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# Help Your Business to Survive Brexit

11 areas to focus your attention on so that you are prepared for Brexit

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# Introduction

The ups and downs of the global market all have on effect on your business activity. It's impossible to divorce the two.

In recent years we've seen upward pressure on the cost of energy, particularly oil based fuels, which feeds through to price increases on basic food and commodities. Then, even when energy costs come down this relief often doesn't seem to be passed through the chain.

The emerging economies, such as India and China, now buy significant amounts of raw materials, outstripping increases in global supply. This too brings about price increases.

The sub-prime banking crisis of 2008, which originated in America, decimated the global banking system. Banks tightened up their criteria for lending. Inter bank loans and loans to customers dried up, resulting in a credit crunch.

The effects of this credit crunch have been long lasting, with most western economies implementing 'austerity' measures that are still ongoing. Only in recent times have the banks begun to relax a little in their lending criteria.

Business and consumer confidence regularly gets knocked by world developments. And nowhere has this been more evident than the recent results of the UK's EU referendum, also known as Brexit.

Brexit will take two years from the point when the UK provides notice to the European Council under Article 50 of the Treaty of Lisbon. This 2 year notice period could be extended with the agreement of all the remaining EU states. At the time of writing it's unknown as to when the UK will actually provide their official notice. Autumn 2016 seems a good possibility, though, meaning that Brexit would actually occur in autumn 2018.

During the notice period, trading arrangements with the UK remain exactly as they currently are. The markets and investors, however, are already reacting. While it seems likely that some form of trade agreement will be reached before the UK actually exits, there is considerable uncertainty about the future. And this creates its own problems.

Sterling has already devalued and this is putting pressure on any business exporting to the UK.

Consumers lock away their credit cards and delay even necessary purchases because they are anxious about job security.

International businesses that want an English-speaking base in the EU will consider relocating to Ireland. We've already seen some evidence of this happening. This may create some opportunities, but could also add to the competition you face.

Businesses cancel projects. In short, growth falls and creates the conditions for recession.

With all the uncertainty there are bound to be difficult times ahead.

So, we've prepared this guide for our clients, to point out how to deal with trading difficulties when they occur. By focusing on the 11 areas set out in this guide you will see strategies you can employ to strengthen your business now so you are ready to ride out the tough times.

In many cases the strategies are quite basic. But there's a reason they are basic. They work! We've seen plenty of difficulty in the last few years and its businesses that focus on the basics that keep surviving.

A very positive benefit of getting these things sorted now is that not only do you stand a better chance of surviving, but when things settle and improve you'll be in great shape; ready and able to take advantage of the increased demand for your goods and services.

This is a positive guide. It deals with the realities, but will support you reshaping your business so you can survive difficult trading times. All of our suggestions are based on sound business principles.

We're here to support you in this process. Action is the key. We can help you draw up a tailored fitness plan for your business. All you need to do is call us.

# 1

## FINANCIAL BASICS

Before we move on to explain how your business may be affected by economic difficulties, we have set out below a few definitions that you might like to revisit.

Basic stuff, but it will help you make sense of what follows.

## ABOUT PROFITABILITY

Profits produce additional resources for your business. But only if they are retained. If tax, drawings or dividends exceed profits, from a cash flow point of view you have made a loss!

Only two-factors determine pre-tax profits; income and revenue expenditure. The difference between the two will add cash flow to your business if you're profitable, or withdraw cash flow if you make a loss.

## ABOUT ASSETS

There are two sorts of assets; those you can see – physical assets like plant, machinery, cars, stock – and those you can only think about – like money that's owed to you (debtors) and bank balances.

### FIXED ASSETS

There's another distinction that accountants use. Fixed assets and current assets. Fixed assets have a useful life of more than one year, say a vehicle, an item of plant or a building.

In your accounts the cost of these fixed assets are gradually written off against your profits. These write-offs are usually referred to as depreciation.

### CURRENT ASSETS

Current assets represent business resources that change on a day to day basis depending on the level of trading. They include your cash and bank balances, stock, money owed by customers.

Current assets and fixed assets use up cash flow and credit. The more assets your company owns or invests in the greater the reduction in your available funds.

## ABOUT LIABILITIES

Liabilities simply defined are amounts your business owes to someone else. For example bank overdrafts, loans, payments due to creditors, tax and VAT, and so on.

Accountants like to distinguish those that will be paid off within the next year (amounts due to suppliers, PAYE) and amounts repayable over a longer term (bank loans, hire purchase).

Liabilities can be seen as providing your business with cash flow. If a bill is unpaid the money is in your bank account!

## ABOUT WORKING CAPITAL

Working capital is a phrase used to describe the capital that's available to buy more stock, or fund more debtors.

From a business survival perspective working capital is very important.

If you tie up too much cash in stock, or you give your customers too much time to pay what is owed to you, this will directly affect your cash flow. You'll be spending money on stock that's idle on your shelves, or allowing your customers to keep your cash in their bank accounts!

There's no ideal level of working capital that a business should strive to achieve. Each industry sector creates its own demands.

What is clear is that when trading is difficult you should:

- Aim to keep your cash investment in working capital to a minimum.
- Keep your stock levels to a minimum consistent with achieving sales.
- Tighten up your credit control. If you offer 30 days credit make sure that's all you give.

- Try to get agreement from your creditors to extend the credit you can take. If you currently have 30 days to pay, see if they will accept 60 days.

## ABOUT SOLVENCY

In a nutshell you are solvent if you have more assets in your business than liabilities.

Businesses who operate through a limited company have a legal obligation to talk to their creditors as soon as they become insolvent. They should also take no further credit from suppliers. If insolvency continues it's unlikely that the company will survive; the outcome will be a formal winding up process.

Sole traders and partnerships are subject to the same commercial process but due to their unlimited liability status it will be the business owners and the business who suffer. If insolvency continues not only will the business be wound up, but the sole traders or partners may face possible bankruptcy.

The same business run through a limited company would tend to protect the shareholders from any personal liability. It is common nowadays, however, for banks and other creditors to seek personal guarantees from directors and shareholders to secure some of the company's debts. So the limited liability of the company will be of little use in these circumstances.

## ABOUT CREDIT

### TAKING CREDIT

Taking or receiving credit from a supplier, bank, or finance house, basically means they agree to facilitate the delivery of something you need (stock, plant, services, money) and take payment from you at some future date.

Ironically taking credit provides your business with working capital. Essentially your business is using someone else's cash.

## GIVING CREDIT

When you give or allow credit the reverse happens. If you supply goods and allow your customers time to pay, this will reduce your working capital. Money, your money, will be tied up, languishing in your customer's bank account rather than yours.

As mentioned above, in times of trading difficulties you should aim to extend the credit you take from suppliers and reduce the amount of credit you give to customers. This maximises positive cash flow into your business bank accounts.

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## HOW WILL YOUR BUSINESS BE AFFECTED

### TIGHTENING OF CREDIT

#### WITH OTHER BUSINESSES

As mentioned in the previous section in "about credit" when trading conditions deteriorate you should be planning to call in cash owed by your customers. If everyone does the amount of credit available in the business community will reduce. There will be a tightening of trade credit.

The challenge you face is to maintain or improve your position – reduce the credit you give to your customers and extend the credit you take from your suppliers.

#### WITH YOUR BANK

If you have organised long term loans from your bank you have protected your business from a sudden withdrawal of this funding from your business. If your bank starts to reconsider its lending book, as long as you can maintain your agreed repayments it's unlikely that the bank will call in your loan. Unless of course the bank goes bust!

Overdrafts are a different matter. Overdrafts can be withdrawn on demand. If your overdraft limit is under pressure and you are unable to provide evidence that you can improve cash flow, a letter may arrive asking you to repay. And this could have disastrous consequences.

When credit starts to tighten in an economy it may be prudent to reconsider the way in which you fund your business lending from your bank. Perhaps consolidate part of your overdraft into a formal loan.

### LOWER SALES

When an economy is tight, such as in a recession, there is less business to go around. Companies manage with much lower levels of stock and service provision.

For the first time businesses may be forced to abandon their local suppliers and look to other markets who can offer lower prices.

Sales suffer!

## INCREASES IN COSTS

If possible you may be able to pass on cost increases to your customers. With some cost increases, however, it may be difficult to pass these on.

As far as possible you can try to minimise the damage to you by reducing your consumption.

## DOWNWARD PRESSURE ON PROFITS

If you have lower sales and higher costs the effects on your business profits are immediate and dire: they reduce!

If the downward pressure in your particular industry sector is severe, you may quickly find you're making losses.

Losses are bad news. They quickly strip away any retained profits your business may have accumulated. If the loss-making continues insolvency is inevitable.

## RUNNING OUT OF CASH

In simplistic terms your bank and cash balances represent your ability to respond to short-term needs – to pay off your liabilities and fund payments for the goods and services you need to continue trading.

Run out of cash or overdraft and your business will cease.

**To avoid this, management of cashflow is the most critical element of any sensible plan to ride out recession.**

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# FUNDING YOUR BUSINESS

## LONG TERM SOURCES

### CAPITAL INTRODUCED

If you set up a business and deposit your own money into the business account you are providing capital. If at a later stage in your business development you inject further funds this too is added to the capital you have introduced.

In theory your capital is owed to you – it can usually be repaid with no tax consequences.

If you have set up a limited company there are two ways in which you can fund your business:

1. By issuing yourself shares to cover cash introduced, which can be paid back to you but require complicated legal and tax processes to be observed, or

2. By crediting the amount you inject into a directors loan account. Money introduced in this way can be repaid at any time without any tax or legal concerns. However it creates problems if a director borrows money from the company so it's important to keep this account in credit.

If you operate as a sole trader or partnership, capital you introduce is credited to your capital account in the business. As for directors, loans above these amounts can be withdrawn at any time.

As long as your business remains profitable and you retain profits, your capital should be protected.

When trading conditions are difficult losses may chip away at the money you have introduced. If your business is eventually wound up you will tend to be the last in the queue to get your money back. If all the assets end up being sold for less than their book value then you may well lose all or part of the capital you have tied up in your business.

It's important to be aware when making director's loans to a company that they be fully documented in writing. The Companies Act 2014 sets out the requirements. Failing to document the loan properly would likely mean losing the money in the event of a company wind up.

### RETAINED PROFITS

Without doubt the most effective way to grow your business is to leave profits you make in the business. There is no cost to the business if you do this. The alternatives, injecting your own cash or introducing other people's money come at a price. Retaining profits is a key element in any successful firm's financial development.

The problem with recessionary times is that the downward pressures on your profits may eat into past profits you may retained. If you have retained no profits in the past your ability to sustain your business will be severely restricted.

### INVESTORS CAPITAL

It's also perfectly acceptable to find other investors to inject cash into your business. Realistically this can only be done when you start your business or if you can present a compelling case for funding expansion – if you can demonstrate you are profitable. It's doubtful you will convince outside investors to part with their hard earned cash if your business is struggling due to depressed economic conditions.

Depending on the proportion of capital your business takes up in this way you may also find yourself hampered by having to share control of your business with someone whose main interest is protecting their investment.

## SHORT TO MEDIUM TERM SOURCES

The various sources of funding set out in this section generally have to be paid back in 1 to 5 years. They can never be considered part of the capital of the business. They are creditors – money you owe. But they are nevertheless useful resources of finance for your business.

## OVERDRAFTS

Overdrafts are the most flexible way to provide your business with more spending power. You only pay interest on funds when you need them.

Unfortunately if you're getting into trading difficulties you're likely to find you're always running close to your overdraft limit.

Banks can generally ask you to repay an overdraft on demand so keeping your bank manager aware of changes in your cash flow is critical.

## BANK LOANS

Your bank isn't going to hassle you regarding loans they have made to you unless you default on your agreed repayments.

Your agreement with your bank will set out exactly what their remedies are in the event you can't meet further repayments.

If you've provided security – a charge over particular business or personal assets, the worst case scenario is a forced sale of those assets to settle the loan.

As trading conditions deteriorate it's essential that you keep your bank fully informed. It may be possible to reschedule your loans, and extend the term to bring down the monthly repayments.

## HIRE PURCHASE

Hire purchase is like a bank loan. Finance companies won't action early settlement unless you default on repayments. Hire purchase is generally taken out to fund the purchase of a particular asset, say in a motor vehicle or item of plant.

One way to deal with difficulties in meeting HP repayments is to sell the charged assets. The problem of course arises when the proceeds don't cover the amount owed.

Also you will find that finance companies will offer limited discounts on hire purchase charges early settlement, so the cost of this course of action can be significant.

## FACTORING/INVOICE DISCOUNTING

Many businesses borrow money secured directly against their debtor book, the amount owed to them by customers.

This is a very effective form of funding your business if trading conditions are buoyant and you are expanding.

It's also very expensive. The lending bank or factoring company will charge you significant management fees to operate the funding as well as charge you interest on the money it's effectively lending you.

When times get hard this type of funding can quickly become a nightmare. If you have invoice discounting or factoring arrangements in place watch out for the following:

- Your customers may start to exceed agreed credit terms. This being the case your factoring company or bank may reduce the amount of your facility by the amount of the late debts. Basically the debt is returned to you to collect.

- If sales continue to fall the costs of funding, particularly the administration fees, may become an unwelcome additional downward pressure on your profits, and one that your competitors may not be paying!

## SUPPLIERS AND CUSTOMERS

Believe it or not your suppliers and customers can be useful sources of funding and need to be managed to maximise cash flow implications. You should aim to:

1. Renegotiate credit terms with your suppliers. An extra 30 days credit means you keep their money in your bank account for another month. If you find that your suppliers are unwilling to do this shop around for alternatives. As trading conditions dip you may find other businesses that are willing to supply on the terms you want.

2. Tighten up your credit control. Make sure your invoices are presented to customers promptly. Include purchase order numbers and other relevant information. When customers exceed your credit terms sit on the phone until you're paid. Don't leave your money in customer's bank accounts.

This is a simple but effective way to increase funding to your business. Generally speaking it should create no associated additional costs.

Don't forget in recessionary times cash is king. If you have to offer discounts or pay your suppliers slightly more for their goods and services, these may be costs that are acceptable if they help you to sustain cash flow.

## REVENUE

In the section of this report that deals with "Key partners" we have set out a number of tax and VAT ideas that may help when difficult times approach.

There are legitimate ways to manage your tax and VAT calculations and payments that could provide significant additional cash flow to your business. Make sure you read the Key Partners – Making the Most of Your Accountant part of this guide.

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# INFORMATION MANAGEMENT

## FORECASTS AND BUDGETS

If you are serious about sustaining your business through difficult times you have to know where you're going, and just as importantly, how you're going to get there.

There is an element of tokenism about preparing budgets – something we do once before the new trading year starts. As long as we continue to be profitable and cash flow is manageable then the purpose of budgets and forecasting seems less important.

When credit conditions tighten up, orders reduce and profits drop, then it's critical to take a cool, clear look at the future. Forecasting is no longer a token luxury. It's essential to your continued survival.

The other element you must inject into your planning is dynamism. There's no point in taking a snapshot of where you're going and be dismayed as fast developing market conditions make your original plans redundant.

The process of planning, preparing budgets for profits, solvency and cash flow needs to be dynamic. They must be revised every month.

In this way you'll be ready: aware of the problems you face and with a plan in place to deal with them.

## CASH FLOW FORECASTING

The phrase 'cash is king' is a cliché. But it has great relevance in difficult trading times for 2 reasons.

1. Without a sustainable cash flow, even if your business is solvent, you will soon find yourself unable to trade because you cannot pay wages and other suppliers.

2. If you can accumulate cash reserves before difficult times strike, you'll be well placed to step up with buying power as opportunities start to reveal themselves.

Forecasting your cash is therefore an imperative.

You should know at least 3 to 6 months ahead what's due in and what you have to pay out. It's a simple spreadsheet task. If you're drifting into cashflow difficulties you must know that and quickly. You can only take remedial action if you know what you're facing.

## MANAGEMENT ACCOUNTS

There are numerous software packages that will provide you with straightforward monthly management accounts.

We've talked already about the need for forecasts and cash flow management. To complete the picture you should aim to prepare a monthly profit and loss account and balance sheet. The comparison of your actual monthly trading figures with your forecasts will provide you with powerful information about your business.

Don't undervalue the contribution good management accounts can make to your survival. When you have accurate, up-to-date information at hand you will be in a much stronger position to make good decisions.

# 5

## CASH MANAGEMENT

We've already outlined quite a few areas where you can impact your cash management in a positive way. This section of the guide will provide you with a basic checklist of things to do. It's by no means comprehensive. Every business has its own peculiarities, but you should be able to find some ideas that you can work on.

### ANNUAL TASKS

Your 'once a year' tasks are the beginning of your cash management process. There are three things you need to do:

1. Create a template using a spreadsheet or other financial planning program that will enable you to prepare and update an annual cash flow forecast. What you need to be able to see are the likely peaks and troughs in your cash position in the coming 12 month period.

2. Have at least one meeting with your bank manager. Present your plans for the year and agree the support you need from the bank. You should also make sure that you agree what information your bank will need on a monthly/quarterly basis. Make sure that you deliver the information you agree on.

3. Visit your accountant and re-examine your tax and VAT strategic planning to see if there are legitimate changes you can make that will reduce the cash flow impact of these taxes.

### MONTHLY TASKS

Below are provided a number of review options that you should consider on a monthly basis.

1. Update your annual cash flow forecasts. Always be able to see one year ahead.

2. Create and maintain a detailed 3 to 6 months weekly cash flow forecast. Work with real data whenever you can. Share this information with your bank if their support is key to your survival. This is an additional chore. It will mean you have the more generalised annual forecast we've mentioned before and this additional weekly forecast. If cash flow becomes a real issue you will need the weekly breakdown to identify peaks and troughs within the months ahead, and the annual forecast to reveal longer term trends.

3. If you're carrying surplus stock or have assets – perhaps cars or computers - you no longer need, draw up a list and attach it to every sales invoice you send out. Keep it up-to-date. If your customers are aware of "sales stock" items they are more likely to buy. Converting slow-moving or redundant stock into cash is a useful way to supplement your cash flow. Aim to sell at cost or a small loss.

4. Review your overheads. Are you paying for any supplies or services that are not critical to maintaining your sales? If you are, cancel the contract. Periodically check out alternative suppliers for your key service needs.

5. Investigate paying your monthly suppliers by monthly direct debit – there are discounts available and this will smooth out quarterly fluctuations in cash flow.

## WEEKLY TASKS

Collecting money owed to you can be difficult. Having processes in place like the ones that follow can be a big help.

1. Keep bookkeeping up to date.

2. If you sell your goods or services on credit send out invoices as soon as work is done. Don't wait until the end of the month.

3. Chase current month invoices with your customers to make sure they've been received and that there is no problem clearing the bill for payment. Resolve any issues – short or incomplete delivery – quickly.

4. Make a note of conversations with customers. Note when invoices are cleared for payment and when payment dates are scheduled.

5. Chase customers if they fail to pay on time. Have a systematic diarised approach. Send statements, log phone calls, and so on. Be consistent, be persistent. He who shouts loudest often gets paid first.

In addition to collecting money that's owed to you, you also need to watch the money you spend. Never pay a bill or creditor early unless you get some sort of discount in compensation.

# 6

## DEBT MANAGEMENT

### COMMUNICATION

The very worst thing you can do if you are unable to meet a debt repayment is to stay silent pretending that everything is ok. This will always provoke the lender.

What you should do is communicate. If your cash flow takes a dip, and it looks as if you're going to struggle to meet a debt repayment, talk to your lender. Negotiate.

We've listed a number of strategies you could use.

### MANAGING DEBT REPAYMENTS

If the downturn in cash flow is just a temporary matter, talk to your bank. If you can explain why the downturn has happened and how you expect to come out of it, they should be willing to accommodate a short-term increase in your overdraft. This will ensure that debt repayment commitments can be met on schedule.

If the downturn in cash flow is a longer term problem you may be faced with rescheduling the debt.

### RESCHEDULING THE DEBT

There are two possible strategies you could look at:

1. Agree revised terms with your existing lender that will enable you to manage repayments out of future cash flow. Or,

2. Find a new lender to buy out the existing debt. Again you will want to agree terms that you can manage out of expected future cash flow.

In both cases you will want to achieve a reduction in monthly/quarterly repayments. Most importantly you must be able to demonstrate that this is so – with updated cash flow forecasts.

The renegotiation should address the following issues:

- Extending the term of your lending – the longer the term, the lower the monthly repayments.
- Agreeing to pay interest only instead of interest and capital.
- Agreeing a moratorium on repayments for a short period. This option combined with an extension in the overall term of the loan can be an effective way to solve short-term cash flow problems.
- Also, if the loan funded the purchase of an asset – a car, for instance - could the asset be sold to pay off the debt and free up cash flow?

One consequence of pretty well all the above suggestions is that any changes to your existing loans inevitably involve additional costs. These might be seen in higher interest rates, bank charges or refinancing charges. You will need to weigh the cash flow benefits against these additional cost implications.

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## YOUR CUSTOMERS

When there is a global or regional slowdown in economic activity, your customers will divide into two groups.

- Those that cope, and
- Those that don't!

Your approach when managing your customer relationships should take this into account.

### SPOTTING THE COPERS

Customers that are coping will demonstrate the following characteristics:

- They'll be hard negotiators and will always want a lower price.
- They'll be calling you to see if you offer discounts for prompt settlement.
- They'll be asking for extended credit.
- They'll be efficient when querying delivery or price.
- They'll offer purchase order numbers when they place an order.
- They'll never send you a cheque that bounces.
- They'll tend to keep their promises.

Generally they'll exhibit the signs of a business that is well planned and effectively managed.

### MANAGING THOSE THAT DON'T COPE

Customers that are struggling to cope will be just the opposite. They'll be more likely to:

- Fail to keep their promises.

- Extend credit terms without your agreement.
- Send you cheques that bounce.

You'll spend more time with this group of customers. Be careful that you set limits! In particular you should:

- Mark their account with a firm credit limit, don't let them order on credit beyond that point.
- You may need to organise stage payments or payments on account to keep the account moving.
- Adopt a consistent, systematic routine for following up calls and chasing payment.

There will come a point when the hidden costs of servicing this group of customers is too high and you will need to question whether you should continue to do business with them.

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## YOUR SUPPLIERS

If you're able to control your cash flow when trading conditions are generally bad, you'll have an advantage over businesses whose cash flow is out of control. This can provide you with a key bargaining chip when negotiating with your suppliers.

When negotiating you should aim to get a reduction in the price of the goods or services you're buying if you offer to pay your bills more quickly.

If cash is tight see if your key suppliers will agree to an extension in your credit terms. If they're reluctant, shop around. You may be able to find alternative suppliers who are willing to offer you the extended credit terms your present suppliers cannot. Everyone is going to be on the lookout for more business.

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# YOUR STAFF

## KEEPING THE KEY PLAYERS TOGETHER

Your most valuable assets and one that is not easily replaced is a competent, well-motivated member of staff. The last thing you should consider is breaking up a good team to solve short to medium term cash flow problems.

You will, however, need to deal with the cash flow consequences. Here's a few ideas that may help.

- Communicate your difficulties in a positive and responsible way with your staff. Emphasise that you consider the bad patch to be a short-term problem and one that you're actively working to survive.
- Offer staff time off in lieu of pay.
- See if you can take on short-term projects for your business that are targeted at covering some of your payroll costs. This is an effective way to use spare capacity.
- See if long delayed maintenance or refurbishment programmes can be activated to keep idle hands busy.
- See if key staff are willing to look at part-time employment for a period and make up their wages by taking on other part-time work. You could help them organise this perhaps by contacting other businesses with whom you have close connections.

Keeping a good team together is a must if you want to be ready to take advantage as things improve.

## DEALING WITH INEFFICIENT STAFF

Just as a competent member of staff is worth fighting for, less efficient staff may need to go. As activity falls and with it the need to trim costs you should plan to relieve your business of this unwanted overhead.

You will need to follow the correct human resource procedures for any redundancies and probably get legal advice in advance of any proposed actions. The immediate costs of any redundancies will need to be taken into consideration.

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## KEY PARTNERS

### MAKING THE MOST OF YOUR ACCOUNTANT

Traditionally accountants are viewed as someone who helps with the things that have already happened.

Some clients may simply use us to:

- Prepare the accounts for the last trading year.
- Work out the tax consequences of the last trading year and submit the tax returns.

Will those two services help you to survive during difficult times? Not really!

What you need to do is tap into our skills that can help you set up systems, allowing you to see what is happening to your business right now and forwards into the future. We can analyse the past to guide you for the future.

Our range of value added services will help you know your business and become more profitable.

This report has already stressed the importance of cash flow and management accounting data. You can use our services to set up the systems you will need and decide on which software to use and so on.

There are also a number of tax strategies that may assist with cash flow management. The next sections sets out a number of these.

Every business will have its own peculiarities and require specific planning strategies. We're ready and willing to help – just pick up the phone!

### VAT – CASH FLOW PLANNING

#### VAT – CASH ACCOUNTING

If your turnover is under €2,000,000 you may be eligible to account for VAT on the money received basis. This can help cash flow.

## VAT – BAD DEBT RELIEF

If you don't qualify for cash accounting, which protects you from paying VAT on bad debts, you should ensure that you review debtors over six months old and transfer them to a bad debts reserve. The VAT element can be claimed back at this point.

## VAT – LATE PAYMENT

Although you have a legal obligation to pay your VAT on the due date, there may be occasions when you may not have sufficient funds to pay the full amount due on time. Here are our five strategies for dealing with the situation if it looks like you're going to struggle to pay your next VAT return by the due date.

1. VAT returns should always be submitted on time, even if it's not possible to pay the tax. A business can encounter all sorts of problems if it allows Revenue to issue an assessment (estimate of VAT liability in absence of a return) that subsequently proves to be too low.

2. If possible, make a part-payment to show willingness to settle the liability, i.e. just like making a payment on account to a supplier.

3. Never write out a cheque that might be bounced by your bank as that's likely to create a bigger problem for you.

4. Explain the reason for late payment as soon as possible.

5. Always make a firm proposal as to how – and when – you propose to settle the arrears. As an additional measure, it's also worth explaining the efforts you're making to ensure that future payments will be made on time.

# INCOME TAX – SELF ASSESSMENT

## PRELIMINARY TAX

If you're self-employed and profits in the current year are less than the profit in the previous tax year, you may be able to reduce your current year self-assessment preliminary tax.

Care should be taken to keep the reductions to a sensible level. If you take the downward adjustment too far you will be subject to interest charges.

It may be possible to achieve an overall reduction in taxable profits for the current year by accelerating necessary expenditure. This will help you to reduce your tax bill.

## MAKING THE MOST OF YOUR BANK

A good relationship with your bank manager can make a big difference. Building a good relationship isn't difficult. The basics are:

1. If you make an agreement to provide your bank manager with information, make sure you keep your promise.
2. If you need to change an agreement speak to your contact at the bank and renegotiate before the agreement is breached.
3. If your circumstances change let the bank know immediately. This is critical if you need your bank's support to deal with short-term cash flow problems.

If you follow these basic communication rules, when you need your bank to extend an overdraft or renegotiate a loan, you'll find them more willing to listen.

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## OTHER ESSENTIAL RESOURCES

### CREDIT INSURANCE

Credit insurance provides businesses with cover should a customer be unable to pay their bill.

Of course there is a cost and premiums can be prohibitive. It's a question of balancing risk and reward.

Generally speaking if you take up this sort of cover you will need to have rigorous systems in place for setting and maintaining credit limits with your customers. Insurers will only indemnify you up to an agreed credit limit.

### CREDIT CHECKS

#### YOUR CREDIT RATING

It is a good idea to get your own business credit checked.

If there are issues that are having a negative effect on your credit rating you should take steps to sort them out quickly. The last you will need when searching for additional credit and funding is a bad score.

If you need help getting a credit check or with what you can do to sort any issues please give us a call. We'll be happy to help.

#### CUSTOMERS' CREDIT RATING

It also makes sense to credit check new customers. It's sensible to do this before you offer them credit. We can also help you with this.

## CONCLUSION

While the economy has recovered to some degree since the dark days of 2008, it's still fragile. A jolt to the system like Brexit can have quite rapid effects on business and consumer confidence.

Businesses need to be financially fit if they're going to survive. Holding on to market share demands that goods and services are supplied at the right price and the right quality. Additionally businesses must cope with the stresses and strains imposed by Brexit.

Protect yourself as much as possible by filling your business treasury with cash and credit. Leaving action until you can't meet the payroll bill is too late.

This guide is intended to stimulate debate. Please call Seamus Parfrey today on 021 431 0266 to make an appointment and see how we can help you get your business fighting fit. Planning is key and action is essential.

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## ACTION PLAN – YEAR ONE

## ACTION PLAN – YEAR TWO

## ACTION PLAN – YEAR THREE