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SPOTLIGHT ON:

Key accounting practices for managing business debt effectively

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PRACTICAL STEPS TO STAY IN CONTROL

Borrowing can fund growth, smooth seasonality and bridge large orders. Problems start when visibility slips, costs jump or deadlines are missed. The goal is simple: know your obligations, keep headroom and act early.

This guide sets out practical steps for you to follow: how to build a 12-week cash view, set a rational payment order, handle late payers, and engage lenders and HMRC before issues escalate. It also outlines short-term cash actions, when to consider formal options and the habits that reduce reliance on expensive borrowing. Use it as a checklist, review monthly and adjust to your model.

GET A CLEAR VIEW OF YOUR POSITION

A 12-week rolling cashflow, updated weekly, is the single most useful tool. Forecast inflows and outflows, then add simple stresses — for example, sales down 10% or receipts arriving 30 days late. If the forecast shows a crunch, act before it hits.

Keep this routine tight.

- **Aged receivables and payables**: review by value and age; tackle the largest and oldest items first.
- **Loan covenants and headroom**: recalc ratios, undrawn limits and earliest breach dates under a downside case.
- **Obligation calendar**: map VAT, PAYE, corporation tax, rent, utilities, scheduled loan repayments and insurance, with reminders set 10 working days ahead.

Assign ownership for chasing, negotiating and paying. Note actions, dates and outcomes. A short, weekly review turns debt control into a habit.

KNOW TODAY'S COSTS AND RULES

Anchor decisions to current rates and thresholds.

- **Bank Rate**: 4.0% (autumn 2025).
- **HMRC late payment interest**: Bank Rate plus 4% from 6 April 2025; repayment interest is Bank Rate minus 1% with a 0.5% floor.
- **Statutory interest on late B2B invoices**: 8% above Bank Rate, plus fixed recovery costs, where contract terms don't set a different rate.
- **VAT registration threshold**: £90,000 rolling 12-month taxable turnover (from 1 April 2024). Also, if taxable turnover is expected to exceed £90,000 in the next 30 days.
- **Business rates multipliers (England, 2025/26)**: 49.9p small business, 55.5p standard. From April 2026, business rates multipliers are scheduled to fall following the latest revaluation, with additional reliefs and a new high-value rate; check current bills and forecasts when planning beyond 2025/26.

In practical terms, HMRC arrears can now cost more than many bank products. Clear or schedule tax debts promptly and keep all filings up to date.

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PRIORITISE PAYMENTS WITH A CLEAR LOGIC

There isn't a single correct order for every business. Prioritise by legal risk and operational impact, and write your rationale down so you can explain decisions to stakeholders.

A sensible order often looks like this.

1. **Tax arrears (PAYE/NIC, VAT, corporation tax)**: interest accrues daily and enforcement escalates. If you anticipate difficulty, approach HMRC early for a Time to Pay arrangement.
2. **Secured lending and fixed charges**: missed payments risk covenant breaches and enforcement over pledged assets; discuss waivers or resets before a breach.
3. **Energy and critical suppliers**: protect operations with realistic, written schedules and regular updates.
4. **Other trade creditors and landlords**: be transparent and consistent; keep to any plans you propose.
5. **Director/shareholder loans**: consider tax treatment and avoid repayments that strain cash.

Review the order monthly or when conditions change.

REDUCE LATE CUSTOMER PAYMENTS, CALMLY AND CONSISTENTLY

Late payment is a persistent source of cash pressure. Government proposals now include hard caps on payment terms and new fining powers for persistent late payers, so tightening internal discipline is a sensible pre-emptive step.

Use a light-touch framework, as follows.

- **Terms**: keep standard terms short (14–30 days).
- **Invoice quality**: issue same day, ensure POs are correct and support e-invoicing formats that customers accept.
- **Chase rhythm**: reminder on due date, firmer follow-up at +7 days, final notice at +14 days – then apply statutory interest and costs where appropriate.
- **Credit limits**: set limits for new or higher-risk accounts; lift only after an on-time track record.
- **Early payment options**: offer early-settlement discounts where margins permit, or use selective invoice finance for peaks.

Keep a short log of conversations and promises. Partial cash now usually beats a larger promise later.

STRENGTHEN CASH IN THE SHORT TERM

When pressure builds, work both sides of the cash equation.

BRING CASH FORWARD

- Focus on the top 10 overdue balances over 60 days. Call, agree a plan, confirm in writing and diarise follow-ups.
- Consider invoice finance or factoring for predictable debtors. Check total cost, recourse rules, concentration limits and any debenture requirement.

DEFER SOME OUTFLOWS, SENSIBLY

- Stage larger supplier payments with written agreements.
- Switch annual costs like insurance to monthly where the uplift is reasonable.
- Reduce stock to current demand; clear slow-moving lines to release cash.
- Cancel non-essential subscriptions and standing orders.

CHOOSE THE RIGHT FUNDING TOOL

- **Overdrafts and revolving lines** for seasonal swings.
- **Term loans** for defined investments.
- **Asset-based lending** against receivables, stock or plant.

Growth Guarantee Scheme (currently scheduled to run to April 2030): available via accredited lenders; useful where security is limited. Pricing and eligibility vary.

SPEAK TO LENDERS AND HMRC BEFORE A BREACH

Silence erodes confidence. If your forecast shows a risk of missing a payment or breaching a covenant, communicate early with a plan.

WITH LENDERS, SHARE A SHORT PACK THAT INCLUDES:

- year-to-date performance and brief commentary
- a 12-month cash forecast with base and downside cases
- covenant look-ahead and proposed mitigations
- a clear request, such as temporary covenant reset, interest-only period or amortisation holiday, with a suggested review date.

WHAT TO DO WITH HMRC

- Call the Payment Support Service before a deadline is missed.
- Have figures ready, explain causes of arrears and propose a schedule you can keep.
- Keep all future filings on time and pay new liabilities as they fall due, or HMRC may cancel the arrangement.

WHEN FORMAL RESTRUCTURING MAY BE APPROPRIATE

If debts cannot be met as they fall due, regulated advice protects you and preserves options. Early action is best.

The main tools to discuss with an insolvency or restructuring professional are as follows.

- **Company moratorium (Part A1)**: an initial 20 business days' protection from certain creditor actions while you explore a rescue.
- **Company Voluntary Arrangement (CVA)**: a binding plan to repay a proportion of debts over time while trading continues.
- **Restructuring plan (Part 26A)**: a court-supervised process that can bind dissenting creditor classes where fairness tests are met.
- **Administration**: protection while administrators aim to rescue the business, sell it as a going concern or achieve a better outcome for creditors than liquidation.
- **Liquidation**: an orderly wind-down if rescue isn't viable.

Directors' duties sharpen near insolvency. Keep minutes, seek advice and avoid wrongful trading by acting to minimise creditor losses.

BUILD HABITS THAT MAKE BORROWING SAFER AND CHEAPER

Debt sits more comfortably on strong day-to-day controls. The following habits reduce the need for expensive borrowing and lower risk.

PRICING AND MARGIN

Review pricing regularly, especially when input costs rise. Small, timely increases can materially reduce reliance on working capital facilities.

TERMS OF TRADE

Use short terms as standard. Deploy longer terms only when priced into the contract or backed by insurance.

SUPPLIER STRATEGY

Avoid single points of failure; dual-source where possible to preserve negotiating leverage. Negotiate early-payment discounts when cash allows; measure benefits against alternative uses of cash.

STOCK AND WORK-IN-PROGRESS

Tighten reorder points and rationalise stock-keeping units (SKUs). Faster stock turns mean less cash tied up and lower borrowing needs.

CREDIT INSURANCE

Consider trade credit insurance for large or concentrated exposures. Balance premiums against expected loss and any uplift in borrowing capacity it enables.

GOVERNANCE

Hold a monthly cash and debt review to track:

- net debt and undrawn headroom
- any HMRC arrears
- days sales outstanding and days payables outstanding
- top 10 overdue receivables
- forecast versus actual cash.

Short, frequent adjustments usually beat large, infrequent ones.

MARKET SIGNALS TO WATCH

External conditions shape payment behaviour and funding access. Through 2025, registered company insolvencies in England and Wales have remained elevated compared with long-run averages, which implies continued pressure across supply chains. Surveys also report persistent concern about B2B payment delays. Policy focus on late payment has increased, with stronger reporting and enforcement measures advancing. Together, these signals support a cautious approach to customer concentration and an emphasis on cash discipline.

IF CASH IS TIGHT, ACT TODAY

Use this short checklist to move quickly and deliberately.

- Update the 12-week forecast with conservative assumptions and identify the first pinch point.
- Prioritise payments by legal and operational impact; document your approach.
- Contact HMRC to explore Time to Pay if needed and keep filings current.
- Speak to lenders before any breach; request specific, time-bound adjustments.
- Accelerate collections on the largest overdue invoices; consider selective invoice finance.
- Freeze non-essential spending, stage large supplier payments and switch to monthly where sensible.
- Keep minutes of key decisions and seek regulated advice early if the forecast shows debts cannot be met when due.

FREQUENTLY ASKED QUESTIONS

WHAT'S THE BEST ORDER TO PAY CREDITORS?

Prioritise by legal and operational impact. In most cases, deal with HMRC and secured lenders first, then energy and critical suppliers, then other trade creditors. Put realistic schedules in writing and stick to them.

CAN I CHARGE INTEREST ON LATE-PAYING CUSTOMERS?

Yes. Unless your contract sets a different rate, UK law allows statutory interest at 8% above Bank Rate on late B2B invoices, plus fixed recovery costs.

WHAT FINANCE OPTIONS ARE AVAILABLE NOW?

Overdrafts and revolving lines suit seasonal swings; term loans fund defined investments; asset-based lending can unlock cash against receivables, stock or plant. The Growth Guarantee Scheme is currently expected to run until April 2030 via accredited lenders, subject to eligibility and pricing.

HOW COSTLY IS IT TO FALL BEHIND WITH HMRC?

From April 2025, late payment interest is charged at Bank Rate plus 4%. That's usually higher than secured borrowing, so tax debts can become expensive surprisingly quickly. If you know you're going to struggle to pay, it's better to talk to HMRC as early as possible. A Time to Pay arrangement won't reduce the interest charged, but it can stop penalties escalating and help you spread payments in a way that's manageable for your cashflow.

WHAT IF THE BUSINESS MAY NO LONGER BE VIABLE?

Stop taking on new credit, seek regulated advice immediately and consider formal options such as a moratorium, CVA, restructuring plan or administration. Document decisions and act to minimise losses to creditors.

> ***If you disagree with HMRC's ruling, you can object and the tax authority will take your reasoning into account.***

HOW WE CAN HELP

Debt control improves quickly when there is a shared view of the numbers and clear ownership of next steps. The fastest wins typically come from a 12-week cash forecast, a disciplined approach to overdue invoices, and early conversations with HMRC and lenders where pressure is building.

From there, we can help you with the following.

- Review your cashflow, borrowing mix and debt service profile against current rates and covenants.
- Build a payment plan that prioritises legal exposure and operational continuity, with written schedules you can meet.
- Tighten invoice terms, chase processes and credit limits to reduce late payments without damaging customer relationships.
- Compare funding options, including overdrafts, term loans, asset-based lending and any relevant government-backed routes, so you choose the right tool for the job.
- Prepare lender and HMRC packs that set out the position, the plan and the evidence that lenders and officials expect to see.
- Assess early warning signs for formal processes and introduce regulated specialists where a moratorium, CVA, restructuring plan or administration might preserve value.

LOOKING AHEAD

If you anticipate difficulty meeting tax or loan payments, contact us before any deadline passes. More options remain open when action is early, filings are up to date and proposals are realistic. If your forecast suggests that debts cannot be met as they are due, seek advice immediately. Directors' duties sharpen near insolvency and timely decisions protect both the business and its stakeholders.

Want to stabilise cashflow?
Reach out to us.

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