



**HM Revenue
& Customs**

Management of Debt Collection for SMEs

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Overview

- UK business population facts and figures
- UK tax treatment of SMEs
- SME debts and how HMRC manages the process
- Strategies to reduce debts

UK business population (1)

- UK population c60m
- 4.3m businesses
- 99.9% are small or medium sized (SMEs)
- SMEs pay some £150bn of a total £420bn

UK business population (2)

- SMEs take different legal forms
 - 2.8m are sole traders
 - 500,000 are partnerships
 - 1m are companies
 - Half are registered for VAT

UK tax treatment of SMEs

- Sole traders and partnerships pay income tax
- Companies pay corporation tax
- Same rules apply to different legal forms for calculating profits
- But different payment dates
- Reduced Corporation Tax rate for small companies
- Employers account for Pay as you Earn (PAYE)
- VAT and PAYE paid monthly

SME debts

- Most businesses and individuals pay on time – only 5% falls into arrears
- But SMEs are more likely to fall behind
- One third report difficulties paying VAT
- Many SME debts are small (less than £500)
- SMEs less likely to contact HMRC for help with debt

Debt management process

- Dedicated debt management unit
- Unified process
- Negotiation stage
- Enforcement stage
- Insolvency stage

Strategies to reduce debts

- One size fits all approach will not work
- Need to understand the business and its behaviour
- Target treatment according to that understanding
- Range of interventions and measures
- Compliance spectrum

Compliance Spectrum

Won't	Chancers e.g. those who may take advantage of opportunities where/when they arise	Can't or don't take enough care eg Emotional/Attitude Functional Impairment Time Poverty Sheer Complexity	Will and do
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A range of measures

- Alternative payment methods
- Focus on the debtor not the debt
- Risk profiling
- Specialist Small Debt Unit

Future plans

- Tax clearance certificates
- Setting off repayments against debts
- Attachment of assets without a court judgement
- Single account