

## UK business & economy

# HMRC to go easy on struggling UK companies to help with Covid debt

Business secretary promises 'cautious approach' on collection of tax arrears built up during pandemic



Retailers are among the groups warning that they may not be able to afford the extra costs while trading remains suppressed by long-running coronavirus restrictions © Kirsty O'Connor/PA

**Daniel Thomas** in London JUNE 22 2021

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UK companies struggling with coronavirus-related debts have been thrown a lifeline by the government which will not pursue them for unpaid taxes in order to avoid a wave of insolvencies this summer.

Restructuring experts have warned that many companies will struggle to stay afloat from next month when emergency Covid-19 business support measures begin to be wound down.

Business groups have [raised concerns with ministers](#) that this would be exacerbated if HM Revenue & Customs were to take an aggressive approach to collecting overdue taxes that are needed to help restore strained public finances.

HMRC was last year granted [“preferential creditor status”](#) in insolvencies for outstanding VAT and income tax. This means it would be paid first in the event of a corporate failure. But business leaders have urged the government to ensure this key creditor status is used to support struggling companies looking to restructure their finances to survive.

Kwasi Kwarteng, UK business secretary, wrote to business groups this week promising that HMRC would take “a cautious approach to enforcement of debt owed to government that will have accrued” during the pandemic.

In the letter, seen by the Financial Times, he wrote that HMRC would soon be updating the approach to enforcement, which would seek to bring outstanding debts that companies were struggling to pay into managed arrangements.

In the letter to the Institute of Directors and R3, which represents insolvency and restructuring practitioners, Kwarteng said he recognised that the “path back to full trading will be difficult for many companies, particularly those with accrued debt and low cash reserves”.

Roger Barker, director of policy at the IoD, said that if the approach was implemented in the way suggested, “it would represent a significant shift in the way that HMRC deals with insolvency — a much less punitive approach than companies have experienced in the past”.

Business owners in sectors such as hospitality, retail, leisure and travel have warned that they may not be able to afford the extra costs while trading remains suppressed by long-running coronavirus restrictions.

Kwarteng added that HMRC enforcement “during this critical period will be largely driven by a lack of engagement by companies with it, rather than just their inability to pay and that using insolvency to enforce payment will remain a last resort”.

Many businesses have had a backlog of taxes that will need to be paid as they emerge from the pandemic, including VAT.

This week was the deadline for businesses to join a VAT deferral payment scheme that allows arrears to be paid in up to eight monthly instalments.

Companies that have not signed up will face penalty payments if the arrears are not paid in full by the end of the month.

Business groups fear that tens of thousands of small firms will not have known about the scheme and will therefore face high charges from next month.

The HMRC said: “Protecting livelihoods and keeping people in work remains our priority, as it has been throughout the pandemic. We will always work constructively with customers to avoid the need for insolvency and will only take action if a customer does not respond or engage with us.”

The government last week announced a three-month extension to temporary insolvency measures that were due to expire at the end of June, including restrictions on winding up orders.



But Kwarteng said a return to the normal insolvency processes “with the right controls, coupled with a cross-government approach to its continued support and enforcement, will be vital to a return to a healthy and functioning economy”.

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