

Newman & Partners

Licensed Insolvency Practitioners

RECOVERY & REVIVAL BULLETIN

Welcome to the latest issue of our Recovery and Revival Bulletin, designed to keep you up-to-date on insolvency matters that may be of interest to you. If you have any feedback on this bulletin, or would like to know more about our services or how we can help you, please contact us on **020 8357 2727** or at insolvency@newmanandpartners.co.uk

Small businesses experience growth in bad debt

New research has found that an increasing number of small and medium-sized businesses (SMEs) are struggling with cash flow issues due to outstanding debts with customers and suppliers. According to the new survey by find-a-solicitor service, Contact Law, around 65 per cent of the debt recovery specialist law firms they spoke to had noticed a significant increase in the number of SMEs chasing large debts over the last 12 months.

Of those asked, 36 per cent said they had seen at least a 50 per cent rise in the number of SMEs coming to them to secure outstanding debts, while a high proportion of the law firms surveyed (94 per cent) said they had seen at least a 10 per cent rise in businesses seeking to recover debt in the last year.

Around 41 per cent of the debts recovered are valued between £5,000 and £10,000, whilst 19 per cent of law firms said they had been asked to recover debts of more than £10,000. Around 31 per cent of those surveyed said that the average individual amounts of debt they are asked to recover had increased, while 23 per cent of respondents revealed they had seen a 30 per cent increase in the average value of debts.

When respondents were asked if, over the past 12 months, they had noticed it was taking longer to recover debts, more than half (55 per cent) agreed it was. In fact, four out of ten solicitors claim it took around 30 to 35 per cent longer to recover debts than a year ago.

Dan Watkins, director of Contact Law, said: "SMEs are notoriously time-poor and chasing payments can be incredibly time consuming and frustrating. Businesses that have clear payment terms, send invoices out on time and actively chase late payments are doing all they can to keep cash flow moving. However, after that,



the responsibility lies with their client or customer to pay the agreed sum on time."

Cash flow problems due to outstanding debts are a common issue for SMEs and over time they can have a significant effect on the solvency of a business. Whilst it is not always convenient or possible to chase

bad debt, too many outstanding debts will severely limit a business's ability to trade successfully. If your client is struggling with bad debt and requires advice on seeking redress or would like help managing their finances our team at Newman and Partners can help. To find out more about our services, please contact us.

Personal insolvency soars

Spring 2016 saw a massive increase in the number of people becoming insolvent with more than 22,500 applying for some form of insolvency, according to the latest official figures. Between April and June this year the number of people who became insolvent increased by more than a fifth compared with the previous year's figure, despite higher employment and a stronger economic situation.

The Insolvency Service data means that in the last 12 months, one in every 541 adults became insolvent. This is the first increase in incidents of personal insolvency for the first time in two years.

This large increase in the second quarter was a result of a significant leap in Individual Voluntary Arrangements, a set of agreements where money is shared between creditors. During this period 12,225 IVAs were recorded – an increase of 42.7 per cent compared with a year

earlier, and 15.4 per cent higher than the previous quarter.

The data also shows 6,741 Debt Recovery Orders – aimed at people with lower levels of debt but no realistic prospect of paying it off – were taken out. This is a 15.6 per cent increase on the previous year and a 0.3 per cent rise on the first quarter of 2016.

However, during this period the number of bankruptcies fell to 3,537 – an 11.2 per cent fall on a year earlier and a 5.4 per cent

decline when compared with the first three months of 2016. This is mainly as a result of the changes to thresholds for bringing bankruptcy petitions against a debtor, which were increased last October from £750 to £5,000.

At Newman and Partners we can help your clients if they are dealing with personal debt issues and provide advice on the correct action to take, be it DRO, IVA or bankruptcy. To find out more about our range of insolvency services, please contact us.

Solvent liquidation surge following tax changes

New research by insolvency trade body R3 has revealed that a record number of solvent companies were wound-up in March 2016 as a result of changes to Entrepreneurs' Relief. From 6 April 2016, directors winding up a solvent company can no longer claim Entrepreneurs' Relief from the Capital Gains Tax (CGT) due on any gains if they continue to work in the same trade as that company in the next two years. Entrepreneurs' Relief on Capital Gains Tax sees the tax charged at 10 per cent, rather than 20 per cent for basic rate taxpayers and 28 per cent for higher rate taxpayers.

This amendment was introduced to prevent individuals avoiding income tax by 'storing up' profits in one company, winding it up and paying a reduced rate of CGT, before starting a new company. However, in an attempt to try and beat the new rules 2,663 solvent liquidations were conducted in March – two-and-a-half times more than the previous record of 992 in April 2015. In comparison the monthly average for the 12 months prior to March 2016 was 768.

R3 President, Andrew Tate, said: "The scale of the spike in solvent liquidations is a surprise. We expected there to be an increase as the clock counted down, but not one as big as this. There will have been a mixture of different types of companies being liquidated, including those companies owned by those targeted by the rule. However, some genuine entrepreneurs may have had to accelerate their retirement plans to avoid being hit by the tax change."

R3 has warned that the rule change may affect the plans of entrepreneurs



approaching retirement who had planned to wind-up their company. Andrew Tate added: "Very often, retiring entrepreneurs who are winding up their company but selling or passing on their business will have to stay involved for a while to make

the handover easier. Their presence as a consultant might be reassuring for customers, for example. Obviously, this means they have to stay involved in the same line of work within the two year timeframe."

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