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Responding to COVID-19: Practical Solutions

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Economic performance, challenges and future direction

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Pre Corona economic strength

Current position

Population (2019)
1,892,300

GVA (2018)
£40.1bn

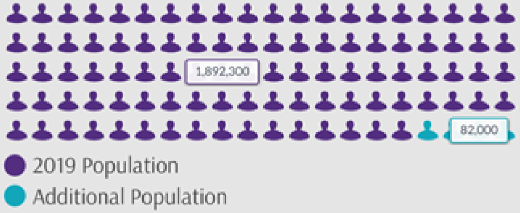
Total employment (Q1 2020)
877,000

Unemployment rate (Q1 2020)
2.5%

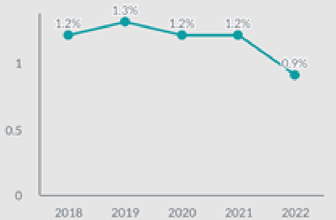
Inactivity Rate (Q1 2020)
39.0%

Forecast outlook

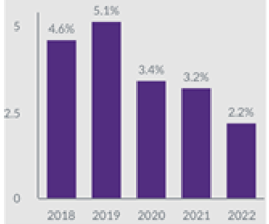
Total Population: 2036 population = 1,974,300



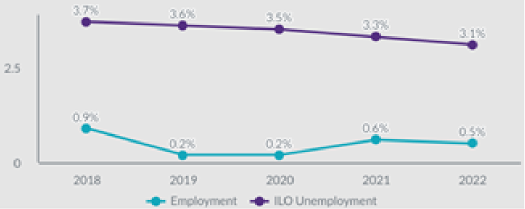
Real GVA Growth:



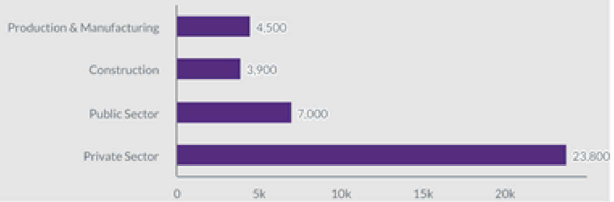
House Price Growth:



Labour Market:



Sectoral Employment Net Change:



Interest Rates:

2019	1.0%
2020	1.0%
2021	1.0%
2022	1.0%

Inflation:

2019	2.2%
2020	2.2%
2021	1.4%
2022	1.4%

Source: NISRA, LFS and Ulster University

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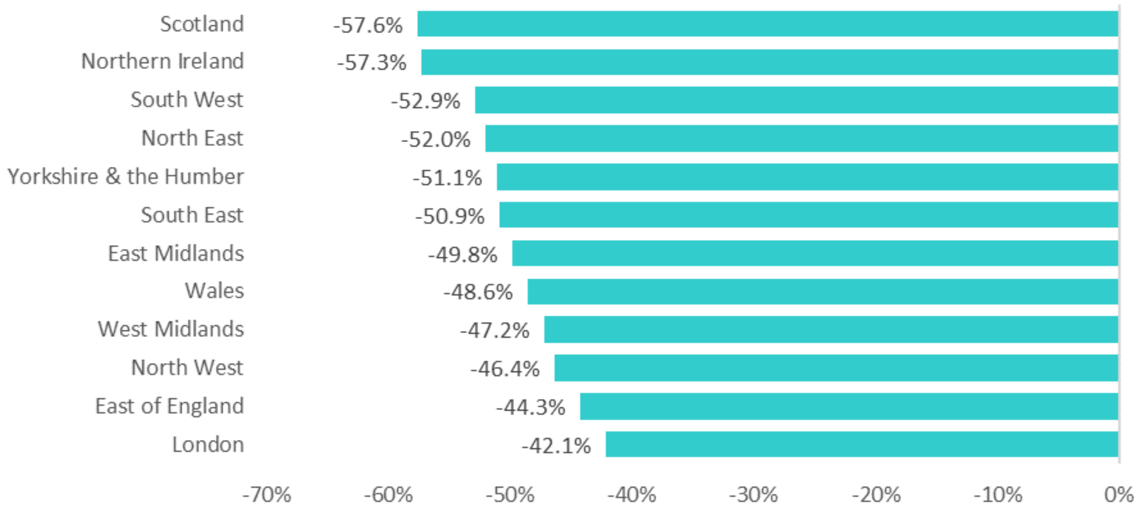
During Corona: Labour Market Contractions

Job Postings on Indeed UK

Change from 1 February to 16 April relative to last years trend (%)

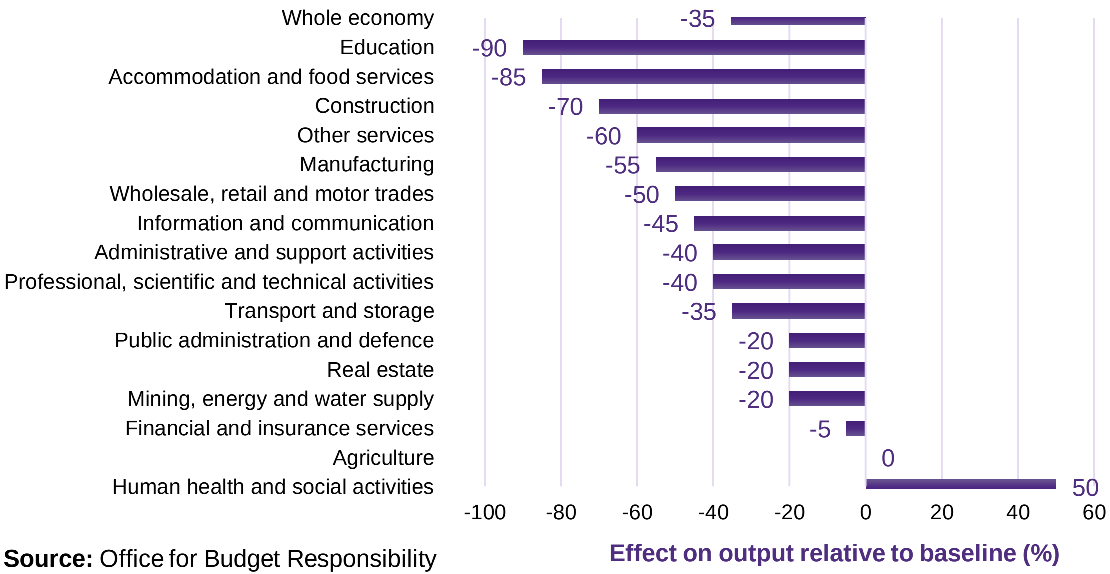


- Universal credit claims have surged – 20,000 new claims in a fortnight, 6 times more than usual
- Job postings down dramatically

Source: Indeed

During Corona: Education and Tourism and hospitality bear the brunt

Output losses by sector – Quarter 2 2020



Source: Office for Budget Responsibility

- Economy went into deep freeze – Quarter 2 is expected to show 35% contraction
- Only one sector is projected to grow in the coming quarter

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During Corona: Local impacts

Output losses by Council – Quarter 2 2020

NI Local Authority	Decline in GVA (Qtr 2 2020)
Mid Ulster	45%
Mid and East Antrim	40%
Causeway Coast and Glens	38%
Newry, Mourne and Down	38%
Fermanagh and Omagh	37%
Antrim and Newtownabbey	35%
Armagh City, Banbridge and Craigavon	34%
Lisburn and Castlereagh	31%
Ards and North Down	31%
Belfast	30%
Derry City and Strabane	30%

- Mid Ulster, NI's manufacturing heartland is expected to suffer the sharpest declines in NI

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During Corona: Confidence is shattered

Record fall in business activity

Above 50.0 signals an increase from the previous month while readings below 50.0 signal a decrease

March's Top 5

- **Business output and orders hit record low**
- **Services posted the steepest declines in output, order & jobs**
- **Services output & orders hit record lows of 23.9 & 24.2**
- **Manufacturing posted 11-year lows in a number of areas**
- **Export orders plunged to 28.2 – the weakest since December 2008**

Source: Ulster Bank

- Business activity has plummeted, shattering confidence in the economy

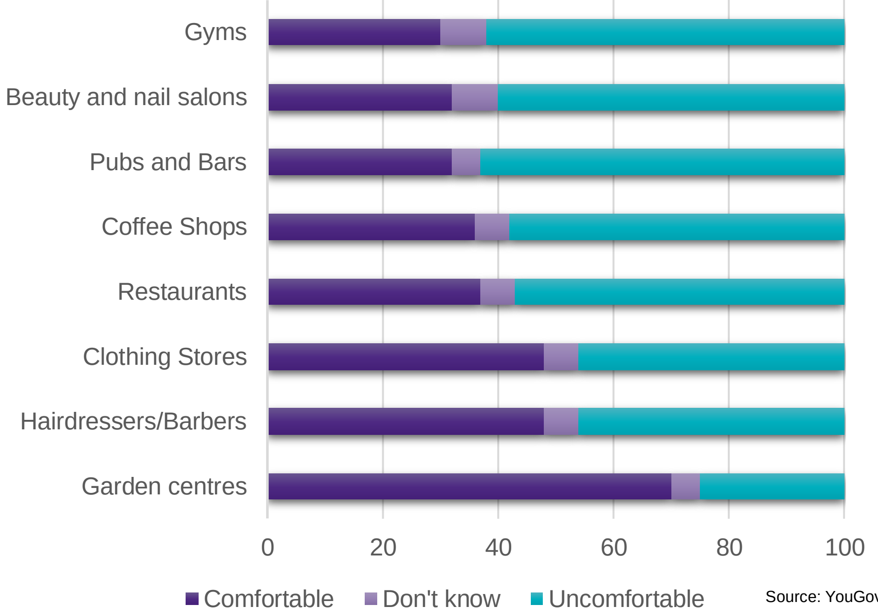
Post Corona: LUV Rollercoaster

Ulster University suggest -9.6% Output Reduction

Danske Bank suggest -7.5% output reduction

- The extent of the decline in economic performance is anyone's guess – economy going into 'limp mode' and maybe full shutdown
- The shape of the recovery is (LUV) depends largely on how consumers react – revenge spend or cash protection?
- Risk that it doesn't power up as quickly as it powered down
- Must prevent permanent economic damage from now problems
- Will our economic behaviour alter fundamentally?
  - Localism?
  - Changed consumer patterns?
- The economy will come back, when and how is uncertain but hope and (importantly) economic opportunity still exists

Even when places reopen, most will still feel uncomfortable about visiting



Source: YouGov

Working Capital

Neal Shanks
Director, Corporate Finance

Management of cash & working capital through COVID-19

- Know your current position:
  1. Cash reserves
  2. Working capital facilities – overdrafts, invoice finance etc…
  3. Working capital – debtors, creditors, stock
  4. Current and future trading activity

- Maximise use of government support schemes:
  1. People – job retention scheme, SSP
  2. Small business grant scheme
  3. Tax – VAT deferral, time to pay
  4. Coronavirus Business Interruption Loan Scheme (CBILS)
  5. Refer to www.nibusinessinfo.co.uk

- Management of working capital – debtors, creditors, stock

- Short term cash flow forecasting and active management is key

Short term cash flow forecasting

- A model of incoming revenues and outgoing expenditures

- Opening and closing cash positions, including any working capital facilities

- Key points to consider:
  1. Period normally 3-6 months but dependent on business / sector
  2. Flexibility to update and show scenarios (what if…)
  3. Include government supports (care with timing)
  4. Include automatic payments (need to manage)
  5. Active management not just through but also out of the crisis period
  6. Assign a central owner and manager

Debtor management

- Cash on delivery where possible
- Proactive debtor collection is needed to get cash in
- Focus efforts on where you are most likely to be successful or where you see most risk
- Manage future credit risk for existing and new customers
- Consider incentives if necessary e.g. discounts, future products / services
- Consider rights to charge interest on late payments and if appropriate
- Review insurance cover
- Contract review – termination / suspension rights
- Manage relationships and reputation!

Creditor & stock management

Creditor management

- Minimise payments to essential only
- Defer non-necessary spend e.g. capex
- Consider cash impact of all cost reduction plans
- Negotiate with suppliers – consider discounts / deals
- Rent – negotiate discount or deferral with payment plan
- Contract review – termination / suspension rights
- Manage relationships and reputation!

Stock management

- Assess critical needs and future requirements
- Realise stock (or unutilised assets) into cash where possible at fair value
- Manage your supply chain and risk of obsolete stock

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CBILS/bank funding

Charlie Kerlin
Director, Corporate Finance

Bank funder’s perspective

- Stakeholder engagement
- Current cash position
- Past trading performance
- Provision of cash forecasts including assumptions
- Ability to repay

Additionally

- Impact of CV 19 (CBILS, CLBILS)
- Cost reduction measures
- Confirmation on Creditor/Tax authority position

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Preparing your application - C(L)BILS

Impact of COVID-19

- Impact on the business
- Business performance prior to COVID-19
  - Annual or Management Accounts
- Amount of funding requested
- 6-month forecast and monthly cash flow projections and assumptions and supporting rationale

Preparing your application - C(L)BILS

Actions taken to cut costs and reduce cash flow pressures

- Detail of engagement with key customers, suppliers and/or landlord
- Detail of any existing borrowings and capital repayment holidays
- Detail of any other support from government

Preparing your application - C(L)BILS

Future trading forecasts (beyond COVID-19)

- Longer term plan and forecasts
- Understanding debt capacity of the business
- COVID-19 impacts on primary markets
- COVID-19 impacts on supply chain

Tax savings and asset protection

Alan Gourley
Director, Tax

Indirect Taxes

Monthly VAT returns

There may be an advantage in switching to monthly VAT returns where your business regularly receives repayments of VAT from HMRC.

This means you would receive a repayment every month or so, rather than having to wait three months.

Paying purchase invoices net of VAT

Under this arrangement, the business would typically agree to pay the supplier the VAT in the future before the VAT is actually due to HMRC.

This could amount to a significant cash-flow advantage for the business.

VAT bad debt relief

This relief may be claimed if a payment on which VAT was charged has been outstanding for more than six months, and the debt is written off in your accounting records as a bad debt.

The VAT paid to HMRC may be reclaimed on your next VAT return.

EU VAT refund claims

Where VAT is incurred by a business in another EU country where it does not have a VAT registration, claims for refunds may be submitted to HMRC.

Businesses should now consider making earlier claims, and making claims for three month periods rather than a whole year.

Cash accounting scheme

If your business' annual taxable turnover is £1,350,000 or less, you may be eligible to join the VAT cash accounting scheme.

Under this scheme, you account for VAT on your sales on the basis of payments you receive, rather than VAT invoices you issue.

The scheme could be helpful if you give your customers extended credit or suffer a lot of bad debts.

Corporate Tax

Accelerating and maximising R&D/Capital allowance tax refunds

Eligible businesses should be accelerating submission of R&D claims to receive cash back as soon as possible Businesses should also ensure that they are maximising incentives in the UK and globally.

Consider a change of company year-end

If company undertakes significant R&D or has significant capital allowances to claim, shortening the company's year-end could accelerate these claims

If company currently making lower profits, consider changing year end to capture these poor months early.

Recalculation of Quarterly Instalment Payments (QIPs)

Based on a company's expectation of its tax liability for the current year – new forecasts likely to impact

Late payment interest rate of 1.10% per annum

Businesses will be able to apply for an additional 3 months to file accounts with Companies House.

Repatriation of profits from overseas operations.

If applicable, businesses should repatriate profits from overseas operations in order to help manage cash flow.

Employer Taxes

Share option schemes

There are some tax-efficient share schemes, particularly Enterprise Management Incentives ("EMI") in which employees can acquire options over shares.

EMI is most suitable for SMEs.

Any gain on exercise of options and sale of shares by employee will be subject to capital gains tax @ 10% / 20%.

Advance clearance available from HMRC.

EMI can be an "exit-only" scheme meaning that the employees never actually become shareholders – useful reassurance for businesses concerned about having minority shareholders.

With valuations likely to be lower in the current climate, now might be a good time to implement an EMI.

Working from home allowance

If employees are required to work from home, can be paid a tax-free allowance of £6 per week (from 6 April 2020) and £4 per week for previous tax years.

It is crucial that the employee is **required** to work from home – if they **choose** to work from home, any allowance paid by the employer will be taxable.

HMRC have confirmed that whilst an employee is required to work from home as a result of the temporary closure of their workplace due to the current COVID-19 crisis, then this allowance can be paid tax-free.

Termination payments

The £30,000 exemption for non-contractual ("ex-gratia") termination payments still exists. The rules have become more complex in recent years.

This limit can be combined with an employer's contribution to a personal pension scheme (Annual Allowance of £40,000 per annum, with the ability to go back 3 years) to agree a significant severance package for employees and Directors.

Income Tax

Self – assessment income tax payments

- all self-assessment (individuals, trusts, etc.) payments on account normally due on 31 July 2020 will automatically be deferred until January 2021; and
- no penalties or interest for late payment will be charged in this deferral period.

Other points to consider

- if profits have fallen significantly in some months, may be able to reduce taxable profits by a change of year-end closer to 5 April.
- if loss-making, there are options for setting losses against other income of tax year (and prior year) or up to 3 years (if business is less than 4 years old).

Other ideas

1 **Buying out minority shareholders** – values may be lower and minority shareholders might want to have cash

2 **Making gifts of assets** – particularly of non-business assets. Values may be lower now and taxes may be higher in the future

3 **Borrow against your investment portfolio** – a number of Investment Managers offer borrowing facilities at attractive rates. Also known as “Lombard loans” and can be used to secure cash without selling assets at a loss

4 **Capture, record and claim all capital losses** – can be carried forward indefinitely. For individuals, some capital losses (particularly on unquoted shares) can be set against other income

5 If pension fund has cash, explore whether assets (e.g. property) can be sold to the pension fund. Is a form of **asset swapping** which releases cash. Transactions must take place at market value

6 **If pension fund has previously breached Lifetime Allowance (LTA)** – may be less of an issue now if asset values have fallen and it is therefore a good time to buy assets from the fund.

Asset protection

Extraction of surplus cash from the company

Can consider paying a bonus or taking dividends. Depending on the profile of the shareholder there may be an opportunity to undertake a company purchase of own shares, particularly if a shareholder is retiring. Advance clearance from HMRC is required

Maximise pension contributions

Pensions are very tax efficient and also provide some protection in the event of personal solvency issues – particularly if the contributions have been made consistently. Death benefits can be free of tax – a form of life cover

Transfer of assets (e.g. shares in company) to trust

Gifts of assets into trust is often done for long-term IHT mitigation. If trust is a discretionary trust there is significant asset protection for potential beneficiaries

Group restructuring

Insert a holding company

Can be used to hold, IP, property and surplus cash – protected from shocks to the trading company.

Move assets around the Group

If already have a group structure, consider moving valuable assets around Group to secure protection from trading shocks

Consider taking security

If shareholders are owed significant balances by the Group – can security be provided on currently unencumbered assets?

Consider a demerger

Can demerge surplus cash and / or property assets out into a separate Group to fully segregate valuable assets from trading businesses

Consider a group rationalisation

If there are dormant companies in the group, you could secure savings in ongoing costs and perhaps trigger losses by having them struck-off

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