

Extending the Coronavirus Job Retention Scheme to short-time workers

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Executive summary

The Coronavirus Job Retention Scheme (CJRS) covers 80% of employees' usual salaries, up to a cap of £2,500 a month, while they are furloughed. From August it will also provide support for employees who return from furlough but work reduced hours. This Briefing Note considers the implications of that change and how it might work.

Key findings

Extending the CJRS to those returning to short-time work will encourage employers to bring people back to work and support the incomes of those employees who do move back to short-time work. The proposed change is therefore a sensible one. It will not act uniformly to boost the economy, however: some people who would otherwise have returned to full-time work will instead prefer to return only part-time.

Restricting support to those who were previously furloughed means that those who are already working reduced hours will continue to miss out on support. The advantage of the restriction is that it avoids an incentive for those currently working to reduce their hours, though in some cases obstructing such a reduction in hours might mean the job is lost altogether, or might make it harder for a partner or a colleague to return to their job.

Since furloughed employees will continue to receive 80% of their usual earnings (up to a cap) when not working, it is inevitable that they will see relatively little additional financial reward for returning to work. On average between zero and full-time work, the hours they work must yield only a fifth of their usual hourly wage. Moreover, the net financial gain from working will be even smaller than this, as some of the additional earnings would be taken in tax and (where applicable) reduced means-tested benefits.

Support provided through the CJRS should be reduced by whatever percentage of their usual hours employees work. There are many other ways that support could be withdrawn as people moved closer to full-time work, but this approach would mean that both employee and employer always saw some financial reward from an increase in hours of work (albeit very little, for the employee), and would avoid some clearly inequitable outcomes.

But the need to calculate the amount of support based on hours of work, rather than earnings, creates a big practical challenge. The more hours worked, the lower government support must be, so that firms are not allowed to claim a large subsidy to cover the wages of employees who work almost full-time. But since hours of work are hard to measure and to monitor, the change will make the CJRS more complicated to operate and even more vulnerable to fraud.

1. Introduction

The Coronavirus Job Retention Scheme (CJRS) covers 80% of employees' usual salaries, up to a cap of £2,500 a month, while they are furloughed. Employers that pay furloughed employees at least that amount can reclaim the cost from the government. The scheme had been due to last for a minimum of four months, up to the end of June 2020. On 12 May 2020 the Chancellor, Rishi Sunak, announced that it would be extended for a further four months to the end of October, with furloughed employees still receiving at least the same capped 80% of salary, but with two key changes to take effect from the start of August:

- Employees who return from furlough to their job but on reduced hours will have their salary topped up by the CJRS. At present the CJRS is only available for employees who do no work at all in the job from which they've been furloughed.
- Employers will have to bear part of the cost of the CJRS.

Crucial details of these changes – such as how the support for short-time workers will depend on their earnings and hours of work, and how much of the cost will be borne by employers – are due to be announced by the end of May.

This Briefing Note examines the first of those two changes: extending support to those moving from furlough to short-time work. Sections 2 and 3 discuss the pros and cons in principle of the decisions already announced; sections 4 and 5 consider the details yet to be announced and how the policy might work in practice.

2. Advantages and disadvantages of extending the CJRS to those returning to short-time work

Public health considerations permitting, this extension of support is desirable for a number of reasons:

- It will encourage a return to work and the associated reopening of businesses, particularly where full-time work would be unviable or undesirable because of continuing depressed demand or ongoing constraints such as childcare.
- It will support the incomes of those returning to short-time work, who might be able to manage with 80% of their usual earnings while on furlough but would struggle with (say) 50% salary from working half-time without support from the state.
- It is likely to promote greater gender equality, since those furloughed are likely to be disproportionately women. Women are more likely to work in locked-down sectors,¹ and if one parent in a couple has had to stop work to take care of children (given that the CJRS has so far disincentivised couples from sharing the reduction in hours of work) then it is probably more likely to be the mother.

¹ See R. Joyce and X. Xu, 'Sector shutdowns during the coronavirus crisis: which workers are most exposed?', *IFS Briefing Note*, <https://www.ifs.org.uk/publications/14791>.

- It will reduce the bias towards doing different work while furloughed (which can be done with no reduction in CJRS entitlement) rather than returning to one's usual job. It will also reduce the disparity in treatment between employees and the self-employed, who can receive 80% of their usual earnings through the parallel Self-Employment Income Support Scheme (SEISS) regardless of how much work they do, as long as they report that their profits have been affected at all by the crisis.

This change will not act uniformly to boost the economy. Some people who would be able to return to full-time work will instead prefer to return only part-time (or, more generally, to do fewer hours than they otherwise would have): the government subsidy means their income might be almost as high as from full-time work while leaving them with more time available for other things.

To the extent that it leads people to work part-time rather than remaining furloughed, the change will save the government money (since the support will presumably be lower for those working part-time than for those not working at all). To the extent that it leads to people working part-time rather than full-time, it will increase the cost to the government.

As well as its direct economic impact, extending the CJRS to those returning to short-time work will have implications for social distancing and the spread of COVID-19. Those implications are complex and ambiguous. For example, the number of people working part-time and the number working full-time will have implications not only for the ease of social distancing in the work-place but also for the number of people commuting on public transport and the number doing so in rush hour, which (particularly in London) is one of the major obstacles to a safe re-opening of the economy. We are not qualified to assess the likely health consequences of different possible outcomes, but depending on the state of the battle with COVID-19 by August, they might be an important consideration for the government to think through.

3. The restriction to those previously furloughed

The Chancellor's announcement made clear that the CJRS will only be available for short-time workers if they are returning from furlough. This avoids creating an incentive for those currently working to reduce their hours. That will often be desirable, but in some cases the restriction will have unfortunate effects:

- Some people currently working full-time who might have gone part-time if support were available could be furloughed instead – or, worse, be made redundant or the entire firm closed down. This could include people whose employer needs them to do *some* work, so can't furlough them, and is currently running down its cash reserves paying them a full-time salary but can't keep doing that much longer.
- Going down from full-time to part-time would allow the employee to take care of their children while schools are still (partly) closed, particularly in a context where their partner might have done that so far but now be considering a return to work.
- Similarly, suppose a firm currently has one employee furloughed and another working full-time. This restriction will make it hard for the firm to shift to have both working half-

time instead, even though that might sometimes be better for all concerned (in terms of childcare, mental health, maintaining a connection to work, etc).

The restriction also means, of course, that those who have already had their hours and salaries reduced – or will do over the coming months – will continue to get no help from the CJRS with their loss of earnings. More than a fifth of employees are working reduced hours, according to Bank of England data for 24-27 April.² Those whose salaries have been reduced along with their hours will remain one of the groups that largely fall through the net of the new government support schemes, and some will struggle to make ends meet.

Mr Sunak said that the CJRS will only be available for short-time workers if the firm is using the CJRS already (that is, before his announcement), but did not make clear whether the individual employee concerned must have been furloughed already or whether it will also be available for those furloughed in future who subsequently return to short-time work. The latter would create a perverse incentive for firms to furlough people unnecessarily (for at least the minimum 3-week period) so that their wages would be subsidised if and when they subsequently returned to work part-time.

Similarly, it is not yet clear whether the support available from 1 August will apply only to people returning to short-time work after that date, or also to those returning to short-time work between the Chancellor's announcement and the start of August. The latter would be more sensible: if support were only available to people whose return to work happened in August or later, it would create a perverse incentive to delay a return to work until then in order to qualify for continued CJRS, even if it would otherwise be safe and profitable for them to return to work sooner.

4. Choosing the rate schedule

The Chancellor has already confirmed that employees who remain furloughed will continue to receive at least 80% of their usual earnings, but that their employers will now need to make some – as yet unspecified – contribution towards that. Those who return from furlough to their usual pre-crisis hours and earnings will clearly lose eligibility for CJRS. But for those returning to work on reduced hours, who will now be eligible for some support from the CJRS, there is a question of exactly how much they should get: how the CJRS support should be reduced from its maximum level. This is one of the main questions the government is due to answer when it announces details of the CJRS by the end of May.

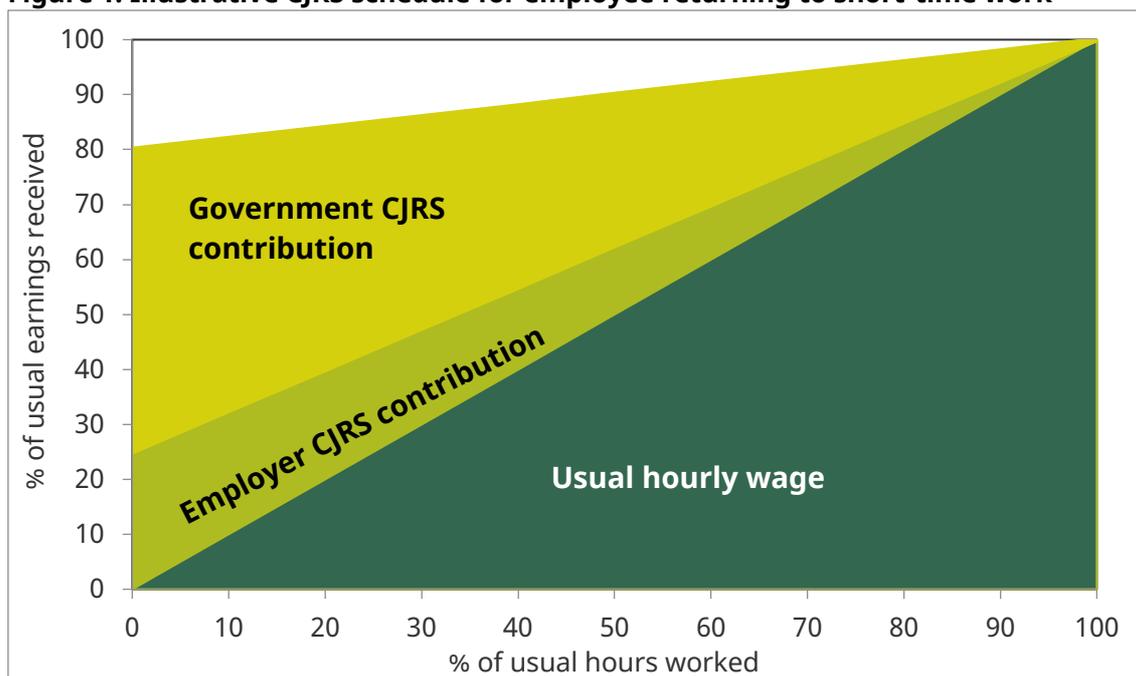
There are various ways support could be withdrawn. But the best solution would be for the CJRS support – including both government and employer contributions – simply to be reduced by whatever percentage of their usual hours employees work, and for employers to pass that amount on to employees in addition to paying them their usual hourly wage for the hours they do work.

This approach is depicted in Figure 1 for an employee below the £2,500 cap on support, supposing (for the sake of illustration) the government decided that the employer's

² Bank of England, *Monetary Policy Report: May 2020*, <https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2020/may/monetary-policy-report-may-2020>.

contribution to the CJRS for furloughed employees should be 25% of their usual salary.³ While the employee was furloughed, she would receive 80% of her usual earnings: 55% covered by the government and 25% by her employer. If she then moved back to work, say, half-time then the CJRS would be reduced by half, to 40% of earnings (27.5% from the government and 12.5% from her employer), which, paid on top of a half-time salary, would leave her with 90% of her usual full-time salary in total, rather than the 80% she received while furloughed.⁴ If instead she moved back to work 90% of her usual hours then the CJRS would be reduced by 90%, to 8% of her usual earnings (with the government contributing 5.5% and the employer 2.5%), so with 8% CJRS on top of a 90% salary she would receive 98% of her usual earnings in total.

Figure 1. Illustrative CJRS schedule for employee returning to short-time work



Note: Assumes maximum CJRS support is below the £2,500 cap and required employer contribution is 20% of usual earnings.

Figure 1 shows the case where the CJRS covers 80% of a furloughed worker’s salary, with the employer required to contribute 25% and the government contributing the other 55%. If the employee’s usual earnings are high enough to be affected by the £2,500 cap on CJRS while furloughed, then it would cover less than 80% of her usual earnings. And of course the Chancellor might choose a different level of employer contribution from the 25%

³ This is the size of employer contribution the government was reported to be planning (S. Swinford, ‘Firms must start paying a quarter of staff wages’, *The Times*, 23 May 2020, <https://www.thetimes.co.uk/article/firms-must-start-paying-quarter-of-staff-wages-29lffbmk3>), though the government has not yet confirmed this. The *Times* report also said that firms will be required to pay employers’ National Insurance contributions on CJRS-funded payments to employees (currently being covered by the government), though it was not clear whether that would be on the full CJRS amount or just the employer’s contribution. We ignore employers’ National Insurance contributions in the remainder of this Briefing Note: they slightly complicate the picture but do not fundamentally change it.

⁴ Another way of expressing this is that, if the employee worked half-time, then she would be eligible for 80% CJRS on the half of her time she remained furloughed. 80% of half her usual salary gives the same 40% of total salary described in the text. If thought of this way, however, it is important to remember that the cap on support must also be halved.

assumed here. In either of these cases, the corresponding points on the vertical axis and the size of the corresponding segments would change. But the same approach would apply: calculate the (capped) CJRS contributions due from the employer and the government while the employee is furloughed (these will already be known, since everyone eligible will have been furloughed before returning to work), and then reduce them by the proportion of her usual hours the employee works.

The generosity of the CJRS to those not working at all means that most furloughed employees inevitably see relatively little financial gain from moving back to work. If they already receive 80% of their usual earnings while furloughed, then even returning to their previous hours in full would earn them only the remaining 20% – and returning to short-time work would yield only a fraction of that. In the approach set out here, each extra hour worked would bring them only a fifth of their usual hourly wage; in other words, the withdrawal of the CJRS creates an effective marginal tax rate of 80%. As long as the CJRS continues to provide those not working with 80% of their usual earnings, there is no way to avoid an 80% withdrawal rate on average between zero and full-time work.

Moreover, the net financial gain from working will be even smaller than this, as some of the additional earnings would be taken in income tax and National Insurance contributions, and those receiving means-tested benefits or tax credits while furloughed face having those reduced or eliminated as well. The 80% effective marginal tax rate created by the CJRS is *on top of* the effective marginal tax rate they would normally face. For a basic-rate taxpayer not receiving means-tested benefits or tax credits, the overall effective marginal tax rate would be 86.4%; for those facing withdrawal of benefits it could easily reach 95%.

For those whose usual earnings are high enough for the £2,500-a-month cap to apply, the CJRS covers less than 80% of usual earnings while furloughed, so the financial gain from returning to work is correspondingly larger.

There are several other superficially plausible-sounding approaches that could be taken instead of the approach set out above. For example, the CJRS could continue to provide 80% of an employee's usual salary as long as she works short-time (analogous to the SEISS providing 80% of a self-employed person's earnings as long as their business is affected at all by COVID-19, regardless of how much it is affected), or it could continue to top up the employee's earnings to 80% of her usual salary regardless how much she works. There are also other ways the extension to short-time workers could interact with the cap on support: for example, the cap could be applied only after scaling down the 80% figure by the proportion of usual hours worked, or the level of eligible usual earnings could be capped rather than the level of support. Or the employer's contribution to the CJRS might not be scaled down at the same rate as the government contribution as hours of work increase. It is not practical to discuss each of these options (and more) here. But the approach set out above has advantages over all of them. Among other things, it ensures that:

- the employee always receives some reward for extra work – not much, as noted above, but not an easy thing to achieve at all when she is already paid 80% of her usual salary for doing no work;

- the employer also has an incentive to bring her back as near as possible to her usual hours and earnings, since the amount it must pay above her usual hourly wage declines steadily as hours return to normal;
- these incentives are as even as possible: for the employee, as an 80% effective marginal tax rate (from CTS withdrawal) throughout, rather than 0% in some places and 100% in others (still inevitably averaging out at 80% across the earnings range as a whole);
- there are no sharp disparities between similar employees working slightly different hours, either in the amounts they receive or in the amounts the government and the employer contribute;
- the government never pays for an employee to receive more than she did before the coronavirus outbreak (unlike the SEISS for the self-employed).

5. Knowing hours of work is necessary but difficult

A crucial element of the approach described above is that the CJRS is calculated based on the proportion of her usual hours the employee works, not the proportion of her usual salary she is paid.

If instead it were based purely on earnings (with no reference at all to hours of work) then in the example above it would mean that paying an employee 80% of her usual salary would cost the employer 25% of that usual salary (with 55% coming from the government), paying her 90% would cost the employer 62.5% (with 27.5% coming from the government), and so on – irrespective of how much work the employee actually did. The employer could legitimately – and extremely profitably – bring back furloughed employees to work 80% of their usual hours but continue to make only the same minimum contribution as if they were furloughed (25% of usual salary, in our example), with the government continuing to top up the employee's earnings to 80%. The employee would be working 80% of her usual hours (a four-day week) for 80% of her usual salary, but that salary would be paid almost entirely by the government, with the employer paying a bare minimum for her services for as long as the CJRS continued.

That is clearly unacceptable. The aim of the CJRS is to help employers to continue paying salaries when they are not getting commensurate work done by the employees in return, not to subsidise employers' wage costs so that it costs them only 25% of employees' usual salaries to hire them for 80% of their usual hours. It would be an extravagant giveaway to employers, unfairly penalise (and competitively disadvantage) firms that had not furloughed their staff, and artificially preserve zombie firms and doomed employment relationships which would be better ended. If the CJRS is available for employees who are furloughed in future and subsequently return to short-time work, it would also greatly exacerbate the incentive mentioned in Section 3 to furlough employees purely in order to bring them back at reduced hours and get the subsidy.

To avoid that problem, the level of support for short-time workers must be based on their hours of work, not just their earnings – and employers must pay each employee her usual hourly wage for that work in addition to passing on both the employer-funded and government-funded parts of the CJRS.

Requiring firms to report the proportion of employees' usual hours they are working creates practical difficulties, however. One is complexity. It would be an additional factor for employers to report in their claim, and not necessarily straightforward to work out. The time spent working at home could be hard to measure (and to compare with previous office hours) because of more irregular working patterns, interruptions by children, etc. And the employer would need to know whether it was contracted hours or actual hours that were relevant and whether or not to include periods such as lunch breaks, commuting time, sick leave, etc. If the employer relied on employees to gauge their own hours of work, the employees would need to know these things too. These are answerable questions, of course, and it would not be the first time they have needed answering: applying minimum wage rules or determining eligibility for working tax credit have also involved such considerations, and the CJRS could lean on those existing rules. And measuring earnings for CJRS also involves complications, such as how to treat tips, commission, pension contributions and benefits in kind, which have not stopped the scheme working. But reporting the percentage reduction in hours worked would certainly make the scheme more complicated to operate.

Perhaps more troubling is the risk of fraud. Basing CJRS entitlement on hours of work rather than earnings alone would mean that employers were not *allowed* to claim maximum government support while their employees worked, say, 80% of their usual hours; but it would not prevent unscrupulous employers from doing so anyway, by understating the proportion of employees' usual hours they were working, and therefore claim more support under the CJRS than their true entitlement.

Salary payments must be reported to HMRC as they are made and to a large extent are verifiable. Hours of work are much harder to monitor, especially since this would depend not only on the hours worked at the time but also on the hours usually worked in the past. There is already anecdotal evidence of abuse of the existing CJRS: people supposedly furloughed but continuing to work. It would be far harder for employees, third parties or the authorities to 'blow the whistle' or show wrongdoing if the test is not whether the employee is doing any work for their employer (which is at least conceivably detectable and demonstrable) but whether they are working a larger fraction of their usual hours than the employer claims. As noted above, it might be difficult for even the employer and employee themselves to know whether that is the case, let alone anyone else.

It is possible to overstate the problem. The CJRS is currently due to be available for short-time workers for only three months, and only if they were previously furloughed: it will not be possible to falsely claim that existing full-time workers' hours have been reduced. Harsh and heavily publicised penalties could be announced for those who are found to have abused the system (difficult though that would be to prove), alongside a clear message of the social unacceptability of such behaviour in an effort to stigmatise it. As noted above, somewhat similar issues have arisen for working tax credit and the minimum wage and have been handled, albeit not entirely satisfactorily (and without the added difficulty of depending on historical as well as current hours of work). And many other countries manage to operate schemes to support short-time work despite these practical difficulties (albeit often with better suited institutional arrangements such as stronger trade unions). Nevertheless, the practical problems of complexity and fraud are probably the biggest challenge for extending the CJRS to those returning to short-time work.