

# Cash Flow



This newsletter is to help you and your business.

2009/10

## Conserving cash flow in the recession

*If the credit crunch and recession has shown one thing, it's that even banks can have problems with management and cash flow. The failure of the banking system has taken its toll on the economy and the challenge is now even greater for many small businesses. Recent research shows that 40% of SMEs have run into cash flow problems already. The good news is that there are several steps that, taken now, will help see your enterprise through.*

### Minimise your tax exposure

As an entrepreneur, you'll understand how to drive your business forward, and you've proven it through hard work and determination. But as accountants, we know that financial planning and financial strategy can help too. Minimising your tax exposure will make a direct improvement to cash flow. Any comprehensive financial, management and tax planning must take full account of all applicable grants and allowances and much else, but here are a few specific considerations.

#### 1 Reduce your National Insurance Contributions (NIC)

If your business provides company cars then a national insurance as well as a tax liability arises on the benefit. Owning vehicles outside the business eliminates this NIC liability as well as freeing up business capital for other investment, on which VAT may also be reclaimed. You can also reduce this liability by rewarding staff in ways which are not cash-based, such as share incentive plans (increasing employer's contributions to pension schemes has the same effect). Conversely, instead of raising a valued employee's salary, consider making a one-off payment. Paying dividends instead of bonuses to owner-directors, providing free childcare or childcare vouchers, and in extreme cases, disincorporation, will all diminish your national insurance burden.

Continued overleaf.



### Do you have a director's loan account?

If you have an overdrawn loan account with your company, HMRC will expect an interest payment at a currently punitive rate of 4.75%. If your business is experiencing or expecting a cash flow shortfall, it could be time to review and update your business and personal financial strategies.



If you'd like us to help you identify strategies for improving your cash flow, please get in touch.

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## 2 Tighten up on VAT

You might want to reconsider the way your business pays VAT. The cash accounting scheme means output VAT is not accounted for until amounts due are received, although the scheme defers input VAT recovery on the same principle. Issuing requests for payment instead of invoices may allow you to enjoy the benefits of the cash accounting scheme if you are not able to use the full scheme.

You normally have 14 days to invoice after the supply of goods or services. Correctly timed to span the quarter-end, those 14 days will effectively defer VAT payment by three months for those businesses unable to use the cash accounting scheme.

Similarly, it is possible to speed up VAT repayment too. Some businesses only record purchase invoices once payment is approved, which means there can be a number of unrecorded invoices at the end of a VAT quarter. Manually adjusting this input VAT is acceptable to HMRC, but remember not to reclaim it the next quarter as well.

As a general rule, ensure you claim back all of the VAT that is incurred: on petty cash, staff expenses, mileage allowances

and bad debts (debts over six months old). If your business has unclaimed VAT in the last three years, it can be claimed back, usually simply by entering it on the next VAT return.

## 3 Carry back loss relief

If your company has found itself under pressure, and is now trading at a loss, it is possible to claim a tax refund. In certain situations trading losses can be carried back three years, increasing the likelihood of recovering tax paid on earlier profits.

## 4 The Business Payment Support Scheme (BPSS) – can't pay? Don't Pay!

If your business is experiencing cash flow difficulties you can apply to the BPSS for deferment of tax payable, through a time to pay arrangement. Late paid tax attracts low interest rates at present, which compare favourably with commercial interest rates, but you will need to assure HMRC that your business is in difficulty. We can advise and assist you with your BPSS application.



## Improve your cash flow immediately: steps you can take now.

### Stay on the ball

It has never been more important to make sure your financial and management information is up-to-date. Forecasting is an essential exercise for a business owner. It improves up-to-date information on cash flow fluctuations, enhances the likelihood of success with channels to external finance, and identifies where cash flow deficiencies can arise. So are you satisfied that your profit and cash flow projections are up-to-date and realistic? Be careful of mid-month cash fluctuations. Do these indicate there are problems ahead?

### Credit control and debt management

Everyone recognises that effective credit control is essential for maximising cash flow, but no one likes to upset their best customers. But who are your best customers? They won't necessarily be your biggest or those of long standing. Make sure you identify when and where to press for payment, and that late payers don't slide under the radar into the 90 day column.

### Minimise outgoings

While there has been much publicity this year regarding companies cost-cutting this is a management action that is not always easy to execute, as there are few business owners who spend money unnecessarily. Yet there are almost certainly unidentified areas where your enterprise could reduce outward cash flow without adverse consequences. Have you looked at non-cash incentives for the remuneration of staff, for example?



If you'd like us to help you implement any of the topics in this newsletter, please get in touch.