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NEWS THAT COUNTS

Getting your business through tough times

They say every business hits a crisis sooner or later.

Add together a combination of inflation, the pandemic, tax rises, post-Brexit changes and supply chain issues, and the waters look very choppy indeed. One recent survey, for example, showed that a cash flow shortfall has become the new normal for many small businesses for four months out of 12.

This Briefing offers practical help to weather the storm. It looks at ways that adapting now could build resilience for the longer term, and highlights areas where the tax system offers potential leverage – from timely use of tax reliefs for the purchase of capital equipment, to cash-efficient employee remuneration and schemes to attract investment.

Tip one: understand your business inside out

In times of stress, the starting point recommended by business recovery experts is: acknowledge that this isn't business as usual. And then act.

While planning is more difficult in the current climate, it becomes even more important. Drawing up budgets is more difficult – but more essential. Pricing a product or service is more market-sensitive – but more critical. Successful adaptation will require better insight into what makes your business work than ever before.

Tip two: forecast cash flow

Whether it's for wages, rent, suppliers – every business needs cash: and knowing that it can cover costs for a certain basic minimum period is imperative. What that period is, will vary, depending on the nature of the business, but in times of change or crisis, a rolling budget over a shorter period is likely to be most helpful.

The tool for this is a cash flow forecast, pinning down the timing and amounts of cash going out and coming in for a set period. We are happy to work with you here, either to maximise the potential of your accounting software in this area, or to prepare a cash flow forecast on your behalf.

It should be noted generally that a forecast will be needed in any application for funding.

Tip three: use it, review it, refresh it

Business performance should be reviewed against the figures in the forecast. What are the differences between expectations in the forecast and what actually happened? Interpreting the figures should highlight pressure points and facilitate remedial actions before issues become acute.

The next step is to revise the forecast with real-time figures and then repeat. The ongoing cycle of forecast, review and refresh will show how far things can stay the same, and how far they need to change. It provides an early warning system, highlighting where more radical action may be needed. Ultimately, it will tell you if the business is viable.

Tip four: act and adapt

Taking this management information on board, key areas to keep under review include the following - though there are many others:

Property costs

Many businesses are using this time to reconsider their property footprint. A combination of homeworking, hot desking or use of flexible office space may have advantages for some sectors and some businesses. Where businesses currently operate from rented premises, another area to consider is whether purchase could make for greater cost efficiency in the longer term.

Capital expenditure and asset replacement cycle

Traction from the tax rules

The Annual Investment Allowance (AIA), available both to companies and unincorporated businesses, is now to stay permanently at £1 million. It no longer falls back to £200,000 from 1 April 2023, and an adverse impact from transitional rules need no longer be taken into account. This means that if businesses were accelerating expenditure to fit it in before April, time pressure has been taken off and cash needs can be prioritised, instead. Remember though, that the clock is still running for the super-deduction and 50% special rate allowance – available only to companies. Qualifying expenditure here must be incurred before 1 April 2023.

In general, asset replacement needs particular care in times of inflation. There is more than the usual outright purchase or lease finance question to bear in mind. Planning the replacement cycle takes on a new dimension for the sale of assets that have benefited from high levels of upfront tax relief via the super-deductions. With inflation pushing up sale proceeds, it's possible that tax charges could apply on disposal.

Stock and assets

Choices around stock level can have a major impact on cash levels. Both understocking and overstocking carry risk. Understocking may feel better in terms of improved cash flow; but may lengthen the speed at which a business can respond, as well as putting heavy reliance on optimal performance throughout the supply chain. Overstocking ties cash up that could be used elsewhere. Reducing stockholding, perhaps by means of a flash sale, or by selling to a specialist company, may provide a welcome cash injection. The right level of stock for your business will be specific to your business and its current cash position.

For established businesses with assets and a proven trading history, asset-based finance may provide another means of cash injection. Briefly, this is a type of debt-based finance, where funds are secured against the company's assets. It includes invoice finance such as factoring; invoice discounting; supply chain finance; and asset-based lending. Asset-based lending involves the use of assets on the balance sheet, such as debtors, stock, equipment and machinery as security against lending.

Debtors

The negative impact of late payment on cash flow is significant. It is important to have a clear procedure covering all the fundamentals so that there are no barriers on your side to swift customer payment. Check that invoices are raised promptly and contain all the information required by your customers. Carry out credit checks on new customers the business takes on. Know when you need to escalate the recovery process, and consider the merits of informal contact with debtors to find out why payment is late. Offering customers online payment facilities, such as direct debit or electronic transfer, has the potential to speed up the payment cycle.

Creditors

Make full use of contractual terms and consider whether there is scope to renegotiate longer payment terms, or to offer staged payments.

Payroll matters

Employment costs will rise with new minimum wage rates from 1 April 2023, when the hourly rate for those aged 23 and over climbs to £10.42. The employer National Insurance burden also increases, with the threshold at which employers start to pay Class 1 secondary contributions for employees, now fixed at £9,100 until April 2028.

Reviewing headcount is an obvious response. But if the business does not need to maintain its current staffing level, redundancies may not be the only option. Short-time working, moving to a three-day week, rather than a five-day week, for example, may prove an alternative. In any such scenario, however, care is needed to comply with relevant employment legislation. Many businesses are also factoring non-cash enhancements, such as additional holiday, or time off to care for children or elderly parents, into remuneration strategy in order to control costs.

Traction from the tax rules

There are other areas that businesses might want to explore for the first time, especially where growth is anticipated, but cash is at a premium.

Particularly topical, because of imminent change to the rules, is setting up a company share option plan (CSOP) to incentivise key employees.

CSOPs are tax-advantaged schemes allowing eligible companies to grant share options to selected employees or full-time directors: strict criteria apply, but where rules are correctly navigated, the recipient has no income tax or National Insurance liability when the options are exercised, with the capital gains tax regime applying to gains on disposal, instead. The company stands to benefit as well, with a corporation tax deduction when the options are exercised, provided conditions are met.

Other tax-advantaged schemes designed to encourage employees to hold shares in their employer, such as Enterprise Management Incentive (EMI) share options, may also be worth consideration.

Energy and sustainability

In many offices, heat, light and air conditioning account for 55% of the average energy bill, and kettles and water coolers another 10%. Cutting waste and looking at energy efficient alternatives are new areas to prioritise when managing cash. With the push towards a low carbon future, businesses may want to check whether this is the moment to invest in energy saving technology, such as low carbon heating and energy saving LED lighting. Various sources of support, advice and in some cases, loan or grant funding, exist here, some specifically aimed at small and medium-sized enterprises. A change of direction now could cut costs in the longer term.

Tip five: consider sources of funding

In current circumstances, many businesses may need to look for additional finance. Traditional channels include bank loans and overdrafts, recourse to savings and friends, and issue of shares, with newer alternative sources of finance ranging from angel finance to crowdfunding and peer-to-peer lending. There is a range of government support available. This includes the latest iteration of the Recovery Loan Scheme, which no longer has a Covid-19 impact test; and the newly expanded Start Up Loan, and Second Loan Scheme. Businesses which have not considered these before may wish to do so now.

Traction from the tax rules

Three government schemes exist to help relatively new companies expand, by providing external investors with generous tax relief. These are the Enterprise investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trust (VCT) Scheme. Criteria apply to the company, investor and proposed investment. Recently announced changes give these schemes continued prominence. SEIS criteria thus become more generous from 6 April 2023, whilst the EIS and VCT schemes, originally due to end by 6 April 2025, are extended.

Tip six: take cash seriously

If the business is persistently short of cash, investigate. What is behind the financial stress? In a company context, if there is a likelihood that the business can’t meet short term financial liabilities, there can be a risk of directors becoming personally liable to repay debt. Special care is then needed in respect of director loan accounts: the usual tactic of clearing the loan account with the payment of a dividend may not be possible if the company is under significant financial strain.

Red light: repeated shortfall in cash flow may suggest serious underlying problems. Professional advice is recommended where there are any question marks over basic business viability.

Working with you

Navigating current market conditions is likely to require a mixture of business acumen and tax insight. We are always on hand to advise in any of these areas. Please don’t hesitate to get in touch.