Are you struggling to pay your tax?

By Rob Smailes, Shipleys LLP

Back in November 2008 at the start of the recession the Government announced the introduction of HM Revenue & Customs’ business support service. This was designed to help struggling businesses and individuals by giving them extra time to pay their tax and VAT bills, as long as payment was not already overdue. The idea was to provide short term ‘breathing space’ to allow time to reorganise and restructure, and return to making tax payments in full and on time.

The initial take up was overwhelming, with taxpayers flocking to take advantage of what was effectively an unexpected additional source of funds, at a time when banks had become much more cautious. More than 82,000 arrangements were granted in the first three months. In total, over 370,000 arrangements covering £8.8bn have been made. However, official figures released at the end of October show a rapid drop in the number of schemes approved in the last few months, with just 26,760 in the last quarter.

Certainly the scheme has been tightened up. When it was first introduced it was very easy to enter into an arrangement without a detailed review or much explanation from the taxpayer, and few early applications were declined. Now HMRC appear to be asking for much more information including cash flow statements, management accounts and forecasts of profit and loss. They may even insist on independent business reviews to be conducted before agreeing to any arrangements. Others have been refused as later liabilities can not be deferred when an earlier arrangement is still outstanding.

The idea was to provide short term ‘breathing space’ to allow time to reorganise and restructure. Overall, some 13,900 requests, worth a total of £810m have been refused. So businesses would be well advised not to rely on this ‘emergency funding’, and should also note that sixty percent of arrangements which were approved have been for a period of three or fewer months.

The service can cover VAT and payroll taxes as well as taxes on profits, so it can potentially include businesses incurring on-going losses. HMRC were criticised for becoming the country’s biggest bank almost overnight by allowing businesses to simply ring up and ask for a tax deferral. Many argue that the scheme is simply delaying the inevitable, and there is some speculation over how much longer it will be allowed to run.

The service was introduced to allow time to reorganise and restructure. My advice is that anyone contemplating asking for time to pay should satisfy themselves, not just HMRC, that the underlying problem which means they are struggling has been addressed. Professional help and advice on what options are available can be invaluable. Otherwise, the scheme simply allows existing problems to run for longer and the overall position to deteriorate before matters are brought to a head.

Rob Smailes, Principal, Corporate Recovery
T: 020 7312 0000
E: Smailesr@shipleys.com

shipleys LLP
Chartered Accountants & Professional Business Advisers