

## FEATURE

Catrin Ormerod  
Office for National Statistics

# What is known about numbers and 'earnings' of the self-employed?

## SUMMARY

There is currently very little information available about the so-called 'earnings' of the self-employed, particularly because by definition they do not earn a salary or wage.

This article firstly identifies the self-employed in a number of different sources using two perspectives: the individual perspective obtained through self-classification in household surveys and the legal perspective set out by HM Revenue and Customs (HMRC). This work suggests that self-classification as self-employed in household surveys can be adjusted towards the legal perspective using information on the types of self-employment and payment of tax and National Insurance.

The 'earnings' of the self-employed are then examined using information from household surveys and compared with aggregate figures published by HMRC.

There is a wealth of information on earnings in the UK, mainly collected by the Office for National Statistics (ONS) (see Ormerod, 2006a). Earnings and pay refer to the remuneration (wages and salaries) provided directly by employers to employees in return for their supplied labour. Those who own and operate their own business or professional practice, sometimes in conjunction with a partner, are considered as self-employed, although this is only one aspect of the perception of self-employment. By definition, therefore, the self-employed do not receive any earnings because they do not supply any labour to an employer.

Consequently, people who are self-employed do not generally appear in estimates of 'earnings', although clearly they are earning an income. The concept of the 'earnings' of the self-employed therefore exists although it has not been clearly defined; information on the 'earnings' of the self-employed is largely an unmet need.

National Accounts estimates the impact of self-employed 'earnings' on the economy as the 'mixed income' component of the income measure of gross domestic product (GDP(I)). Another ONS project is currently in the process of comparing labour market sources of information on the 'earnings' of the self-employed with mixed income figures from National Accounts. Labour market sources therefore have a missing set of 'earnings' for a group. It is difficult to make an assessment of the contribution

of this group and to assess their impact on the labour market. This article aims to shed some light on this issue by examining a range of sources in a consistent framework.

A number of difficulties are involved in measuring the 'earnings' of the self-employed, not least what is meant by this term. The first, and fundamental issue, is the definition of the self-employed themselves. It is not possible to ascertain the 'earnings' for this group if they cannot first be identified.

There is no single definition of the self-employed. This investigation therefore starts by examining various perceptions of the self-employed and linking these to sources of information. A number of investigations have been carried out into the definition of the self-employed (see Burchell, Deakin and Honey (1999) for an example) but there has been no comprehensive review of the information that is available on the self-employed. ONS has also carried out work in this area, in the 'Review of Employment and Jobs Statistics' (ONS, 2006a) and most recently the 'Review of Workforce Jobs Benchmarking' (ONS, 2007).

This article brings together the sources of information on the numbers and 'earnings' of the self-employed for the first time. This investigation is then expanded to identify self-employed individuals in surveys that also hold information on 'earnings'. The definition of the 'earnings' of the self-employed is then investigated and sources of information on these 'earnings' are assessed.

## Definitions and sources

### Who are the self-employed?

There is no clear definition of the self-employed. Broadly there appear to be two perspectives on the definition, the legal aspect and the view of the individual. The legal perspective may change, but individuals' perceptions of their status often do not accompany this change.

HM Revenue and Customs (HMRC) collects tax from the self-employed and therefore needs to identify these individuals. Guidelines are laid out by HMRC and the Employment Rights Act of 1996<sup>1</sup> to identify the characteristics of the self-employed. However, in any dispute or tribunal, the decision ultimately rests with the courts and they generally follow their own guidance by applying case law to the individual's situation. A legal definition of the self-employed does not therefore exist but HMRC sets out guidance to allow individuals to classify themselves as self-employed based a number of questions. If an individual answers 'yes' to all of the following questions, it will usually mean that they are self-employed:

- can they hire someone to do the work or engage helpers at their own expense?
- do they risk their own money?
- do they provide the main items of equipment they need to do their job, not just the small tools that many employees provide for themselves?
- do they agree to do a job for a fixed price regardless of how long the job may take?
- can they decide what work to do, how and when to do the work and where to provide the services?
- do they regularly work for a number of different people?
- do they have to correct unsatisfactory work in their own time and at their own expense?

Due to the absence of a definition, these statements attempt to reflect the characteristics of people who are usually considered to be self-employed. None of the statements alone characterises an individual as self-employed. For example, many employees tend to work for a number of different people; however, for the self-employed, this is generally the case as they work for a number of different customers to maximise profit.

The International Labour Organisation (ILO) definition of self-employment jobs is

those jobs where the remuneration is directly dependent upon the profits (or the potential for profits) derived from the goods and services produced (where own consumption is considered to be part of profits).

The incumbents make the operational decisions affecting the enterprise, or delegate such decisions while retaining responsibility for the welfare of the enterprise. (In this context 'enterprise' includes one-person operations.)

Generally, in household surveys, individuals classify themselves as employed or self-employed. This particularly applies to the Labour Force Survey (LFS) which is collected according to the ILO definition in line with international guidelines; however, as this is not read out by the interviewer, it has no operational status. Put simply, generally the household surveys' definition of the self-employed is anyone who believes themselves to be so. There are a number of areas where the legal perception of the self-employed is inconsistent with individuals' perceptions.

For example, sole directors of limited companies are often entrepreneurs who have set up their own companies and in effect feel they are working for themselves. However, the company pays the director a salary or wage and HMRC would consider the individual to be an employee. Other groups of individuals are paid by agencies but consider themselves to be self-employed.

It can generally be assumed that if tax and National Insurance (NI) are deducted from an individual's salary before they are paid, then the individual is an employee according to the legal perspective. This may therefore be another way of adjusting figures on the self-classified self-employed to provide measures in line with the legal perspective. Some individuals, especially those who are subcontractors, may have income tax or National Insurance payments deducted at source (but not both) by whoever contracts them. In some cases, for example actors, NI is deducted but tax is not. If information on tax and NI is to be used to adjust the self-classification of the self-employed, this needs to take this difference into account.

The need to identify certain groups of individuals as employed or self-employed depends on the analysis required. ONS produces workforce jobs estimates which count the number of jobs in the economy.<sup>2</sup> It is the sum of employee jobs (measured by surveys of employers), self-employment jobs (from the Labour Force

Survey (LFS)), those in HM Forces, and government-supported trainees (from administrative sources). ONS identified the double counting of individuals in the workforce jobs figures during the 'Review of Employment and Jobs Statistics' (ONS, 2006a). This was also considered during the 'Review of Workforce Jobs Benchmarking' (ONS, 2007). This double counting is due to individuals appearing in business surveys and self-classifying themselves as self-employed in the LFS. Evidence from the LFS suggests that self-employment may be over-reported. In particular, many people classify their main job as self-employed but they subsequently say that they are the sole director of a limited company and/or are paid by an agency, which suggests that they are employees.

Other analyses on the numbers of the self-employed may require these individuals to be included. The focus here is not on deciding which perspective is the correct one, but on identifying individuals according to the different perspectives, so that appropriate analysis can take place. The 'Review of Workforce Jobs Benchmarking' (ONS, 2007) made one recommendation relating to the reporting of the self-employed: ONS should consider, with others, whether there is a suitable source for 'self-employment from a business perspective' that can complement the workforce jobs estimate of employee jobs. This definition of the self-employed would be equivalent to the legal perception discussed above.

The ONS labour cost framework identifies the 'earnings' of the self-employed as an area where there is currently little information (Ormerod, 2006b). There is interest in the impact of this group but no clear requirement at the moment for a particular type of analysis. Possible analyses could fall into a number of areas. There may be interest in the earnings from the legal or individual's perspective. This information could be derived from a number of sources depending on the requirement. An interest in the 'earnings' of entrepreneurs for example could be examined by looking at three areas: the basic income in ASHE of sole directors (this would exclude the majority of their income which appears as profit), the 'earnings' information of self-employed sole directors from household surveys or the profits of companies in business data. This article therefore reviews the information available on these 'earnings' and describes an initial analysis of this information to examine the quality and availability of data in this area.

## Information from household surveys

### Labour Force Survey (LFS)

The UK LFS<sup>3</sup> is the main source used by ONS to measure the numbers of the self-employed. The LFS is a survey of households living at private addresses in the UK. It is the main source for information on the labour market in the UK. It is a survey of approximately 53,000 households every three months. As well as private households, the survey includes people living in student residence halls<sup>4</sup> and NHS accommodation. Estimates of the numbers of self-employed jobs are obtained from the LFS to contribute to the workforce jobs estimates.

The LFS asks people 'Were you working as an employee or were you self-employed?' The individual can respond employee, self-employed, government scheme or unpaid family worker.

Those who respond as self-employed (and 'employees' who are not paid a salary or wage) can select up to four of the following sub-classifications in a follow-on question:

- paid a salary or a wage by an agency
- sole director of their own limited business
- running a business or a professional practice
- a partner in a business or a professional practice
- working for themselves
- a subcontractor
- doing freelance work

Work carried out during the review of workforce jobs involved estimating the overcounting in the workforce jobs estimate due to sole directors of limited companies and agency workers using this information. To date, official estimates of the self-employed have not been produced on the legal perspective from the LFS as international requirements state that self-classification should be used. The next section attempts to use follow-on information to adjust the figures of the self-classified self-employed towards the legal perspective in order to allow alternative analyses.

The issue of double counting self-reporting for self-employed individuals was identified during the 'Review of Employment and Jobs Statistics' (ONS, 2006a). This resulted in the development of a new question to try and identify further individuals who appear in household and business surveys based on the payment of tax and NI.

In 2005 an LFS pilot was carried out which asked respondents who was

responsible for the payment of their income tax or own NI contribution. The aim of the question is to allow the number of respondents to be identified who state that they are self-employed but their income tax is paid through a PAYE scheme. Cognitive testing showed that the question was generally understood by the respondents. However, further discussions by experts suggested that the wording of the question should be changed. The question was implemented in 2007 and is worded, 'Do you pay your own NI and tax or is this usually deducted by the organisation(s) you work for, for example, your client, employer, agency etc?' The use of 'and' instead of 'or' eliminates certain employed individuals who pay their own tax or NI but not both, for example actors. The possible responses to the question implemented are:

- pay own NI and tax
- pay own NI or tax but not both
- NI and tax is deducted by organisation

Information from this question is not yet available for analysis. Once the information is available, ONS will be carrying out an initial analysis before releasing the information to researchers.

Information on self-employed from the LFS is published in the LFS quarterly supplement and is also available in the Labour Market Statistics first release and on NOMIS.<sup>5</sup> In the LFS quarterly supplement, the data are provided quarterly and are broken down by sex, part-time and full-time, occupation, socio-economic classification, industry and hours worked.<sup>6</sup>

When an individual self-classifies as self-employed, the respondent is not asked for any information on hours or earnings as these are outside the scope of the survey. Despite the LFS being the main source of information on the self-employed, it cannot be used to examine their 'earnings'.

### Family Resources Survey

The Family Resources Survey (FRS)<sup>7</sup> is a continuous survey of private households and was commissioned by the Department for Work and Pensions (DWP). The survey started in 1992 to meet the specific information requirements of DWP and was designed to provide information about living standards and examine how people interact with the social security system.

A Family Resources Survey Publication<sup>8</sup> is produced from the FRS which provides figures on the total number of self-employed as a percentage of its sample size. The data are broken down by age, ethnicity

and region. The FRS does not produce any statistical outputs of the earnings of the self-employed but has been used as a source for earnings information in analyses in the past. 'Self-employment in the UK labour market', Weir (2003) is one such example.

The FRS differs from the LFS as the interviewer attempts to move the self-employed classification towards the legal or 'business' perspective using guidance and checking questions. Initially, individuals in the FRS are asked to classify themselves as self-employed using the question, 'Are you working as an employee or self-employed (including Business Start-Up)?'. Within the survey, self-employed people are considered to be working if they work in their own business, professional practice or firm for the purpose of earning a profit even if the enterprise is failing to make a profit or is just being set up.

There are a number of checking questions included in the FRS which result in some individuals initially self-classifying as self-employed then being reclassified as employees. These checking questions do not result in all responses being classified in the same way, so it is possible to maintain the original classification even if the checking question suggests this may be incorrect. However, the original response is not recorded for those which are changed. The FRS can therefore be adjusted further using the checking questions. There is also a follow-on question where individuals are asked to describe the situation that best describes them and can select one from the following list:

- employee
- running a business or professional practice
- partner in a business or professional practice
- working for myself
- a subcontractor
- doing freelance work
- self-employed in some other way

Those responding with the last six descriptions are then asked 'In this job/business are/were you the director of a limited company?' If the individual responds positively, then a checking question is included to ask whether the respondent is on the PAYE system and do they get a payslip. If the respondent answers yes then their response to the classification question may be changed to 'employee' on probing. In order to distinguish directors who are self-employed from those who are employees, an additional question is

asked of this group, 'In this job/business are your National Insurance contributions deducted at source?' Except under special circumstances, responding positively to this question results in the individual being coded as an employee.

In order to further distinguish the self-employed from employees, an additional question on tax is included, 'Is either income tax or your regular National Insurance contribution deducted at source?' Respondents can reply 'Income tax deducted', 'Regular NI deducted' or 'No, neither deducted'. This question can be used in a similar way to the new LFS question to identify those who are not self-employed from the legal perspective but self-classify as self-employed. The question does not allow for individuals whose tax and NI are deducted at source to be identified, therefore some of these may still be classified as self-employed from the legal perspective, where their tax or NI, but not both, is deducted at source.

The FRS includes the following information on 'earnings' for all the respondents who classify themselves as self-employed:

- individuals' share of profit or loss figure shown on the accounts
- income from the business for non-business purposes. This includes drawings from the bank/building society and income for the business that is not channelled through the bank/building society account (for example, cash in hand)
- income from the job/business. This means money from the job/business that is used for personal, domestic, non-business use. In other words, what the respondent has to live on

#### British Household Panel Survey

The main objective of the British Household Panel Survey (BHPS) is to improve understanding of social and economic change in Britain. The BHPS has interviewed members of the same sample of households annually since 1991; it had an original sample size in 1991 of 5,500 households. The total sample size is now around 9,000 households across the UK, providing annual interviews with some 15,000 individuals. All adults over 16 years old are interviewed in the household. The BHPS is carried out by the Institute of Social and Economic Research based at the University of Essex. Access is available through the UK Data Archive.<sup>9</sup>

Individuals are asked to classify themselves as employed or self-employed.

A follow-on question is also included; however, it is not in the same form as the LFS and FRS. Respondents must select one of the following descriptions which best describes their employment situation:

- running a business or a professional practice
- partner in a business or a professional practice
- working for myself
- a subcontractor
- doing freelance work
- self-employed in some other way

The BHPS also contains an additional follow-on question. Respondents classifying themselves as self-employed are asked whether they run their own business or professional practice or usually work for other people or organisations but on a self-employed basis. There is no equivalent question present on the LFS or FRS.

Information on 'earnings' is collected through two questions:

- how much net profit did you make from your share of the business or practice?
- how much did you earn (before tax) in the last twelve months or the most recent period for which you have figures?

#### Comparison of data sources on the self-employed

Information on the numbers and earnings of the self-employed therefore covers a number of areas across the LFS, FRS and BHPS. These are compared in **Table 1**.

The first area is in self-classification. Generally, respondents are not provided with a definition to work with but are expected to understand the differences between employment and self-employment. This is in line with international requirements.

The FRS differs from the LFS and BHPS by attempting to move the self-classification towards a legal or business perspective using checking questions. It is important to note that the original response is not recorded if it is adjusted following a checking question, so it is not possible to analyse this. The FRS uses one of the areas where classification is known to be vague, for directors of companies, to attempt to remove misclassification. The LFS and BHPS do not carry out any type of checking on the self-classification question. The LFS applies this method in order to respond to international requirements. Comparison of the numbers classified as self-employed

across the three surveys must therefore consider the differences in definitions at the margins of this group. Generally, these are the figures quoted from the sources for the numbers of the self-employed.

ONS has estimated the extent of overcounting in workforce jobs due to individuals being classified as self-employed in the LFS and also appearing in business surveys as employees. It might therefore be possible to produce alternative estimates of the self-employed, according to the legal perspective, by excluding certain groups of individuals from the set which self-classify as self-employed, if this better met some analytical purposes. ONS will always continue to publish the self-classified estimate while this is in line with international requirements.

It is possible to remove types of self-employment that are usually perceived by the individual to be self-employment but legally as employed: the sole directors of limited companies and those who are paid a wage or salary by an agency. For the FRS and LFS, this adjustment is comparable, as the question on the type of self-employment covers the same categories, although some of this adjustment has been carried out during the interview for the FRS. For the BHPS, this is assumed to be those in the 'other' category. Analysis of the numbers of individuals in these groups is consistent across the surveys so this assumption seems to be sensible. Reconciliation of the follow-on questions for the self-employed across the three surveys is shown in **Table 2**.

Information on the payment of tax and NI can be used to further identify the difference between the individual and legal perception of self-employed. This information can be used to further adjust the numbers of the self-classified self-employed towards the legal perspective.

The FRS includes a question on tax and NI payment. Since the beginning of 2007, the LFS has also included a question on tax and NI. Discussion with experts in this area suggests that, from the legal perspective, the self-employed are those who pay their own tax and NI and not just one or the other. The two questions differ across the surveys. The LFS question has been designed specifically to address the double counting in workforce jobs figures and therefore allows those who pay both tax and NI to be identified. The FRS only allows individuals who pay both or either to be identified. Information from the FRS question is currently available and can be examined; information from the LFS is due to be examined by ONS before being released to researchers.

**Table 1**  
**Comparison of questions on employment status as self-employed and earnings of the 'self-employed' from household surveys**

	Labour Force Survey LFS	Family Resources Survey FRS	British Household Panel Survey BHPS
Self-classification question	<ul style="list-style-type: none"> <li>Were you working as an employee or were you self-employed?</li> <li>1: Employee</li> <li>2: Self-employed</li> <li>3: Government scheme</li> <li>4: Unpaid family worker</li> </ul>	<ul style="list-style-type: none"> <li>Are you working as</li> <li>1: An employee</li> <li>2: Self-employed (including Business Start-Up)</li> </ul>	<ul style="list-style-type: none"> <li>Are you an employee or self-employed?</li> <li>1: Employee</li> <li>2: Self-employed</li> </ul>
Checking questions	<ul style="list-style-type: none"> <li>None</li> </ul>	<ul style="list-style-type: none"> <li>Those responding with descriptions 2–7 for type of self-employment are asked: In this job/business were/are you the director of a limited company? If Yes following checking questions asked</li> <li>Are they on PAYE? Do they/would they get a payslip? If yes then classification is changed to 'Employee'</li> <li>In this job/business, are your National Insurance contributions deducted at source? Generally if yes then classification is changed to 'Employee'</li> </ul>	<ul style="list-style-type: none"> <li>None</li> </ul>
Follow-on questions	<ul style="list-style-type: none"> <li>Respondent can select up to four from:</li> <li>1: Paid a salary or a wage by an agency</li> <li>2: Sole director of their own limited business</li> <li>3: Running a business or a professional practice</li> <li>4: A partner in a business or a professional practice</li> <li>5: Working for themselves</li> <li>6: A subcontractor</li> <li>7: Doing freelance work</li> </ul>	<ul style="list-style-type: none"> <li>Respondent must select one from:</li> <li>1: Employee</li> <li>2: Running a business or professional practice</li> <li>3: Partner in a business or professional practice</li> <li>4: Working for myself</li> <li>5: A subcontractor</li> <li>6: Doing freelance work</li> <li>7: Self-employed in some other way</li> <li>Those responding with descriptions 2–7 are then asked: In this job/business are/were you the director of a limited company? (same as first checking question)</li> </ul>	<ul style="list-style-type: none"> <li>Respondent must select one which best describes their employment situation</li> <li>1: Running a business or a professional practice</li> <li>2: Partner in a business or a professional practice</li> <li>3: Working for myself</li> <li>4: A subcontractor</li> <li>5: Doing freelance work</li> <li>6: Self-employed in some other way</li> <li>You said you are self-employed. Does this mean that you run your own business or professional practice or do you usually work for other people or organisations but on a self-employed basis?</li> </ul>
Tax/NI question	<ul style="list-style-type: none"> <li>Do you pay your own National Insurance or tax or are these usually deducted by the organisation(s) you work for, for example, your client, employer, agency etc.?</li> <li>1: Pay own NI and tax</li> <li>2: Pay own NI or tax but not both</li> <li>3: NI and tax is deducted by organisation</li> </ul>	<ul style="list-style-type: none"> <li>Is either income tax, or your regular National Insurance contribution deducted at source?</li> <li>1: Income tax deducted</li> <li>2: Regular NI deducted</li> <li>3: No, neither deducted</li> </ul>	<ul style="list-style-type: none"> <li>None</li> </ul>
Earnings information	<ul style="list-style-type: none"> <li>None</li> </ul>	<ul style="list-style-type: none"> <li>What was (your share of) the profit or loss figure shown on these accounts for this period</li> <li>How much have you taken for non-business purposes?</li> <li>Apart from any drawings from the bank/building society, how much income from this job/business, for personal use?</li> <li>On average, what was your income from your job/business: that is, after paying for any materials, equipment or goods that you use(d) in your work?</li> </ul>	<ul style="list-style-type: none"> <li>How much net profit did you make from your share of the business or practice?</li> <li>How much did you earn (before tax) in the last twelve months or the most recent period for which you have figures?</li> </ul>

If the FRS tax and NI question is used to identify individuals who are legally perceived to be self-employed, this will be an overestimate of the adjustment required as it is not possible to identify those who pay both their own tax and NI.

It has been recognised that, while information on tax and NI payment is useful in determining who is self-employed in terms of the legal perspective, sole directors

of limited companies may respond to this question in a different way to others. Sole directors of limited companies will classify themselves as self-employed, although from the legal perspective they would be classified as employees. Any adjustment towards the legal perspective would therefore exclude these individuals. On responding to a question on tax and NI, these directors then often say that they pay both themselves. It

is probably the case that these individuals pay tax and NI on behalf of their company as they have this responsibility. Any categorisation of these individuals according to the legal perspective should therefore probably still exclude this group despite their response to the tax question.

Figure 1 shows the possible adjusting process for the household surveys using questions on types of self-employment and tax.

**Table 2**  
**Reconciliation of types of self-employment questions across household surveys**

Labour Force Survey LFS	Family Resources Survey FRS	British Household Panel Survey BHPS
1: Paid a salary or a wage by an agency 2: Sole director of their own limited business	7: Self-employed in some other way Those responding with descriptions 2–7 are asked: In this job/business are/were you the director of a limited company? (same as first checking question)	6: Self-employed in some other way
3: Running a business or a professional practice	2: Running a business or professional practice	1: Running a business or a professional practice
4: A partner in a business or a professional practice	3: Partner in a business or professional practice	2: Partner in a business or a professional practice
5: Working for themselves	4: Working for myself	3: Working for myself
6: A subcontractor	5: A subcontractor	4: A subcontractor
7: Doing freelance work	6: Doing freelance work	5: Doing freelance work

**HMRC counts of the self-employed**

HMRC holds information on the numbers and 'earnings' of the self-employed on their administrative systems. In the case of a dispute, courts decide on whether an individual is an employee or self-employed. In the majority of cases, HMRC guidelines are used and these are the source of the legal perspective. Self-employed individuals are included according to whether (and how many) sets of pages covering income from trades or from partnerships were completed in the tax return. Such pages are required for all trades, and for all shares in partnerships, trading at any time in the tax year. An individual with two or more sources of self-employment income (from

trades or partnerships) is counted more than once according to the industry group and profit for each source.

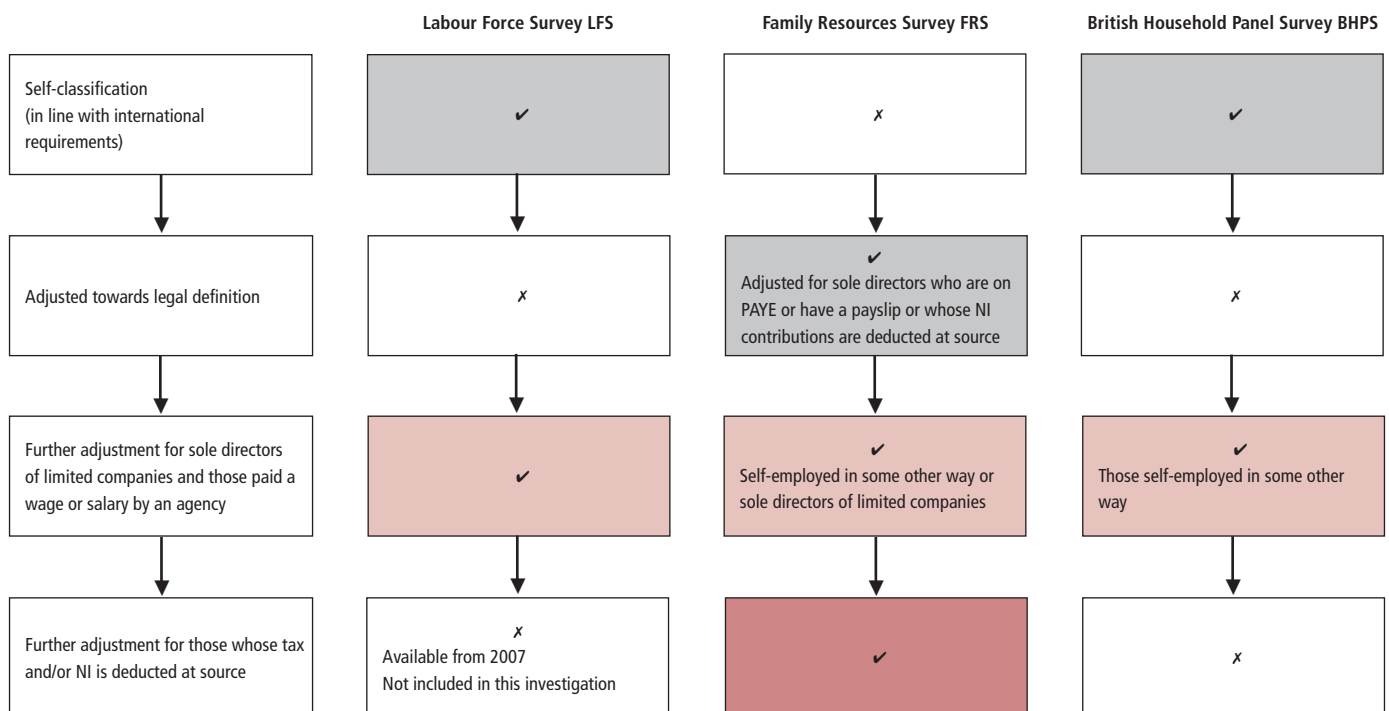
There is a possible issue with the information on 'earnings' from HMRC as this is likely to under-report the earnings of the self-employed because it is based on official tax returns. There is anecdotal evidence to suggest that some of the self-employed illegally fail to disclose all of their earnings information to HMRC. There are also long lags involved in tax collection with the self-employed. As a result, figures may respond slowly to changes in the economy.

National Accounts provides detailed estimates of national product, income and expenditure for the UK. Data are available

for the aggregate level of 'earnings' for the self-employed; this information is derived mainly from HMRC. This is provided under mixed income in the National Accounts (for the most recent information, see ONS, 2006b). The National Accounts defines mixed income as the balancing item on the generation of income account for unincorporated businesses owned by households. The owner or members of the same household often provide unpaid labour inputs to the business. The surplus is therefore a mixture of remuneration for such labour and return to the owner as entrepreneur.

The method of measuring the self-employed is based on the characteristics

**Figure 1**  
**Possible adjustments to household data sources to the classification of the self-employed**



**Note:**  
Comparable definitions across three surveys are shown in the same colour

of the business rather than the opinion of the individual and this is therefore more likely to tie in with the legal perspective of the self-employed. Mixed income in the National Accounts is based on the income of the household and therefore accounts for any labour provided by other household members. However, this should not be of operational importance because the data are only provided in aggregate form for the whole economy. When comparing this with aggregated figures from sources derived at the individual level, there should not be any difference in the results.

### Numbers of self-employed

Table 3 shows the numbers of the self-employed weighted to the total population according to self-classification and adjusted towards the legal perspective. The LFS and FRS data sets both contain weights; the BHPS is simply weighted using the proportions of the self-employed and employed to the LFS total population.

The LFS is the main source for the numbers of the self-employed and shows that there are around 3.5 million self-classified self-employed jobs. The numbers self-classified as self-employed are very similar across the three sources. This is despite the fact that the FRS carries out on-the-spot validation to try to reclassify some individuals towards the legal perspective.

Adjusting the self-classification, by

removing individuals who are sole directors or are paid by an agency, produces an estimate of the self-employed, according to the legal perspective, which is 10 per cent less than the self-classified value, according to the LFS and FRS. This adjustment is less using the BHPS, at around 4 per cent. The follow-up question on the type of self-employment could account for this difference, as the only way to classify sole directors or agency workers using the BHPS is to remove all individuals classified as 'self-employed in some other way' (see Table 2).

The FRS information on the payment of tax or NI at source suggests a further reduction of 25 per cent. This seems high, especially in light of information from the pilot LFS question which suggests a much lower level of adjustment; however, it is based on a very small sample size. This cannot therefore be used to improve the estimate of overcounting of self-employment, but it does seem likely that the estimate should be enhanced when results from the LFS using this new question become available. Further work is currently being carried out to examine the new LFS question. This will be published in 2007.

The FRS adjustment is likely to be too high as it removes certain groups who pay tax or NI who legally would be described as employees. This cannot be used to indicate overcounting by the LFS, as the surveys are conducted differently, with

different questions, but it tends to confirm that overestimation of self-employment in surveys is a significant issue.

### Earnings of the self-employed

The LFS is thought to be the most reliable source of information on the number of the self-employed. However, as discussed, the LFS does not collect any information on the 'earnings' of the self-employed. The other household sources therefore need to be used as these do include information on income and profit from self-employment.

Figure 2 shows the average gross annual earnings of those self-categorised as self-employed, using HMRC figures, National Accounts information and household surveys. National Accounts information is derived from HMRC and these sources therefore provide similar levels of average earnings.

FRS information on average earnings appears to be unrealistically low; this is an acknowledged issue with the FRS. Information for the BHPS is closer to the official HMRC figure, particularly for those who are classified as full-time self-employed. BHPS questions on earnings are simpler than FRS questions and this could account for the better-quality information obtained from the BHPS. The 'earnings' information presented here from household surveys is based on the self-classification. It is also possible to examine earnings

Table 3  
Numbers of self-employed jobs according to self-classification and legal perspective

	Source	Data set	Thousands			Percentage change	
			Self-classified as self-employed <sup>1</sup> (A)	Adjusted for sole directors and those paid by an agency <sup>2</sup> (B)	Adjusted for sole directors and those paid by an agency and those not paying their own tax or NI <sup>3</sup> (C)	(B)/(A)	(C)/(B)
2005	LFS	Spring 05	3,565	3,197	–	–10.3	–
	FRS	2004/05	3,382	3,061	2,308	–9.5	–24.6
	BHPS	2004	3,400	3,290	–	–3.2	–
2004	LFS	Spring 04	3,564	3,244	–	–9.0	–
	FRS	2003/04	3,292	2,974	2,239	–9.7	–24.7
	BHPS	2003	3,405	3,241	–	–4.8	–
2003	LFS	Spring 03	3,411	3,272	–	–4.1	–
	FRS	2002/03	3,201	2,924	2,212	–8.6	–24.4
	BHPS	2002	3,188	3,070	–	–3.7	–

#### Notes:

1 FRS includes on-the-spot validation

2 For BHPS this is self-employed in some other way

3 Likely to be an underestimate as those who pay their own tax or NI but not both excluded

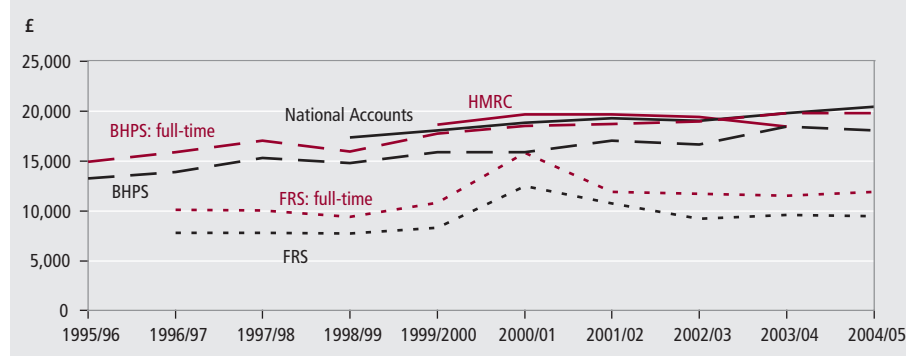
– Not applicable

LFS: spring quarter March to May

FRS: financial year March to April

BHPS: calendar year January to December

**Figure 2**  
**Average gross annual earnings of the self-employed**



excluding those who would legally be perceived as self-employed. Initial analysis shows that average earnings based on the legal perspective are lower.

It may have been expected that tax information on the self-employed held by HMRC would underestimate earnings, as anecdotal evidence suggests that some individuals fail to declare some earnings. This is not corroborated by information from household surveys (although this is still likely to be the case). This suggests that further work is required to clarify the 'earnings' questions for the self-employed from household surveys, to ensure all sources are included. This also suggests that, currently, the HMRC is the best source of information on the 'earnings' of the self-employed.

However, HMRC information is only provided at aggregate level. The similarity between information from the HMRC and BHPS, particularly for the full-time self-employed, suggests that the BHPS could be used as a source of individual level information to carry out more detailed analysis than is possible at the macro level. Sample sizes are, however, small and this issue needs to be considered when attempting to carry out any analysis of different groups.

## Conclusion

Before this investigation, little was known about the 'earnings' of the self-employed; this article brings together the sources of information on the numbers and earnings of the self-employed for the first time. There are two perspectives on this information:

- the individuals' perspective generally obtained from household surveys where self-classification takes place, and
- the legal perspective by which HMRC publishes information

Neither perspective is the 'correct' one. International regulations require published estimates of the self-employed to be based on self-classification, but there may be instances where estimates could be required from the legal perspective. It is possible to adjust the self-classified estimates using additional information provided in household surveys, to provide estimates from the legal perspective, and these are presented here.

Part of this adjustment involves examining whether individuals pay their own tax and NI. Currently this information is only available from the FRS and suggests that the difference between the individual and legal perspective is quite large. ONS is due to publish information on this basis from the LFS, which is based on new information collected from 2007. Dress rehearsal of the LFS question suggested a much smaller difference than presented here for the FRS. This could partly be due to the difference in the FRS and LFS question. The difference suggested by the FRS is greater than the true value as it includes individuals who legally would be considered as employees despite paying either their own tax or NI. Further work is required to examine this following publication of the new LFS information.

There is some interest in the 'earnings' of these individuals. Identifying them according to either perspective allows analysis to be carried out on the required set of individuals. This is currently only possible at individual level using the FRS and BHPS. Aggregate information is provided by HMRC and, through the National Accounts, this information is provided from the legal perspective. Initial investigations show that FRS information on the self-employed is understated. Information from the BHPS can be reconciled with aggregate HMRC figures,

particularly when looking at the full-time self-employed. It should therefore be possible to carry out further analysis of the earnings of the self-employed using this source although the small sample size needs to be considered.

Clearly there is no single consistent source of information on the 'earnings' of the self-employed. Further analysis is possible using available sources but this requires more consultation with users to determine the precise need for this information.

## Notes

- 1 See HMRC guidance on employment status at [www.hmrc.gov.uk/employment-status/index.htm#1](http://www.hmrc.gov.uk/employment-status/index.htm#1)
- 2 Estimates of workforce jobs can be accessed from [www.statistics.gov.uk/statbase/product.asp?vlnk=9765](http://www.statistics.gov.uk/statbase/product.asp?vlnk=9765)
- 3 For more information on the LFS see [www.statistics.gov.uk/statbase/source.asp?vlnk=358](http://www.statistics.gov.uk/statbase/source.asp?vlnk=358)
- 4 Students in halls are only included by being picked up through having parents who are sampled as being part of the resident population of UK households. Students in halls with parents living abroad would not be covered.
- 5 NOMIS gives the public free access to the most detailed and most up-to-date UK labour market statistics from official sources at [www.nomisweb.co.uk](http://www.nomisweb.co.uk)
- 6 Published LFS tables can be found at [www.statistics.gov.uk/statbase/product.asp?vlnk=545](http://www.statistics.gov.uk/statbase/product.asp?vlnk=545)
- 7 For more information on the FRS see [www.statistics.gov.uk/ssd/surveys/survey\\_family\\_resources.asp](http://www.statistics.gov.uk/ssd/surveys/survey_family_resources.asp)
- 8 Published information on the FRS can be found at [www.dwp.gov.uk/asd/frs/index/publications.asp](http://www.dwp.gov.uk/asd/frs/index/publications.asp)
- 9 The UK Data Archive is a centre of expertise in data acquisition, preservation, dissemination and promotion. For more information see [www.data-archive.ac.uk](http://www.data-archive.ac.uk)

## CONTACT

✉ [elmr@ons.gsi.gov.uk](mailto:elmr@ons.gsi.gov.uk)

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