

COVID-19

*BACKGROUND, GENERAL
IMPACT ON UK ECONOMY &
MEASURES UNDERTAKEN BY
GOVERNMENT*



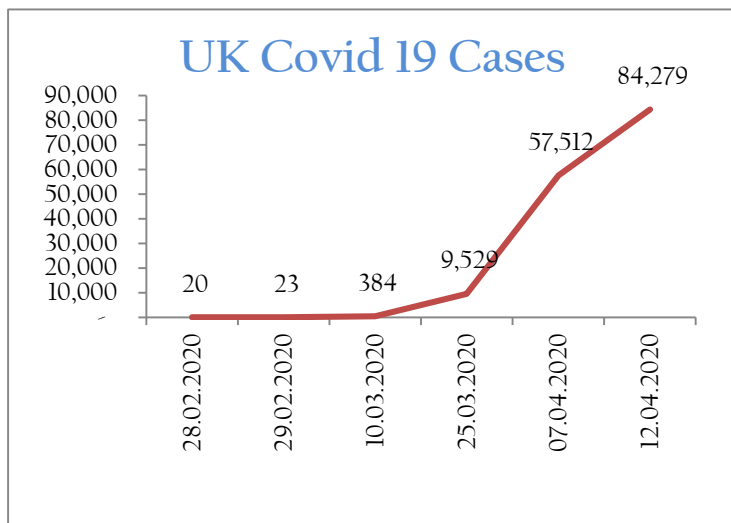
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ORIGIN & BACKGROUND

Severe Acute Respiratory Syndrome Coronavirus 2 (SARS-CoV-2), a virus responsible for Coronavirus Disease 2019 (COVID – 19) previously also known as “2019 novel coronavirus” has created havoc worldwide. The Virus whose origins have been linked to a “Wet market” in Wuhan, China has been declared as a Pandemic by the World Health Organization (WHO) on 11th March, 2020. The Virus has caused unprecedented Social, Economic & Financial crisis worldwide.

Source: Wikipedia



On 31st January, 2020 the first two cases of Covid-19 were detected in two members of the same family staying in York of England who were travelling from China. However all the cases so far were reported to have been infected abroad. On 28th February the first transmission within the UK was detected. Thereafter the cases increased manifolds with major rise in the mid-March. In the first week of April Prime Minister Boris Johnson was tested positive and hospitalised. As on 12th April, the UK reported 84,279 cases and a death of at least 11,329 people due to the epidemic.

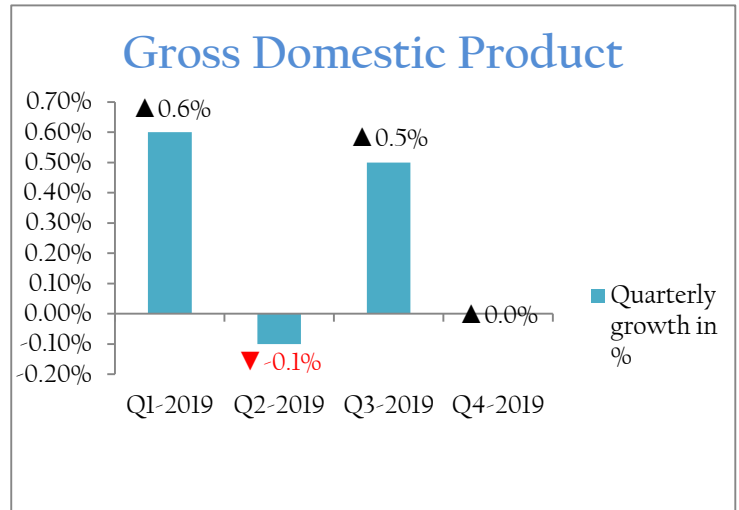
England and Wales recorded the highest death rate per capita, while Northern Ireland has the lowest recorded death rate. Government has imposed stringent lockdowns and police were given powers to enforce it by limiting all non-essential travel, close down of major businesses and shops, schools, indoor leisure facilities and isolation of people especially pregnant women, elders above 70 years of age and people with specific diseases. The Coronavirus Act 2020 was enforced which

gave the Government emergency powers which were not used after World War II.

EFFECTS ON THE ECONOMY

The Gross Domestic Product had flattened in the Q4 of 2019 after a 0.50% growth in the Q3 of 2019. However, due to Covid-19 lockdown the economic condition in the UK is forecasted to have a significant impact.

Source: Office of National Statistics



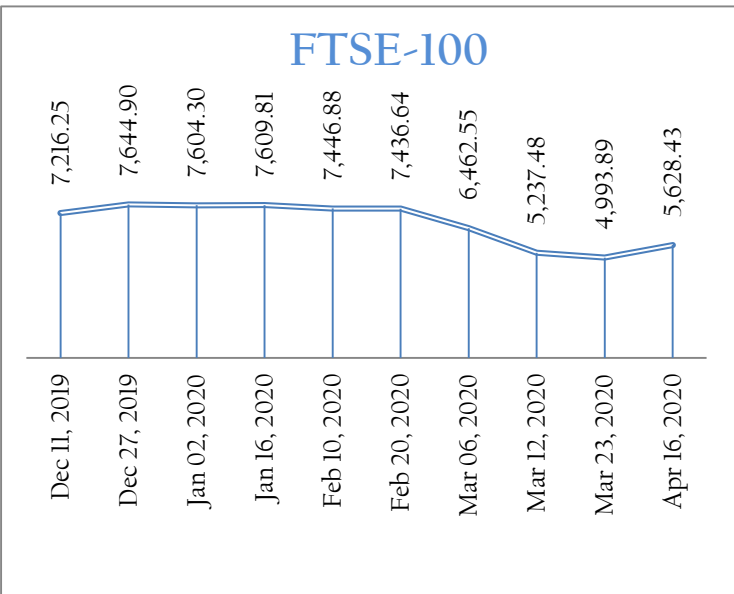
The Office of Budget Responsibility (OBR) has forecasted the economy to shrink by around 35% in Q2 of 2020 after a growth of 0.2% in Q1 of 2020 due to three-months of lockdown followed by three-months of partial restrictions. Though the economy is expected to bounce back quickly, this major fall would be the largest drop since decades. Furthermore, this might also raise the unemployment by more than 2 million to 10% in Q2 of 2020.

The Aviation industry is one of the most affected sectors due to Covid-19. The aviation industry is one of the driving forces of the economy as the aviation industry directly contributes upto £5.2 billion in the GDP and approximately 1.56 million jobs are dependent on this industry. Due to travel bans majority of the airlines (including regional airlines) are closed or are operating at a minimum level. This has also led to closure of business for one of the regional airlines, Flybe with a pre-existing financial crisis. Flights are grounded as there are no sales of tickets rather the number of refund requests are increasing.

The other major impact due to the drop in tourism and aviation industry is on the hotel industry. Hotel markets are likely to suffer from loss of international travel as well as from domestic travel restrictions. According to Duff & Phelps, a global advisor, also the hotel industry which is currently running at an occupancy level which is as low as 20%, the hotel and catering industry is set to face very tough months.

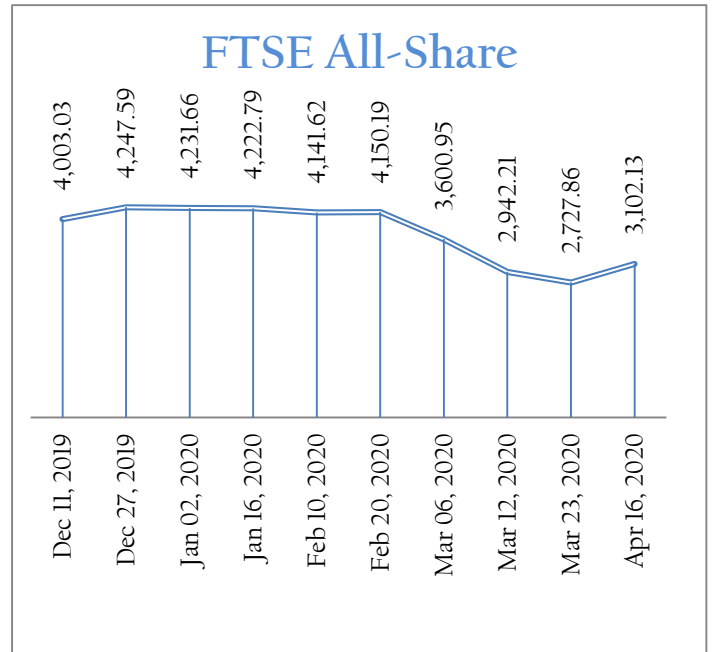
Food and Retail industry has seen a major shift in consumer spending. On one hand the Food and drinks outlets including Pret a Manger, McDonald's, and Nando's among others remained either closed or open to only take-aways or home deliveries. On the other hand, panic buying was seen by consumers in major supermarkets and other retail or online stores. The supermarkets and stores had to limit the quantity purchased by each customer and Online stores had to stop non-essential supplies.

The FTSE-100 listed on the London Stock Exchange on the 12th of March 2020 dropped more than 10% in its worst quarter since the 1987 crisis to hit 5237.48. Further, on the 23rd of March the FTSE-100 index hit its lowest value this year to date at 4993.89 but has seen a slight recovery from then.



Source: londonstockexchange

Further, the FTSE All-Share index fell by 35% over the period between 2 January and 23 March 2020. The industries that have been hardest hit include tourism and leisure, production and distribution of fossil fuels, retailers and some large manufacturing industries.



Source: londonstockexchange

Another major impact was on the construction industry. Construction sites remained closed and projects were halted. By the start of April 80% of the UK house holding projects were halted leaving the workers on furlough. According to the survey done by Glenigan survey work on 2,434 sites with value more than £250,000 in the UK was stopped by 17th April which means 35% of total UK construction value had been paused. Private holding of around 44% and social housing schemes of around 32% were also halted.

Knight Frank, an estate agent has forecasted a drop of 38% in sale of houses which comes to around over half a million transactions. This fall in the transactions will be hitting government revenues by fall in stamp duty fall in stamp duty and VAT revenues to the tune of £4.4bn a £1.6bn respectively.

The International trade and businesses involved in international commerce will be largely affected by the pandemic. The International Trade Committee of the UK Parliament on 30th March launched an inquiry to analyse the impact on international trade.

The virus also led to cancellation of various events like Big Weekend Music Festivals, Glastonbury festival, LGBT pride, International Women's Day and other arts festivals. Theatres and Cinemas also remained closed. This has also led to cancellation of various sports events and matches.

Religious and worship places like the Church of England, Anglican churches, the Catholic Church, Methodist Church in Great Britain and the Society of Friends prohibited worshipping in-person. The Muslim Council of Britain also closed mosques due to Covid-19 pandemic.

MEASURES UNDERTAKEN BY GOVERNMENT

The Government of the UK has introduced several rescue schemes and packages to revive the economy and support businesses. Various such schemes are outline below:

1. Coronavirus Job Retention Scheme

The scheme is for all UK PAYE Employers who cannot maintain current workforce due to the rapid outbreak of COVID-19 and need support to continue paying part of their employees' salary who are furloughed during this crisis. The employees should be furloughed for a minimum period of 3 weeks and can be furloughed multiple times. The government shall pay 80% of such employee's wages, up to a limit of £2,500 per month. This is a temporary scheme starting from 1 March 2020 for a period of 4 months but it may be extended if necessary and employers can use this scheme anytime during this period.

2. Statutory Sick Pay Rebate Scheme

Businesses with less than 250 employees as at 28 February 2020 will be able to reclaim SSP expenditure up to a maximum of two weeks per employee from the government. This scheme is applicable for employees absence due to sickness or even due to self-isolation. The employees will be able to claim SSP from the first day of sickness starting from on or after 13th March, 2020.

3. Deferral of VAT payments and Income Tax Payments

Valued Added Tax (VAT) payments due between 20 March and 30 June 2020 can be deferred until 31 March 2021.

For payment of self-assessment tax bill due in July 2020 i.e. second payment on account will be deferred till January 2021.

Businesses and self-employed people facing financial crisis and with outstanding tax dues may contact HMRC and receive tax support through HMRC's Time To Pay service. Depending on case-to-case basis HMRC may if genuine consider giving more time to pay the bills or pay bills in installment to help those struggling with cash flow. In addition, HMRC may even waive off late payment penalties.

4. Business Rates Relief

The UK government announced a full rates relief for all companies (incl. SMEs) in the retail, hospitality and leisure sectors for business rate holiday for a period of 2020 & 2021 tax years in England. Similar provisions are also introduced by Scottish & Welsh Government.

For Northern Ireland all the business rates tax payers excluding public sector and utilities will be eligible for a 3-month tax rates holiday i.e. for the months of April, May & June 2020.

5. Business support Grant Funding Schemes

Under the Small Business Grant Fund (SBGF) all eligible businesses in England who are in receipt of either Small Business Rates Relief (SBRR) or Rural Rates Relief (RRR) in the business rates system will be eligible for £10,000 each.

Further, the Retail, Hospitality & Leisure Grant Scheme provides businesses in receipt of Expanded Retail discount and with rateable value less than £51,000 will also be eligible for a cash grant of £10,000 or £25,000 per property. For businesses in

these sectors with a rateable value under £15,000, they will receive a grant of £10,000, and for where the rateable value is between £15,001 and £51,000, they will receive a grant of £25,000.

6. Support for Self-Employed

This scheme is for people who are self-employed or a member of a Partnership. Trading profits must be less than £50,000 per annum and more than half of an individual's total taxable income. Such businesses will be eligible to claim a grant of 80% of your trading profits up to a maximum of £2,500 per month for the next 3 months and may be extended if needed.

7. Business Interruption Loan Scheme

This scheme has been launched through 40 accredited lenders (including all major banks) supports small and medium-sized businesses, with an annual turnover of up to £45 million, to access loans, overdrafts, invoice finance and asset finance of up to £5 million for up to 6 years. The government shall also cover for interest payment of businesses for first 12 months. Further, the government will provide lenders with a guarantee of 80% on each loan to provide lenders with a sense of confidence in continuing to provide finance to small and medium-sized businesses.

Further, businesses with an annual turnover of £45m - £250m, they will be able to apply for a loan of up to £25m and for turnover more than £250m can borrow upto £50m. The CLBILS will also feature the 80% guarantee but loans will be at commercial rates of interest.

8. Corporate Financing Facility

The facility is designed to support liquidity crunch among larger firms making material contributions in the UK economy by purchase of short-term debt in the form of commercial paper. This scheme shall be open for at least 12 months and can be extended.

9. Coronavirus Future Fund

This scheme aims at issuing convertible loans between £ 125,000 to £ 5 million subject to equal

matching funding from private investors. Eligible companies shall be those who have previously raised at least £ 250,000 in equity investment from investors in the last 5 years.

10. Welsh government support

- The Welsh government announced a £ 100m loan scheme to support businesses who are experiencing cash flow difficulties. Loans between £5,000 to £250,000 shall be given for 12 months capital and interest repayment holiday.
- Small businesses who employ up to nine people (including sole traders with staff) can apply for the small business grant, worth up to £10,000. Small and medium sized businesses who employ between 10 and 249 people can apply for a grant worth £ 25,000 up to £100,000.

11. Small Business Support Grant Scheme in Northern Ireland

Small business with rateable value upto £15,000 shall receive grant of £10,000. This will help 27,000 business in Northern Ireland.

12. Protection for businesses-commercial tenants

Tenants who were not able to pay rent because of coronavirus will still be liable for the rent. However, they will not be forced out of their premises for a period of 3-monthths.

CONCLUSION

Extraordinary times call for extraordinary measures. While the implication of coronavirus may seem daunting to a travel destination like UK, the disaster holds opportunity for a fresh jump start in the economy, newer possibilities through innovation and technology. In addition, the measures taken by government will prove to be revival for the economy and various affected sectors.

DISCLAIMER

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