PKF FRANCISCLARK

Chartered accountants & business advisers

SHAREDAMBITION

TOP 5 RISKS FACING BUSINESS IN 2020

Scott Bebbington, business recovery specialist at PKF Francis Clark, lists what he considers to be key risk areas for businesses in 2020. Over the next few weeks Scott will present some more detailed insight into the risks as well as potential actions businesses can take to mitigate them.

HMRC PREFERENTIAL STATUS RETURNS

From April 2020 some taxes due to HMRC will become secondary preferential debts in an insolvency.

HMRC will now stand to receive larger dividends in a winding up with trade creditors losing out.

Bank security will fall in value as HMRC will be paid before any floating charges; banks may require additional security to protect their position.

HMRC are increasing the amount of winding up petitions they are issuing which could continue into 2020.

MINIMUM WAGE INCREASES (NMW)

The NMW will increase to £8.72 per hour from April 2020 as part of the expected increase to £10.50 per hour over the next five years.

This will impact profit margins, presenting particular risks for businesses with small profit margins or businesses in highly labour-dependent industries such as retail, care or hospitality.

The onus is on businesses to develop creative ways to maintain margins if they are unable to pass the cost directly onto their consumers.

Business leaders are calling for the Government to introduce measures to help businesses absorb these costs, such as tax breaks that accompanied previous increases to minimum wage.

CONSUMER SPENDING/ CONSUMER DEBT

Consumer spending drives a strong economy but consumer debt is increasing and personal insolvency figures are at a nine year high.

At the time of the 2008 recession consumer debt per household was £11k and it has risen to over £15k in 2018 driven by quick, high interest credit options such as payday loans.

The Financial Conduct Authority are cracking down on these industries which will impact the supply of these forms of credit.

Consumer behaviours may also shift as people aim to be debt free or prioritise saving in 2020. This could lead to consumer spending falling and this has a negative impact on economic growth.

BREXIT - RULES OF ORIGIN

The post Brexit landscape will feature new trade deals with various countries including the EU.

These will set the terms under which goods can be imported and exported between countries.

Some goods originate from multiple countries, for instance only 40% of the value added to UK cars comes from the UK.

Free trade agreement would not apply to goods that do not originate from the UK therefore tariffs would be charged on goods being exported to other countries.

Businesses may also face increased costs if tariffs are charged on any goods imported into the UK.

This is on top of the additional costs for businesses in the administrative burden when importing and exporting goods.

LATE PAYMENTS

The Federation of Small Businesses suggest that 50,000 SMEs close a year due to late payments despite the underlying trade being profitable.

Late payments impact the cash flow of a business and its ability to pay debt when they fall due, which is an indicator of insolvency.

There are various options available to recover these debts and organisations like the FSB are pushing for better payment practices and naming and shaming of persistent late payers.

Businesses can either incentivise early payment from customers or seek compensation for late payment.

SCOTT BEBBINGTON
MANAGER
scott.bebbington@pkf-francisclark.co.uk

PKF Francis Clark is a trading name of Francis Clark LLP. Francis Clark LLP is a limited liability partnership, registered in England and Wales with registered number OC349116. The registered office is Sigma House, Oak View Close, Edginswell Park, Torquay TQ2 7FF where a list of members is available for inspection and at www.pkf-francisclark.co.uk