

# Managing Business Debts During Covid-19

01/04/2020

# Who we are and what we do



- Chartered Accountants and Chartered Tax Advisers based in Finnieston
- 50 years old – third generation. Most recent MBO in 2018.
- Audit registered
- Chartered Tax Advisers
- Full range of accounting and tax services for SMEs in Glasgow and the Central Belt
- Client base largely individuals and owner managed SMEs
  
- Michael Hughes
  - [michael.hughes@gerberlandagee.co.uk](mailto:michael.hughes@gerberlandagee.co.uk)

# What will be covered today?

- Impact of Covid-19
- Options for Businesses Struggling with Debts
- Importance of Cash Flow
- What Government assistance is available?
- Useful Links

# Impact of Covid-19 on Business?

- Forced closure
- Reduced footfall
- Exposing lack of modern practices – inability to work remotely
- Threat of customers / suppliers going out of business
- Issues with mail collections

# Key to Managing Business Debts?

- COMMUNICATION!



- Have open discussions with suppliers (and customers)

# Identify Flexible Debts

- Can payment be deferred for any debts?
- Can a payment plan be implemented to relieve pressure?
- VAT Payments due between now and June 2020 have been deferred until March 2021
- Time To Pay arrangements can be set up for PAYE / NIC
- Rent holidays may be available from Landlords

# Prioritise Debts

- Review debts and prioritise those that will have the greatest impact on your business if they are unpaid
- Payroll
- Hire purchase payment for a crucial asset
- Insurance
- Key supplier

# Maximise Income

- Review outstanding trade debtors and receive payment where possible
- Review revenue streams and identify those that are viable
- Ensure that all available Government assistance is claimed
- Review wording on insurance policy to see if anything can be claimed



# VAT Registered? Consider cash accounting

- Cash accounting scheme for VAT allows business to:
  - Pay VAT on sales when your customers actually pay you
  - Reclaim VAT on your purchases when you have paid your supplier
- To join the scheme your VAT taxable turnover must be £1.35m or less.

# Sole Trader Options

- Continue trading through the challenge – we will come out the other side!
- Decide to cease trading with sufficient cash to pay outstanding creditors
- Debt Arrangement Scheme
- Trust Deed ( Individual Voluntary Arrangement in England)
- Sequestration (Personal Bankruptcy)
- Informal Deal with creditors
- Time to Pay Arrangements with HMRC
- Refinance in order to create funds for the business

# Limited Company Options

- Continue trading through the challenge – we will come out the other side!
- Company Voluntary Arrangement (CVA)
- If cash available to pay debts but decision taken to cease trading:
  - Informal Strike-Off if Net Assets < £25k
  - Formal Members Voluntary Liquidation (MVL)
- Creditors' Voluntary Liquidation (CVL)

# Understanding Director's Liability

- Company director's generally have limited liability for their business debts as the company is a separate entity
- However directors can become exposed if:
  - They have given personal guarantees
  - A large debit director's loan account has been built up (ie. The director has withdrawn a large amount of cash from the company)

# Importance of Cash Flow Monitoring

- Cash flow summarises actual receipts and payments for the business rather than profit and loss items on a traditional accounting basis
- Allows the cash balance available to the business to be monitored / estimated to anticipate when the business may run in to difficulty

# Cash Flow Example

<b><u>Business Gateway</u></b>				
<b><u>Cash Flow Example</u></b>				
<b><u>Month</u></b>	<b><u>Apr-20</u></b>	<b><u>May-20</u></b>	<b><u>Jun-20</u></b>	<b><u>Jul-20</u></b>
Opening Balance	50,000	60,980	60,450	60,030
<b>Income</b>				
Debtor receipts	2,400	300	100	-
Sales receipts	500	600	700	650
Grant Income	10,000	-	-	-
<b>Total Income</b>	<b>12,900</b>	<b>900</b>	<b>800</b>	<b>650</b>
<b>Expenses</b>				
Creditors paid	(1,600)	(200)	-	(50)
Insurance	-	(560)	-	-
Rent	-	-	(600)	-
Heat & Light	(70)	(70)	(70)	(70)
Purchases	(250)	(600)	(550)	(740)
<b>Total Expenditure</b>	<b>(1,920)</b>	<b>(1,430)</b>	<b>(1,220)</b>	<b>(860)</b>
<b>Closing Balance</b>	<b>60,980</b>	<b>60,450</b>	<b>60,030</b>	<b>59,820</b>

# Tips

- Ensure accurate opening cash balance at start date
- Review debtors and creditors at the start date and consider when these will be received or paid. Enter in the relevant period in the cash flow.
- If in discussion with debtors / creditors, ensure that the entries in the cash flow are updated in line with discussions
- Try to be as realistic as possible with future sales / purchases

# Cash Flow Templates

- <https://quickbooks.intuit.com/accounting/reporting/cash-flow/#statement-template>
- <https://templates.office.com/en-us/cash-flow-statement-tm00000055>



# What Government Assistance is Available to Help Cope with Covid-19?

# Coronavirus Job Retention Scheme

- Temporary scheme open to all UK employers for at least 3 months starting 01 March 2020
- Employers can claim 80% of furloughed employees' usual monthly wage costs up to £2,500 a month, plus associated Employer NIC and autoenrollment pension contributions.
- Open to all employers that had a PAYE scheme in place on 28 February 2020.

# Deferment of VAT Payments

- VAT payment due between 20 March 2020 and 30 June 2020 can be deferred to 31 March 2021
- VAT returns need to be submitted as normal
- Repayments will be processed as normal
- Business must cancel their own DDs otherwise HMRC will still take payment

# Self-Assessment Payment Deferment

- If you are due to pay a self-assessment payment on account by 31 July 2020, then you may defer payment until January 2021
- Do not need to be self employed to be eligible.
- Automatic offer with no application required. No penalties or interest for late payment will be charged if you defer payment until 31 January 2021.

# Self Employed Income Support Scheme

- 80% of trading profits up to maximum of £2,500 per month for the next 3 months can be claimed. This may be extended if needed.
- Can only qualify if trading profits <£50k
- Cannot apply for this scheme yet. HMRC will contact you if you are eligible for the scheme and invite applications online.

# Time to Pay Arrangements for Tax

- Agreed on a case by case basis and are tailored to individual circumstances and liabilities.
- HMRC Dedicated helpline 0800 024 1222

# Other Assistance in Place

- small business grant funding of £10,000 for all business in receipt of small business rate relief or rural rate relief
- grant funding of £25,000 for retail, hospitality and leisure businesses with property with a rateable value between £15,000 and £51,000
- A Statutory Sick Pay relief package for SMEs
- The Coronavirus Business Interruption Loan Scheme offering loans up to £5m for SMEs

# Some Useful Links

- <https://www.bgateway.com/news/guidance-for-business-owners-in-scotland-on-coronavirus-covid-19>
- <https://www.gov.uk/government/publications/guidance-to-employers-and-businesses-about-covid-19/covid-19-support-for-businesses>
- <https://findbusinesssupport.gov.scot/coronavirus-advice>
- <https://www.mygov.scot/non-domestic-rates-coronavirus/>



# Business Gateway East Dunbartonshire

- Offices in Kirkintilloch and Milngavie
- Here to support both people planning on setting up their own business and existing companies within East Dunbartonshire
- We provide practical assistance, training workshops, networking opportunities and information on the support available throughout the enterprise network and beyond
- Call 0141 578 8530 to arrange to meet a Business Adviser

Any questions?