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Simplify the Side Hustle

## In the current severe economic climate, what pro-market, pro-enterprise policy would be the best way of supercharging growth, employment and living standards in ‘left behind’ Britain?

### Simplify the Side Hustle

#### Introduction

64% of the UK workforce want to start their own business but almost half of these aspirant entrepreneurs do not believe they ever will<sup>i</sup>. Almost a third (29.5%) of the UK “lack the confidence to turn their business idea into a reality<sup>ii</sup>.” As a result, thousands of potential businesses are never being created.

This paper recommends the creation of a new business category which would make it simpler and cheaper for people to found small side hustle businesses. In other words, the category will benefit those wishing to start a business alongside other activities, responsibilities, and sources of income. This move would improve life-chances and prosperity for thousands of people across the UK and would particularly benefit those in areas at risk of being “left-behind.”

The reform could also turn the UK in to a nation of entrepreneurs and create significant knock-on effects for the wider economy. The costs to the Treasury would be relatively low and could rapidly be outweighed as businesses grow, incomes rise, benefit dependency falls, and productivity improves.

Side benefits could also include legitimising an already significant sector of the economy, improving mental health, and expediting the national bounce back from the pandemic. It could also help the UK become the global leader in the new reality of a world moving rapidly towards side hustling, the gig economy, and portfolio careers.

#### Why should this be the focus for tackling “left-behind” Britain?

As mentioned above, 29.5% of the UK “lack the confidence to turn their business idea into a reality.” Even more concerningly, the population’s lack of confidence to start their businesses seems to be particularly concentrated<sup>iii</sup> in areas at risk of being “left-behind”. The figures are above the national average in the North West (34.2%), Yorkshire and Humber (33%), the South West (34.6%) and Wales (33%). Most worryingly, in the North East of England, 44% cite a lack of confidence as a barrier to launching a business.

These are also the areas where starting a business, even a small enterprise alongside other roles and responsibilities, could be the most beneficial. Each of these areas has benefit claimant rates at or above the national average. Residents in these areas are also more likely to have unpaid care responsibilities. And in all but one of these regions, residents are also more likely to be underemployed (wanting to work more hours) and be economically inactive (*See figure 1 below*).

Being able to start a small business in these regions is therefore more likely to be able to supplement the entrepreneur’s benefits, fit round their care responsibilities, fill the underemployment gap they feel, or encourage them to become economically active.

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*NB: Obviously, these regions are incredibly diverse and home to a myriad of different circumstances, but as more localised data is either unavailable or unreliable, this paper will use the mentioned regions as an imperfect but illustrative representation of areas in the UK that **may** not fully share in future national growth and prosperity.*

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The benefits the entrepreneurs' ideas could bring to their area are also being lost by them not feeling able to start their businesses. Their products and services are not being brought to market. And their communities, and the wider UK economy, are missing out on a vital injection of entrepreneurialism, growth, and higher productivity.

**Figure 1**

	Cite "lack of confidence" <sup>iii</sup>	Claiming benefits <sup>iv</sup>	Care responsibilities <sup>v</sup>	Underemployed <sup>vi</sup>	Economically Active (16-64) <sup>vii</sup>
<b>National Average</b>	29.5%	30.3%	10.3%	8.1%	79.1%
<b>North West</b>	34.2%	31.6%	11.1%	8.5%	78.0%
<b>Yorkshire and Humber</b>	33.0%	30.3%	10.4%	9.0%	77.3%
<b>South West</b>	34.6%	31.3%	10.8%	8.5%	80.6%
<b>Wales</b>	33.0%	33.5%	12.1%	9.7%	77.0%
<b>North East</b>	44.0%	34.2%	11.0%	7.9%	76.3%

Key

- Worse than national average
- Matches national average
- Better than national average

**Why focus on side hustlers?**

More than 25% of potential entrepreneurs cited being "too scared to quit their job to pursue their business ambitions."<sup>ii</sup> Therefore, if a proposal can lower risk or ensure entrepreneurs can start a business alongside existing income streams, it is likely to yield greater results than one that does not.

Side hustles also tend to be in industries such as business service (21.8%), creative outlets (20.6%), as well as catering, events, driving, and blogging<sup>viii</sup>. These types of business typically require limited capital investment. Such potential businesses therefore face relatively few barriers beyond the administrative and tax burden placed on them by the government. As a result, any move to alleviate this burden should have a higher success rate than those targeting a wider range of businesses.

Simple measures to support those wishing to start a business alongside existing income streams could have a huge impact and encourage these potential entrepreneurs to make their business dreams a reality and realise the benefits this could bring.

**The proposal**

To minimise the barriers to entry for a new side hustle and to keep the ongoing time and financial costs of running the business as low as possible, this paper suggests creating a new business category.

The new business category would serve as an alternative to existing limited company types for those wishing to launch a business alongside their other work or activities. The purpose of this new category would be to make the process of starting and running such a business as simple and low-risk as possible. It should allow the entrepreneur to focus on their business and it should ensure that as few as possible are put off by the perceived costs and complexities of the bureaucracy and administration. In short, "simplifying the side hustle."

The category would be specifically aimed at those wishing to set up a small side hustle business. Criteria would be established, monitored, and updated by HM Treasury but a possible outline could include annual turnover under £50,000, profits under £10,000, no employees, and a maximum of 3 directors. This would hopefully capture most intended recipients without being broad enough to entice fraud. The scheme would mostly operate on an honesty system as the potential gains would be minimal and the costs of investigation would outweigh any potential lost revenue.

Those in this category would benefit from several simplifications in what was required of them by the government. These would include the waiving of the business registration fee, the waiving of the requirement for an annual confirmation statement, and the option to submit a much simpler set of annual accounts.

The accounts for these businesses would only need to be four lines long, to include their annual income, outgoings, any loans, and their subsequent profit and loss. This would hugely simplify their reporting requirements, eliminate the need for extensive book-keeping through the year, and for many eliminate the potentially crippling need to pay an accountant. Banks could be encouraged to provide simple business accounts which automatically provide these numbers.

As the average side hustler only puts six to fifteen hours of work a week into the enterprise<sup>viii</sup>, minimising the amount of this time they spend on paperwork could significantly improve the productivity, benefits, and growth potential of the business.

In addition, companies in this category would pay no corporation tax (assuming their profits remained under £10,000). Directors of such companies would also have no tax liabilities for any dividends paid and they would also have no impact on their Job Seekers' Allowance or any other benefit claims they may have. This would maximise the incentives for the potential entrepreneurs while eliminating any risks they might face from setting them up.

While this may sound radical, there is already a strong precedent in the HM Treasury's "Rent a Room Scheme<sup>ix</sup>." The Scheme lets you earn up to £7,500 per year tax-free from letting out a room in your home. The tax exemption is automatic if you earn less than £7,500. There are also exemptions in place to either eliminate or limit the impact on welfare programmes including housing benefit and universal credit. The government is therefore clearly open to the prospect of allowing people to earn a small amount of tax-free money without impacting their other tax liabilities or welfare payments.

The final stage of the proposal would include a clear pathway for businesses to transition to an existing business model if they do grow beyond the side hustle stage. This should include guidance on upgrading, the new reporting requirements, tax liabilities, and any other information they require. This would ensure businesses are not put off expansion once they reach the viability level the profit and turnover requirements provide. Hopefully by this point, the entrepreneurs will have enough experience as well as the extra time or income to complete accounts, hire accountants, and pay taxes.

### **Costs**

This proposal would of course represent a small loss of tax revenue to the Exchequer but as many these businesses either would not exist, or would have operated in an unregistered way, this would be minimal. If 100,000 new businesses are created, all only ever making £10k profit, the lost revenue would still only amount to £190 million a year.

However, if even a small number of these businesses do grow beyond the initial side hustle stage, the net result is likely to be significantly positive in tax receipts, new employment, lower benefit payments, and all the roll-on effects of a prospering market economy.

### **What are the potential benefits?**

At the simplest level, supporting side hustlers could allow millions of people to supplement their existing incomes, reduce their dependency on benefits, tackle a lack of opportunities, or earn money around other commitments such as childcare. This in turn can lead to a higher quality of life both from the financial uplift as well as the improved happiness from more people being able to pursue their passions and having the opportunity to become their own boss. As illustrated above, the benefits of such a move are more likely to benefit those in regions at risk of being “left-behind.”

The big potential economic gains will come from the boost to the discovery process resulting from thousands of new businesses being started. If even a small percentage of these businesses “level up” to more full-fledged enterprises, the benefits are inestimable. Of existing “side hustlers”, 57% said they plan to or would like to turn their enterprise in a full-time venture<sup>x</sup>. There is also the opportunity to unlock a wave of entrepreneurship across the UK and particularly in areas that might otherwise not share in national growth.

### **Boosting “the discovery process”**

Helping side hustlers could turbo-charge the discovery process for new businesses. By helping entrepreneurs test their business ideas without necessarily giving up existing income sources or making other sacrifices, more ideas will be tested, more products will be brought to market, and greater competition will have knock on effects across the economy.

Many businesses will remain small, part-time enterprises of most benefit to the entrepreneur. However, some will expand and grow. Those in the latter category could significantly boost economic growth, create new goods and services, regenerate deprived areas, and provide employment opportunities to others. As Mises, Kirzner, and others pointed out, how many will find this level of success is impossible to predict but allowing the discovery process to take place is vital for a functioning and growing economy<sup>xi</sup>.

Even those that do not see their side hustles find lasting success, may still see significant benefits alongside any financial gains. They will allow founders to build skills, find opportunities for professional growth, foster entrepreneurial talents, build the knowledge for future business creation, and create better work habits. There may also be benefits to a range of other national priorities including mental-health, employment, childcare, and productivity.

Unleashing these benefits could also expedite the UK’s emergence from the post-pandemic economic downturn, and reduce the negative impacts from the unemployment, business closures, health issues, falling tax revenues, and other problems that COVID has caused.

### **Side-benefit: bringing unregistered businesses on to the books**

This proposal would also legitimise many businesses and related activities that are already happening. The Government estimates that 3.9% of the adult population are earning some “Hidden Economy” income (sources of income that have not been declared to HMRC for tax purposes)<sup>xii</sup>.

This activity is concentrated among those that this paper’s proposal seeks to help. The proportion is higher amongst those on lower declared incomes and in all but one of the regions identified above as at risk of being “left-behind”. It rises to 5% for those earning £10-20,000 and to 11% for those earning under £10,000 a year. The figures are also highest in the South West (6%) and Wales (7%).

It is also clear that much of this activity could benefit from this paper’s simplified side hustle proposal. 78% of this “Hidden Economy” activity is identified as either self-employed income or “supplementary

activity”, 77% work from home or “on the job”, and 79% reported working on their activity for less than 16 hours per week. This certainly seems to indicate a significant proportion could include activity that might be formalised into a side hustle business. However, 61% said they kept no records so could be being put-off registering their side hustle by the bureaucracy and costs involved. This is backed up by the fact that 49% stated that they thought it would be too difficult to declare their income when asked why they did not.

93% of “Hidden Economy” earners are also bringing in under £10,000 from their activities, again making them potential beneficiaries of the simplified side hustle proposal. Half of them also had some other sources of income including state benefits (14%), pensions (8%), and tax credits (11%) so again would benefit from the proposal’s exemption.

If even a small proportion of these enterprises registered as side hustle businesses, the government would benefit from an improved view of the economic picture and gain tax revenue when some of them transitioned to an existing structure. The businesses would also benefit from becoming legitimate. For example, only 10% of these enterprises have a business bank account, 8% have business insurance, and 3% have a trade licence. Those figures could be expected to rise as more became registered.

### **Summary**

Thousands of businesses are never created because potential entrepreneurs either cannot risk taking the plunge, or because the initial process and ongoing requirements are too intimidating. A few small steps to reduce the risk and simplify the process could unleash a wave of entrepreneurialism with real immediate benefits to individuals and vast potential gains for left-behind areas and the whole UK economy. It is time to simplify the side hustle.

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<sup>i</sup> <https://smeloans.co.uk/blog/64-percent-of-britains-workforce-want-to-start-a-business/>

<sup>ii</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/871470/Young\\_Innovators\\_2020\\_National\\_fact\\_sheet.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/871470/Young_Innovators_2020_National_fact_sheet.pdf)

<sup>iii</sup> <https://www.gov.uk/government/news/innovate-uk-launches-new-3-year-programme-for-young-innovators>

<sup>iv</sup> <https://www.gov.uk/government/statistics/dwp-benefits-statistics-february-2021/benefit-combinations-to-august-2020> cross referenced with:

<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/analysisofpopulationestimatestool>

<sup>v</sup> <https://www.nomisweb.co.uk/census/2011/qs301ew>

<sup>vi</sup>

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/adhocs/12782underemploymentbyparliamentaryconstituencyuk2007to2009and2012to2016>

<sup>vii</sup>

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/april2021>

<sup>viii</sup> <https://www.hiscox.co.uk/business-blog/side-hustle-culture-new-norm>

<sup>ix</sup> <https://www.gov.uk/rent-room-in-your-home/the-rent-a-room-scheme>

<sup>x</sup> [https://assets.henley.ac.uk/defaultUploads/PDFs/news/Journalists-Regatta-Henley\\_Business\\_School\\_whitepaper\\_DIGITAL.pdf](https://assets.henley.ac.uk/defaultUploads/PDFs/news/Journalists-Regatta-Henley_Business_School_whitepaper_DIGITAL.pdf)

<sup>xi</sup> <https://iea.org.uk/publications/research/how-markets-work-disequilibrium-entrepreneurship-and-discovery>

<sup>xii</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/654905/P11533\\_HE\\_Final\\_report\\_MASTER\\_draft\\_v6\\_0\\_PC\\_FINAL.PDF](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/654905/P11533_HE_Final_report_MASTER_draft_v6_0_PC_FINAL.PDF)