THOMSON COOPER
ACCOUNTANTS

Bounce Back Loans – Dis-guising debt?

With Halloween just around the corner we are looking at the potential horror story of a Government funding scheme that might come back to haunt British taxpayers for years to come.

During the early stages of the pandemic, many activities that would normally have taken place on a face-to-face basis were substituted with online alternatives…a potentially risky business in certain scenarios. This was especially true with funding applications where there is no face-to-face advisor asking questions or verifying information.

Take the Bounce Back Loan (BBL) scheme. The scheme was designed to enable businesses to access finance more quickly during the coronavirus outbreak and was available through a range of accredited lenders and partners. Whilst it is expected that most of these loans will have been accessed and utilised correctly, it is anticipated that the commencement of repayments may lead to an increase in directors and debtors reassessing the position of their businesses and considering formal insolvency, some as a way of avoiding repayment.

Under the BBL scheme small businesses could borrow a sum equivalent to up to 25% of turnover, capped at £50,000 per business. The Government covered the first year of interest payments, meaning that the business would have to repay the rest of the loan. Interest was fixed at 2.5% per annum. The BBL must be repaid and is not a grant.

Because the BBL is an unsecured debt, it meant that accredited lenders including the high-street banks could not ask for a personal guarantee. The lender cannot pursue the director personally if the company defaults.

The majority of these loans were taken out in good faith, as a means to help sustain a business throughout the pandemic, with business owners having every intention of repaying them. However, Insolvency Practitioners have been advised by the Insolvency Service that they must investigate all government funding taken through the COVID-19 pandemic and consider if they were taken and used for the correct purpose. It is suspected that there will be a level of abuse of the funding.

Some indicators of potential BBL abuse may include:

- Failure to disclose a BBL in the statement of affairs.
- Minimal creditors, e.g. a BBL and bank overdraft, and/or HMRC.
- Funds not being used for the benefit of the business.

- Where there was no intention after receipt of the BBL to carry on trading or make an attempt to repay.

- Businesses not trading in the UK or resident for UK tax.

- Businesses not trading as of 1 March 2020.

- Company dormant, i.e. filing dormant accounts for 2019 and/or 2020.

- Sole traders falsely declaring start date of trading.

- Businesses overstating turnover by more than 25%, or a loan of more than 25% of turnover.

- Multiple applications to different lenders for a BBL (N.B. Companies could apply for other Covid support loans such as a Coronavirus Business Interruption loan (CBIL) but had to use those funds in part to repay the BBL).

- Knowledge of insolvency prior to application.

- Applications close to, or after, insolvency event, including post-petition or post liquidation.

- Sole traders who were bankrupt, or in a Trust Deed at date of application.

Where identified by Insolvency Practitioners, the Insolvency Service will review conduct concerns for potential disqualification and bankruptcy restriction action and, where appropriate, refer to the relevant prosecution authority.

If you or your business is struggling with problem debt or to repay a BBL, our debt specialists can provide the best advice for your circumstances. If you need further information, please email Richard Gardiner at rgardiner@thomsoncooper.com.

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