**Cash Flow Management - Tax Considerations for Business**

While numerous financial aid packages and rafts of measures aimed at supporting businesses in these challenging times have been recently announced, there are a number of other tax measures and reliefs already in existence which can assist businesses during these difficult times.

**Time to Pay Arrangements**

Where a business is in financial distress with outstanding tax labilities, they may be able to receive support from HMRC through a time to pay arrangement. Such an arrangement allows for businesses to pay off their debts through instalments over a period of time. Each arrangement is negotiated with HMRC generally over the phone and tailored to meet the individual circumstances and liabilities. Prior to agreeing to any arrangement HMRC will seek details regarding the debt, why it cannot be paid and the amount which the business can pay as a monthly payment.

**VAT Bad Debt Relief**

Where a business has made supplies to a customer but has not received payment then they may be able to claim a refund of the output VAT they have paid to HMRC. There are conditions to be met to be able to claim the refund including the debt must be unpaid for a period of 6 months. Generally, a business has a period of 4 years and 6 months from the later of the date payment was due and payable or the date of supply in which to make a claim. However, the relief must be repaid to HMRC if the business subsequently receives payment from the customer. Business which are no longer registered for VAT can still make a claim for relief provided the necessary conditions are satisfied.

**Cash Accounting**

This scheme allows for businesses to account for VAT due on sales based on when payments are received rather than when tax invoices are issued. Conversely, businesses can only claim for VAT incurred when suppliers are actually paid. This scheme can assist with cash flow for businesses particularly those with customers who have extended credit or who suffer a lot of bad debts.

Another advantage is that there is automatic bad debt relief. There are conditions to meet to join the scheme including that there are reasonable grounds for believing that the value of taxable supplies will not exceed £1.35m in the next 12 months and there are no outstanding VAT returns or liabilities. A business can chose to remain in the scheme until their turnover in the 12 months to the end of a return period exceeds £1.6m.

**Annual Accounting**

Under this scheme, businesses only complete one VAT return each year instead of the usual 4. Instalments of the expected VAT liability are made during the year with a balancing payment at the year end.

Additional voluntary payments can also be made as and when funds allow. The main advantage to this scheme is that it allows businesses to smooth out their VAT liability over the year and they get 2 months to submit their annual VAT return and balancing payment instead of 1. Businesses with expected taxable supplies of up to £1.35m can apply to join the scheme and can remain in it until the value of their taxable supplies exceeds £1.6m.

**Monthly VAT Returns**

If a business’s output tax is regularly less than its input tax (e.g. zero-rated sales) consideration should be given to switching to preparing VAT returns on a monthly basis. While this may increase the administration requirement, it will enable businesses to receive their refunds from HMRC far sooner than preparing returns on a quarterly basis. To switch to filing monthly, an application needs to be submitted to HMRC.

**Deferring Import VAT**

For businesses who regularly import goods it is possible to defer paying import duty and VAT by applying for a duty deferment account with HMRC. The advantage to this is that instead of paying on import for each individual consignment, businesses can make one payment a month by direct debit from the importer’s account to HMRC. Goods will normally be cleared for release more quickly.

**Capital Allowances**

Capital allowances provide tax relief to businesses in respect of capital expenditure incurred on qualifying equipment, fixtures and fittings and motor vehicles.

The Annual Investment Allowance (AIA) provides for 100% tax relief on qualifying expenditure incurred on certain qualifying plant and machinery subject to an annual maximum limit. The current limit is £1million up to 31 December 2020.

Where expenditure is incurred which does not qualify for AIA or where the AIA limit is exceeded a writing down allowance can be claimed at the rate of 18% or 6% depending on the category the asset falls into.

Research and Development (R&D) Capital Allowances provide 100% tax relief for capital expenditure incurred on capital assets used for R&D purposes or in providing facilities for carrying out R&D.

**Research and Development**

Research and Development (R&D) relief provides tax relief for companies that undertake work on innovative projects that seek to achieve an advance in science or technology through the resolution of scientific or technological uncertainty. It can even be claimed on unsuccessful projects.

This relief allows for Small and Medium Enterprises to deduct an additional 130% of qualifying costs from their profit in addition to the normal deduction. In cases where a company is loss making a tax credit can be claimed up to 14.5% of the surrenderable loss.

Large companies, or small companies which are unable to claim under the SME scheme can claim an R&D Expenditure Credit which is a calculated at 13% of the qualifying R&D expenditure and is taxable. The credit can be used to pay the Corporation Tax liability or result in a cash payment.