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Companies: managing risk in uncertain times

The Covid-19 pandemic impacts every business, even the best-run and longest-established. Managing risk and cash flow in these uncertain times is critical. In this Briefing, we cover areas of particular concern to companies and their owners.

Companies and cash

Positive cash flow will help your business weather the storm and the government has a raft of measures to help with immediate liquidity. The concomitant of this, however, is that a business can be accumulating liabilities that need to be settled when some normality returns, and it would be prudent to monitor this closely. At present, much debt recovery is on pause. But in the long run, underlying profitability needs to be such that your business can absorb expenses incurred during the coronavirus period.



For director-shareholders, there is another very important consideration. The company is legally distinct from its members. This means the need to remember general company law principles and fiduciary duties. Each point below should thus be reviewed not simply in terms of whether it enhances immediate liquidity, but in terms of director responsibility more widely.

What to do about payment of tax

Individuals and businesses severely impacted by Covid-19 can defer payment of some taxes.

VAT deferral

Payments of VAT due during the three months to the end of June can be deferred. If you are a UK

VAT registered business, with a VAT payment due between 20 March and 30 June 2020, you can either defer payment until later, or pay as usual. VAT MOSS payments do not come within the scheme. There is no need to contact HMRC to do this: but if you usually pay by direct debit, this should be cancelled promptly – and reinstated at the end of the deferral period.

If you defer, no interest or penalties apply. You will carry on filing VAT returns as usual, and HMRC will carry on processing VAT reclaims and refunds. Taxpayers are given until 31 March 2021 to settle any outstanding VAT liability from the deferral period.

Income tax self assessment bills

The second income tax self assessment payment on account for 2019/20, due for payment by 31 July 2020 can be deferred until 31 January 2021 at the latest. Depending on your remuneration package and level of any other income, this may be something to consider. As with VAT, no action is needed to defer, and no interest or penalties will be charged.

Corporation tax

There is no option to defer corporation tax, which must be paid as usual. If there are difficulties here because of Covid-19, HMRC recommends negotiating Time To Pay (TTP). It would be prudent to set the wheels in motion as soon as possible.

Time To Pay from HMRC

Time To Pay tax is available for businesses or individuals in temporary financial distress because of Covid-19, and the government recommends its use. TTP can be used for any tax, such as corporation tax, employers' PAYE, VAT. Arrangements are made by phone. Contact HMRC's Covid-19 helpline on 0800 024 1222, explaining that TTP is needed because of the crisis.

There is no standard TTP arrangement: it is always arranged to fit individual circumstances. Repayment is usually monthly by direct debit. Before you make contact, consider what you can realistically afford to repay. For information on what to have to hand when phoning, see bit.ly/2RjpHx5.

Government assistance for business

There are a number of schemes supporting businesses severely affected by Covid-19 which may be of relevance.

Coronavirus Business Interruption Loan (CBILS)

CBILS connects businesses with sources of finance - loans, overdrafts, invoice finance and asset finance of up to £5 million, for up to six years. It is delivered through commercial lenders and backed by the government-owned British Business Bank. The government is making a Business Interruption Payment covering the first 12 months of interest payment and any lender-levied fees. This means there are no upfront costs and lower initial repayments. Following initial criticism, CBILS has been amended so 'all viable small businesses affected by Covid-19, and not just those unable to secure regular commercial financing, will now be eligible should they need finance to keep operating during this difficult time'.



Businesses with annual turnover of £45 million or less, more than 50% of which comes from trading activity are eligible. There is a quick eligibility checklist here bit.ly/34og0CI.

The scheme runs for six months from 23 March 2020, initially. Use the British Business Bank website to select a lender you wish to approach - although it may make sense to apply to your current bank initially. Application should be made online. Loans below £250,000 do not require a personal guarantee. For borrowing above this level, personal guarantees will be capped at 20% of the outstanding value of the loan, and your principal private residence is excluded.

Bounce Back micro loan funding

Responding to public concern, the government announced new funding designed to get cash quickly to UK-based small businesses. Like CBILS, Bounce Back funding connects borrowers with commercial lenders, but it provides 100% government-backed loans and bypasses some of the more cumbersome aspects of the CBILS application process. To be eligible, small businesses need only be negatively impacted by Covid-19 and not classified as 'undertakings in difficulty' on 31 December 2019.

The scheme allows borrowers to access loans for 25% of turnover, from a minimum of £2,000 to a maximum of £50,000, with no interest or fees for the first 12 months. There is a repayment holiday for the same period. Application will be online, with minimal red tape. The scheme launched on 4 May 2020 bit.ly/3f0k6G5. Critically, payment should be received within days of application.

Note that Bounce Back funding cannot be used as well as the CBILS: the two are alternatives.

Support for high-growth and innovative companies

The Future Fund opened for applications on 20 May 2020, providing government loans to UK-based companies, ranging from £125,000 to £5 million, subject to matched funding from private investors. These convertible loans may be an option if your business relies on equity investment and is unable to access the CBILS. The Future Fund is open until the end of September 2020.

To be eligible, your business:

- must be based in the UK

- must have raised at least £250,000 in equity investment from third party investors in the last five years
- either half or more employees are UK-based, or half or more revenues are from UK sales.

The government has also announced that research and development-intensive small and medium sized businesses may be able access a further £750 million in grants and loans, via Innovate UK. This will be allocated to existing Innovate UK customers on an opt-in basis, with scope for application from firms not currently receiving Innovate UK funding, as well.

Information on the Future Fund is here [bit.ly/2ZC1PJP](#) and initial information on support via Innovate UK is here [bit.ly/2Y5tJNw](#).

Coronavirus Job Retention Scheme (JRS)

Recent changes to JRS extend the scheme until the end of October, and provide an option for flexible furloughing from 1 July. From 1 August, financial support from the government will gradually reduce. There are now some key dates to watch: these could impact you if you haven't yet used JRS, or if you have used JRS and have additional staff still to furlough. JRS closes to new entrants from 30 June, but more critically, 10 June is the last date by which you can put an employee on furlough for the first time.

From 1 July, you can bring furloughed staff back to work part-time, paying them yourself for whatever hours are worked, and deciding those hours between you. Note, however, that any new flexible furlough arrangement must be agreed, and confirmed in writing. JRS can still be used for normal hours not worked, and if you prefer, staff can still be left on furlough.

From 1 August, employers will start to bear further costs, but until then, JRS allows employers to claim up to 80% of furloughed workers' wages, to a maximum of £2,500 per worker per month.

HMRC's has an online application portal for JRS claims and this calculator can be used to work out how much can be claimed [bit.ly/2VoIMl2](#).

Keep the calculations used as the basis of your claim. You are also advised to print the final confirmation screen, or note the claim reference number, because HMRC will not send an email confirmation. HMRC will check claims and has the right to audit claims retrospectively.

Using furlough to advantage: Furlough is designed with some flexibility, giving the option to take staff off furlough, have them return to work and then refurlough them. This can be done multiple times, though a three-week minimum applies to any furlough period before 30 June. Judicious use of the scheme provides the potential to start gearing up again for business. Whilst on furlough, staff are debarred from carrying out work that generates revenue for your business, but timely switching between furlough and work, or even rotating staff on furlough, may prove useful.

To recap, furlough is a formal process, bringing employment law issues to consider. To be eligible, staff must have been on your payroll on or before 19 March 2020, and have been notified to HMRC on an RTI submission on or before that date. There are also some provisions for staff made redundant early in the pandemic, who are re-employed and furloughed. A claim under JRS can only be made from the date at which an individual's furlough begins.

We are happy to advise further, to support you through an application, or to submit your claim if authorised to act on your behalf for PAYE matters.



likely to expect director knowledge of dividend status. In an insolvency situation, HMRC and the liquidator will be alert to the possibility of illegal dividends.

Companies Act 2006 sets out correct procedure, stipulating that a company can only make a distribution out of profits available for the purpose. This means accumulated realised profits not previously used, less accumulated losses not previously written off. Evidencing sufficient profits can be done by being able to justify your decision on the basis of what the Companies Act calls 'relevant accounts'. These are either the last annual accounts prepared in accordance with the Companies Act; or if those annual accounts show sufficient distributable profits don't exist, then more up to date 'interim accounts' justifying your decision.

For private companies, the exact format of interim accounts is not specified. But they must be sufficient for a reasonable judgement as to profits, losses, assets and liabilities, provisions and share capital and reserves to be made. A good set of management accounts should provide this information, although some adjustments to the figures may be needed. Directors should also review whether the company will still be solvent after the distribution is made, and that it will be able to pay its debts as they fall due. Monitoring cash flow position is key here - and doubly essential in current circumstances. The golden rule is: if, when you have done all these checks, there are not sufficient accumulated profits, don't pay a dividend. It could be unlawful.

Temporary Covid-19 procedures

On 20 May 2020, the new Corporate Insolvency and Governance Bill was introduced in Parliament. This is a combination of longer term measures impacting insolvency and business restructuring, and shorter term measures to support companies through the pandemic. Some of these provisions are, in fact, already effective. These include extension to the filing deadline, and temporary

changes to some aspects of the wrongful trading provisions.

Extension to filing deadline: From 25 March 2020, businesses can ask Companies House for a three-month extension to file their accounts. This is intended to allow businesses to prioritise more urgent concerns. To do this, you must apply using a 'fast-tracked online system' bit.ly/2JTD6rm, citing Covid-19 as the reason for applying. The request should then be automatically granted. If you don't apply for an extension and accounts are filed late, an automatic penalty applies, although companies issued with a late filing penalty because of Covid-19 should have any appeal treated sympathetically.

Wrongful trading provisions: These rules are particularly important when companies are under financial stress. They mean that directors continuing to trade, when it should have been obvious to them that the company was insolvent, risk becoming personally liable for business debts. The government has temporarily suspended these rules retrospectively from 1 March 2020 'to give company directors greater confidence to use their best endeavours to continue to trade during this pandemic emergency'. Existing rules around fraudulent trading and director disqualification, however, remain. Overall, this is an area where great care is needed.

Other measures: Additional support to help businesses meet their legal responsibilities, giving greater flexibility around holding Annual General Meetings, for example, has also been announced. The Companies House website is worth monitoring for any further developments bit.ly/2VLQzqH.

How we can help

We appreciate that this is a time of unprecedented difficulty for clients. Please remember that we are on hand to help. We can advise on the latest government assistance for business, as well as management accounting, and ways to enhance business resilience. Please do not hesitate to get in touch.