

Temporary Retrenchment Scheme

The Prime Minister announced today that we should all avoid pubs, restaurants, theatres and cinemas. There has at this time been no indication how such businesses, and those similarly affected by Covid-19 are supposed to survive without customers.

Widespread failure of businesses will lead to wholesale unemployment, a failure to honour debt and potentially even the collapse of the whole financial system. The government will, at the very least, suffer a loss of tax revenue and thus be in a worse position to manage. At worst, it may not even be able to borrow its way through the crisis period.

We urge the government to consider launching a Temporary Retrenchment Scheme aimed at helping businesses survive the crisis. The idea is that business could temporarily retrench staff with the government continuing to pay their salaries.

By reducing costs, in addition to other measures, businesses have a chance of surviving. Retrenched employees will be able to continue to meet their commitments and contribute to the nation's coffers through taxation.

The Government could, immediately or at a later date, impose an additional Temporary Retrenchment levy on certain taxes to help pay for this. An additional levy on corporation tax for businesses that take advantage of the scheme and still manage to make profits would seem a prime candidate. Income tax may also need to be raised, and it is hoped that for some at least the increase will be financially mitigated by the reduction of spend on entertainment enforced on most families during this period.

Finally, retrenched staff could be called on, where they have the skills and capacity, to help supplement the army of volunteers we may need to get us through this crisis.

Other measures

It will be more complex to extend this to the self-employed (e.g. decorators, music teachers, fitness instructors, other members of the gig economy), but old year tax records could be used to ascertain expected income and the same principles applied.

Similar measures could be taken in respect of other fixed costs that businesses have e.g. rents and rates. By funding the payment of the fixed costs, money continues to circulate through the economy and we need not see catastrophic levels of business failure and unpaid debts. If that can be maintained we may be able to make this a health crisis only and not so much an economic one.

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