COVID-19 – UK Fiscal Measures: Phase Three

Chancellor of the Exchequer Announces Package for Employers and Employees

On 20 March 2020, the Chancellor of the Exchequer, Rishi Sunak, unveiled the third phase of the UK government's fiscal response to the economic shock to the UK economy occasioned by the COVID-19 pandemic.

The further measures announced follow:

- The initial package released alongside the UK Spring Budget 2020 on 11 March 2020
- The Second Phase published on 17 March 2020

Both of those packages were, in the main, focused on providing businesses with access to finance and liquidity through government backed borrowing facilities. Companies in the leisure and hospitality sector also benefited from some cash grants and business rates relief schemes. The fiscal measures have been reinforced with monetary policy through successive cuts in the Bank of England base rate, first to 0.25% and then to (another) historic low of 0.1%.

However, recognising that the two packages would not alone be enough, and that the survival of many businesses will depend on immediate and direct financial assistance from HM Treasury, the Chancellor also announced plans to "urgently develop new forms of employment support".

Phase Three of the government's response outlines the extraordinary, frankly astonishing, measures that the Chancellor considers necessary to provide that support to employers and their employees. It is, in the Chancellor's words, an "economic intervention that … is unprecedented in the history of the British state".

The Plan for People's Jobs and Incomes

The government's plan is comprised of four elements:

- Protect jobs
- Strengthen the safety net for the unemployed
- Strengthen the safety net for the self-employed
- Support for renters

Protecting Jobs

The Chancellor appealed directly to businesses to consider their options, and the various sources of support available, before deciding to make employees redundant: "The Government is doing its best to stand behind you – and I am asking you to do your best, to stand behind our workers."

The protecting jobs part of the plan is perhaps the most significant – it is certainly the most radical. It has three aspects:

The Coronavirus Job Retention Scheme

The Chancellor recognised that the government's "social distancing" measures and the restrictions imposed on business operations (particularly in the leisure and hospitality sector) have constrained demand and business income, leading to critical cash-flow pressures making it difficult (if not impossible) to continue to pay wages and operate as a going concern.

The Chancellor's response is the launch a new Coronavirus Job Retention Scheme.

The Coronavirus Job Retention Scheme is intended to step in to prevent workers being made redundant. Employers will be eligible for a direct government grant of up to 80% of the wage (up to a maximum of £2,500 per month) of any employee the business cannot afford to keep working. The employer must keep the employee on its payroll.

The scheme will take retrospective effect from 1 March 2020 and will be available until 1 June 2020, at the earliest. The Chancellor has promised to extend it if necessary.

All UK businesses are eligible. There is no upper limit on the funding the government will make available and no limit to the number of employees that an employer will be eligible to seek a grant for.

HM Revenue and Customs (HMRC) will operate the Coronavirus Job Retention Scheme. To take advantage of the scheme, employers must:

- Designate the affected employees as 'furloughed workers'
- Notify the affected employees of this designation. It should be noted that any change in the status of an employee's employment is subject to certain protections under existing employment law and the employment contract. A negotiation may be necessary.
- Notify HMRC about the 'furloughed workers', their earnings and other information as yet unspecified, through a new online portal.

The Chancellor expects the first grants to be paid "within weeks". However, the necessary systems for the scheme (including the online portal) have not yet been set up and the scheme is only likely to be fully operational at the end of April.

Value Added Tax (VAT) Deferral

To help "bridge" the time-lag, the Chancellor has announced that "the next quarter of VAT payments" will be deferred.

VAT is (generally) payable quarterly so, in effect, this is a tax payment holiday. No VAT will be payable "from now until the end of June" (i.e. from 20 March 2020 to 30 June 2020). As a result, no VAT registered business will have to make a VAT payment normally due in that period.

Again, all UK businesses are be eligible. No application is required as the deferral will be applied automatically. However, it should be noted that VAT returns will still need to be submitted to HMRC. VAT refunds and reclaims will be paid by the government as normal.

The amounts deferred will not need to be repaid (or accounted to HMRC) until the end of the financial year (i.e. 30 March 2021). The move is intended to free-up additional cash flow for a business' immediate requirements.

This measure alone is valued at £30 billion, exactly the same magnitude as the entire package of measures unveiled at the Spring Budget, helping illustrate the level and acceleration of the fiscal expansion being unleashed by the government.

Coronavirus Business Interruption Loan Scheme (CBILS)

The Chancellor also announced a further enhancements to CBILS to help with short term cash flow.

Originally announced at the Spring Budget 2020, CBILS is operated by the British Business Bank and provides loans up to £5 million to small and medium sized businesses (SMEs). UK based businesses with a turnover of no more than £45 million a year are eligible.

Those loans will now be "interest free" (the government will cover the interest cost) for the first 12 months. Subject to certain caps, the government will provide lenders (there are 40 accredited providers in total including all of the major high street retail banks) with a partial guarantee of 80% on each loan in order to ensure lenders have the confidence to continue to provide finance to SMEs.

Loan finance under CBILS will, the Chancellor confirmed, be available from Monday, 23 March 2020.

Strengthen the Safety Net for the Unemployed

The Chancellor readily acknowledged that job losses are already taking place and so announced measures to strengthen the UK's benefit system in two ways:

- The Universal Credit standard allowance will be increased by £20 a week (£1,040 a year), for the next 12 months
- The Working Tax Credit basic element will also be increased by £20 a week (£1,040 a year), for the next 12 months

Strengthen the Safety Net for the Self-employed

Recognising that the self-employed will not necessarily be eligible or be able to take advantage of the range of support options made available by the government, in particular Statutory Sick Pay (SSP).

In an attempt to ensure that the self-employed are entitled to the same protections as employees, the Chancellor announced the suspension of the minimum income floor for anyone affected by the economic impacts of COVID-19. In effect, the government is extending Universal Credit to the self-employed at a rate equivalent to SSP available for employees.

In addition, income tax due for payment by self-employed businesses in July 2020 (under the self-assessment system) have been deferred until 31 January 2021. The measure is expected to assist 5.7 million businesses.

Support for Renters

In addition to the (already announced) measure providing homeowners with a three-month holiday from mortgage payments, the Chancellor unveiled specific plans, worth a total of £1 billion, to ensure those renting their properties are also supported. This follows the announcement on 18 March 2020 that emergency legislation would be introduced to ban evictions from social or private rented accommodation.

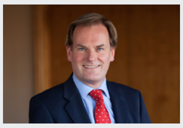
Again, the mechanism is to utilise the benefits system by increasing the availability of housing benefit and Universal Credit. The result ought to be that "the Local Housing Allowance will cover at least 30% of market rent".

Phase Four and Beyond

Phase Three is still not the end. The Chancellor has also promised further measures "next week" to ensure larger and medium sized businesses continue to have access to the finance and credit they need to survive the COVID-19 pandemic. There are also a number of other direct tax measures that could be adopted to enhance immediate liquidity and cash flow (including, for example, deferral of quarterly corporation tax or loosening some of the restrictions on interest payments and the utilisation of losses).

Unprecedented times requiring unprecedented measures? Undoubtedly. Whether the overall package will be enough to support the UK economy as a whole remains to be seen. For some, the announcements are either too late or will not be enough but the immediate test is to ensure that businesses are aware of the growing number of support initiatives that are available and to ensure the Chancellor, HM Treasury and HMRC can get the cash available into the hands of those that need it most at top speed.

Contacts



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