

## “Insolvency warning over tax deferral scheme”

The government's tax deferral scheme for struggling businesses could well be the pre-cursor to a raft of insolvencies.

The Business Payment Support Service allows payment of Crown taxes including PAYE, National Insurance and VAT to be deferred for up to six months. Currently a total of over £2.5bn has been deferred by hundreds of thousands of struggling enterprises the length and breadth of the country.

More than £1bn of the UK total is deferred VAT representing 1.5% of the government's projected Value Added Tax receipts for the whole of 2009. Commenting, Phil Wood, managing director of chartered accountants and licensed insolvency practitioners, Barringtons said, “These sums are really quite frightening and surely the question needs to be asked as to whether this scheme was actually designed to facilitate deferred payment or more to the point deferred insolvency. The reality is that many of those businesses that took the opportunity to defer tax payments are currently staring insolvency in the fact. The scheme wrongly assumed that business cash flows would be restored within a matter of months giving enough surplus cash to pay off all deferred debts. However, there is little indication that this has come to pass.”

It is estimated that some £5bn of deferred tax could have piled up by the autumn and, according to Phil the next few months will define just how long the downturn will last. A considerable increase in the number of small business insolvencies would be massively detrimental and could well prolong what has already been a particularly painful recession.