

24 June 2026

Via email: lpc@lowpay.gov.uk

Dear Sir/Madam,

Consultation: Low Pay Commission 2026 – response from the Low Incomes Tax Reform Group (LITRG)

I am writing on behalf of LITRG in connection with the above consultation. We wish to highlight two issues that we hope will inform the Low Pay Commission’s 2026 consultation.

False self-employment

LITRG has extensive expertise in the pay and tax issues affecting low-paid workers. Over the past five years, we have consistently highlighted a number of interconnected themes in our submissions to the Low Pay Commission. Broadly, these themes concern the affordability of significant minimum wage increases for employers who may themselves be vulnerable to economic pressures, the use of arrangements such as false self-employment to circumvent minimum wage obligations, and HMRC’s ability to enforce minimum wage legislation effectively where employment status issues arise.

These concerns remain highly relevant. For brevity, we do not repeat the detail here, but we wish to restate the central point: false self-employment is already a deeply embedded problem in parts of the labour market and is likely to become more prevalent, given that it can enable engagers to reduce employment costs and obligations at a time when both continue to increase. Unless this loophole is addressed, there is a real risk that growing numbers of workers will be denied the rights and protections to which they are entitled, including the minimum wage. There are wider consequences of this, including for the Exchequer, as false self-employment may result in lower amounts of income tax and National Insurance contributions being collected than would arise if the engagements were correctly classified.

Recommendation: We would welcome a more explicit assessment by the Low Pay Commission of the risks posed by employment status misclassification and minimum wage avoidance through false self-employment, including the potential scale. We would also welcome employment status issues—whether arising in individual complaints or in more systemic contexts—being given much greater

prominence within the remit of the Fair Work Agency once it assumes enforcement responsibility from HMRC¹. The Commission should play a full part in discussions on minimum wage policy, employment status and enforcement capacity, helping to identify risks and drive improvements where necessary.

Universal credit

LITRG also has considerable expertise in the interaction between tax and other systems. We have previously highlighted how workers may not feel the full financial benefit of a minimum wage increase once tax, student loan repayments and the withdrawal of universal credit are taken into account. While some claimants may already be familiar with these interactions, rising minimum wage rates alongside frozen tax and student loan thresholds are likely to bring more people within their scope, and some may need support to understand the implications for their finances.

There is also a less visible and more complex interaction that may be catching people unawares: the minimum income floor (MIF).

Broadly, the MIF is a notional level of earned income used in certain circumstances to calculate a claimant's universal credit entitlement where it is determined that they are in gainful self-employment, they are in the all work requirements conditionality group and they are not in their 12 month start-up period. The level is based on the number of hours the claimant commitment says the individual is expected to work multiplied by the relevant national minimum wage for their age. For many people this will be 35 hours a week but for some it will be less.

If their actual earnings fall below this level, the notional figure is used instead of their actual self-employed earnings when calculating their universal credit award. As a higher level of assumed income generally results in a lower award, the impact can be significant.

The following example, from our website², illustrates the MIF for 2026/27:

Jack is a 30 year old window cleaner who works full time in his trade. Jack has been trading for 3 years. His individual earnings threshold (i.e. the minimum wage for the number of hours he is expected to work) is based on the national minimum wage of £12.71 an hour for a 35 hour week:

£12.71 x 35 = £444.85 per week

His minimum income floor for any assessment period, using current figures, should therefore be:

(£444.85 x 52)/12 = £1,927.68 minus notional tax and NI (say £246.23) = £1,681.45

Jack's assessment period runs from 6 April to 5 May. Jack reports his profit for that assessment period as £500. Jack's universal credit will be calculated using earned income of £1,681.45, not the

¹ We have [previously written](#) to the Director of Labour Market Enforcement to set out some practical thoughts on how the Fair Work Agency could take a role in enforcing status.

² <https://www.litrg.org.uk/benefits/universal-credit/self-employment-and-universal-credit/minimum-income-floor>

£500 he actually made from his self-employment. This is because he is expected to earn at a level equal to his individual threshold.

As alluded to above, the rules are complex, and there are a number of exceptions where the MIF does not apply, even where a person is in gainful self-employment and has low earnings. Nevertheless, we are concerned that continued significant increases in the minimum wage may have unintended consequences for self-employed workers who are not entitled to the minimum wage and who may be unable simply to increase their earnings in response to higher wage rates. For example, the additional pressure on some self-employed claimants could potentially affect business viability, labour market participation and decisions about self-employment.

Universal credit also contains a number of other thresholds linked to the minimum wage, including the Administrative Earnings Threshold (AET), the Conditionality Earnings Threshold (CET) and the benefit cap. These can affect both work-related conditionality requirements and, in some cases, the amount of universal credit that a claimant receives.

Recommendation: Before any further significant minimum wage increases are introduced, we believe there should be a fuller assessment by the Low Pay Commission of how minimum wage rates interact with other systems including universal credit, the impact those interactions may have on claimants and their experience of universal credit, and whether they create barriers to making work pay. The outcomes of that assessment should be reflected in the Commission's consideration of future minimum wage rates.

We would be pleased to discuss any aspect of this letter further if that would be helpful.

We should be grateful if you would acknowledge receipt of this letter and include LITRG in the list of respondents to the consultation. For further information about our organisation, please see below.

Yours faithfully



Victoria Todd
Head of LITRG and Tax Technical

About Us

The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998, LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those who are least able to pay for professional advice. We also produce free information, primarily via our website www.litrg.org.uk, to help make a difference to people's understanding of the tax system.

LITRG works extensively with key stakeholders such as HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the tax system. LITRG also considers the welfare benefits system, and other related systems, to the extent that they interact with tax.

The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.