Office for National Statistics

Article

Government measures to address the impact of the coronavirus pandemic, and the challenges we face in recording their effects on tax receipts : August 2020

Contains useful background information underlying the the Public sector finances statistical bulletin, explaining the challenges we face in measuring the effects of the coronavirus (COVID-19) pandemic. It explains the larger coronavirus policies and how we are currently working with HM Treasury and HM Revenue and Customs (HMRC) to address the challenges of measuring the effects of the pandemic on tax receipts.

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Table of contents

1 . Government measures to address the impact of the coronavirus pandemic

Government measures to address the impact of the coronavirus pandemic

The coronavirus pandemic continues to have a significant impact on the UK public sector finances. These effects arise from both the introduction of public health measures and from new government policies to support businesses and individuals.

This section outlines the larger policies currently reflected in the public sector finance statistics and those that we are currently considering.

Effects of the coronavirus pandemic currently recorded in the public finances

- Eat Out to Help Out – On 15 July 2020, the government launched its Eat Out to Help Out scheme which offered a discount to diners. Running between 3 and 31 August 2020, restaurants were able to claim back this discount from HMRC. Our provisional assessment is that these payments should be treated as a subsidy paid by central government. As such, these payments have increased central government expenditure in August 2020 by £0.5 billion and so increased our headline public sector net borrowing (PSNB) measures by an equivalent amount.

- Reflecting the impact of the coronavirus in tax data – Tax receipts recorded on a national accounts (or accruals) basis are partially based on official forecast data. In August 2020, we updated our expectations of tax receipts to reflect those published in the Office for Budget Responsibility's (OBR's) Fiscal Sustainability Report and summer economic update monthly profiles – 21 August 2020 (XLS, 201KB). These estimates are largely unchanged from the July 2020 Fiscal Sustainability Report central scenario monthly profiles – 14 July 2020 (XLS, 201KB), though they have been updated to reflect the Value Added Tax (VAT) and stamp duty policies announced on 15 July 2020.

- Temporary increase to the Stamp Duty Land Tax threshold for nil rate band for residential properties – on 8 July 2020, the government announced a temporary increase to the Stamp Duty Land Tax threshold for nil rate bands for residential property. The new rules increase the nil rate threshold from £125,000 to £500,000. Stamp duties are recorded as central government receipts on a cash basis and so any increase or decrease will have an immediate impact on our headline PSNB measures.

- Self Employment Income Support Scheme (SEISS) – In May 2020, we recorded SEISS for the first time. As a subsidy paid by central government, these provisional estimates of SEISS have substantially increased central government expenditure between May and August 2020 and so increased our headline PSNB measures.

- Transport for London (TfL) extraordinary funding and financing – In May 2020 we recorded the package of grants and loans made by central government to TfL for the first time. Both the grant payments (recorded as a subsidy) and loans from central government to the public corporations sector consolidate at a public sector level and so have no impact on our headline PSNB and public sector net debt (PSND) measures.

- Coronavirus Job Retention Scheme (CJRS) – In April 2020, we recorded the CJRS for the first time. As a subsidy paid by central government, these provisional estimates of CJRS have substantially increased central government expenditure between March and August 2020 and so increased our headline PSNB measures. CJRS expenditure recorded on an accrued (or national accounts) basis remains provisional and may be revised over time. Payments for the period March to June 2020 are based on HMRC estimates, using payments data up to early August, while those for July and August 2020 are based on OBR projections.

- Reflecting the impact of the coronavirus in GDP estimates – Estimates of GDP used to present debt and other headline measures in the most recent months are based on official projections. Currently, data up to and including Quarter 2 (Apr to June) 2020 are based on published Office for National Statistics (ONS) estimates, while data for the subsequent three calendar quarters of the financial year ending (FYE) March 2021 are based on expectations published in the OBR's Fiscal Sustainability Report and summer economic update monthly profiles – 21 August 2020 (XLS, 201KB). These data do not represent official forecasts but are the latest published official estimates of the impact of the coronavirus on future GDP.

- Covid Corporate Financing Facility Fund (CCFF) – In April 2020, we recorded CCFF for the first time on a provisional basis; this treatment was subsequently updated in September 2020. The CCFF is a scheme under which the BoE, acting for HM Treasury, buys commercial paper issued by larger, non-financial corporations, to help with their cashflow position. These purchases are financed by a loan to central government from the BoE. As a result of consolidation between central government and the BoE, the purchase of commercial paper under CCFF has no impact on public sector net cash requirement (PSNCR), but there is a reduction in PSNB and PSND of the order of around £6 million each month because of interest accrued on the commercial paper.

- Term Funding Scheme additional incentives for small and medium-sized enterprises (TFSME) – In April 2020, we recorded the BoE's TFSME for the first time. These loans increase the BoE's contribution to PSND, since the assets on which they are secured are not liquid.

Effects of the coronavirus pandemic not yet recorded in the public finances

The following loan guarantee schemes have undergone formal classification assessments by the ONS and we will work further to develop a methodology to enable them to be included them in the public sector finances at the earliest opportunity.

- Coronavirus Business Interruption Loan Scheme (CBILS)
- Coronavirus Large Business Interruption Loan Scheme (CLBILS)
- The Bounce Back Loan Scheme (BBLS)

Our article Recent and upcoming changes to public sector finance statistics explains our provisional assessments of some of the largest coronavirus schemes.

This article also discusses the classification of Train Operating Companies (TOCs) under Emergency Measure Agreements (EMAs) to the public sector. On 21 September 2020, the government announced that all rail franchises will be replaced by Emergency Recovery Measures Agreements (ERMAs). We will consider the implications of this announcement and reflect any impact on the public sector finances at the earliest opportunity.

2 . Challenges of measuring the effects of the coronavirus pandemic on tax receipts

To estimate borrowing, most tax receipts are recorded on an accrued (or national accounts) basis rather than as cash receipts. In other words, we attempt to record receipts at the point where the liability arose, rather than when the tax is actually paid.

This means that accruals-based tax receipts for the current period depend on information from both current cash payments and on projections of future tax receipts, which are “accrued” (or time adjusted) back to the current month. For this purpose, we use official forecasts of future cash receipts, produced by the Office for Budget Responsibility (OBR).

Estimating future tax receipts

Expectations of future tax receipts used in our accrued estimates are based on those published in the OBR’s Fiscal Sustainability Report and summer economic update monthly profiles – 21 August 2020 (XLS, 201KB).

Exceptional adjustments

The Office for National Statistics (ONS) and HM Treasury have been working with both HM Revenue and Customs (HMRC) and the OBR to determine whether there is enough information to make exceptional adjustments that estimate the effects of the coronavirus pandemic.

Where data are available, we have adjusted the recording of accrued tax receipts (on a national accounts basis) for August and earlier periods. These adjustments are described later in this bulletin. These exceptional adjustments, and their underlying assumptions, will be revisited over the coming months as more information becomes available.

Pay As You Earn Income Tax

Pay As You Earn (PAYE) Income Tax is normally recorded on an accrued (or national accounts) basis by time-adjusting cash receipts using a one-month lag, which means that, for example, accrued PAYE receipts for August are based on forecast September cash receipts.

The amount of cash received for PAYE Income Tax in August 2020 was lower than usual, with much of that weakness likely attributable to lower earnings and employment and non-payment of liabilities. August 2020 receipts recorded on an accrued basis are estimated based on the OBR's Fiscal Sustainability Report and summer economic update monthly profiles – 21 August 2020 (XLS, 201KB).

We currently assume that most non-paid tax due between April and August 2020 will still be paid but in a later period than originally expected. We have included a 7% adjustment to reduce expected PAYE receipts on a national accounts basis to account for possible non-payment of PAYE. This assumption is based on the information set out on tax debts and losses in HMRC's annual report and accounts, and it is based on average losses for the most recent three years of data.

In estimating PAYE receipts on an accrued basis for August 2020, we have used additional cash receipts information for May to August 2020 to inform a judgement on the repayment of arrears (or debt) in June, July and August 2020.

Value Added Tax

Value Added Tax (VAT) data for any month are normally recorded on an accrued (or national accounts) basis by time-adjusting the average cash receipts expected in the following three months. This means that, for example, VAT receipts on an accrued basis in August depend on forecast cash receipts for August, September and October. These are updated as actual receipts become known.

The government announced a deferral scheme for VAT payments, enabling UK businesses to pay VAT due between 20 March and 30 June 2020 at a later date (though before 31 March 2021). As a result, cash VAT receipts are lower than usual in this period.

The initial assumption is that all the deferred tax owed will still be paid but in a later period than originally expected, as is permitted under the deferral scheme. We have therefore made an exceptional adjustment to prevent the effects of the deferral scheme on VAT receipts from impacting accrued receipts. Receipts forecasts are based on the OBR's Fiscal Sustainability Report and summer economic update monthly profiles – 21 August 2020 (XLS, 201KB), adjusted to account for the impacts of the deferral scheme.

The existence of this deferral assumption within accrued VAT means that they are subject to revision once further intelligence is gathered on deferred VAT. VAT on an accrued basis should be considered as provisional from December 2019 onwards until a final determination has been made on the deferrals.

There are not enough data available yet on which to estimate the amount of VAT that will not be paid because of lower economic activity or businesses ceasing to trade.

Corporation Tax

Corporation Tax data for any month are normally recorded on an accrued (or national accounts) basis by time-adjusting cash receipts for the subsequent 2 to 21 months, depending on the profits of the company.

As with PAYE and VAT, estimates of future months' cash receipts are currently based on the OBR's [Fiscal Sustainability Report and summer economic update monthly profiles – 21 August 2020 (XLS, 201KB)]. We are not yet able to estimate the amount of Corporation Tax that will not be paid, for example, because of reduced trading activity leading to lower profits, firms deferring tax payments to a future date or firms going out of business.

The [Fiscal Sustainability Report and summer economic update monthly profiles – 21 August 2020 (XLS, 201KB)] implicitly includes an element of non-payment through calibration to observed outturn receipts.

The national accounts estimate of accrued Corporation Tax relies heavily on forecast cash receipts. However, in making these forecasts, there remains uncertainty regarding the amount of Corporation Tax revenue that may never be received. Both cash receipts and accrued receipts should be viewed together for additional context.

Air Passenger Duty

As with the taxes outlined earlier, estimates of future months' Air Passenger Duty (APD) cash receipts are currently based on the OBR's [Fiscal Sustainability Report and summer economic update monthly profiles – 21 August 2020 (XLS, 201KB)]

This month, in estimating APD receipts on an accrued (or national accounts) basis for May, June, July and August 2020, we have used additional cash receipts information up to and including August 2020 to inform a judgement on the repayment of arrears (or debt).

Alcohol

As with the taxes outlined earlier, estimates of future months' alcohol cash receipts are currently based on the OBR's [Fiscal Sustainability Report and summer economic update monthly profiles – 21 August 2020 (XLS, 201KB)]

From August 2020, in estimating alcohol receipts on an accrued (or national accounts) basis in the period February to August 2020, we have used additional cash receipts information up to and including August 2020 to inform an initial judgement on the repayment of arrears (or debt). This judgement will be refined further in future months.

Other taxes

Limited information has meant that those taxes not specifically profiled in [Fiscal Sustainability Report and summer economic update monthly profiles – 21 August 2020 (XLS, 201KB)] may be overestimated. Such taxes will be reviewed over the coming months when more information becomes available.