

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

SMEs in the trades have average late payments of £6,984

Late payments have always been a problem for small and medium-sized enterprises (SMEs), but the issue has become increasingly critical as new research from Direct Line reveals that tradespeople are currently owed an average of £6,984 in overdue payments. This new study surveyed 2,000 UK adults between 10 and 14 February 2023, including 161 tradespeople, who either own a business or are self-employed.

According to the study, as a result of late payments tradespeople had to write off significant sums, with the largest single invoice they have given up chasing on payment coming to £4,757 on average. Furthermore, nearly a quarter (24 per cent) of tradespeople have lost out on payments worth over £2,500, and more than three-quarters (78 per cent) have at some point tried to make a legal claim to recover payments. Shockingly, over half (57 per cent) were either unsuccessful in their claim or still have unresolved claims.

Late payments can have a significant impact on tradespeople's personal lives, business operations, and mental wellbeing – particularly when their own expenses are rising sharply due to inflation. According to the survey, nearly a quarter (23 per cent) of tradespeople worry about not being able to cover their family or personal expenses, and 21 per cent are concerned about how late payments are affecting their mental health.

Additionally, 20 per cent worry that the time spent chasing invoices prevents them from getting on with their work and 19 per cent of tradespeople worry about the cost of getting legal advice for chasing down late payments. Late payments can also threaten the survival of a business and its owner's ability to pay salaries. Almost one-fifth (18 per cent) of tradespeople say that late payments could lead to them filing for bankruptcy, with 17 per cent saying that late payments would impact their ability to pay themselves or their staff on time. More than half (51 per cent) of tradespeople stated that the ongoing cost-of-living crisis has impacted the number of late payments they are receiving.

To reduce the impact of late payments on their business, many tradespeople are changing the way they bill for their work. Over a quarter (27 per cent) refuse to start work until they receive up-front payment in full, with a quarter (25 per cent) choosing to take

payments immediately with a card reader or mobile payment. Meanwhile, A fifth (20 per cent) of tradespeople offer discounts to clients for paying quickly, nearly a quarter (24 per cent) charge a 'late payment fee' to their clients, and the same number of tradespeople take half of the payment in advance and then the remainder once work is complete.

Separate research from The Institute of Chartered Accountants in England and Wales (ICAEW) has also recently revealed that late payments cost small business owners £684 million each year. Late payment issues are widespread and can be one of the primary factors for business failure, so if your clients are experiencing similar issues, please **contact us**.





What would a further rise in interest rates this year mean for businesses?

Uncertainty around future interest rate rises continues to afflict businesses in the UK. While at the start of March a rise in the Bank of England's (BoE's) base rate seemed inevitable, by the middle of the month the challenges in the banking sector meant that an immediate rise in interest rates became less certain.

The markets had embraced the likelihood of a BoE base rate hike from 4 per cent to 4.25 per cent and the Monetary Policy Committee (MPC) delivered just that. However, the failure of several banks has meant the future decisions of the MPC are less than certain.

Add to this fact that the Office for Budget Responsibility (OBR) now expects inflation to fall back to 2.9 per cent by year-end on top of a previous fall in the Consumer Price Index in January to 10.1 per cent. The Spring Budget also brought more good news on future growth for the UK, with the OBR predicting less economic contraction this year and more positive growth in future years.

However, with a large degree of volatility still at play in the markets and the international economic outlook still uncertain, the potential for future rises in inflation is still a distinct possibility. A further rise in interest rates this year, on top of the previous increase, would certainly mean that businesses would have to pay more to borrow money from banks and other financial institutions. This increase in the cost of borrowing can have a significant impact on a business's profitability, cash flow, and ability to invest in growth and expansion.

One of the primary effects of a rise in interest rates is that it can make loans more expensive. Companies that are heavily reliant on debt financing to function, such as those in the property or construction sectors, could experience a significant challenge in obtaining the funds they need to keep their operations running smoothly. Additionally, businesses that rely on short-term credit lines to cover their expenses could see their costs rise, leading to reduced profits and financial instability.

For businesses with variable-rate loans, a rise in interest rates would mean that their repayments would increase once again.

This would put additional pressure on companies that are already struggling to keep up with their existing debt payments. Additionally, a rise in interest rates could lead to a decrease in consumer spending, which could negatively impact businesses in the retail and leisure sectors.

However, a rise in interest rates would not be all bad news for businesses. Higher interest rates can help to curb inflation and stabilise the economy, which can have long-term benefits. Additionally, a rise in interest rates can be an indication of a growing economy, which can create new opportunities for businesses to expand and thrive.

Businesses can prepare for a potential rise in interest rates by reviewing their existing debt arrangements and exploring alternative financing options. For example, companies could consider refinancing their loans to take advantage of fixed-rate loans, which would protect them from future increases in interest rates.

Another way that businesses can prepare for a rise in interest rates is by improving their cash flow management. By monitoring their cash flow closely and implementing effective cash flow management strategies, businesses can ensure that they have enough money to cover their expenses and debt payments, even if interest rates rise.

A further rise in interest rates would have significant implications for businesses in the UK and so it is important that your clients have advice that they can rely on so that they can restructure their debts and keep on top of payments. To find out how our experienced team can help you, please **contact us**.

Spring Budget – help or hinder?

Many business owners will have tuned into the Chancellor's Spring Budget speech with bated breath hoping for additional help to manage the current cost crisis. While there were certainly some helpful giveaways to businesses, many SMEs will still be wondering what support is really forthcoming from the Government in the months ahead.

A key concern for many companies going into the Budget was the upcoming increase in Corporation Tax rates from April. After 1 April, small companies with profits of up to £50,000 will continue to pay CT at 19 per cent thanks to the small profits rate. However, companies with profits of £250,000 and over will pay CT at 25 per cent.

Those companies between this upper and lower threshold will pay CT at the top rate of 25 per cent but benefit from marginal rate relief that reduces their effective rate of tax on a sliding scale depending on their level of profitability. To calculate this, all profits between £50,001 and £250,000 are effectively taxed at a rate of 26.5 per cent.

As an example, if a company enjoyed profits of £150,000 the first £50,000 would be taxed at 19 per cent and the remaining £100,000 at 26.5 per cent. As a result, the company would receive a tax bill of £36,000, which means that the actual tax rate that applies is 24 per cent.

The Chancellor's response to these concerns was the introduction of full Expensing from 1 April 2023, replacing the Super Deduction. It will allow companies to write off the full cost of qualifying plant and machinery investments in the year of the investment. The measure initially applies for three years but the Chancellor said he hoped to make it permanent "when fiscal conditions allow".

However, many experts have queried exactly who this new measure will support. This new relief is not available to unincorporated businesses and it works alongside existing Capital Allowances, like the Annual Investment Allowance, which already provides SMEs with

a £1 million allowance for eligible plant and machinery expenditure. Jeremy Hunt also introduced a new 'enhanced credit' for some R&D intensive businesses was announced in a bid to encourage growth and attract investment. This will come into effect on 1 April 2023.

To be considered R&D intensive, a company's qualifying R&D expenditure should be worth 40 per cent or more of its total expenditure. This announcement targets R&D-intensive SMEs making a loss. Those eligible will be able to claim a rate of 14.5 per cent in comparison to the 10 per cent rate that non-R&D intensive loss-making companies can claim.

The initiative will be beneficial to some SMEs who are facing the Corporation tax rise and previously proposed cut in the rate to R&D relief, but many less innovative companies won't benefit from this change and instead, face a cut to their R&D tax relief previously announced in the Autumn Statement.

Overall, the reaction to the Spring Budget has been somewhat subdued. While there were some small giveaways and a promise of growth, the measures introduced could have gone further and possibly supported businesses more, particularly with rising energy costs.

If your clients are concerned about upcoming changes to taxation or the ongoing cost crisis, then it is important that they seek advice sooner rather than later. We can offer advice on a wide range of insolvency and restructuring options to help your clients navigate these challenging times, so **speak to us**.



CAREFUL CONSIDERATION IS NEEDED BEFORE TAKING OUT ANY FORM OF FINANCE AND SPECIALIST ADVICE SHOULD BE SOUGHT. IF YOU HAVE ANY QUESTIONS, PLEASE CONTACT US.

Newman & Partners Insolvency
Lynwood House
373/375 Station Road
Harrow
Middlesex HA1 2AW

T: 020 8357 2727
F: 020 8357 2027

E: insolvency@newmanandpartners.co.uk
W: www.newmanandpartners.co.uk

Newman & Partners
Licensed Insolvency Practitioners