House of Commons

Treasury Committee

Economic impact of coronavirus: Gaps in support: Government Response to the Committee's Second Report of Session 2019–21

Third Special Report of Session 2019–21

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The Treasury Committee

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Third Special Report

On 15 June 2020, the Treasury Committee published its Second Report of Session 2019–21, Economic impact of coronavirus: Gaps in support (HC 454). On 15 July 2020 we received the Treasury's Response to the Report, which is appended below.

Appendix: Government Response

Mel Stride MP

Chair of Treasury Select Committee

House of Commons

London

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15 July 2020

Dear Mel

TREASURY COMMITTEE INTERIM REPORT

Thank you for the Treasury Committee's interim report, *Economic impact of coronavirus: Gaps in support*. I look forward to receiving the Committee's final report in due course.

First, it is important to say that our economic response to COVID-19, the biggest threat this country has faced in decades, has been on a scale unmatched by any British government in recent history. The Government has kept people in work, supported their incomes and supported businesses, delivering one of the most generous and comprehensive packages of support globally, with a fiscal response so far totalling up to £190bn.

We have supported 9.4m jobs, 1.2m employers and 2.7m self-employed people through the Coronavirus Jobs Retention Scheme (CJRS) and the Self-Employment Income Support Scheme (SEISS). So far, the total value of claims made for the CJRS is £28.7bn and £7.8bn for the SEISS.[1] By the time these schemes end at the end of October, they will have provided unprecedented support for eight months. These schemes were designed to be open and accessible to as many people as possible. The CJRS is available to all employers with a PAYE system and all employees on PAYE regardless of their employment contract. Claimants of the SEISS can continue to work, start a new trade or take on other employment. The schemes have retained millions of jobs and supported the incomes of millions more.

The Treasury Committee's recent report makes recommendations for those who are recently self-employed. I understand the issues the newly self-employed face, but when the SEISS was designed it was clear that for practical reasons it would not be possible to include those who began trading after the 2018–19 tax year. Accepting returns for 2019–20 creates an opportunity for an individual or an organised criminal gang to file fake or misleading returns to claim the grant. Fraudulent activity through returns could include, for example, where no trading activity has taken place, where trading profits have been inflated to increase the size of the grant, or where trading profits have been reduced to

1 As of midnight 12 July: https://www.gov.uk/government/collections/hmrc-coronavirus-covid-19-statistics

below the £50,000 threshold in order to become eligible. It would not be right for the Government to expose the tax system to these risks. Consequently, we have to use the most reliable and up-to-date record of self-employed income, which is from the 2018–19 tax returns, which were due at the end of January 2020.

The SEISS has been targeted at those who need it the most and who are most reliant on their self-employment income—this is why we designed the SEISS with the £50,000 cap. Around 95% of those who earned more than half their income from self-employment in 2018–19 could be eligible for this scheme. The self-employed are a very diverse population and have a wide mix of turnover and profits, with monthly and annual variations even in normal times. Some may see their profits unaffected by the current situation, while others have substantial alternative forms of income. For example, those who received more than £50,000 from self-employment profits in 2018–19 had an average total income of more than £200,000. In the 2017–18 year, around 4% of self-employed people received more than £50,000 in self-employment income.[2] The self-employed can also offset losses against profits in other years and other forms of income.

I have also carefully considered the case for providing a new system for those who pay themselves through dividends. However, though this was a difficult decision, I reached the conclusion that, for practical reasons, the Government will not be able to provide this. Targeting additional support for those who pay their wages via dividends is much more complex than existing income support schemes. Unlike announced support schemes, which use information HMRC already holds, it would require owner-managers to make a claim and submit information that HMRC could not efficiently or consistently verify to ensure payments were made to eligible companies for eligible activity. This is because, under current reporting mechanisms, it is not possible for HMRC to distinguish between dividends derived from an individual's own company and dividends from other sources. Nor is it possible to distinguish between dividends in lieu of employment income and as returns from other corporate activity.

The Government has assessed the proposal made by IPSE that HMRC adopt a 'pay now, clawback later' approach in this instance, and concluded that such an approach would be highly resource-intensive to ensure appropriate compliance. For each support scheme, the Government has done all it can to support as many people as possible, but we have to minimise the risk posed by those intent on committing criminal fraud. Following IPSE's proposal would be accepting a high risk that incorrect or fraudulent payments could not be recovered, ultimately at a cost to UK taxpayers.

I turn now to the "cut-off date" for eligibility for the CJRS. When designing our response, I felt under a strong obligation to prioritise help for the greatest number of people as quickly as possible. To this end, the CJRS was set up at pace, at significant scale and with limited manual intervention so that in a short period of time we supported millions of people to remain employed. The Government has been eager to do everything we can to support the greatest number of people, which is why I pushed back the cut-off date of the CJRS. But we are unable to extend this date any further and move it beyond 19 March due to the practical implications of monitoring such an extension. This must be disappointing to businesses unable to furlough staff taken on after this point, or employees who will not be part of the scheme. However, using data submitted to HMRC after the scheme

2 https://www.gov.uk/government/statistics/personal-incomes-tables-31-to-311–316-and-317-for-the-tax-year-2017-to-2018

became public would significantly increase the risk of abuse because claims could not be confidently verified and the risk of fraud sufficiently mitigated. Fraud is a real risk to the system, with HMRC officers this month making their first arrest relating to fraud and the CJRS.

With regard to tronc payments, they cannot be included when calculating payments for the purpose of the CJRS where they are made at the discretion of the employer or a client. This is because the objective of the CJRS is to help employers whose operations have been severely affected by coronavirus to retain their employees and protect the UK economy. To achieve this, the grants compensate employers for the payments that they are obliged to make in order to avoid the need for redundancies. Covering discretionary payments would go beyond the objectives of the scheme. Therefore, where tronc payments are non-discretionary, they are included when calculating payments for the purpose of the CJRS.

I have adapted the CJRS and SEISS as far as is possible. We pushed the eligibility cut-off date for the CJRS, bringing 200,000 employees into scope; I ensured those off work caring for their new baby or adopted child did not lose out from the SEISS; I made sure those returning from serving their country as reservists got the support they needed; we extended both schemes and introduced part-time flexibility to the CJRS. Alongside this, the Government's comprehensive package of support has supported the British people through an unprecedented challenge. Our economic response measures have supported millions of families, businesses and self-employed people to get through the crisis so far.

The Committee is correct that some people have not been eligible for the CJRS and SEISS, or that some workers—like PAYE freelancers—do not have a scheme that expressly caters for them. This is why the Government has been comprehensive in the economic response it has rolled out. Those unable to access the CJRS or SEISS could look for support from the many measures we have launched to make sure people get help at this time. The Government has ensured people who needed it received help with their utility bills and had access to mortgage and consumer credit holidays. To make sure we reached the most vulnerable, the Government gave local councils an additional £500m to provide all recipients of working age local council tax support.

Our support for businesses has reached across the country, providing £122.8bn in tax deferrals and approved loan support. The package for business includes the Small Business Grant Fund, business rates holidays, Bounce Back Loans Scheme, Coronavirus Business Interruption Loan Scheme, tax deferrals for VAT and Self-Assessment, preventing commercial tenants from being evicted, the Statutory Sick Pay Rebate Scheme, the Future Fund and more besides.

Underpinning all these measures the Government provided extra funding for the welfare safety net, to get us through the outbreak and help those unable to access other forms of support. The temporary welfare measures include a £1,040 increase a year to the Universal Credit standard allowance and Working Tax Credit basic element. We increased the Local Housing Allowance rates for Universal Credit and Housing Benefit claimants and relaxed the Universal Credit minimum income floor. On top of this we made Statutory Sick Pay easier to access, payable from day 1, rather than day 4, and extended to those ill, self-isolating or social shielding due to COVID-19.

The CJRS and SEISS were the right policies for the first phase of the crisis, but now, in this new phase, we need to look forward and evolve our approach. As I set out for the House last week, the Government's Plan for Jobs is the necessary next step after COVID-19. To rebuild and recover, we must support, protect and create jobs. This is exactly what we are doing.

To support jobs, we are providing £1bn to enhance work search support services, doubling the number of work coaches in Jobcentre Plus centres. We will invest in opportunities for people to develop skills to find and retain a job, tripling the number of sector-based work academy placements and tripling the scale of traineeships. Our plan will provide targeted help for young people, through the £2bn Kickstart Scheme and by paying £2,000 to employers in England for each new apprentice they hire aged under the age of 25 and £1,500 for each new apprentice they hire aged 25 and over.

This plan protects jobs by launching the Eat Out to Help Out scheme, a measure that will support an industry employing 1.8m people. We will prevent unemployment and support businesses by cutting the rate of VAT applied to hospitality, accommodation and attractions in every nation and region of the UK. Cutting VAT from 20% to 5% for six months is a £4bn catalyst for the hospitality and tourism sectors, benefitting 150,000 businesses and protecting 2.4m jobs.

Finally, this Government will create jobs. We will stimulate the housing market by temporarily raising the stamp duty threshold from £125,000 to £500,000 from 8 July 2020 until 31 March 2021. Our ambitious plans will support tens of thousands of jobs and improvements to our infrastructure through £8.6bn of infrastructure, decarbonisation and maintenance projects. This includes investing in making our homes and buildings greener, warmer and cheaper to heat, through a £2bn Green Homes Grant, £50m to decarbonise social housing and £1bn to decarbonise public sector buildings.

As we carefully reopen our economy, we are entering the second phase of our economic plan. In our Plan for Jobs, we will do all we can to guarantee people and businesses the tools and opportunity to get through this and become stronger. We will make available up to £30bn as the next step towards economic recovery ahead of the upcoming Budget and Spending Review.

I am grateful for this report and to the witnesses that have provided evidence for the inquiry. Thank you for your invitation to appear before the Treasury Committee on 15 July. I look forward to meeting the Committee then.

RISHI SUNAK