

The Tax Index »»»

June 2024

The Tax challenge facing businesses and their owners in the UK, a report from Premium Credit.



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.

Part of that growth is being driven by the rising tax burden across the UK economy despite this year’s Budget providing some relief for small businesses with the VAT registration threshold raised to £90,000 from £85,000 and self-employed National Insurance Contributions being cut to 8% from 9%.

However tax bills have been challenging for SMEs for a long time as our independent research¹ with SME owners and managers and also with accountants and financial advisers² who support clients with VAT and Corporation Tax shows.

This is our second report looking at the issue and how it might change in the future and it shows considerable strain among SMEs and accountants and financial advisers when it comes to tax.

We 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.

Fee Plan 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 independent research outline the scale of tax payments issues but more importantly point to a growing market for finance to help companies and business owners meet their tax obligations as well as strong demand for solutions.



Key findings include:

- More than 430,000 SMEs questioned are currently struggling to pay tax bills.
- Around 42% of these firms say they will look to agree payment terms with the tax authorities but 26% say they will cut jobs to pay the tax bill.
- One in seven (14%) say they have found it challenging to pay a tax bill in the past 10 years.
- The average amount owed was around £50,400 but 9% said they had owed more than £100,000.
- Around one in three (31%) would consider spreading the cost of tax bills for a small fee regardless of whether they struggle to pay their bills.
- Nearly one in 12 SMEs – around 440,000 firms - say they have missed tax payment deadlines in the past year with a third of them admitting to missing five or more.
- Around 11% of the SME managers and owners questioned say they have worked for firms which went out of business because they could not pay tax bills.
- Nine out of ten (89%) accountants and financial advisers say they have seen an increase in clients struggling to pay their tax bills over the past 12 months, with 44% saying there has been a dramatic rise.
- More than half (54%) cite the cost of living crisis as one of the main three reasons why clients are struggling while 50% say clients have seen their revenue fall, and 49% cited personal circumstances of clients such as divorce.
- Nine out of ten (91%) accountants and financial advisers surveyed say a rise in clients struggling to pay their fees has contributed to their deteriorating cash flow.

What we are seeing in the market

Last year the total amount of money³ we lent to help fund clients' VAT bills was 18% higher than in 2022. The corresponding increase for funding non-VAT tax bills was 19%.

The amount of funding provided through our Tax and VAT funding proposition for VAT tax bills in Q1 2024 is 16.4% higher than for the same period last year. For the funding of non-VAT tax bills, it is 19% more.

The number of clients using Premium Credit's Tax and VAT funding proposition increased by 58% between 2022 and 2023. Last year, the average size of loan to help pay VAT tax bills was £101,352, and for non-VAT tax bills it was £73,625.

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



Jennie Hill
CCO, Specialty Finance at
Premium Credit commented:

"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."



The impact of tax bills on SMEs

Our research found more than 430,000 SMEs are currently struggling to pay money owed to HMRC.

The study with SME owners and managers found nearly one in five (17%) say it has become harder to pay their tax since the cost of living crisis started and nearly one in four (23%) believe it's likely their company will find it tougher paying one or more tax bill in the next five years.

Currently one in 12 (8%) of the UK's 5.546 million SMEs⁴ say they are struggling to pay tax bills with VAT and Corporation Tax most likely to be causing financial headaches. Of these companies, around 42% say they will look to agree payment terms with the tax authorities but 26% say they will cut jobs to pay the tax bill.

Our research found problems paying tax bills is a long-standing issue for SMEs with one in seven (14%) admitting they have found it challenging to pay a tax bill in the past 10 years. The average amount owed was around £50,400 but 9% said they had owed more than £100,000.

Last year's study⁵ found 10% of SMEs were 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.

The consequences of not paying a bill can be catastrophic – alarmingly, around 7% of the SME managers and owners questioned said there was a risk their current firm could go under in the next five years over tax issues.

Around 11% say they have worked for firms which went out of business because they could not pay tax bills, and 7% say they have worked for firms where HMRC has sent enforcement officers or bailiffs to identify goods for seizure to meet tax bills.





Jennie Hill
CCO, Specialty Finance at
Premium Credit commented:

“It is worrying that so many SMEs are finding it hard to pay their tax bills and that some are considering cutting jobs in order to afford to tackle this issue. Paying tax bills is a long-standing issue for companies. Firms need a wider range of solutions.”

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	23%
Between £10,000 and £20,000	17%
Between £20,000 and £30,000	14%
Between £30,000 and £50,000	16%
Between £50,000 and £75,000	7%
Between £75,000 and £100,000	2%
More than £100,000	9%
Don't know/prefer not to say	12%

Around 46% of those with problems currently paying tax say their issue is with VAT while 45% say they have issues with Corporation Tax.

The research found that among firms who are struggling to pay tax bills 42% will look to agree a payment plan with HMRC while 26% say they will cut jobs to pay the tax bill and 30% will take out a loan.

How will your company pay the tax bill it is struggling to pay?	Percentage of companies struggling to pay tax bills saying this
Agree a payment plan with HMRC	42%
Take out a loan	30%
Layoff staff	26%
Sell investments	26%
Take on more work	25%
Borrow money from family or friends	24%
Raise funds from new investors	23%
Sell assets	23%
Raise funds from existing investors	19%



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.

Our study found nearly one in 12 (8%) SMEs – around 440,000 firms - say they have missed tax payment deadlines in the past year with a third of them admitting to missing five or more.

Increasingly SMEs are looking for alternative solutions to help meet these costs. Around 7% questioned say they have used HMRC’s Time to Pay (TTP) scheme, which enables eligible business to pay Corporation Tax arrears usually within three to six months, during the last five years. Around one in eight (12%) say they may use the TTP scheme within the next three years.

Our study shows strong demand for solutions to tax payments issues. Around 31% would consider spreading the cost of tax bills for a small fee regardless of whether they struggle to pay their bills while 34% are unsure. Last year’s research found 32% would consider such a solution and 33% were unsure.



Karl Leitelmayer
Sales Director Specialty Finance at Premium Credit commented:

“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.”

How many times has your firm missed a deadline in the past 12 months?	Number of times deadlines have been missed by firms
Once	32%
Two to five times	30%
Five and 10 times	18%
10 and 15 times	12%
More than 15 times	4%
Don't know/prefer not to say	4%



Accountants and financial advisers are becoming increasingly concerned

Nearly nine out of ten (89%) accountants and financial advisers say they have seen an increase in clients struggling to pay their tax bills over the past 12 months, with 44% saying there has been a dramatic rise.

Around seven out of ten accountants and financial advisers surveyed say they have seen an increase in clients having difficulty paying their Corporation Tax, and the corresponding figures for VAT and income tax are 60% and 48% respectively.

Overall, 26% of accountants and financial advisers surveyed say 10% or more of their clients are struggling to pay their tax bills, and 8% say that at least 15% are finding it difficult to do so. Five years ago the corresponding figures were 13% and 4% respectively.

Our study suggests that the issue could become worse. Some 29% of accountants and financial advisers expect at least 10% of clients to struggle to do this in 12 months' time, and 12% expect at least 15% of clients to find it difficult to do this.

In terms of the average value of tax bill that clients are struggling to pay, 20% said it was between £50,000 and £75,000, 29% said it was between £75,000 and £100,000 and 20% said between £100,000 and £200,000. Some 24% said it was less than £50,000 and 7% said it was more than £200,000.

Reason why clients are struggling to pay their tax bills	Percentage of accountants and financial advisers interviewed who said this is one of the top three reasons why clients are struggling to pay their tax bills
Cost of living crisis	54%
Company revenue and sales have fallen	50%
Personal circumstances of clients e.g. divorce	49%
Change in employment e.g. made redundant	45%
Clients business wage inflation for staff	42%
Clients profit margins have fallen	37%
Clients cost of supplies have increased	23%

Karl Leitmayer
Sales Director Specialty Finance at Premium Credit commented:

“Accountants and financial advisers are reporting increasing distress from firms on their ability to pay their tax bills and clearly many expect the issue will get worse.”

When a Corporation Tax bill is overdue and a company doesn't respond, HMRC may send a bailiff or enforcement officer to the organisation's premises to identify goods for seizure. Just over half (55%) of accountants and financial advisers surveyed say at least 5% of their clients have experienced this, and 73% expects this to rise in five years' time.

Alternatively when a company is struggling to pay its corporation tax HMRC may be willing to offer them more time to pay. Its Time to Pay (TTP) scheme allows eligible businesses extra time to

repay tax arrears – usually over a period of three to six months. One in three accountants and financial advisers surveyed say at least 5% of their clients are on the TTP scheme, but 60% expect this to be the case in three years' time.

The research shows 86% 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. Last year's research showed 89% of accountants and financial advisers believed clients would consider such a service.

Accountant's cashflow is under pressure

Cashflow is an issue for accountants and financial advisers themselves like any other SME and late payment of fees is one of the pressures on cashflow, our study found.

Around two out of five (36%) accountants and financial advisers have seen their cashflow worsen over the past 12 months, compared to 29% who say it has improved, according to our research, and one in three (33%) expect their cashflow to deteriorate over the next 12 months, compared to 31% who expect it to improve.

More than nine out of ten (91%) accountants and financial advisers surveyed say that a rise in clients struggling to pay their fees has contributed to their deteriorating cash flow, with one in three (34%) saying this is the main contributory factor.

Three in four (75%) accountants and financial advisers questioned say they are seeing a rise in the number of clients who are struggling to pay their fees, and 65% anticipate this trend will continue over the next year.

Karl Leitelmayer

**Sales Director Specialty Finance at
Premium Credit commented:**

“While there are some signs of optimism, it makes sense for accountants where appropriate to encourage clients to use payment plans which help the client spread the cost of their tax bills and accountancy fees.”



Demand for solutions

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

The fact that more clients are struggling to pay their advisers' fees may help explain why 81% of accountants and financial advisers allow some clients to pay their fees monthly over an extended period of time.

That is a big leap on last year's research⁶ which found that 68% firms allow some clients to pay fees monthly or over an extended period of time.

This year's research found 84% would consider allowing the payment of fees monthly or over an extended period and 82% would offer clients a scheme enabling them to pay fees over an extended period.

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	81%	84%	82%
No	16%	12%	9%
Don't know	3%	4%	9%

Karl Leitelmayer
Sales Director Specialty Finance at Premium Credit commented:

"The number of accountancy firms offering payment plans to some clients who are struggling to pay fees is rising. 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."



Conclusion

Paying tax bills is clearly a struggle for large numbers of SMEs and many have missed deadlines potentially incurring fines and late payment fees.

More worryingly many are having to consider cutting jobs or take out bank loans to help them meet their obligations. In some cases tax bills have shut businesses down. Tax struggles of SME clients are having a knock-on impact for accountants with many firms reporting issues with cashflow in the past year.

Companies need finance solutions which will help them manage their cashflow while being able to plan for the future without worrying about cutting jobs or having to shut their business. Being able to afford to pay their tax bills on time in an affordable way is central to that.

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.

Accessing credit and credit cards in particular is not as easy as it was. Around one in seven (14%) adults questioned have found it more difficult to secure credit such as mortgages, credit cards or loans since the cost of living crisis started which is consistent with last year's index which showed 14% being rejected.

More consumers and SMEs are cancelling insurance - 12% of consumers say they have cancelled one or more policies in the past 12 months which they needed but could no longer afford and the trend is set to continue over the next two years with 13% saying they expect to cancel. 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 £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.

Sources



Norman Chambers
Managing Director, the National Association of Commercial Finance Brokers (NACFB) comments:

“Not only is Premium Credit a leading funder of tax and VAT, as an NACFB Patron they also play an important role in providing broader support for our industry. The Premium Credit Tax Index, based on independent research, illustrates the extent of tax payment challenges currently being faced by UK businesses and how this compares to previous data collected. It’s an invaluable insight for our membership.”

- (1) Independent research conducted by Viewsbank online among 1,246 SME owners and managers between March 15th and 18th 2024
- (2) Independent research conducted by Pure Profile among 105 accountants and financial advisers who advise on corporation tax, VAT and income tax during March 2024
- (3) Analysis of Premium Credit data
- (4) Business population estimates for the UK and regions 2023: statistical release - GOV.UK (www.gov.uk)
- (5) Independent research conducted by Viewsbank online among 1,073 SME owners and managers between May 24th and 26th 2023
- (6) Independent research conducted by Pure Profile among 100 accountants and financial advisers who advise on corporation tax, VAT and income tax during June 2023

Awards

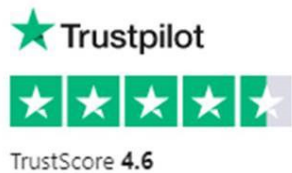
- CIPD People Management Awards 2023**
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