

## Sting in the tail of a helping hand?

### Future withdrawal of taxation aid to UK businesses may trigger another wave of insolvencies

*As many of us prepare to take a summer break, we get out the crystal ball to look at what may be in store for the UK economy.*

Many companies have relied on the "goodwill" of HM Revenue and Customs who have agreed to defer tax bills over some quite long periods to enable the company to trade through what will hopefully be short term difficulties.

In most cases a condition of this type of agreement is that the company can meet its ongoing tax bills as they fall due. In other words why would HMRC agree to defer a current bill if the company cannot actually meet future bills?

The company tax regime in the UK is currently relaxed and is presently helping thousands of firms by allowing them to spread repayments of otherwise overdue tax.

However as times get more difficult for public finances the UK Government may need to tighten up its approach, demanding repayment from companies ill equipped to pay.

Companies should therefore see this support from HMRC as nothing more than breathing space to enable management to address the difficulties in the business.



**Where next for the UK economy?**  
*What will the effect be of tightening the taxation belt?*

We fear that when support is no longer available many companies will be unable to meet their obligations to HMRC. There is, therefore, likely to be an extended tail of insolvencies in the UK, even once the chaps with the magnifying glasses have spotted the green shoots of recovery.

In this article we present some basic approaches to addressing financial problems. There is no substitute however for taking early advice before a situation becomes irretrievable.

Gore and Company assists firms by carrying out business options reviews that can, for example, help you to foresee and manage the nasty surprises that may arise when the Government does begin to rein in on assisting businesses through the tax system.

### Big Problems Turned into Small Ones

Companies often find it hard to address financial difficulties because they are unable to decide what areas they should focus on to make a real difference.

Having a second opinion from a Licensed Insolvency Practitioner often helps. These are the sorts of things that directors should focus on:

#### **1. Prepare a Short Term Cash Flow**

A week by week cash flow statement acts as a plan of action focusing management's mind on cash collections and indicating how much cash the business has to meet payments.

If receipts are falling short then management knows where it needs to apply pressure to put the forecast back on track.

#### **2. Ask Creditors for Support**

The cash flow can be used to establish what the company can realistically afford to pay to creditors and should be used to agree payment plans with major creditors. This may be all that is needed to get the Revenue to agree to defer payments.

### 3. Take a Hard Look at Outgoings

All expenses should be reviewed in detail and steps taken to look for cost savings. Some measures that could be taken include:

- Cancelling long term commitments if this can be done without penalty
- Reducing the number of suppliers so as to gain purchasing economies
- Looking at employee numbers
- Reducing reliance on subcontractors

All expense categories should be subject to review.

### 4. Manage Cash Flow

There are two aspects to cash flow receipts and payments. Whilst management often focus on the company's liabilities they sometimes omit the receipts side of the equation.

Management should have a good understanding of who owes the company what. Ledgers should be reconciled and accounting staff should report weekly to management on progress with cash collections.

### 5. Understand Large Creditor Claims

Management often does not look beyond the claims being made by creditors and assumes them to be right. Supplier statements should be reconciled, rent bills checked.

But also check if the tax bill is correct? Have all deductions been taken into account? Is a repayment due? Can you ask for a repayment by speeding up current year accounts and carrying back any loss?

### The Hidden Problems

Before management can even begin to address financial problems it must have a good understanding of the company's financial position. Very often company's run into financial difficulty because they have failed to obtain sound trading performance figures or because they do not understand the company's current financial position.

A quick and easy way to do so involves addressing the major balance sheet areas:

- A. Make a list of assets and their realisable values
- B. List all debtor accounts (if the debt cannot be recovered write it off and reclaim the VAT)
- C. Are there any other amounts due to the company?
- D. List all creditor claims – be realistic and include all known creditors
- E. Establish a net position

This is the first step in trying to understand the true financial state of the business.

### About Gore and Company

Companies experiencing difficulty often need an independent opinion on the financial position of their business and its future prospects if management are to take steps to address the true underlying problems.

Very often an insolvency practitioner will be instructed to carry out this review because he will have the experience and knowledge of the issues that arise in these situations.

Gore and Company can provide companies with a rapid Business Options Review to give management confidence that they have a workable recovery plan.

Reviews can cover the recommended actions set out in the main article in this newsletter and address related issues, for example the likely effect of any personal guarantee directors may have given.

Business Options Reviews seek to:

- Establish financial position
- Assess trading prospects
- Establish industry trends
- Identify issues
- Develop an action plan
- Assist in implementing the plan

Contact us for a Business Options Review or take a look at our newly updated website at [www.goreco.com](http://www.goreco.com)

Established in 2001, Gore and Company offers a free initial consultation to establish how we can assist you and your company.

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