



Irish National Organisation of the Unemployed

Submission

to the

Advisory Group on Tax & Social Welfare

on

Self Employment & Social Insurance

November 2011

INTRODUCTION

The Irish National Organisation of the Unemployed (INOUE) is a federation of unemployed people, unemployed centres, unemployed groups, community organisations and Trade Unions. The INOU represents and defends the rights and interests of those who want decent employment and cannot obtain it. We promote and campaign for policies to achieve full employment for all. We also campaign for an acceptable standard of living for unemployed people and their dependents. The INOU is an anti-sectarian, anti-racist, non-party political organisation which promotes equality of opportunity within society. (*INOUE Mission Statement*)

On the focus of the call for this submission the Advisory Group's Terms of Reference note:

"To examine and report on issues involved in providing social insurance cover for self-employed persons in order to establish whether or not such cover is technically feasible and financially sustainable;" (1.b.)

The INOU welcomes the opportunity to make a submission on this issue. There are striking similarities and differences between this unemployment crisis and previous ones: one of the striking differences is the number of people who had previously been self-employed who now find themselves unemployed, feeling badly let down and socially unprotected by the system.

In this submission we will commence with current issues, most of which fall outside the remit of the AGTSW but which should inform the Group's deliberations on this issue. These issues also raise pertinent questions about the nature and type of Ireland's social protection system. As with so much of Ireland social services, Ireland's unemployment protections are a complex mix of social insurance and social assistance. And as the unemployment crisis deepens it is the social assistance provision which is playing the bigger part. It is also the only potential, though not necessarily accessible, option open to unemployed self-employed people at present.

CURRENT ISSUES

- **The INOU recommends the immediate improvement in the provision of accurate information at the local level.**
- **The INOU recommends greater clarity on the terms 'employment' and 'self-employment' in an increasingly atypical labour market.**

Since the beginning of the current crisis the INOU has received queries from unemployed self-employed people ranging from company directors to business owners to sole traders to professionals who work on contract over a range of time periods. Many of these callers are

angry that they appear to have no entitlement to any type/form of jobseekers payment or supports even though they were tax payers. An on-going concern for the organisation is the number of callers who have been lead to believe that they are entitled to nothing because they have no underlying entitlement to Jobseekers Benefit. A misconception perpetuated in the media who appear to be unable to distinguish between the social insurance payment Jobseekers Benefit and the means tested payment Jobseekers Allowance.

Even more disconcerting is the number of callers who have been told by their local Social Welfare Office that they have to de-register or divest themselves of their equipment when this is clearly not the case - and this is explicitly clarified on the Department's own website [.welfare.ie](http://welfare.ie). Over three years into the biggest unemployment crisis this state has ever experienced it is totally unacceptable that such misinformation is still evident. This matter must be addressed as a matter of urgency and would be an appropriate development given the Government's recent statement¹ that: *"We are committed to introducing a wide ranging suite of initiatives to improve the citizen's access to and interaction with Government services."* (p 3) A critical ingredient to any reform of public services is the provision of accurate up-to-date information communicated to the unemployed person in a pro-active and helpful manner.

The INOU is also keenly aware that a range of issues arise when people are working in a family business – when it is not entirely obvious whether the unemployed person was an employee or an owner and may depend on the nature of the family relationship and its influence on the structure of the business. There are particular gender dimensions to this scenario as many women work in family businesses or on the farm yet their work may not be formally recognised. Pro-active measures must be taken firstly to ensure that all those working in a family business have, where their role constitutes that of an employee only, access to the full range of Social Insurance Benefits as is appropriate to an employee. Secondly, they must be fully informed of the potentially negative welfare benefit implications wherein their working relationship is not formalised as a 'typical' employee.

Another issue that has come to the fore during this unemployment crisis is the number of people who did not appear to realise they were self-employed until they lost their jobs. In many cases of 'bogus' self-employment the Scope Section in the Department of Social Protection has successfully recognised the realities of the relationship between the 'employee' and the employer, subsequently re-classifying those persons as employees with an underlying entitlement Jobseekers Benefit payment. Where this issue was not clear, persons were unable to access any Social Welfare payments and had no option but to endure lengthy and difficult appeals with both the Revenue Commissioners and the Social Welfare Appeals Office. The lack of a definition of 'employment' and 'self-employment' in Irish employment law is problematic. At present decisions are reached on a 'what you do,

¹ Government Statement on Public Service Reform Plan, 17th November, 2011 www.per.gov.ie

how you do it and the terms and conditions under you are engaged' basis. In an increasingly flexible and atypical labour market the lines, for example, between an employee and a self-employed contracted employee are blurring and raise insider / outsider questions about the current nature and scope of social protection.

SELF EMPLOYMENT & SOCIAL INSURANCE

- **The INOU recommends the introduction of a voluntary opt-in scheme for self-employed people so that they can build up their social insurance coverage.**
- **A variation on PRSI Class A could be used to facilitate self-employed people to make a combined contribution for themselves both as an employer and an employee.**

At present self-employed people pay PRSI Class S which provides cover for:

- Widow's and Widower's (Contributory) Pension
- Guardian's Payment (Contributory)
- State Pension (Contributory)
- Maternity Benefit
- Adoptive Benefit
- Bereavement Grant

In the AGTSW two questions are posed:

- Is social insurance cover for self-employed people technically feasible?
- Is social insurance cover for self-employed people financially sustainable?

The INOU believes that the short answer to both of these questions is yes.

Technically feasible

On the issue of feasibility it is interesting to note what occurs in other jurisdictions. In the USA for example both the employed and the self-employed pay a 'Social Security tax'. In general the self-employed pay twice what the employer pays for an employee with some exemptions. Amongst these exemptions is a 2% lower rate for people trying to secure /create employment through self-employment in the current crisis. In many European countries self-employed people opt-in to the social insurance scheme; while their rates / taxes varying depending on the nature of their business. For example, in France the self-employed can pay up to 45% of their net income which covers a range of benefits including family; health; illness; and pensions. However, there are exemptions including unemployed

people starting up a business; and there is a different approach for micro-enterprises where the tax is calculated on a % of their turn-over.

PRSI Class A is currently broken into sub-classes depending on the employee's income. The employer's contribution varies depending on the employee's classification and on the reckonable pay which is different for employees and employers. One avenue open to the Government is to allow the self-employed to opt into Class A and the PRSI payment they make then depends on the level of income they receive as an employee and the relating employers PRSI contribution. Alternatively the Government could decide to create a new sub-class to Class A whereby the self-employed continue to pay 4% of their annual income (subject to a minimum payment of €253) plus the relevant employer's contribution: currently charged at a half rate of 4.25% if under €356 or 10.75% if over €356. The same terms and conditions would then apply for the unemployed self-employed as they do for the unemployed employee. For example, the level of average weekly earnings would impact on the level of rate of Jobseekers Benefit; to receive JB for a year would require the payment of at least 260 contributions. Clearly this development would not have an impact on those unemployed people who have lost their self-employment: to address unemployed self-employed people's current difficulties will be a task for the social assistance system. However, the inclusion of self-employed people would be a welcome development to Ireland's social insurance model which is currently limited.

Financially sustainable

On the issue of financial sustainability a broader question must be posed about the structure of Ireland's social insurance model. In the Ministerial Brief published by the Department earlier this year it noted:

"The social insurance system is based on two fundamental principles: The Contributory Principle whereby there is a direct link between contributions paid and entitlement to a varying range of benefits and pensions that are payable as a right – if and when particular contingencies arise, and The Solidarity Principle whereby contributions paid by insured persons are not actuarially linked to benefits but are instead redistributed to support contributors who are more vulnerable. It is an expression of solidarity between both earning groups and generations." (p135)

One of the critical issues facing Ireland at present is its income stream: Ireland's tax base is too narrow, an issue exacerbated during the Celtic Tiger years. While the current focus on austerity and cuts have impacted negatively on the two principles underpinning Ireland's social insurance model. The INOU along with other organisations in the Community Platform

commissioned research into the development of a progressive taxation system². One of the issues this research highlighted was the gap between Ireland's social insurance taxation and that of most European countries. In 2009 Ireland's social insurance tax take was 5.8% of GDP while in the EU-15 it was 12.3%.

The introduction of the Universal Social Charge was cited as an attempt to start to plug Ireland's income / expenditure gap. The INOU was critical of this development for a number of reasons. Firstly it brought people on very low incomes into the tax net; secondly the highest rate of payment applies at less than the National Minimum Wage; and thirdly it was to be called a 'contribution' which inferred that people would build up entitlements through this payment. The INOU is aware that the USC per se is not part of the AGTSW remit. However, its' re-designed to become more equitable and progressive; and the inclusion of its payments into the Social Insurance Fund (in keeping with its original proposed name) are pertinent to the focus of this submission.

The Community Platform recommended that Ireland's social insurance contributions move towards European levels overtime with a commensurate improvement in services so that citizens see the value of collective action both from the perspective of a 'contributory principle' as well as a 'solidarity' one. The wider inclusion of self-employed people in the current social insurance scheme would be an interesting starting point; and would help to build up a greater sense of social protection and solidarity amongst a not insignificant group feeling badly let down in the current crisis. It would also be an important and timely development as current Government policy encourages unemployed people to address their unemployment through self-employment.

In conclusion the INOU urges action on this issue including:

- **The introduction of a voluntary opt-in scheme for self-employed people so that they can build up their social insurance coverage.**
- **A variation on PRSI Class A to facilitate self-employed people to make a combined contribution for themselves both as an employer and an employee.**
- **The immediate improvement in the provision of accurate information at the local level.**
- **Greater clarity on the terms 'employment' and 'self-employment' in an increasingly atypical labour market.**

FOR FURTHER INFORMATION CONTACT

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² "Paying Our Way, Progressive proposals for reforming the Irish tax system" 2011 www.communityplatform.ie