

The tax challenge facing businesses and business owners



Introduction

As one of the leading funders of tax and VAT finance in the UK, Premium Credit is experiencing strong growth as more businesses and business owners look to spread the cost of their tax liabilities for up to a year.

Given the backdrop of tax increases and frozen thresholds for the 2023/24 tax year, we wanted to find out how business and business owners are funding their tax bills.

Major tax announcements recently include the decision to freeze the income tax threshold at £12,570 and higher rate threshold at £50,270 until April 2028. The additional tax rate threshold has been lowered to £125,140 from £150,000 while the main rate of Corporation Tax has increased to 25% from 19%.

We conducted independent research with SME owners and managers and also with accountants and financial advisers who support clients with VAT and Corporation Tax to take the pulse of the market and how it might change in the future.

We also asked accountants about the impact on their cashflow and whether their clients are struggling to pay fees as we also offer Fee Plan, which is free to use for accountancy firms.

It enables clients to spread the payment of invoices over a number of months up to a year for a competitive interest rate. Accountancy firms using the service gain exclusive access to Premium Credit's practice tax funding service enabling them to spread the cost of tax bills.

The results of the research make for interesting reading and point to a growing market for finance to help companies and business owners meet their tax obligations as well as strong potential demand for solutions.



Key findings from the research include:

- Around 10% of the UK's 5.5 million SMEs, some 550k, say they are struggling to pay tax bill.
- Up to 15% say they have had issues paying them in the past 10 years.
- Corporation tax is the bill firms are currently struggling to pay – more than half (54%) of those with problems paying tax say their issue is with Corporation Tax while 35% say they have issues with VAT.
- Nearly one in eight SMEs say they have missed tax payment deadlines in the past year.
- Around a third (32%) of SMEs would consider spreading the cost of tax bills for a small fee regardless of whether they struggle to pay their bills.
- Almost all (98%) of the accountants and financial advisers supporting clients with tax say the numbers struggling to pay bills has increased in the past 12 months.
- More than two out of five (43%) are reporting a dramatic increase in clients struggling with tax.
- Half of accountancy firms say their cashflow has deteriorated over the past 12 months as clients struggle to pay professional fees.
- More than two out of three (68%) of firms allow some clients to pay fees monthly or over an extended period of time.

What we are seeing in the market

Last year the total amount of money Premium Credit lent to help fund clients' VAT bills rose by 68% on 2021. Growth in lending for non-VAT tax bills was also strong with a 53% increase.

In the first quarter of this year the amount of funding provided for VAT tax bills is 11% higher than the same period last year while funding non-VAT tax bills has increased by 27%.

The number of clients using our Tax and VAT funding proposition increased by 53% between 2022 and 2021. Last year, the average size of loan to help pay VAT tax bills was £116,200, and for non-VAT tax bills it was £105,100.

Our research shows SMEs and business owners are currently struggling to pay bills which underlines the need for the solution.

“The Tax and VAT marketplace is currently worth around £190 billion annually, and we estimate that between £3 billion and £5 billion is financed each year.”

*Jennie Hill, Chief Commercial Officer,
Premium Credit (Specialist Lending)*

The current impact of tax bills on SMEs

Our research found more than 550,000 SMEs are currently struggling to pay tax bills, with Corporation Tax and VAT top of the list.

The rising cost-of-living is adding to the pressure but issues with tax are a long-standing problem for companies across the country.

Around 10% of UK's 5.5 million SMEs say they are struggling to pay tax bills while up to 15% say they have had issues paying them in the past 10 years. The average value of the bill they struggled to pay was more than £45,600 but 10% had problems with bills of more than £100,000.

What is the size of the tax bill SMEs are struggling to pay?	What percentage of SMEs who struggle face this size of tax bill?
Up to £10,000	20%
Between £10,000 and £20,000	21%
Between £20,000 and £30,000	13%
Between £30,000 and £50,000	13%
Between £50,000 and £75,000	8%
Between £75,000 and £100,000	10%
More than £100,000	10%
Don't know/prefer not to say	5%

“Failing to pay tax bills on time will lead to fines from HMRC so any company which is struggling should consider spreading the cost for up to a year which for a small fee will help them to pay bills on time and improve cashflow when it is needed.”

*Jennie Hill, Chief Commercial Officer,
Premium Credit (Specialist Lending)*

The future impact of tax bills on SMEs

Tax problems could be set to get worse, the research found. Around a fifth of SMEs (19%) say affording tax bills has become more difficult because of the cost-of-living crisis and more than a quarter (26%) say it is likely they will struggle to pay one or more tax bills in the next five years.

Corporation tax is the bill firms are currently struggling to pay. More than half (54%) of those with problems paying tax say their issue is with Corporation Tax while 35% say they have issues with VAT.

The research found that among firms who are struggling to pay tax bills nearly a quarter (24%) could layoff staff while 30% will consider raising funds from existing investors and 26% could look for new investors for the business.

Around 29% think they will look to agree a payment plan with HMRC while 21% may borrow from family or friends.

How will your company pay the tax bill it is struggling to pay?	Percentage of companies struggling to pay tax bills saying this
Take on more work	34%
Raise funds from existing investors	30%
Agree a payment plan with HMRC	29%
Raise funds from new investors	27%
Sell assets	25%
Take out a loan	25%
Layoff staff	24%
Borrow money from family or friends	21%

“SME finances are inevitably under pressure from the cost-of-living crisis and that has an impact on their ability to meet tax obligations but paying tax bills is a long-standing issue for companies and is certain to remain so.”

*Jennie Hill, Chief Commercial Officer,
Premium Credit (Specialist Lending)*

How are SMEs coping with deadlines

Penalties and fines for missing tax deadlines range from £100 for being a day late with a Corporation Tax payment to as much as 15% of the amount of VAT not paid on time. Fines for paying VAT late only start after payment is 15 days late.

Nearly one in eight SMEs say they have missed tax payment deadlines in the past year – the 12% of firms missing deadlines equates to around 660,000 of the UK’s 5.5 million SMEs.

The research found that among firms missing payments in the past 12 months around 27% had missed one deadline while 38% admitted to missing between two and five deadlines. Around 7% said they had missed 15 or more deadlines for paying tax.

Interestingly around a third (32%) of SMEs would consider spreading the cost of tax bills for a small fee regardless of whether they struggle to pay their bills, while 33% were unsure whether they would use such a service.

How many times has your firm missed a deadline in the past 12 months?	Number of times deadlines have been missed by firms
Once	27%
Two to five times	38%
Five and 10 times	38%
10 and 15 times	11%
More than 15 times	7%
Don't know/prefer not to say	3%

“Spreading the cost of tax bills over a year for a small fee will help companies to plan more efficiently and avoid any risk of fines or penalties which can be crippling for a business that is already struggling to meet its tax obligations.”

*Karl Leitelmayer, Sales Director,
Premium Credit Professions, Tax & Leisure*

Accountants and financial advisers are becoming increasingly concerned

Almost all (98%) the accountants and financial advisers supporting clients questioned have seen an increase in clients struggling to pay tax bills in the past 12 months. More than two out of five (43%) reported a dramatic increase in the numbers struggling to pay bills.

Corporation Tax bills are the biggest worry – 71% of accountants and advisers say they are seeing the biggest increase in clients struggling to pay it compared with 53% who report rising numbers struggling to pay income tax, and 37% seeing rises in clients struggling with VAT bills.

The economy and its impact on companies is the main reason for tax payment issues – 55% of those questioned said it was among their top three reasons for clients struggling with tax. Around 53% cited personal reasons such as divorce and 47% highlighted the cost-of-living crisis among the top three.

On average accountants and advisers currently estimate 11% of clients struggle to pay tax bills with more than a fifth (22%) estimating 15% or more of clients have problems paying tax.

The study found accountants and advisers expect the issue to worsen. In 12 months' time they expect the average number to rise to 14% with nearly half (47%) estimating 15% or more of clients will have tax payment problems.

The average bill clients are struggling to pay is estimated at around £100,000 although one in ten say clients have problems paying tax bills of £200,000 or more.

The research shows 89% of accountants and financial advisers believe clients would consider using a service enabling them to spread tax bill payments even if they don't currently struggle to pay bills.

“Accountants and financial advisers are good judges of the health or otherwise of small businesses and they are reporting increasing distress from firms on their ability to pay their tax bills.”

*Karl Leitelmayer, Sales Director,
Premium Credit Professions, Tax & Leisure*

What do accountants and financial advisers believe is the reason for tax payment issues?	Number saying this is one of their top three reasons
Economy's impact	55%
Personal reasons such as divorce	53%
Cost of living crisis	47%
Wage inflation among staff	46%
Revenues have fallen	42%

Accountants cashflow is under pressure

Half of accountancy firms say their cashflow has deteriorated over the past 12 months as clients struggle to pay professional fees.

The study found one in six (16%) say cashflow has deteriorated dramatically while 34% say it has weakened slightly with 86% saying problems with collecting client fees is the main or a contributory factor.

Nearly two out of five (38%) said clients struggling to pay fees was the main reason while 48% say it is a contributory factor. Just one in seven (14%) say clients struggling to pay fees is not a factor in cashflow issues.

There is some optimism about the next 12 months – around 32% say they expect cashflow to improve but two out of five (40%) worry it will deteriorate while 28% expect cashflow to remain stable.

However, the issue about clients struggling to pay fees is not going away – around 78% say they have seen more clients struggling to pay fees and 76% expect to see more clients struggling to pay fees over the next 12 months.

“While there are some signs of optimism, it makes sense for accountants where possible to encourage clients to use payment plans which have the added advantage of benefiting both of them, and the client in helping them to spread the cost of their tax bills and accountancy fees.”

*Karl Leitelmayer, Sales Director,
Premium Credit Professions, Tax & Leisure*

Demand for solutions

Accountant firms are increasingly allowing clients to spread fee payments in response to growing financial pressure on businesses, the research found.

More than two out of three (68%) of firms allow some clients to pay fees onthly or over an extended period of time. Just under a quarter (24%) specifically rule it out while another 8% are unsure.

However, the research found 80% would consider allowing the payment of fees monthly or over an extended period while just 14% would not and 6% are unsure.

Around 80% say they would consider using a service which enabled clients to spread the cost of fees or recommending it to clients who are struggling to pay fees. Just 18% would not consider such as service and 2% are unsure.

“Substantial numbers of accountancy firms are already offering payment plans to some clients who are struggling to pay fees. It makes sense as it ensures clients do pay outstanding invoices and similarly it would make sense to use a service which is free and takes the administrative burden away.”

*Karl Leitelmayer, Sales Director,
Premium Credit Professions, Tax & Leisure*

Views of accountant firms	Do you allow clients to pay fees over an extended period?	Would you consider allowing clients to pay fees over an extended period?	Would you offer to clients a scheme enabling them to pay fees over an extended period?
Yes	68%	80%	80%
No	24%	14%	18%
Don't know	8%	6%	2%

Conclusion

Paying tax bills on time is clearly already a struggle for many businesses and business owners and with the UK's tax burden increasing in the 2023/24 tax year the number is likely to increase.

Many firms are having to consider alternative strategies such as cutting jobs or bringing in new investors to help them pay tax bills. Our research shows substantial numbers have missed deadlines to pay their tax bills.

Tax struggles are having a knock-on impact for accountants with many firms reporting issues with cashflow in the past year.

There is a clear need among many companies for a solution which will help them plan for the future while also being able to afford to pay their tax bills on time.

Any company which is struggling should consider spreading the cost of their tax bills for up to a year which for a small fee will help them to pay bills on time and improve cashflow when it is needed.

The same applies to accountancy firms which are suffering the impact of clients' struggles. There is help available and solutions which can address the growing issues of affording tax bills and accountancy fees.





About Premium Credit Limited

Premium Credit is a leading provider of insurance premium finance and a range of annually charged services, including tax, regulatory and accountancy fees, sports season tickets, memberships and school fees in the UK and Ireland. Each year, we lend more than £4.5 billion to well over two million customers through a network of almost three thousand partners and process almost 24 million direct debits. We are multi award winning and the only premium finance provider accredited by BIBA and Brokers Ireland.

For more information, please visit: www.premiumcredit.com
For details of the Tax and VAT funding proposition, please visit <https://www.premiumcredit.com/products/tax-and-vat> and for details of Fee Plan from Premium Credit go to FeePlan (premiumcredit.com)

Sources

- Independent consumer research conducted by Viewsbank online among 1,073 SME owners and managers between May 24th and 26th 2023.
- Premium Credit commissioned market research company Pureprofile to conduct research among 50 accountants and 50 financial advisers who advise on corporation tax, VAT and income tax during June 2023.
- Business population estimates for the UK and regions 2022: statistical release (HTML) - GOV.UK (www.gov.uk).
- Premium Credit's analysis of its own data.

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