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Self-employed individuals, self-employment income and the post-COVID-19 financial strain

by **Sung-Hee Jeon** and **Yuri Ostrovsky**

Although the number of self-employed individuals has remained largely unchanged since the beginning of the COVID-19 pandemic (Statistics Canada 2020), many of the self-employed are likely to remain under severe financial strain. This is especially likely in the industries most affected by physical distancing rules and other measures aimed at restricting the spread of COVID-19.

One aspect of self-employment often overlooked in discussions on the financial vulnerability of self-employed individuals is that, for a large share of these individuals, especially those who are unincorporated, self-employment is not their primary labour market activity. Close to half of all taxfilers who report self-employment income from business or professional activities (45.8%) also report T4 earnings (wages and salaries for which they received T4 slips from their employers). In a recent article, Jeon and Ostrovsky (2020) highlighted concerns about the short- and long-term financial well-being of self-employed freelancers and on-demand workers often referred to as “gig workers.” They suggested that the ability of these workers to cope with the economic fallout of the pandemic will depend on their characteristics and, especially, the industry in which they work.

This article looks at the unincorporated self-employed more broadly and highlights another important factor that will likely have a large impact on their financial well-being: whether or not the self-employed individuals also have T4 earnings. The presence of T4 earnings is important for two reasons. First, such earnings may provide a financial cushion for self-employed individuals unable to continue their self-employment activities. Second, self-employed individuals who also have T4 earnings may be eligible for employment insurance (EI) benefits if they lose their wage employment.

In this analysis, income information from 2016 tax records is used to compare the pre-COVID-19 degree of reliance on self-employment income among self-employed individuals with and without T4 earnings.[1] The degree of reliance on self-employment income is measured as the median individual share of self-employment income in total income (see the note to readers). To add another important dimension to the analysis and to account for possible differences in the degree of reliance on self-employment income among high- and low-income individuals, median shares of self-employment income are computed for each decile of the total pre-tax annual income distribution among Canadians aged 15 and older.

The salient feature of Table 1 is that the degree of financial reliance on self-employment income among the target population clearly depends on the presence of wage employment in the total income, and this is true for both men and women. The median shares of self-employment income among self-employed men with no T4 earnings (first column) suggest a high level of financial dependence on self-employment income in all income deciles, especially for men in the bottom half of the income distribution, where the median shares are above 90%. Even in the top half of the income distribution, the median shares are above 75%. The median shares of self-employment income are similarly high for self-employed women with no T4 earnings in the bottom half of the income distribution, with the notable exception of women in the lowest income decile (78.4%). This is the case presumably because women are more likely than men to receive child benefits, and such benefits represent a large share of the income of women in the lowest income decile.

1. Tax data are necessary for this analysis because they contain income information about all labour market activities. The target population includes taxfilers reporting self-employment income from business and professional activities (including those reporting commission income) but excludes those reporting self-employment income from fishing and farming.

The story is very different for self-employed men and women who also have T4 earnings. For those in the upper half of the income distribution, self-employment is only a very minor activity, and the median shares of self-employment income are below 5% in all income deciles. However, even in the bottom half of the distribution, the median shares do not exceed 25% for both men and women, except for men in the second-lowest decile (32.1%). It is also notable that the average total incomes of self-employed men and women with T4 earnings are considerably higher than the average total incomes of self-employed men and women without T4 earnings.

Table 1
Median share of self-employment income in the total annual income of unincorporated self-employed individuals with business, professional or comission income, with and without T4 earnings

	Men		Women	
	Self-employed with no T4	Self-employed with a T4	Self-employed with no T4	Self-employed with a T4
	percent			
Income deciles				
1st decile (lowest)	100.0	23.6	78.4	16.4
2nd decile	100.0	32.1	93.7	24.9
3rd decile	96.5	24.8	91.8	18.1
4th decile	93.6	16.2	89.0	10.6
5th decile	91.7	8.9	88.6	5.5
6th decile	84.1	4.8	71.1	2.8
7th decile	76.8	2.8	59.1	1.9
8th decile	76.5	1.7	66.2	1.4
9th decile	76.9	1.1	68.1	1.1
10th decile (highest)	86.4	1.3	89.5	1.7
Mean share (overall)	93.5	4.3	87.9	4.4
	dollars			
Average total income	45,600	70,800	34,400	49,900
Median total income	25,700	49,700	19,300	37,600

Notes: Individuals with negative total incomes (negative denominator) are excluded. Total income deciles are based on the total income distribution for individuals aged 15 and older. Income figures are rounded to the nearest $100.
Source: Statistics Canada, authors' calculations.

The results in Table 1 highlight potential differences in the ability of self-employed individuals to cope with the financial strain caused by the COVID-19 pandemic along two related dimensions: total income from all sources and the presence of T4 earnings in the total income. Financial relief in the form of the Canada Emergency Response Benefit (CERB) will temporarily ease the financial strain imposed by COVID-19 on those who relied entirely (or almost entirely) on self-employment income before the pandemic. As non-employees, they are unlikely to qualify for EI regular benefits after the CERB program expires at the end of September 2020, but many of those who earned at least $5,000 in 2019 or 2020 will qualify for the Canada Recovery Benefit (CRB). Their ability to continue their business activities after the CRB program expires will largely depend on how evolving social attitudes towards physical distancing will impact their relationships with their clients. Self-employed individuals who also had T4 earnings before the pandemic are in a better position to qualify for EI regular benefits and may also benefit from the Canada Emergency Wage Subsidy, intended to help employers rehire workers laid off as a result of COVID-19 (Government of Canada 2020). Their long-run capacity to cope with the financial consequences of COVID-19 will primarily depend on their ability to remain employed or find stable re-employment.

Note to readers

To measure the degree of reliance on self-employment income, the share of self-employment income in total income was computed for each individual reporting self-employment income on his or her individual tax return. The term "total income" refers to total (pre-tax) annual income from all sources. The median individual share computed for all unincorporated self-employed individuals is the measure of the degree of reliance on self-employment income used in the study. The median divides all self-employed individuals into two halves: the half whose shares of self-employment income are above the median share and the other half whose shares of self-employment income are below the median share.

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