

# Life Support Supplement

## Costings Paper

This paper examines the costs of implementing a circulation strategy by adding temporary supplements to Income and Corporation taxes. Cutting straight to the chase, adding 26% to income tax and 21% to corporation tax would provide a fixed-cost business support fund of £240Bn per annum.

### Why £240Bn?

The £240Bn figure would replace the current £74Bn (The Guardian 9/10/20) being spend on the Job Retention Scheme, Self-employed Income Support and Business Rate holidays. The aim is to meet all the fixed costs of businesses that are forced to close (rates, rents and salaries) including a furlough scheme without exclusions, caps and haircuts. Those businesses that have been forced to close or restrict part of their operation would be able to claim a percentage of these fixed costs that matched the percentage of their business that had been closed or restricted. The self-employed would be paid in accordance with their usual average income (net of operating costs).

The scheme would only compensate for restrictions imposed and not for any reduction of appetite that the public may have to use a service in the light of Covid-19. (Compensatory support for the latter would be met through other existing support measures and loans).

The current Job Retention Scheme has cost £47Bn (ibid) and has financed up to 80% of salaries over seven months. I am estimating that extending this to 12 months and removing caps and the 80% haircut will take the costs to £120Bn p.a.

The Self-employed Income Support scheme currently costs £15.2Bn (ibid). It is heavily capped and many self-employed, or those employed through personal service companies, have been excluded. Consequently, I am estimating that we may need £45Bn p.a. to finance this properly.

Business Rate holidays for nurseries, retail, hospitality and leisure has cost £12.4Bn (ibid). I am estimating extending this to meet all the fixed costs (including rents) of affected businesses may require up to £75Bn p.a.<sup>1</sup>

### Paying for it

Currently, income tax brings in about three times as much revenue as corporation tax<sup>2</sup>. Consequently, the aim here is to raise £180Bn from income tax raises and £60Bn from corporation tax.

Corporation tax take for 2017/18 was £55.1Bn (HMRC 24/9/19 p3), so to extract a further £60Bn would require the rate to be more than doubled. This may not be sufficient, of course, if there is a

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<sup>1</sup> Rates being typically around 50% of rental value (Knight Frank) would suggest that to provide support for rentals as well would require a trebling of the current figure. The addition is anticipating extending this to all sectors and for a full 12-month timespan

<sup>2</sup> Miller and Roantree 1/5/17, Fig 2: Income Tax £174.9Bn, Corporation Tax £58Bn

drop in profits, which is likely in the circumstances. However, as per the proposals set out in the Hibernante and Circulate document ([Hibernante-and-Circulate.pdf](#)) there will be additional corporation tax levies charged on businesses using the fixed cost support which will help counterbalance the shortfall.

To raise £180Bn from approx 31.9m taxpayers (HM Government 26/6/20, England + Wales + Scotland + Northern Ireland) means doubling the tax take from the 2017-18 mean of about £5,600<sup>3</sup> per person to about £11,250<sup>4</sup>. Using an anticipated mean gross income figure of about £36,800<sup>5</sup>, the tax rate would need to be in excess of 46% to levy the required amount if everyone had a full personal allowance of £12,500.

### **Life Support Supplement**

The additional 21% payable on all rates of income tax and corporation tax would be known as the Life Support Supplement or “LSS”. It is proposed that by default all individuals and businesses pay it in full, however either may choose to defer all or part of it if they feel it unaffordable. Amounts owed should be interest-free for the first year and thereafter for interest to only cover the costs of borrowing for at least ten years. Unpaid amounts may be recovered from the estates of those who die with LSS debts.

The LSS would be regularly adjusted in line with restriction levels introduced or withdrawn and abolished when they can all be safely lifted.

### **Comparisons**

Although these rates will look alarming to a contemporary UK audience, it should be remembered that in 1979 the basic rate of income tax was 33% in the UK (13% less than proposed now) and the top rate 83% (2% more than proposed now). Corporation tax was above the proposed levels for most of the 1970s. In Sweden income tax rates above 50% are the norm.

For individuals receiving the support, the additional 26% tax will still ensure a higher net income than the 80% provided by the original furlough scheme (though additional NI contributions payable on some salaries may leave them slightly worse off<sup>6</sup>). Many whose incomes were capped or who received no help at all will be considerably better supported.

Similarly, these support measures should ensure the survival of the vast majority of affected businesses.

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<sup>3</sup> 2017-18 Income Tax receipts:£174.9Bn (Miller and RoanTree 1/5/17, Fig 2) / No of UK taxpayers 2018 31.2m (HM Government 26/6/2020)

<sup>4</sup> i.e. Adding on 5,641 per person for the extra £180Bn (divided by 2020 No of UK Taxpayers figure)

<sup>5</sup> 2017-18 figure is £34,700 (HM Government 26/6/20) and have applied year on year growth of 3%. 3% ascertained from trend of Gross Domestic Household Income (GDHI) from 2012 (Office of National Statistics 30/9/20), and data indicating that mean gross income tends to follow GDHI (Office of National Statistics 26/9/19, Figure 4)

<sup>6</sup> between about £26,200 and £40,850 p.a, only in those months where 80% was being paid

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THE GUARDIAN 9th October 2020 *Coronavirus: UK workers to get two-thirds of wages if firms told to shut*. Available from <https://www.theguardian.com/uk-news/2020/oct/09/rishi-sunak-expands-wage-subsidies-to-head-off-winter-surge-in-job-losses> [Accessed 23rd October 2020]

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