Who will Pay the Bill for Covid-19?

30th September 2021

Government borrowing is at its highest level since the Second World War. Whilst this is understandable, we have to acknowledge that this debt has to be addressed. The recent announcement concerning increasing National Insurance Rates to cover some of the shortfall in NHS and Social Care costs highlights that the government has already started the ball rolling, but what else needs to be done to manage this situation?

At some point, the Chancellor has to start paying the money back and it is clear that he will need to do more than simply raise National Insurance levels. So just who will pay the bill for Covid? And how long will they be paying the bill for?

It hardly sounds like a prudent way to run a country but perhaps the UK will never pay back the debt. In the last 100 years the UK has never not been in debt: in the last financial year (before Covid struck) the government was planning to borrow £160bn – of which £100bn was to pay back old debt. It must be acknowledged that government borrowing is not like a credit card: the debt (at least according to the experts) does not need to be reduced as quickly as possible. Borrowing is cheap at the moment, with interest rates at historic lows – so low that early last year the government issued negative-yield bonds. Effectively, institutions that bought the bonds were paying the government to look after their money.

Naturally, the debt must still be acknowledged, and we do expect tax revenues to rise in due course. The use of 'stealth tax' is always a way of raising revenue without ruffling too many feathers and we saw that idea being used in the last Budget. Many allowances including Personal Allowances, Pension Lifetime Allowance and Inheritance Tax thresholds were all frozen until 2026. The principle behind this is that inflation causes both income and prices to rise, pushing everybody into a potentially higher tax threshold of some sort.

Making good use of these allowances is something that we often discuss at review meetings, so therefore freezing these allowances will inevitably have implications. For example, significant house price rises along with a frozen Inheritance Tax allowance could affect many of our clients. Frozen personal allowances could also mean higher than expected income tax bills.

Freezing allowances has raised revenue historically and will certainly build up the Revenue coffers in the long run, but it cannot be the only solution to repay this level of debt. Our expectation is that the Chancellor's emphasis will be on servicing the debt, rather than paying it back, especially with interest rates remaining at an historic low. It is important to note that this is not expected to be similar to the austerity measures that were put in place after 2008. The Chancellor will be keeping his fingers crossed that the predicted rebound in the economy really does happen, finally starting to swell the tax revenue, especially with the forthcoming increase in Corporation Tax.

We expect to know more about the debt and the management of it at the end of October when we have the Autumn Budget Statement, but the increase in National Insurance shows that a process is now in full swing. In the long term, we all have to recognise that there is a bill to pay for Covid 19.