






Tax Funding

One of the lesser known solutions in the working capital space is the specialist lending available to fund tax obligations. The market has developed tools to assist businesses with funding different tax scenarios and the use of these different solutions is becoming more widespread as lenders refine their products.



The important thing to understand is these products are very proactive. Typically clients looking at this type of funding to support working capital would look to engage well ahead of time, to fund current and upcoming tax obligations.

Case study

 Background	<h3>Sector - Automotive</h3> <p>Well established, local business supporting automotive sector with specialist services.</p>
 Challenges	<h3>Covid & Supply Chain</h3> <ul style="list-style-type: none">• Several challenges over recent years have impacted performance.• Initially impacted (as were end-clients) by Covid-19 and then more latterly by the impact of supply chain issues in the automotive sector.• Client looking for additional headroom to supplement existing facilities.
 Solutions	<h3>Facility - R & D Tax Bridging Loan</h3> <p>Line Size - £300,000</p> <ul style="list-style-type: none">• Niche funder located who worked closely with CCBS, the client and their advisors.• Funding made available in 14 working days.• Very smooth process and client delighted to have obtained additional headroom in facilities as they continue to navigate challenging trading conditions.



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Type of Facility

1. VAT Funding:

VAT is a consumption tax levied on the value added to goods and services at each stage of production or distribution. Businesses in the UK are required to register for VAT if their taxable turnover exceeds the threshold. Businesses often face challenges in managing their cashflow around quarterly VAT payments.

To address this, there are various financing solutions available:

- **VAT Loans:** These are short-term loans specifically designed to cover VAT liabilities. They provide businesses with the necessary funds to meet their VAT obligations on time. These typically fund VAT balance over the following quarter in 2 or 3 capital payments.
- **VAT Bridging Finance:** This type of financing is used to bridge the gap between a business incurring a VAT expense and subsequently reclaiming it. Typically used in property transactions where the property has a VAT liability as part of the purchase. Funding provided in bridge style with the lender funding the VAT payment to HMRC and directly receiving the proceeds of the VAT claim.

2. R&D Tax Funding:

The R&D Tax Relief scheme in the UK is designed to encourage innovation by providing tax incentives for companies engaging in research and development activities. While R&D Tax Relief provides financial benefits in the form of tax credits or reductions, companies might still require funding to cover their R&D expenses. One option to consider is:

- **R&D Tax Credit Advance:** This is a form of funding a company can receive as an advance against its expected R&D tax credit refund. Loan is structured against a business' R+D claim with the advance a fixed percentage. Repayment directly to lender who would then distribute any proceeds after deduction of interest and fees.



3. Corporation Tax Funding:

Corporation Tax is a tax on the profits of UK-resident companies and those with activities in the UK. Companies are required to pay Corporation Tax on their taxable profits. Similar to VAT, companies might face challenges in managing their Corporation Tax payments, especially if they have irregular or seasonal cash flows. Corporation Tax Loans can help.

- **Corporation Tax Loans:** Loans designed to help companies meet their Corporation Tax obligations. They are often structured to align with the company's tax payment schedule. Profiled over 12 monthly payment or less allows clients to manage and structure cashflow spreading the corporation tax balance.

If you have any queries about any of the above or indeed any commercial finance needs in your business, please don't hesitate to get in touch.

Click here to
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