



**Low Incomes
Tax Reform
Group.**

A voice for the unrepresented

30 June 2025

Low Pay Commission

By email: lpc@lowpay.gov.uk

Dear Commissioners,

Response to the 2025 Consultation – Concerns regarding proposals to increase minimum wage rates for 18s and over and employment status issues

We welcome the opportunity to respond to the Low Pay Commission's 2025 consultation and continue to support the principle that individuals - regardless of age - should receive fair and adequate pay for the work they do. However, we write to highlight a particular concern that we have raised previously in the context of the workforce at large, but that now takes on extra significance given the proposals to start increasing the National Minimum Wage (NMW) rates for those aged 18 and over.

Our core concern is this: without better understanding of employment status among individuals and engagers alike, along with stronger enforcement, increases in the NMW may pass people by and/or inadvertently fuel exploitative practices. While we think this is an issue that affects the whole workforce, we believe the problem is particularly concerning among young people with less experience and/or labour market power. We urge the LPC to consider the interaction between NMW policy, employment status, and enforcement capacity.

Young people and employment status risk

We think that young people are widely represented in two, potentially slightly overlapping, categories of individuals, who may not currently be paid at least the NMW:

- those with limb b 'worker' status - but where the engager is unaware of this or is unaware of the implications¹

¹ In UK law, a limb b 'worker' (a technical term) includes some individuals who are not employees but still qualify for key rights like the minimum wage. Some individuals may be 'self-employed' for tax purposes but still qualify as limb b 'workers' for employment rights. See:

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- those who are employees/‘workers’ but are deliberately treated as self-employed by the employer (‘false self-employment’).

People in both of these groups are entitled to the NMW (along with other employment rights) but we have concerns as to the extent the individuals themselves recognise that entitlement and/or can rely on state enforcement to help secure that it, when it is denied. Increases in the NMW may therefore pass them by. We think it is imperative that both of these issues are tackled alongside pushing forward with any ambition to extend higher rates to younger people.

Limb b ‘worker’ status issues

For employment law purposes limb b ‘workers’ (herein, just called ‘workers’), as well as employees, are entitled to the NMW. This group typically encompasses agency workers, people on zero hours contracts (prevalent in sectors like hospitality etc.) and online platform/app based workers like food delivery riders; and other groups in which young people may feature prominently.

‘Workers’ can be either employed or self-employed for tax purposes. Even where the self-employment for tax purposes is genuine, our experience tells us that not many individuals or engagers will appreciate that some will have ‘worker’ status for employment law purposes.

The LPC may be interested in some new research commissioned by HMRC² to learn more about the ‘worker’ population and their understanding of employment status, which we summarise below.

Of 8,767 people surveyed for the HMRC research, 57% of individuals in the UK had “assigned status” – 52% as employees or ‘workers’ plus 4% as self-employed. Assigned status means their employment status was easy to discern from a basic set of questions. 24% of individuals had “unassigned status” – where they had to be routed to a set of more in depth questions probing their status. From this, 55% were deemed likely ‘workers’. Extrapolated out, the findings suggest that in the UK population aged 18 to 64, in 2023, there were 4.8 to 5.7 million unassigned status workforce individuals who were identified as ‘highly likely’ or ‘fairly likely’ to be a ‘worker’.

Among the conclusions from the research were two key ones of particular relevance to this consultation:

- “Compared to the ‘assigned status workforce’, the ‘unassigned status workforce’ were more likely to be in the youngest age group (18 to 24) and have an ethnic minority background”
- “Given the complexity of the matter, individuals are not always well informed about their own employment status and not always capable of assessing how different factors that make up their employment status apply to them. A direct question asking people to self-categorise themselves might lead to inaccurate estimates”.

<https://www.gov.uk/government/publications/employment-status-and-employment-rights/employment-status-and-employment-rights-guidance-for-hr-professionals-legal-professionals-and-other-groups>

² <https://www.gov.uk/government/publications/employment-status-in-the-uk-2023-survey-and-qualitative-research/employment-status-in-the-uk-2023-survey#>

Although many of the people with ‘worker’ status *will* be getting their employment rights³, taken together this all seems to leave room for genuine classification errors and/or engagers to avoid their responsibilities (see false self-employment section below). Yet in HMRC’s recent NMW enforcement bulletin⁴, it appears that out of 518 engagers found to have fallen foul of their NMW obligations, only 18 were linked to worker status errors⁵, which feels a very small number against this backdrop.

We would urge the LPC to ensure that any upward movement in pay rates for younger people is accompanied by better education around the NMW for ‘workers’ - for individuals, engagers - and NMW enforcement officers. We include the latter because, although we know HMRC officers take the enforcement of NMW very seriously, we have some concerns about their ability to enforce NMW when it comes to ‘workers’, particularly those that are being treated as self-employed for tax purposes. This is because these individuals will not appear in any official payroll data and their ‘working time’ might be more difficult to discern. Also, from the recent LPC report on the gig economy⁶ we do not know if digging into employment status is considered part of an HMRC officer’s NMW enforcement role or whether they would be more inclined to accept individuals self-identifying as self-employed on face value.

Issues around false self-employment

While we understand the policy intent behind higher pay for young people, we are concerned that steep increases in the NMW for young people—particularly at a time of persistent labour market pressures—may have unintended consequences, most notably an increase in the use of false self-employment arrangements.

False self-employment results in individuals being misclassified as self-employed when, in practice, their working arrangements resemble those of employees or ‘workers’. Higher NMW rates increase labour costs. In response, some engagers—particularly those under cost pressure—may deliberately turn to false self-employment arrangements to avoid these costs. This tactic effectively evades the obligation to pay NMW and other entitlements, undermining the policy’s intention.

This is not a hypothetical risk. As set out in our last submission to the LPC⁷, we are already seeing a pattern of non-compliance whereby umbrella companies and agencies – often under huge pressure to manage costs in the supply chain - shift agency workers into self-employed arrangements (the ‘elective deduction model’) to avoid meeting their employment law obligations.

Employment status also matters for tax purposes, and in most instances, where one leads, the other will follow, meaning individuals usually suffer both types of non-compliance, worsening outcomes

³ For example where they are paid though PAYE like most agency workers and/or work under a ‘self-employed plus’ type arrangement now seen in some pockets of the gig economy as a result of various court cases where individuals were found to have ‘worker’ status. Some examples can be found in this blog by the Institute for the Future of Work: <https://www.ifow.org/news-articles/evri-uber-deliveroo-collective-bargaining>

⁴ <https://www.gov.uk/government/news/over-74-million-put-back-in-working-peoples-pockets-by-employers>

⁵ This includes instances where the worker is incorrectly treated as self-employed, or an unpaid intern that should be classified as worker

⁶ <https://www.gov.uk/government/publications/self-employment-the-gig-economy-and-the-national-minimum-wage>

⁷ <https://www.litr.org.uk/submissions/low-pay-commission-consultation-2024>

further. In particular, for individuals who should be treated as employees for tax purposes, false self-employment can also mean they are denied the certainty of having their taxes deducted under PAYE, which can have devastating impacts⁸.

Rising NMW costs could drive more engagers—or intermediaries—to adopt or exploit false self-employment models as a cost-saving measure, with the potential to badly impact an individual's life chances. As noted earlier, we are especially concerned about the risk of this happening to younger people, who are more likely to accept these arrangements without challenge due to inexperience or a lack of alternatives.

We therefore urge the LPC to consider the potential for such unintended consequences so steps can start to be taken to mitigate them. Indeed, we would recommend the LPC urgently undertake new research to look for any negative impacts on individuals of the recent increases, particularly for subgroups like younger people, before making any recommendations. This should include looking into whether there has been a shift to alternative work arrangements (such as 'self-employment'), as well as changes within the employment setting for example, redundancies/reduced hours/other trade-offs.

Concluding comments

In summary, we urge the LPC to assess the risk of employment status misclassification and deliberate NMW avoidance in the form of false self-employment, more explicitly in its work.

We would also like it to ensure that any move towards higher minimum wage rates, particularly for younger individuals with less market bargaining power, is matched by coordinated action across government—particularly by HMRC and DBT and DLME⁹—to try and understand more about status and how it drives distortive hiring behaviour and impacts on outcomes. This will in turn, allow for better education of the relevant parties (including NMW enforcement officers who need to be equipped to evaluate status), to strengthen safeguards appropriately and to ensure fair, enforceable, and sustainable wage policy.

Thank you for considering our views. We would welcome the opportunity to engage further on this issue or to provide further evidence or insight to support these concerns.

Yours sincerely,



⁸ For example, we know that people can easily fall into non-compliance when trying to navigate the complex self assessment system, resulting in under reporting or non-filing. This can result in penalties and has knock-on effects, for example causing gaps in National Insurance records.

⁹ You may be interested to read a letter we have recently submitted to the DLME where explain more about false self-employment and put forward our view that state enforcement of employment status should feature as a specific responsibility of the new FWA: <https://www.litrg.org.uk/submissions/recent-labour-market-related-submissions#>

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