JSA

Claimants must sign a "Jobseeker's Agreement" committing themselves to be:

- Available for work; this means the claimant will:
 - immediately accept a job offer
 - work for a minimum of 40 hours a week
 - not be unreasonable in the nature, hours, or rate of any job, unless a reasonable prospect of obtaining work can be shown by the claimant.
 - There are some exceptions to the above if you have caring responsibilities or a disability subject to you having a 'reasonable prospect of finding work'
- Actively seeking work. This means the claimant will take reasonable steps such as:
 - CV writing
 - Attending classes, interviews etc.

Judging whether this condition is

being met is at the discretion of JobCentre Plus Staff, but many contractors have found keeping a log of contracts applied for and regularly adding to it meets this criterion.

These agreements vary from case to case and can commit claimants to very specific measures.

JSA is only meant as a temporary solution whilst you get "back on your feet". Since it is possible to continue working up to 16 hours a week when claiming JSA, a contractor need not close their business down completely. However, a claimant may be forced, under a "Jobseeker's Agreement" to make up the total to at least 40 hours a week with supplementary employment, or with a compulsory course or training scheme. The exact procedure will differ on a claim by claim basis, depending on the "Jobseeker's Agreement" signed.

In most cases, a claimant is usually allowed:

- 13 weeks in which to only seek employment in their regular line of work/sector of employment. In practice for a freelancer this would mean seeking a contract in your existing line of business. This is helpful if you simply want financial help whilst you try and secure a new contract on your own terms, though you must provide evidence, at regular meetings with Jobcentre staff, that you are actively attempting to secure work for your business. This could be anything from keeping a log of jobs applied for to renewing your CV or company profile.
- 26 weeks to restrict the salary

or rate of pay you are willing to accept. Additionally, in the first 13 weeks, a claimant is expected to accept work up to an hour's commute from their home; after this period up to 90 minutes.

- Some or all of the above limits can be disregarded if you are able to persuade Jobcentre staff that a reasonable prospect of finding work still exists without them.
- These are guidelines only, which means in some cases, these conditions may not exist at all in your Jobseeker's Agreement, e.g. you may have no provision to restrict the salary you are willing to accept, though this would only be in exceptional cases

If you are 60 or over, instead of claiming JSA, Pension Credit may be available.

Working less than 16 hours a week

The amount of Contribution-based JSA payable is reduced by the full amount of any earnings from employment or self employment over £5.00 per week (£20.00 for people engaged in certain jobs such as reserve army, part time fire-fighters) You are also not entitled to Contribution-based JSA in any week your earnings exceed your 'prescribed amount'. This is the amount of JSA payable plus either the £5.00 or £20.00 "disregard" minus one penny. For example, Mary is entitled to Contribution-based JSA of £60.50. Her earnings disregard is £5 a week so her net earnings cannot be more than £65.49 per week (Contribution-based JSA of £60.50 + £5.00 – one penny.)



For Income-based JSA, any earnings over a small earnings "disregard" will automatically be deducted penny for penny from your entitlement to Income-based JSA, however these disregards differ depending on circumstances, e.g. if you are disabled, a carer, a lone parent, etc.

Other ways of assessing eligibility

There are a number of ways of finding out more about whether you are eligible for Jobseeker's Allowance. Online benefit calculators exist, both official (<http://benefitsadviser.gov.uk>) and unofficial (entitledto.co.uk). A guide to benefits can also be obtained from CPAG (<http://www.cpag.org.uk/publications/wbtchandbook/>), who publish definitive literature on welfare often used by local authorities. Citizens Advice Bureau (<http://www.adviceguide.org.uk/>) can also help.

- Entitledto - an online benefits calculator
<http://entitledto.co.uk>

- Benefits Adviser - the Government's own calculator, with information about eligibility
<http://campaigns.direct.gov.uk/benefitsadviser/>
- Welfare Benefits and Tax Credits Handbook - useful guidebook to benefits, see also 'useful links'
<http://www.cpag.org.uk/publications/wbtchandbook/>
- Citizen's Advice Bureau 'Advice Guide', website with large section on benefit eligibility
<http://www.adviceguide.org.uk/>

Claiming Jobseeker's Allowance

To claim JSA, call the JSA helpline (0800 055 6688). You will be asked some basic questions assessing your eligibility, and following this a meeting would be arranged at your local Jobcentre Plus. At this meeting you would be expected to provide documentation supporting an application. Alternatively, it is also possible to initiate an online claim at <http://www.jobcentreplus.gov.uk/>

www.jobcentreplus.gov.uk/ where additional leaflets and guides can also be found.

If you are likely to be eligible for Jobseeker's Allowance you should initiate a claim as soon as possible, as you may be asked to justify any delay in claiming, and this may negatively impact upon your eligibility. This also applies for benefits associated with Income-based Jobseeker's Allowance, such as Housing Benefit or Council Tax Benefit.

Disclaimer: *this document is provided for general guidance only and does not constitute professional advice. PCG accepts no liability for losses arising from any action taken on the basis of this guidance.*

About PCG

PCG was founded in 1999. PCG membership includes insurances, access to free tax and legal helplines, advice manuals, online members' forums and standard contract templates, plus discounted legal, accounting and insurance services from PCG Affiliate members.

PCG's extensive advice on starting out as a freelancer is available to download for free from our website.

PCG has worked with the Recruitment and Employment Confederation to develop standard contracts for use by their member agencies.

PCG is committed to moving freelancers up the value chain and has developed a range of initiatives to enhance their value proposition to clients, known as the "quality family".

PCG ISO 9001 is the first ISO:9001 certification scheme developed specifically for small businesses; it allows small firms to obtain full UKAS-accredited certification at a fraction of the usual cost, opening up contract opportunities that would not otherwise be available.

The PCG Accredited Accountant scheme allows accountants who specialise in supplying services to freelancers to have their expertise independently checked and certified; freelancers can be confident that accountants displaying the PCG Accredited Accountant kitemark will have a thorough understanding of the intricacies of their way of working.

The PCG Umbrella is an ethical umbrella company. Working via an umbrella can be convenient but selecting a provider can be complicated: The PCG Umbrella's offering is based on the highest standards of service and compliance.

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