Over 3.4million regular earning Brits will be unfairly targeted to pay back Covid-19 debt

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There is currently an excess of 9.9 million people who have been furloughed by over 1.2 million companies in the UK. An amount that includes 47% of the creative industries and 43% of accommodation and food industry workers. The furlough scheme, alongside the UK's necessary investment in healthcare, amounts to over £280billion in 2020. The Government has also recently committed the investment of a further £55billion to support public services in 2021-22. The UK Governments efforts to curb unemployment have led to the largest borrowing in 300 years, since peacetime.

This has left many asking...

The straightforward answer is that it is not. We will not know the final cost of Covid-19 until the crisis is over, which will include the societal and health repercussions that are predicted to follow.

So far, the Government has stayed a-float through it record-breaking borrowing. In recent years, the government has been able to borrow at very low-interest rates, which intern makes all the debt very affordable. This has allowed the government to pay an interest rate of 0.32% for 10 years.

However, this agreement has a limit. Where that limit is? No one knows. What we do know, is that interest rates will weigh on future generation until the debt is paid off and will undoubtedly result in less money spent on public services and tax rises.

History suggests that there are many routes the government may take. By the end of the Napoleonic Wars, the UK's debt stood at around 200% of GDP. How was it paid off? Higher taxes and less government spending.

After the First World War, the UK's GDP once again stood at 200%. How was it paid off? Well, we did not pay it off until 9th March 2015. Britain favoured the method of austerity, which involves policies to reduce government spending or higher taxes. WW2 was dealt with very similarly, higher taxes.

If the government wants to get borrowing down, history says it will cut spending and raise taxes. Increasing taxes appears to be inevitable in the current economic climate. Increasing taxes will mean that people will have less money to spend and risks slowing the economy further.

Government spending in future years is also likely to in some way also be reduced. However, this is again very unattractive. Although it would indeed help reduce public service debt, a cut in government spending is likely to cause a further economic downturn, with limited financial improvements. Spending can drastically affect productive capacity, efficiency and equality.

Currently, we are noted as the era of substantial progression for equality. An era that has just begun, where progress is being made in terms of the gender pay gap, diversity in the workplace and anti-discrimination as a whole. The groups that are most likely to be negatively affected by the pandemic include young people, ethnic minorities and disabled people- some of the areas that are most commonly targeted for equality improvements. This suggests that future government policies may stunt the progressions of equality.

One of the most likely candidates for paying back the Covid-19 debt currently being discussed is targeting the wealthy. Rather than increasing taxes of the general population, income tax and VAT, the government could instead use methods to target wealthy.

Taxing millionaire households 1% above the £500,000 threshold could raise £260bn in five years, almost enough to cover the current amassed debt.

The alternative to raising the same money, without being so palatable to the general population, would be:

One of the issues that may arise with taxing the so-called “rich” is the unlucky regular earners that can fall into that group i.e., farmers and landlords.

The proposed tax will apply to all assets, including homes such as farms, pensions and business wealth. The long arm of this “wealth tax” could reach as much as 10million of the population, the majority of which would not fall much above the national average in terms of earnings.

For instance, struggling farmers, who are asset rich, cash poor are likely victims of the wealth tax. Farming in British culture is often passed through families. Therefore, many of the farmers are likely to have never been cash-rich. However, due to the asset worth of inherited farmland, regular earning farmers may face 1% rise in tax for 5 years, which for a regular earner can often be the make or break between ends meet.

Landlords are also another set that is likely to fall within the “wealth” taxable. The current UK average property value being set at £253,243, a landlord would only need 2 homes to fall into the ‘wealth taxable’ threshold.

One of the other likely routes that are being suggested for targeting the wealthy and paying back Covid-19 borrowing is doubling Capital Gains Tax (CGT). Capital Gains Tax is a tax on the profit you sell something that has increased in value.

Capital Gains Tax is a particular area of interest to tax the wealthy due to its application to inherited properties, shares and investment funds- all areas that are very often associated with substantial wealth. However, CGT also applies to second homes, which directly impacts landlords.

Government legislation has been particularly hard on landlords in recent years. The abolition of tax-deductible mortgage interest, the tenant fee bans and the 3% Stamp duty to name but a few BC (Before-Covid) policies. A rise in capital gains could be the final straw for landlords, which would essentially mean that if a landlord chose to sell their second home they may face a staggering 40% charge in Capital Gains Tax.

We, at Bambridge Accountants, have found that many clients feel cornered by the current and proposed policies. We have experienced a 210% increase in consultation requests in relation to supporting landlords through the upcoming changes to tax policy. The policies before Covid-19 discouraged the entrepreneurship being a landlord, while a possible CGT rise will be a final blow to landlords if they do decide to exit.

In conclusion, the options to rise general public taxes and reduce spending offer many unfavourable outcomes. However, the current suggestions are likely to unfairly penalise many unsuspecting members of the general public.

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