Dealing with your business debts

1. Increase your income
2. Working out your business and household budget
3. Deal with your priority debts
4. Deal with your non-priority debts

Freephone 0800 197 6026
Monday to Friday 9am to 5.30pm

Follow us on Twitter @Biz_Debtline

www.businessdebtline.org

For free, confidential, independent advice, call Freephone:

0800 197 6026

For more information, visit www.businessdebtline.org
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Getting started

Lots of people are in debt these days for all sorts of reasons. This pack gives you good advice on tackling your debts. Included with this pack are a business and household budget sheet, a tax information sheet and some sample letters you can use.

Before you start to deal with your debts, it is important to look at your business and household finances separately. To help you do this we have split the business and household budget sheet into two parts. This pack will help you work out your business budget and then your household budget.

- The business and household budget sheet and the tax information sheet will help you work out your business income and outgoings, and what you can draw (take) from your business as an income.
- You can use your business and household budget sheet to work out how much money you have to pay towards your debts. This will help you assess how well your business is doing and decide the best way to deal with your debts.
- If you decide that your best option is to negotiate reduced payments to your creditors (the people you owe money to), you will need to send them a copy of your business and household budget sheet.
**Four simple steps to dealing with your debts**

Using this pack will help you take four important steps to deal with your debts.

We explain each step in a different section of this pack.

Following all four steps will take some time. But it will help you deal with your debts. So don’t give up, and contact us for help as often as you need to.

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### How Business Debtline can help you

Business Debtline is the expert UK charity helping small businesses in need of debt advice.

By phone: 0800 197 6026 Monday to Friday 9am – 5.30pm

Online: www.businessdebtline.org

Use the website to follow the four simple steps to deal with your debts. There is library of downloadable fact sheets and sample letters to help you get started. You can also fill in your business and household budget sheet online.

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### Phone advice from Business Debtline

Calls to Business Debtline are free from landlines. If you are calling Business Debtline on a mobile phone, most networks will not charge you for the call because you are ringing a Freephone number helpline.

You can call us using the Text Relay service. Business Debtline also uses a telephone-interpreting service. This means our advisers always have access to professional interpreters over the phone in 100 languages. If you do not speak English, it takes just a couple of minutes to get an interpreter on the phone who will translate accurately what you and the adviser are saying to each other.

### Online advice from Business Debtline’s website

You may want to visit the Business Debtline website at www.businessdebtline.org where you can view this information pack and the fact sheets that deal with some debt problems in more detail. You can also fill in sample letters to send to your creditors and fill in a business and household budget sheet online.

### Extra help if you have mental-health difficulties

If you have mental-health difficulties, extra help is available to support you.

- There are a number of organisations that may be able to provide you with different types of support.

  See ‘Useful contacts’ on page 62.

### Extra help if you have mental-health difficulties

If you have mental-health difficulties, extra help is available to support you.

- Extra guidelines apply to many organisations that you are in contact with. We can explain these guidelines to you and how you can use them to help deal with your debts.

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### Companies that charge for advice

You may come across companies that offer to sort out your debts if you pay a fee. Be very careful to look at what the company is promising to do for you before sending them any money. Some of these companies may say they will get your creditors to write off part or all, of your debts. Unless you have special circumstances, this is unlikely to happen.

- Ask the company if they are authorised by the Financial Conduct Authority.

  - The Financial Conduct Authority has issued its Consumer Credit sourcebook (CCS) setting out rules and guidance for debt management companies. See www.fca.org.uk. You can use the rules and guidance to make a complaint if the company does not follow them.

- You can make a complaint to the Financial Ombudsman Service if you are not happy with the outcome of your complaint to the company.

  See ‘Useful contacts’ on page 62.

### Professional advice on dealing with your debts is always available free from agencies such as Citizens Advice, money advice centres, or by ringing Business Debtline. Remember, instead of paying fees to a debt-management company, you could be better off using the money to pay off your debts instead.
Golden rules...

If you follow these golden rules, you won’t go far wrong.

- It is never too late to get advice. Remember, we are here to help and you are not alone.
- Don’t borrow money to pay off your debts without thinking carefully. Get advice first. If you own your home, this kind of borrowing could lead to you losing your home.
- If you have lost your job, closed your business or are off work because of illness, check whether the payments you need to make are covered by payment protection insurance. Check your credit agreement. Contact the insurance company or your lender to find out more details about how to claim.
- Check you are claiming all the benefits and tax credits you can.

**Benefits, tax credits and Universal Credit** on page 12.

- Check your business status. This will help you decide which budget sheet you should be using and what debts you are responsible for.

**Business status** on page 7.

- If you are a sole trader, use the business and household budget sheet in this pack. If you are a partnership or a limited company, use our website to work out the right budget sheet for your business status, or contact us for advice.

**A business and household budget sheet** is an essential tool when dealing with your debts. It will help explain your financial situation to your creditors.

- Once you have finished your business and household budget sheet, use this pack to work out the best way to deal with your business and personal debts. It can also help you work out the best way to manage your business. If you are unsure, contact us for advice.

**Make sure that any money you receive (for example, business income, wages or benefits) goes into an account at a bank or building society that you don’t owe any money to. This means the bank or building society will not be able to take any of your income to repay your debt to them.**

**Opening a bank account** on page 57.

- Make sure you tackle your priority debts first – for example, debts which could mean closing your business, losing your home or having your gas or electricity cut off.

> **Dealing with your priority debts** on page 33.

- If you decide that the best option is for you to try to come to a payment arrangement with your creditors yourself, use this pack to work out a reasonable offer to repay the money you owe.

**Working out offers of payment to non-priority creditors** on page 29.

- If you are going to make offers to your creditors, you will need to send them a copy of your business and household budget sheet when you tell them about your difficulties.

- Use this pack to work out your business and household budget sheet.

- Use the sample letters included with this pack to write to your creditors.

- Contact everyone you owe money to. If you make arrangements to pay some creditors but not others, you could run into difficulties again.

- If the first person you speak to is unhelpful, ask to speak to somebody more senior who may be able to agree to what you want.

- Don’t give up trying to reach an agreement, even if creditors are difficult.

- If a creditor takes court action, don’t panic. When you receive the court papers, fill in the reply form and let the court have all the facts. The court will use this information to decide if you owe the money and what instalments you should pay.

- Always go to court hearings. Take a copy of your business and household budget sheet with you. Don’t think that going to the County Court makes you a criminal. It’s not that kind of court. They will not send you to prison and there is no jury. There are money advisers who may be able to represent you in court. Check the Law Society’s website at www.lawsociety.org.uk for details of agencies providing advice in your area.

- Always keep copies of any letters or court forms you send or receive.

> **Important: don’t ignore the problem**

It won’t go away and the longer you leave it, the worse it gets.

> “Which budget?” on page 37.

- Make sure you tackle your priority debts first – for example, debts which could mean closing your business, losing your home or having your gas or electricity cut off.

There is a lot of confusion about what it means to be a sole trader, partnership or limited company. These terms are used to describe the status of a business. Before starting to deal with your debts, it is important that you understand which term describes your business and which budget you should use.

**Sole trader**

This is where you are an individual and work for yourself. You may also have people working for you. All bills, bank statements, invoices, letterheads and other business correspondence have just your name on them. Even if you trade using a business name, you cannot separate yourself from your business debts.

You are personally liable for all of your business debts. This means you have to pay these debts out of your own income, even if you have stopped trading. If you do not pay, the creditors you owe money to could take further action against you personally. If this happens, both your business and personal assets could be at risk.

**Which budget?**

If you are a sole trader you can fill in the business and household budget sheet included in this pack.

> **See our fact sheet: Sole traders.**

**Partnerships**

A partnership is two or more people carrying on a business, with the aim of making a profit. A partnership must have at least two partners. Most partnerships can have no more than 20 partners, except for firms of solicitors and accountants.

By law, you do not have to have a written partnership agreement, though you may decide it is a good idea to have one. Otherwise, all you need to do to show you are a partner of the business is put your name on the business notepad as a partner.

In a partnership, all partners (separately and together) are liable for all business debts. This is known as “joint and several liability” and means that all partners have to pay these debts out of their own income, even if the partnership has stopped trading. If any of the partners do not pay, the creditors can take all the partners to court for the total debt. Your business and personal assets could be at risk. It is not possible to divide up responsibility for the debts. If the creditors cannot get one partner to pay the debt, they will claim payment in full from the others.

**Which budget?**

The business and household budget sheet in this pack is for sole traders. You can find a partnership budget on our website at www.businessdebtline.org or you can contact us for advice.

If you leave the partnership, write to all the business’s creditors to make sure they know that you will not be responsible for any new debts after the date that you left. Keep a copy of all the letters you send. Make sure that your name no longer appears on the business’s notepad and ask the bank to take your name off any business accounts.

If you have given a personal guarantee or a legal charge to a bank as security for the business’s debts, make sure the bank accepts that you are only responsible for any debts that built up before the partnership ended. A personal guarantee means you have signed an agreement to say you will pay the money back yourself even if the business closes. You need to do the same thing for any business overdrafts.

If one partner goes bankrupt, although creditors will cancel the debt for that partner, they can still try to get the whole debt back from the other partners. This means that partners with the most assets have the most to lose.

If you have had to pay a partnership debt, you have the right to take the other partners to court to get back their share of the debts. If one of your partners has paid a partnership debt, they can take you (and any other partners) to court to get back your share of the debt.

> **See our fact sheet: Partnernships.**

**Information: income tax**

- Partners are taxed only on their share of the business profits.
- If one partner owes income tax, Her Majesty’s Revenue & Customs (HMRC) cannot claim it from the other partners.
Limited companies

A limited company is legally separate from its directors and shareholders. In a small limited company, the directors are often the shareholders.

A company must have at least one director and, in some cases, will also have a secretary. It needs to be registered at Companies House and must send audited accounts to Companies House each year.

By becoming a director, you agree to act in the best interests of the company, its shareholders, its employees and its creditors. This is called a ‘duty of care’ or ‘fiduciary duty’. Usually, if you are a director (or acting as a director), you are not personally liable for paying the company’s debts. This means that if the limited company does not pay its debts and a creditor takes court action, only the company assets are at risk.

However, you can be made personally liable for the following:

• Your own PAYE and National Insurance payments.
• Any income tax you have not paid on cash you have taken from the company.
• Any personal guarantees you have given for the company (usually to banks, finance companies, landlords and major creditors). This is when you sign an agreement to say that if your business cannot pay the money back, you will pay it back yourself.
• Any liabilities that have come out of your company after it has been investigated in relation to liquidation (a formal option to deal with the company debts and bring it to a close) and found guilty of wrongful trading. This is when you carry on trading when the company was insolvent and there was no reasonable chance of avoiding liquidation.
• Any liability where you have benefited from a transaction at the expense of your creditors. For example, if you have bought a company asset for less than it was worth, or you have paid your own wages or directors’ loans from the company assets but cannot afford to pay your creditors. This is called ‘misfeasance’.
• Any liability that comes from committing fraud while you were running the company. For example, fraudulently taking credit in the company name. This is called fraudulent trading.

Important: insolvent limited companies

A limited company is ‘insolvent’ if:
• the company cannot meet its debts as they fall due;
• the value of its assets is lower than the total debt that it owes; or
• it cannot meet its debts as they fall due and has assets worth less than the total amount it owes.

If you are not sure whether your company is insolvent, contact us for advice.

Warning: trading when insolvent

If you are not sure whether your company is insolvent, you will need to be very careful when you are trading. Contact us for advice.

Which budget?

If you are a director of a limited company, we advise you to ask your accountant to help you to work out a company budget. This is because the company is a separate legal entity to you and its finances should be separate from yours. You should then be able to work out how much the business can pay you. This will help you fill in a household budget based on your household income and outgoings.

The business and household budget sheet in this pack is for sole traders. You can find a household budget on our website at www.businessdebtline.org or you can contact us for advice.

If you need more advice about your business status, contact us for advice.

Lots of people are in debt because they don’t receive all the money they are entitled to.

Before you work out your business and household budget sheet, use this section to see if you can increase your business income and household income.

You may be able to claim benefits, tax credits or Universal Credit, help from grants, help with energy costs or other ways of boosting your business and household income. We have divided this section up so you can see the different sorts of help available.

Getting started
Ways of increasing your business income

Enterprise agencies
- Your local enterprise agency may be able to provide help with preparing a business plan or ways of improving your business. Search online for details of agencies in your area. You can also get advice online. See www.gov.uk for information about finding business finance and preparing a business plan. If you are a member of your local Chamber of Commerce, you can contact them for business advice.

Funding and grants
- You can search for business finance, support, grants and loans for your business at www.gov.uk using the ‘Business funding and support finder’. This will search for the help you need based on what your business does, the size of your business and where your business is located.

Enterprise Finance Guarantee
- The Enterprise Finance Guarantee (EFG) can help your business get funding, for example when you can’t get a business loan because you have no business assets for it to be secured on.
- You can use this money to invest in your business so it can grow and expand, helping to increase your business income. The lender you apply to will assess whether to give you a loan based on their own lending criteria. See www.gov.uk for more information.

Improving turnover and sales
- You could call existing customers or target new ones to increase the amount of money coming into your business. Check to see whether it is worth paying for advertising to help do this.
- A sale or a reduced rate may bring in new customers. A ‘loss leader’ can help to do this. A loss leader is when you offer goods or services without making a profit (or even making a loss) to help bring in more customers. The idea is that they will take other goods and services in the future, so you can make a profit.
- If you have other businesses close by, you could consider working together to provide a ‘deal’ for customers. For example, if your business is a restaurant, you could offer a discount on meals if someone sees a film at the local cinema.

Review your prices
- Regularly check that you are making enough profit on the goods and services you provide. You need to make sure that you are making enough money to pay your business outgoings and have enough left over to live on. Your prices should be set at a reasonable rate. They should be able to compete with any services and businesses in your area, but still make you enough profit.

- Think about discontinuing certain lines or services which do not bring in much profit. This will help you concentrate on the things which have a higher profit margin. This could be existing goods or services, but you could also think about offering new ones.
- Think about your trading hours. There may be certain times when you are usually busy and certain times when you are quiet. It may not be helpful to trade during quiet periods, but you could extend your trading hours when you are busier.
- There may be whole parts of your business which are not as successful as other parts. Think about concentrating on the more profitable parts of the business. This may include stopping doing things that are not successful.

Late payments and bad debts
- It is important to make sure all the money that is owed to you is paid on time. When customers buy goods or services from you but pay for them at a later date, this is known as getting ‘credit’ from you. ‘Credit control’ is a term used to describe how your business: provides credit; and collects money from your customers.
- Good credit control procedures will make sure your business income is more stable, can help you plan better for the future and can help the business make a profit. If someone owes you money and they are not paying you, you should speak to them to try to work out a solution. This may include: arranging for them to pay in instalments; or coming to an agreement if they are not paying the debt because they have a dispute with you about the invoice or the goods or services they bought.
- The person is only disputing part of an invoice, you should ask them to pay the part they are not disputing immediately. The rest of the money can be sorted out separately. Be careful not to harass the person who owes you money.

Remember: contact us
You can always contact us for help, information and advice on 0800 197 6026 or see www.businessdebtline.org.
Increasing your income

If you have not been paid money you are owed, and you are registered for value added tax (VAT), you may be able to claim back the VAT on the debt. You can do this when the debt is more than six months old and you have written it off in your accounts (decided you won’t ever get the money back).

Benefits, tax credits and Universal Credit

There is a range of different types of benefits and tax credits which you might be entitled to. During 2013 the Government started to introduce a new benefit called Universal Credit. Whether you can claim any of these benefits will depend on your circumstances.

You can see more information about many of these benefits at www.gov.uk. Type the name of the benefit into the search box.

Some benefits are based on the National Insurance contributions you have paid. These include contribution-based Jobseeker’s Allowance, income-related Employment and Support Allowance, pensions and maternity benefits.

Important: contribution-based benefits

As a self-employed person, you may not have paid the correct type of National Insurance contributions to qualify for contribution-based benefits. Contact us for advice.

Other benefits and the new Universal Credit are means-tested. This means the amount of help you get depends on how much money you already have coming into your home. There are also limits on how much you are allowed to have in savings and still claim. These benefits are designed to ‘top up’ any income you already have. You do not need to have paid National Insurance contributions to claim them.

Universal Credit

In 2013, Universal Credit began to replace the following benefits and tax credits.

• Income-based Jobseeker’s Allowance
• Income Support
• Income-related Employment and Support Allowance
• Child Tax Credit
• Housing Benefit
• Working Tax Credit

Some people who make a new claim for these benefits will get Universal Credit. Between 2013 and 2017, most people claiming the old benefits and tax credits should be transferred onto Universal Credit. However, if you are getting Employment and Support Allowance, you will not be transferred onto Universal Credit until after 2017.

You can use an online benefits checker such as the benefits calculator at www.turn2us.org.uk.

Income-based Jobseeker’s Allowance

This is for people working less than 16 hours a week who are looking for work. You may also be able to get help towards your mortgage. There may be a time limit of 104 weeks on the help with your mortgage.

Income Support

This is for people who are not looking for work (for example, because they are caring for someone). You may also be able to get help towards your mortgage.

Income-related Employment and Support Allowance

This has replaced Incapacity Benefit and Income Support for people who may be unable to work due to illness or disability. You may also be able to get help towards your mortgage.

Pension Credit

You can claim this once you have reached the qualifying age. The amount you are entitled to depends on your income. There is an extra payment called Savings Credit if you or your partner are 65 or over. This rewards you for having modest savings. The amount you get will depend on how much money you have saved. You may also be able to get help towards your mortgage. To check your entitlement to Pension Credit, see www.gov.uk. Type Pension Credit into the search box.

Support for Mortgage Interest

If you claim Income Support, Pension Credit, income-related Employment and Support Allowance or income-based Jobseeker’s Allowance, the DWP will normally pay at least some of the interest on the mortgage if you took the mortgage out to buy your home. This is called ‘Support for Mortgage Interest’. The rules about how much help you can get are complicated. Different rules apply depending on when you took out your mortgage and when you made your claim for benefit. If you are not sure about whether you are eligible, contact us for advice.

Child Tax Credit

This is paid to people with responsibility for children (under 16 or under 20 if the children are in full-time education or certain kinds of approved training). It can be paid whether you are in or out of work, unless you are being paid Universal Credit instead. The amount you will get depends on your income. For information, ring the Tax Credit Helpline on 0345 300 3000. In time, this will be replaced by Universal Credit.

Housing Benefit

You may be able to get help with your rent by claiming Housing Benefit from your local council if you are on benefits or a low income. In certain situations, your Housing Benefit can be paid directly to your landlord. Contact us for advice.

The Government has put a cap on how much you can receive in benefits if you and your partner are of working age but not working. This is known as the ‘benefit cap’. This applies if your combined income from certain benefits is over a set amount and means that the amount of Housing Benefit you receive may be reduced.

This cap will not apply if anyone in your household receives particular disability-related benefits and some other pensions.

Working Tax Credit

This is paid to people who work but are on a low income, unless they are being paid Universal Credit instead. It is paid on top of your wages or drawings from your business, and is dealt with by Her Majesty’s Revenue & Customs (HMRC). You can claim whether you have children or not, but the hours you must work to be eligible will depend on your circumstances and age. For information, ring the Tax Credit Helpline on 0345 300 3000 or see www.gov.uk. Type tax credits into the search box.

Important: Universal Credit

Universal Credit will replace the following benefits and tax credits:

• income-based Jobseeker’s Allowance
• Income Support
• income-related Employment and Support Allowance
• Working Tax Credit
• Child Tax Credit
• Housing Benefit

You may need to apply for Universal Credit if you make a new claim, depending on where you live. Most people who claim benefits should be moved on to Universal Credit by the end of 2017. Until you receive Universal Credit you can still claim tax credits. Once you get Universal Credit, tax credits will stop and you will be given an extra amount for a child that you look after.

Support for council tax

Your local council runs a Council Tax Reduction scheme. Contact them for details of how to apply.

‘Can I reduce my bill?’ on page 45.

If you live on your own you may qualify for a single person discount.

Extra advice:

If you are self-employed and claim Universal Credit when you would have claimed Working Tax Credit, the DWP will assume you earn a minimum amount from your business. This amount depends on your circumstances and will affect the amount of benefit you can claim. You will also be expected to give the DWP details of your business income and outgoings each month. If you are not sure how this will affect you, contact us for advice.

Important: Universal Credit

Universal Credit

See our fact sheet: Mortgages – help with payments.

Extra advice: housing costs and Universal Credit

If you claim Universal Credit, the DWP will normally pay at least some of the interest on your mortgage if you took the mortgage out to buy your home. The rules about how much help you can get from Universal Credit are complicated. If you are not sure about whether you can claim, contact us for advice.

Extra advice: Housing Benefit

If you are of working age and you rent your home from a council or housing association, your local council may reduce the amount of Housing Benefit they will pay you if they decide that you have more bedrooms than you need. This is commonly known as the ‘bedroom tax’. This does not affect some properties and people in certain situations. Contact us for advice.
Other benefits

Some benefits are not means-tested and you don’t need to have paid any National Insurance contributions to claim them. These include Child Benefit if you have dependent children. The amount of Child Benefit you receive may be affected by the High Income Child Benefit charge if you or your partner earns more than £50,000 a year. If either you or your partner earns over £60,000, you will not receive any Child Benefit. Contact us for advice.

People with disabilities can claim benefits such as Disability Living Allowance, Personal Independence Payment and Attendance Allowance, and their carers may be able to claim Carer’s Allowance.

• If you are under 16, you can apply for Disability Living Allowance.
• If you are between 16 and 64, you can apply for Personal Independence Payment.
• If you are 65 or over, you can apply for Attendance Allowance.

If you currently get Disability Living Allowance, this will be replaced by Personal Independence Payment by 2017. The DWP will let you know when you need to make a new claim. If you are under 16, you can continue to claim Disability Living Allowance until you reach your 19th birthday. You will be invited to apply for Personal Independence Payment before your 16th birthday if you are living in an area where Personal Independence Payment is being rolled out. If you are not, you will be checked to see if you are still eligible to receive Disability Living Allowance.

Whether you can claim any of these benefits will depend on the nature of your illness or disability and the effect it has on you.

Help with health costs

You may be able to get help with the cost of prescriptions, dental treatment, sight tests, glasses and contact lenses, travel to hospital, wigs and fabric supports. The rules are different depending on whether you live in England or Wales. Prescriptions are free for everyone in Wales. If you live in England, you may have to pay. Contact your local advice agency, the DWP or the Low Income Scheme helpline on 0300 330 1343 to see if you qualify for free prescriptions and help with health costs. If you cannot claim free prescriptions, you may be able to reduce the cost by buying a prepayment certificate.

Minimum wage

If you are self-employed, check that you are being paid at least the national minimum wage. This usually goes up every year in October. The minimum wage you are entitled to depends on your age. You can find more information at www.gov.uk. To complain if you think you are being paid too little, ring the Government's Pay and Work Rights Helpline on 0800 917 2368.

Tax

Everyone is entitled to a personal tax allowance (or tax-free amount), but there are all sorts of tax allowances and tax reliefs available. These depend on your age and personal circumstances. You can check your entitlement to tax allowances and reliefs at www.gov.uk and www.litrg.org.uk. If you are still in doubt, contact your tax office on 0300 200 3300. Contact us if you have any questions.

Important: backdated tax allowances

You can still ask for tax allowances to be given to you for earlier years, even if you do not quality now. Make these claims as soon as possible as there are time limits. If you think this might apply to you, check with your tax office or contact us for advice.

Ways of increasing your household income

Money from other people

• If you have grown-up children or other relatives living in your home, make sure they are paying enough towards the household expenses. Contact us for advice.
• If you have children from a former relationship, you may want to claim child maintenance or see whether the maintenance you are getting can be increased. You will be able to keep the increase in child maintenance you receive, even if you are on benefits. You can find independent advice about child maintenance options at www.cmoptions.org or contact 0800 083 4379.

Money from insurance

• Check whether your mortgage or any other loans are covered by payment protection insurance. If so, this may cover your payments if you have been made redundant or you are out of work due to illness. If you are turned down by the company when you claim on your policy, you may be able to complain to the Financial Ombudsman Service. Contact us for advice.

Renting out a room

• Do you have a spare room in your home that you could rent out? You will need to check to see how this would affect any benefits you are claiming. Also check your tax position. Ask your tax office about the ‘rent-a-room’ scheme. This allows you to receive rental income, up to a certain limit, tax-free. You will usually also need your landlord’s or mortgage lender’s permission to do this, as your tenancy or mortgage agreement may not allow you to rent rooms out. To find out more, see www.gov.uk.

Working as a childminder

• You may be able to work as a childminder in your home and still claim Income Support or Employment and Support Allowance. Some of your earnings are ignored and you are not treated as working full-time. The rules are different if you are on Jobseeker’s Allowance. Check with the DWP or contact us for advice.

Help from grants, advances and loans

• Check with your local council to see if you can get help with home improvements or a disabled facilities grant. This will depend on your income, whether you have a disability and what repairs need doing in your home.
• If you are on Income Support, Income-based Jobseeker’s Allowance, Income-related Employment and Support Allowance or Pension Credit, you may qualify for a short-term advance or a budgeting loan from the DWP. If you are on Universal Credit, you may qualify for a short-term advance or a budgeting advance. Payments depend on your circumstances and there are guidelines on the type of items you are allowed to buy and who will qualify for help. See www.gov.uk or contact us for advice.
• The Social Fund provides maternity grants or funeral expenses payments for people on qualifying benefits. See www.gov.uk or contact us for advice.
• If you are pregnant or have a child under 4 and you are on certain benefits, or you are pregnant and under 18, you may qualify for help with the cost of milk, fruit, vegetables and vitamins under the Healthy Start scheme. Contact the Healthy Start Issuing Unit on 0804 607 6823 or see www.healthystart.nhs.uk to find out if you qualify for this scheme.
• If you have no income or there is an emergency or disaster, you can apply for help from your local council’s welfare assistance scheme. See www.gov.uk for advice. If you are in Wales, this is called the Discretionary Assistance Fund. See www.wales.gov.uk and type welfare assistance in the search box or call 0800 859 5924. You do not have to be on benefits to apply but you can only get help with certain items. Contact us for advice.

The 16-19 Bursary Fund (if you live in England)

If you have children who are aged between 16 and 19 and are staying on at school or college, they may qualify for a bursary of up to £1,200 a year. This is only in limited circumstances, for example, if they are claiming Income Support or Universal Credit in their own right, or are under 16 and on certain benefits. The school or college can also help with a bursary if the child is in financial hardship. For more information, contact the school or college.

Education Maintenance Allowance and the Assembly Learning Fund (if you live in Wales)

If you have children who are aged between 16 and 18 who are staying on at school or college, they may qualify for an Education Maintenance Allowance (EMA) of £30 a week, depending on your household income. If your child is 18 or over, they may qualify for an Assembly Learning Grant if they stay on at college. For more information, contact Student Finance Wales on 0300 336 200 4000 or see www.studentfinancewales.co.uk.

Help with gas, electricity and water costs

• Can you cut down on the amount of energy you use? GOV.UK has a calculator on its website www.gov.uk which tells you what help you can get with energy grants and depending on your household income. Contact your supplier to find out what help they can provide, or ring the Energy Saving Advice Service on 0300 123 1234. You can also ring the Home Heat Helpline on 0800 030 0300 to find out what help you can get from your supplier.
• You may be able to apply for other grants, depending on the benefits you receive and your age.
• In Wales, you may also be able to apply for home improvements through the Nest scheme. For more information, call 0808 808 2244 or visit www.nestwales.org.uk.
You may be able to get a grant through the Energy Company Obligation (ECO) programme for insulation and heating improvements, plus they can give you advice about saving energy. You may also be able to get a loan through the Green Deal scheme. Ring the Energy Saving Advice Service on 0300 123 1234 or see www.energysavingtrust.org.uk.

Some fuel and water companies have trust funds and support schemes that may be able to give you help to pay your bills if you are in financial difficulties.

• ‘Help with your water bills’ on page 32 and ‘Help from gas and electricity companies’ on page 31.

You may be able to save some money by switching to a different energy supplier.

• ‘Getting the best energy deal’ on page 31.

If you are a single person, it could be cheaper to go on a water meter. If your water bills are already high on a water meter and you are on certain benefits, you may be able to get help.

• ‘Help with your water bills’ on page 32.

If you have reached pensionable age, you may be entitled to a lump sum each year called the Winter Fuel Payment. Ring the Winter Fuel Payments helpline on 0845 915 1515 or see www.gov.uk.

Information: Turn2us

Turn2us is a charity that helps people in financial need get access to benefits, charitable grants and other financial help. See www.turn2us.org.uk, which has a benefits calculator and other advice about benefits, as well as a grants search tool, or ring the helpline on 0808 802 2000.

Next steps...

You are now at the end of step 1. We hope this section has helped you get all the extra money and other help you can.

Step 2 is called ‘Working out your business and household budget’. Doing a budget will help you decide what your options are for dealing with your debts. This section will give you lots of useful guidance and tips on working out your budget.

Turn to page 17 to begin.

A business and household budget is an essential tool to help you tackle debt problems. Use this section to guide you through filling in your business and household budget sheet.

The first part of this step will help you work out how much you have coming into your business and what is going out. You can then see how much the business can afford to pay you (your drawings). This is called your business budget.

You should then fill in your household budget using the second part of this step. This will help you see how much is left over so you can work out the best way to deal with your debts.
Working out your business

Checklist

Use this simple checklist to make sure you take the right steps to work out your business budget.

☐ Are you filling in the right business budget?
The business budget with this pack is for sole traders to fill in. If you are included in a partnership, are a director of a limited company, or have a buy-to-let property, you will need to fill in a different business budget sheet. You can find other budget sheets on our website at www.businessdebtline.org or you can contact us for advice.


☐ Work out a business budget sheet
Follow the advice and guidance in this section to list all your income and outgoings so that you can see how much the business can afford to pay you (yourdrawings).

SE2 ‘Working out your business income’ on page 19 and ‘Working out your business outgoings’ on page 20.

☐ Can you increase your business income?
Before you start to look at your business budget, check to see if there are ways of increasing your business income.

SE2 ‘Ways of increasing your business income’ on page 11.

☐ Can you cut down on your business outgoings?
You might be able to cut down on some of your business outgoings by budgeting better or shopping around for the best deal.

SE2 ‘Reducing your business outgoings’ on page 23.

☐ Splitting business and household costs
There are some costs you may have for your business and for your home. This can include things like travel and phone costs. Remember to work out how much of the cost is for business use and how much is for household use.

SE2 ‘Working out your business outgoings’ on page 20 and ‘Working out your household outgoings’ on page 25.

Doing a monthly budget

The business and household budget sheet uses monthly figures for income and outgoings. If you pay for some things weekly or fortnightly, remember that you will need to change these figures to a monthly amount.

Info: limited company budget sheets

If you are a director of a limited company, we advise you to ask your accountant for help to work out a company budget. This is because the company is a separate legal entity to you and its finances should be separated from yours. You should then be able to work out how much the business can pay you. This will help you to fill in a household budget sheet based on your household income and spending. You can find a household budget sheet on our website at www.businessdebtline.org or you can contact us for advice.

Info: you might prefer to work out your budget online

If you think you are a sole trader will find it easier to fill in your budget online, see our website, www.businessdebtline.org which has a budget tool kit.

Extra advice: tax returns

We would not normally recommend you use your last tax return to work out these figures. This is because your tax return figures are usually over 12 months old. Also, the figures you work out for income tax, National Insurance and VAT on your budget sheet are only estimates. They should not be used to complete the tax returns you send to Her Majesty’s Revenue & Customs (HMRC).

Security over business assets

Some creditors, such as banks, may ask for security over your business assets. This could mean you don’t have the right to sell the assets yourself. If you can’t pay the creditor, they may go to court to take these assets to reduce the amount you owe them. This means you could struggle to keep trading if the assets are essential to your business. If you are not sure whether you have given security over any business assets, contact us for advice.

Working out your business income

Use your business accounts, books and bank statements to work out how much money you have taken for sales over the last three months. This will help you work out what your average monthly business income is. As most businesses, income is not the same every month. Do not include money for work you have done or things you have sold but have not yet been paid for. Only include money you have actually received.

Divide this total by three to get an average for each month.

If your receipts or takings go up and down a lot over the year, you may need to work out the average over a longer period, for example, 12 months. This could be because your business is seasonal.

Make sure you use a period of time that reflects the current income of your business.

Working out your business budget

Working out a business budget is important because it helps you:

• see how much money is coming into your business;
• see how much money you are spending on business costs;
• work out roughly how much income tax, National Insurance and value added tax (VAT) you will have to pay;
• work out how your business is doing and where you may be able to cut costs;
• decide what you can really afford to draw (take) from your business each month;
• plan your household budget around how much you are going to draw from your business;
• work out affordable offers to your creditors if you think this is the best way to deal with your debts.

With your copy of Dealing with your business debts, you should also have a business and household budget sheet. Contact us if you need more copies of our budget sheets.

You might prefer to work out your budget online. See our website at www.businessdebtline.org which has a business and household budget sheet you can work out online to see the best way to deal with your debts.

Working out your business

If your circumstances change, you should update your business and household budget sheet with the new information.

If you have problems working out your business budget, contact us for advice.
Working out your business outgoings

Working out this part of your business budget will help you identify all of the costs of running your business. At this stage, don’t include any debts, arrears or credit payments.

What if I am not sure how much to include?
In this section, we give you hints and tips on:

• how to work out the right amount to put in your business budget for your regular bills and payments;
• how to work out the right amount to put in your business budget for any variable costs you might have;
• how you might be able to reduce some regular bills and payments.

Will my creditors think my business outgoings are reasonable?

Many of the figures in the outgoings section of your business budget will be based on your regular bills or direct debits and standing orders from your bank account. You might not have much control over some of these amounts. Your creditors know that this is the case and it is important that the amounts you put in your business budget are based on your true spending.

• Be careful and be realistic. Do not include figures that are less than you are really spending. If your figures on your business budget are too low, this will mean that any payment arrangement that you agree with your creditors will be higher than necessary and you will find it hard to keep to it.
• Be sensible about your spending. If your creditors do not think that the amounts are reasonable, this will mean they are less likely to agree to reduced payment offers. If you are not sure, contact us for advice.
• Give reasons if your spending is high. Your business outgoings may be very different to another business, even if that business offers the same service or trade. Make sure you include everything you are spending. If you think that any of your business outgoings might be high, it is important that you tell your creditors the reason why your spending is higher in this area.

It’s your budget” on page 28.

You can write this information in the extra information section of your business and household budget sheet or put this information in the letter that you send to creditors with your budget.

Types of business outgoings

Fixed costs
Fixed costs are those that are the same amount each month, for example, business rent and business rates.

Business rent
If you pay business rent every three months, divide the amount by three to work out how much the rent costs each month. You may find it easier to budget by paying the rent each month. You can ask your landlord or the agent about this. Otherwise, work out the monthly rent and put this amount aside every month so you can pay the bill every three months.

Business rates
These are fixed each year and are normally paid in ten monthly instalments. You can ask your council if you can pay over 12 months to help you budget.

Business water rates
These are also fixed each year. You can ask if you can pay each month instead of once a year. If you have a water meter, bills are normally sent out every three months. Add up the last four bills and divide the answer by 12 to work out the cost each month.

Business loans
Your loan repayments are usually fixed. However, if you are borrowing on a variable interest rate, your repayments may change if the bank’s interest rate changes. If the loan is not with the same bank where you have your business bank account, and is not secured on your property, it may be best to treat it as a credit debt.

Debts with your bank - overdrafts, loans and credit cards” on page 56.

Variable costs
Variable costs change depending on how much trade you have done. They may include stock and employees’ wages. Do not include your own living costs or your drawings (money you take from the business here). These are included in the household budget. If you work from home, you may want to include a proportion of your household costs (for example, heating and lighting costs). Contact us for advice.

Use your receipts, books and statements to work out how much you have spent on variable costs over the same number of months you used to work out your average income. Divide the total variable costs by this number of months to work out the average cost each month.

Business gas, electricity and phone bills
Business gas, electricity and phone bills are normally sent out every three months. Add up the last four bills and divide the total by 12 to work out the cost each month. You may find it easier to budget by paying your bills every month.

If you work from home, you may want to include a proportion of your household gas, electricity and phone bills in your business budget outgoings. Contact us for advice.

Travel costs
If you have a vehicle that you use for business only, you can put all the costs in this part of your budget (for example, road tax, insurance, repairs, services and fuel). If you use your vehicle for personal or social journeys as well as for business, you will have to divide the costs between your business budget and your household budget to show how much you use for each. You should include fuel for journeys to and from your home and business under your household budget outgoings.

Work out your transport costs each month by adding up the yearly costs and dividing this by 12. Remember to put money aside for road tax, insurance, repairs, services and so on. You can then make sure that you are able to afford the ongoing costs of running a vehicle.

Step 1:
Pat has worked out that the total travel costs (£525.00) for the business and 30% of the time for personal use. Pat uses the car 70% of the time for the business and 30% of the time for personal household use.

Step 2:
Pat has worked out that the total travel costs including fuel, road tax, insurance, MOT and maintenance are £255.00 per month.

Step 3:
To work out travel costs for the business, Pat divided £255.00 by 100 and multiplied the answer by 70. This worked out as £179.50.

Step 4:
To work out travel costs for the household, Pat then takes away the answer worked out at step 3 (£179.50) from the total travel costs (£255.00). This worked out as £157.50.

Value added tax (VAT)
The rate of VAT depends on the types of goods or services you supply. The rates can change depending on decisions the Government makes. Our tax information sheet is included with this pack. You can use this to find out what the current rate of VAT is.

If your business does not have yearly sales that add up to the registration level shown on the tax information sheet, you do not need to be registered for VAT. If you are already registered for VAT and you want to be removed from the register, you will need to show that your turnover will be less than the deregistration level (shown on the tax information sheet) over the next 12 months. You could use your business budget to show this.

Use your VAT return for the last quarter to work out the average VAT you pay each month. Unless you do a lot more (or a lot less) business from one quarter to the next, this is usually a reasonably good guide.

If you need help understanding VAT, have problems working out your costs each month or have any other questions, contact us for advice.

Information: limited companies

If you are a sole trader or in a partnership, you are taxed on your profit before drawings, not how much (or how little) you draw from the business. This is different for limited companies. Contact us for advice.

Calculated: splitting costs between the business and the household

In the example below, Pat and Eva want to know how much of their travel costs are spent on the business and how much are spent on the household.

Step 1:
Pat uses the car 70% of the time for the business and 30% of the time for personal household use.

Step 2:
Pat has worked out that the total travel costs including fuel, road tax, insurance, MOT and maintenance are £255.00 per month.

Step 3:
To work out travel costs for the business, Pat divided £255.00 by 100 and multiplied the answer by 70. This worked out as £179.50.

Step 4:
To work out travel costs for the household, Pat then takes away the answer worked out at step 3 (£179.50) from the total travel costs (£255.00). This worked out as £157.50.

Drawings

When you take your business’s average earnings each month from its average income each month, this will tell you what your profit is before tax. To work out how much you can afford to take from the business each month, you should work out roughly how much tax you will have to pay. You should set aside this amount for when you get your next tax bill. You can also work out roughly how much National Insurance you will have to pay and set aside this amount too.

National Insurance” on page 40.

Many self-employed people have difficulties paying their income tax and National Insurance because they haven’t budgeted for it as a cost before they take money out of the business. If you do not account for income tax and National Insurance, this may give the false impression that you earn more from your business than you actually do.

Self-assessment – income tax

Under the self-assessment scheme, you have to keep proper financial records, fill in a tax return and make payments during the year (known as payments on
Calculation box: example of working out your available drawings

In the example below Pat has already worked out the business income and outgoings and has a figure for drawings. Pat then used the following steps to work out available drawings (the money the business can afford to pay as a wage).

Step 1: Work out your income tax and National Insurance.

Step 2: Take this amount away from the amount you worked out as your drawings.

Step 3: The amount you have left is your available drawings.

Before you work out whether this is enough to cover your household outgoings, you should see if there are ways to increase your income or reduce your business outgoings.

Ways of increasing your business income

• Take your business premises cheaper.
• Ask your landlord to lower the rent.

Ways of reducing your business outgoings

• Look at your business costs to see if there are ways to cut them.
• Consider whether your business rates are the best deal.

If you fill in the business and household budget sheet online, your monthly income tax and National Insurance will be worked out for you.

Are you business outgoings more than your business income?

If your outgoings are more than your income, you should look to see if you can increase your income or reduce your outgoings.

Ways of increasing your business income

• Take your business premises cheaper.
• Ask your landlord to lower the rent.

Ways of reducing your business outgoings

• Look at your business costs to see if there are ways to cut them.
• Consider whether your business rates are the best deal.

Are your business outgoings more than your income budget?

If you are unsure, contact us for advice.

Business bank accounts

It is important to set up a business bank account when you are self-employed. This will help you to keep your business income and outgoings separate from your personal income and outgoings. Set up a bank account with a bank that you don’t have any existing debt with. This will strengthen your position if you have difficulty paying your existing bank debts in the future.

By keeping things separate, it will help you to keep records that your accountant will need to fill in tax returns each year.

A second business account can help you set aside money each month for your income tax, National Insurance and VAT bills. You could also put money in this account based on the results of the cashflow forecast. This makes sure that if your business income goes down, you still have enough to pay your bills and any debts.

If you have difficulty setting up a business bank account, contact us for advice.

Reducing your business outgoings

You can look at your fixed and variable costs to see if anything could be reduced. This could help to increase the amount the business can afford to pay you (your drawings).

Fixed costs

Although these costs are usually the same each month, there are still ways of reducing them or managing them more easily.

Business rent

You can try to negotiate better terms with your landlord on your business rent, especially if the property is likely to be difficult to rent out to someone else. If your landlord will not reduce the rent, you could think about whether to end the lease or pass the lease on to someone else and look for cheaper premises.

It may be that you don’t need business premises to trade. You could think about whether you could trade from home as this would save you money on business rent, business rates and utility bills.

Other costs

Check to see if you are paying too much for your accountant’s fees. Ask other businesses in the area for recommendations and compare prices to see what would work best for your business.

If you pay for advertising, consider the added business this brings in. In your current way of advertising is not bringing in a lot of business, consider changing the way, and how often, you advertise.

Business rates

You may qualify for a reduction on your business rates bill depending on where your business is and what type of business you are. The rules can be complicated and you would need to contact your local council to find out what you are entitled to. Contact us for advice.

Variable costs

The variable costs you have will depend on what type of business you have, and how much trade you have done. This may include things such as the cost of buying stock and materials, and travel costs.

Business gas, electricity and phone bills

You may be able to shop around for better deals on these types of bills. Check to see if you are tied into a contract as there could be penalties if you try to leave a contract early. If you are not tied in, you can compare the prices of several suppliers. There are independent price-comparison websites that can help you find the best deal. Always check the terms and conditions to see what would work best for your business.

You can also ask other suppliers, such as those supplying you with goods, for better prices. Or you could consider using cheaper suppliers. Ask for recommendations if you are considering changing your supplier.

Next steps...

You are now at the end of your business budget. Don’t worry if your budget is only rough at this point. If you need any extra help, contact us for advice.

You now need to go to the next stage of step 2 ‘Filling in your household budget’. You can use your drawings (the money you can take from your business) to start your household budget. Use the checklist at the start of the next section to check what you need to think about when doing a household budget.

Doing the household budget will help you decide what your options are for dealing with your debts.

Turn to page 24 to begin.
The next stage is to finish your business and household budget by working out your household budget.

A household budget is an essential tool to help you tackle debt problems. Use this section to guide you through filling in your household budget. It is important that you do your business budget first to work out what money you have coming into your household from your business.

**Step 2 Working out your business and household budget**

Once you have finished your household budget, you can then see how much money you have left over. This will help you work out the best way to deal with your debts.

### Checklist

Use this simple checklist to make sure you take the right steps to work out your household budget.

- **Can you increase your household income?** Check to see if there are ways of increasing your household income.
- **Can you manage your money better?** You might be able to cut down on some of your household spending by budgeting better or shopping around for the best deal.
- **Help with managing your money and budgeting for your household**

### Working out your household budget

#### Working out your household budget

Working out a household budget is important because it helps you:

- see how much money is coming into your household;
- see how much money is going out;
- work out the best way to deal with your debts;
- work out affordable offers to creditors if you think this is the best way to deal with your debts; and
- plan your future spending.

If your circumstances change, you should update your business and household budget sheet with the new information. If you have problems working out your household budget, contact us for advice.

### Working out your household income

Add up the income for you and your household. Include the following.

- Your drawings from your business (or your wages after tax if you are the director of a limited company).
- Wages and salary after deductions (normal take-home pay) of your husband, wife or partner (not your business partner). Only include overtime if this is regular.
- Contributions from other people who live in your home, such as grown-ups, children and elderly relatives (known as non-dependants).
- Benefits and tax credits, including Child Benefit.
- Benefits and tax credits, including Child Benefit.
- Many of the figures in the outgoings section of your household budget will be based on your regular bills and standing orders from your bank account. You might not have much control over some of these amounts. Your creditors know that this is the case and it is important that the amounts you put in your household budget are based on your true spending.
- Be sensible about your spending. If your creditors do not think that the amounts are reasonable, this will mean that any payment arrangement you agree with your creditors will be higher than necessary and you will find it hard to keep to it.
- Be careful and be realistic. Do not include figures that are less than you are really spending. If your figures on your household budget are too low, this will mean that any payment arrangement you agree with your creditors will be higher than necessary and you will find it hard to keep to it.

#### Dealing with your priority debts

Once you have worked out your income and outgoings, it is time to look at how you are going to deal with your debts. Start with any priority debts you have as these are the ones you need to deal with first.

- **Dealing with your priority debts**

#### Decide on the best way to deal with your non-priority debts

Once you have worked out your income and outgoings and any payments that you need to make to priority creditors, you can decide on the best way to deal with your non-priority debts.

- **Dealing with your non-priority debts**

### Working out your household outgoings

Filing in this part of your household budget will help you work out how much money you need to spend on basic living expenses. At this stage, don’t include any debts, arrears or credit payments.

**What if I am not sure how much to include?**

In this section, we give you hints and tips on:

- how you might be able to reduce some regular bills and payments;
- how to work out the right amount to put in your household budget for your regular bills and payments; and
- how much is reasonable to spend on things like housekeeping and clothing.

### Will my creditors think my household budget sheet is reasonable?

Many of the figures in the outgoings section of your household budget will be based on your regular bills or direct debits and standing orders from your bank account. You might not have much control over some of these amounts. Your creditors know that this is the case and it is important that the amounts you put in your household budget are based on your true spending.

- Be sensible about your spending. If your creditors do not think that the amounts are reasonable, this will mean that any payment arrangement you agree with your creditors will be higher than necessary and you will find it hard to keep to it.
- Be careful and be realistic. Do not include figures that are less than you are really spending. If your figures on your household budget are too low, this will mean that any payment arrangement you agree with your creditors will be higher than necessary and you will find it hard to keep to it.

### Extra information

- You can write this information in the extra information section of your business and household budget sheet or put this information in the letter that you send to creditors with your budget.
Household outgoings

Mortgage
Include your full mortgage payments here. Write any Support for Mortgage Interest payments in the household income section of your household budget. Don’t write your mortgage arrears in the household outgoings section. There is space to include any mortgage arrears later on.

Rent
Include your full rent payments here. Write any Housing Benefit you get as income in the household income section of your household budget. Don’t write your rent arrears in the household outgoings section. There is space to include any rent arrears payments later on.

Pension
Only include what you actually pay into a private pension yourself. If you are also employed, do not include any payments that have already been taken out of your wages by your employer.

Council tax
Check whether you can claim Council Tax Reduction. You normally pay council tax in 10 monthly instalments, but councils in England must allow you to pay over 12 months if you prefer. Some councils will accept payments every week or every two weeks. If you live alone, you will be entitled to 25% of any instalments. The amount you include in this section should be your full council tax. Include any Council Tax Reduction you get in the household income section of your household budget sheet. There is space to include any council tax arrears later on.

Water rates
Most water companies will accept payments every month, every three months or even every two weeks. Only include your ongoing water bills here. Include any water rates arrears with your other non-priority debts. You cannot be disconnected for household water debt, but it is important to keep up with your outstanding bills so the debt doesn’t get any bigger.

‘Help with your water bills’ on page 32.

Gas and electricity
If you are on a regular payment plan for your gas and electricity, include the amount you are paying every month in your household budget. If you are paying your bills quarterly (every three months), work out the total cost of your last four bills and divide this by 12 to find out the cost each month. Gas and electricity cost less if you pay monthly direct debit from a bank account.

If you are behind with any energy payments, only include your normal energy payments in the household outgoings section of your household budget. There is space later on to include details of any payments you are making towards any arrears.

‘Household gas and electricity’ on page 31.

TV licence
Allow £13 a month for a colour licence. If you don’t have a TV licence or you have fallen behind with your payments, you will need to come to an arrangement to pay because you can be fined for not having a licence.

‘Find the easiest way to pay your TV licence’ on page 31.

Magistrates’ court fines
These are priority payments and you should include them in the household outgoings section of your household budget. If you are behind with magistrates’ court fines, contact us for advice. These are different from county court judgments, which you should include with non-priority debts.

‘Magistrates’ court fines’ on page 47.

Maintenance or child support
This means maintenance which you or your partner pays to someone else, not maintenance you or your partner receive. Include voluntary payments and any payments ordered by the court, the Child Support Agency (CSA) or the Child Maintenance Service (CMS).

‘Child maintenance’ on page 48.

Hire-purchase or conditional sale goods and cars
In this section, include payments for any goods you have bought under hire-purchase or conditional-sale agreements. If you need a car for work or for mobility reasons (and you have bought the car using a hire-purchase or conditional-sale arrangement), you will need to include these payments in the household outgoings section of your household budget or you may lose the car. If you are behind with these payments or if you have a Mobility cap, contact us for advice.

‘Household hire-purchase or conditional sale’ on page 49.

Childcare costs
This might include childminder fees, nursery fees and the cost of after-school clubs. If you have extra costs because your child is ill or disabled, or if you receive Disability Living Allowance or a Personal Independence Payment because your child is disabled, contact us for advice about how to show these costs in your household budget.

Adult-care costs
Make sure you include any extra costs you have if you or your partner is ill or disabled. If you would like help with how to show these costs in your budget, contact us for advice.

Other household outgoings
If you have any other essential spending that is not listed on the budget sheet, put a short description in the space given. For example, if you belong to a church or other religious group, you may want to give a regular contribution to them.

Phone
This includes your home phone and any mobile phones you have. Only include your ongoing bill. Don’t pay more than you need to for your phone.

If you use your phone for your business as well, you will have to divide the cost between your business budget and your household budget to show how much you use for each.

‘Are you paying too much for your phone calls?’ on page 31 and ‘An example of splitting costs between the business and the household’ on page 21.

Travel
Include the costs of travelling to work, to school and for shopping. Include the costs of using public transport, buying travel season tickets and all the costs of running a car or motorbike, if you have one. If you have extra travel costs because of a disability or because you live in a rural area, use the extra information section of this business and household budget sheet to explain to your creditors what these are.

‘An example of splitting costs between the business and the household’ on page 21.

‘Household hire-purchase or conditional sale’ on page 49.

Weekly housekeeping budget

<table>
<thead>
<tr>
<th>Single person</th>
<th>Couple</th>
<th>Each child under 14</th>
<th>Each child 14 to 18</th>
<th>Each non-dependent adult</th>
</tr>
</thead>
<tbody>
<tr>
<td>£57 to £81</td>
<td>£102 to £131</td>
<td>Up to £21</td>
<td>Up to £38</td>
<td>Up to £53</td>
</tr>
</tbody>
</table>

Monthly housekeeping budget

<table>
<thead>
<tr>
<th>Single person</th>
<th>Couple</th>
<th>Each child under 14</th>
<th>Each child 14 to 18</th>
<th>Each non-dependent adult</th>
</tr>
</thead>
<tbody>
<tr>
<td>£249 to £340</td>
<td>£443 to £569</td>
<td>£93 to £164</td>
<td>£164 to £229</td>
<td></td>
</tr>
</tbody>
</table>
Other household outgoings

Other household outgoings are made up of a mixture of things that need to be budgeted for. This type of spending will vary from household to household but might include holidays, children’s pocket money, house repairs, and cable, satellite and internet services. Here is some guidance on some of the other household outgoings you might have.

Health costs
Don’t forget the cost of prescription charges, dental treatment, glasses and sight tests for the whole household. Check to see if you can get help with these expenses.

‘Help with health costs’ on page 14.

Repairs and house maintenance
Don’t forget routine house repairs, repairs to washing machines, maintenance contracts and so on.

School meals and meals at work
Remember, you will save money if you take a packed lunch to school or work. Check to see if you can claim Income Support, Income-based Jobseeker’s Allowance or income-related Employment and Support Allowance. If so, you can claim free school meals for your children. You can also claim free school meals if you receive Child Tax Credit, work less than 16 hours a week and your income is below a set amount. If you get Pension Credit (Guarantee Credit), you can claim free school meals. If you get Universal Credit, you can claim free school meals in England. Contact us for advice.

Hobbies and leisure
This might include the costs of going to clubs and pubs, going on outings, and the costs of sports and gym membership. Be careful about how much you are spending on these things. If you need to cut back, these are areas that you might look at.

Gifts
Don’t forget the costs of Christmas and birthday presents. Others
If you have other spending that is not listed here, or anywhere else on the budget sheet, write a short description in the space given. Do not include any payments towards your debts.

How much do I have left to pay my creditors?
The business and household budget sheet has sections for you to work out payments to both your priority creditors and your non-priority creditors. The amount in the money available for all creditors box is the total you have available to pay all your creditors.

The next step is to work out how much of this money you need to offer to your priority creditors. They have stronger powers to get their money back, so you must deal with them before you work out what to do about your non-priority creditors.

Working out what to pay towards your priority debts

• ‘Dealing with your priority debts’ on pages 35 to 49 for detailed advice on which debts you should treat as a priority.

Once you have worked out what to pay your priority creditors, you will need to contact them to make an arrangement.

• ‘Dealing with your priority debts’ on pages 35 to 49 for advice on how to negotiate with your priority creditors.

The next step is to include the agreed priority debt repayments on your business and household budget sheet under your priority debts. You can then add up all your priority debt repayments and put the total in the total priority debt repayments box.

Decide on the best way to deal with your non-priority debts

Now you have worked out your income and outgoings and any payments that you need to make to your priority creditors, you need to look at all your options for dealing with your non-priority debts.

• ‘Dealing with your non-priority debts’ on pages 51 to 61.

If you decide the best option for you is to try to come to a payment arrangement with your creditors yourself, the next section explains how to work out your offers of payment.

Working out offers of payment to non-priority creditors

Once you have worked out how much you can afford to pay off your priority debts, see what money you have left over for your non-priority debts. If you need help to work out offers of payment, contact us for advice.

You can work out what you have left for non-priority creditors by taking away your priority debt repayments from the total money available for all creditors.

• Write this figure in the money available for non-priority creditors box.

This is how much you have left to share between your non-priority creditors.

If you have some money left after taking away your total priority debt repayments from the money available for all creditors, the next step is to divide up your money between your non-priority creditors.

The best way to do this is called ‘pro-rata distribution’. This is how the court would do it and means all your creditors get a fair share of the money you have available.

In the calculation box opposite we show you how to work out pro-rata payments. Use a calculator to work out your payments. You should round the final figure up or down to the nearest £1. Check the example on page 30 to see how a typical list of pro-rata payment offers might look.

• Contact all your non-priority creditors to find out exactly how much you owe each one.

• List each of the debts under your non-priority debts and how much you owe each of them under total you owe.

• Add up all the individual debts to find out how much you owe in total.

• Write the total in the total owed to non-priority creditors box.

• Work out the monthly offer of repayment for each creditor by using the formula shown in the calculation box.

• ‘Example budget sheet calculation’ on page 30.
Find the easiest way to pay your TV licence

Paying for your TV licence is a priority. This is because you can be fined in the magistrates’ court for not having a licence. If you don’t pay the fine set by the magistrates’ court, this can lead to bailiffs calling, or you could even go to prison.

‘Magistrates’ court fines’ on page 47.

As well as having the fine to deal with, you will still need a TV licence.

You will get 50% off your TV licence if you are registered blind. The licence fee is free if you are over 75. There are different ways of paying for a TV licence. Work out which one will suit you best.

• You can use the TV Licensing savings card if you have at least three months left on your current TV Licence before it expires and want to save towards your next licence. You can pay in small, manageable amounts, online, by text or at PayPoint outlets in shops. To apply for a TV Licensing savings card, call 0300 555 0281.

• You can pay for your TV licence by instalments either every three months or every month by direct debit from your bank account. Contact TV Licensing on 0300 790 6071.

• There is a payment scheme called the ‘TV Licensing payment card’ which allows you to make payments towards your licence every week or month. You can also pay fortnightly once you have paid for your first licence. You can only use the scheme for colour licences. You can pay either, online, by text or at PayPoint outlets in shops. Contact the helpline on 0300 555 0286 or see the TV Licensing website at www.tvlicensing.co.uk.

Help with managing your money and budgeting for your household

This section gives some useful hints and tips to help you make the right decisions.

Planning ahead

When money is tight, it is very hard to stick to repaying debts when an important bill needs paying or the car or house needs an urgent repair. You can spread out these payments and make budgeting much less stressful if you regularly put a bit of money aside to pay for expenses such as these.

Christmas, birthdays and holidays also put a big strain on your household budget. Think about opening a savings account or joining a credit union. If you join a credit union and start saving with them, you will also be able to apply to borrow money once you have proved you are a reliable saver. The Money Advice Service website has information about credit unions.

‘Useful contacts’ on page 62.

Help with gas and electricity bills

It is very important to budget for gas and electricity bills. Your energy company should offer you different payment options and budgeting schemes to suit you. You can ask to pay your bills weekly, every two weeks or every month.

‘Household gas and electricity’ on page 46 for more information on payment options and what to do if you are behind with your energy payments.

Help with high bills

If your heating bills are very high, contact the Energy Advice Service on 0300 123 1234 (Wales 0800 512 012 option 3) or visit the Energy Saving Trust website at www.energysavingtrust.org.uk. The Energy Saving Advice Service can give you information on grants and payment schemes that may be able to help with energy costs, and how to save money on heating bills. You can also contact the Home Heat Helpline on 0800 336 999 or see www.homeheathelpline.org. The Home Heat Helpline can give you information on grants, benefits and payment schemes that may be able to help with energy costs, and how to save money on heating bills. In Wales, you can contact Nest on 0800 808 2224 or see www.nestwales.org.uk. Nest offers free home improvements to help people heat their homes more efficiently and will also do a benefit check.

Getting the best energy deal

You might be able to save some money by switching to another supplier. This may work out cheaper, particularly if you have both gas and electricity from the same supplier. If you owe money to your energy supplier, you may not be accepted by a new supplier but you should be allowed to switch if you have a prepayment meter or owe less than £500. There are a number of independent price-comparison websites that can help you find the best deal. Contact the Citizens Advice consumer service for a list of authorised companies.

Help from gas and electricity companies

Some energy companies have set up trust funds that may be able to help you pay your energy bills if you are in financial difficulties. Ask your energy company if they run a scheme or contact us for details. You can also download a guide to utility trusts and services from the Auriga Services Ltd website at www.aurigaservices.co.uk. Select the ‘Schemes to help water and energy customers’ link.

Help from gas and electricity companies

You may be able to get a grant or loan to help with insulation, draught proofing, central heating and other energy-saving measures.

‘Help with gas, electricity and water costs’ on page 15.

Are you paying too much for your phone calls?

Check your phone contract is the best you can find. You may be able to make big savings if you switch phone companies. Another way to cut costs is to use an ‘overseas provider’. You won’t have to change your phone line. By simply dialing a number before the phone number you are calling, you could cut the cost of daytime calls and calls to mobiles.

Even if you don’t want to change your phone company, there are other ways to cut down on your phone bills.

• Pay by direct debit.

• Use the internet. If you have access to the internet, you may be able to talk for free using software such as Skype.

Extra advice: think about opening a budgeting account

Sometimes it is easier to cope with paying bills if you open a separate bank account. You can pay regular amounts into this account to help you plan ahead and keep up with your regular bills. Setting up direct debits or standing orders will mean that regular payments you have to make can be automatically taken out of your account.

Extra advice: complaining about your energy supplier

You can complain to Ombudsman Services: Energy about a billing or transfer problem.

‘Useful contacts’ on page 62.

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If your heating bills are very high, contact the Energy Advice Service on 0300 123 1234 (Wales 0800 512 012 option 3) or visit the Energy Saving Trust website at www.energysavingtrust.org.uk. The Energy Saving Advice Service can give you information on grants and payment schemes that may be able to help with energy costs, and how to save money on heating bills. You can also contact the Home Heat Helpline on 0800 336 999 or see www.homeheathelpline.org. The Home Heat Helpline can give you information on grants, benefits and payment schemes that may be able to help with energy costs, and how to save money on heating bills. In Wales, you can contact Nest on 0800 808 2224 or see www.nestwales.org.uk. Nest offers free home improvements to help people heat their homes more efficiently and will also do a benefit check.

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Even if you don’t want to change your phone company, there are other ways to cut down on your phone bills.

• Pay by direct debit.

• Use the internet. If you have access to the internet, you may be able to talk for free using software such as Skype.
• Check your contract. Are there extras such as voicemail that you don’t really need? If you have an expensive package that allows you to make unlimited calls at any time, do you really need it?
• See if your phone company has a social tariff. This may be helpful if you are on certain benefits and only use your phone occasionally.
• See if you can switch to paperless billing. If you agree to get your bills online, you could save some money.

An outstanding bill
If you have a bill that you cannot afford to pay and you want to keep the phone line, ask your phone company if you can pay by instalments. Your phone company may be more likely to agree if you set up a monthly payment plan, perhaps by direct debit. They may also agree to let you have only incoming calls for a short time to help reduce your bills. When you have cleared your debt with the phone company, you may be able to go back to your normal phone package.

Extra advice: disconnected phone?
If you have been disconnected, treat the bill as a non-priority debt.

‘Dealing with your non-priority debts’ on page 52.

Help with your water bills
You may be able to reduce your water bill or get help paying water debts in the following ways.
• Most water companies have trust funds or assisted payment schemes and may be able to help you pay your water bills if you are in difficulty.
• Water meters only charge you for the water you actually use and this could make your bills cheaper. Ask your water company for advice or use the water-meter calculator at www.ccwater.org.uk.

You’ve worked out your business and household income and outgoings (see previous section). Now you need to work out which are the most important debts – the ones you need to start paying off first. The rest of this section contains useful information about the following priority debts, including guidance on what to do and how much to pay.

Business priority debts
• Business priority debts
• Business mortgage and rent arrears
• Business rates
• Business gas, electricity and water charges
• Income tax, VAT and National Insurance
• Hire purchase, conditional sale and equipment leases
• Major suppliers
• Some business overdrafts and loans
• Accountant fees

Household priority debts
• Household mortgage and rent
• Council tax
• Household gas and electricity
• TV licence
• Magistrates’ court fines
• Parking penalty charges
• Child maintenance
• Tax-credit and benefit overpayments
• Hire purchase or conditional sale

You are now at the end of step 2. Doing a budget will really help you deal with your debts, so we hope you found this section easy to follow. Don’t worry if your budget is only rough at this point. If you need any extra help, contact us for advice.

Don’t forget to update your budget after following the advice in steps 3 and 4.

You now need to go to step 3 ‘Dealing with your priority debts’. Use the list at the start of this section to check whether you have any priority debts. If you don’t have any priority debts, you can skip step 3 and move straight to step 4 ‘Dealing with your non-priority debts’.

If you do have priority debts, this section will explain the powers your creditors have to make you pay. It also gives you advice on how to deal with your debts.

Remember: if you need extra help
You can always contact us for help, information and advice. Call us on 0800 197 6026 or see www.businessdebtline.org.

See our fact sheet: Water-rates arrears and water trust funds.

You can also get help through the free Water Services Ombudsman – call 0800 027 8430 or visit www.waterombudsman.co.uk.

Step 3
Dealing with your priority debts
Use this simple checklist to make sure you take the right steps to deal with your priority debts.

Some debts are more important than others. These are called priority debts. It is important to use the money you have for your creditors to make agreements to settle these debts first. If you are not sure about how much to offer, contact us for advice.

**What are priority debts?** on page 35.

**Has the creditor taken further action?**
Even if a creditor has said they will take further action, such as disconnecting your energy supply or repossessing your home, it is usually not too late to come to an arrangement and stop the action. Contact us for advice.

**Can you increase your income?**
You may be entitled to benefits, tax credits or Universal Credit that you are not claiming, or there may be other ways of increasing your income.

**‘Benefits, tax credits and Universal Credit’ on page 12, ‘Ways of increasing your business income’ on page 11 and ‘Ways of increasing your household income’ on page 15.**

**Have you been treated unfairly?**
If you think you have been treated unfairly, you may have reason to complain. You may be able to complain to an ombudsman service, depending on what type of debt you are complaining about. You will usually have to complain to the creditor first. If you want more advice about who you can complain to, contact us for advice.

**‘Benefits, tax credits and Universal Credit’ on page 12, ‘Ways of increasing your business income’ on page 11 and ‘Ways of increasing your household income’ on page 15.**

**What are priority debts?**
Some debts are more important than others. The law gives different creditors different ways of getting their money back. If you don’t act quickly, some creditors could:
- Take away your business premises or your home (repossession or eviction);
- Cut off your gas or electricity (disconnection);
- Send bailiffs to take belongings from your business premises or your home; or
- Ask the magistrates’ court to send you to prison.

It is important to use the money you have for your creditors to make agreements to settle these debts first. If you are not sure about how much to offer, contact us for advice.

**‘How much do I have left to pay my creditors?’ on page 28.**

**Checklist ✓**

Get some free, independent money advice
If you are reading this and haven’t yet spoken to a money adviser, contact us or your local advice centre for advice about all your options.

**‘Useful contacts’ on page 62.**

Explain your situation to your creditors
Even if you haven’t decided how to deal with your priority debts, it’s a good idea to explain to your creditors that you are struggling. Tell them you are taking advice and doing a budget. This may buy you some breathing space. Use the Hold action on your account sample letter included with this pack.

**‘Working out your business budget’ on page 19 and ‘Working out your household budget’ on page 25.**

Pay as much as you can
It is important that you pay as much as possible towards your priority debts. You will usually need to pay enough to cover your ongoing payments and offer a regular payment to reduce the arrears.

**‘Working out your business budget’ on page 19 and ‘Working out your household budget’ on page 25.**

**The chart below tells you what might happen if you delay sorting out different priority business debts.**

<table>
<thead>
<tr>
<th>Priority business debt</th>
<th>See this page for details</th>
<th>Possible action against you</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business mortgage</td>
<td>page 37</td>
<td>Repossess your business premises.</td>
</tr>
<tr>
<td>Second business mortgage or secured business overdrafts and loans</td>
<td>page 42</td>
<td>Repossess your business premises (or repossess your home if the debt is secured on your home).</td>
</tr>
<tr>
<td>Business rent or lease arrears</td>
<td>page 37</td>
<td>Evict you from your business premises. Use bailiffs. You may also still have to pay the arrears, which could result in court action for a money judgment.</td>
</tr>
<tr>
<td>Business rates</td>
<td>page 37</td>
<td>Use bailiffs, bankruptcy or apply to the magistrates’ court to send you to prison.</td>
</tr>
<tr>
<td>Gas or electricity and water supplies to business premises</td>
<td>page 38 to 39</td>
<td>Cut off your supply.</td>
</tr>
<tr>
<td>Income tax, National Insurance and VAT arrears</td>
<td>page 39</td>
<td>Use bailiffs or bankruptcy.</td>
</tr>
<tr>
<td>Hire purchase, conditional sale or equipment leases (for your business)</td>
<td>page 41</td>
<td>Repossess the goods or apply for a court order to make you hand them back.</td>
</tr>
<tr>
<td>Major suppliers</td>
<td>page 42</td>
<td>Loss of supplies which could make your business fail.</td>
</tr>
<tr>
<td>Some business overdrafts and loans</td>
<td>page 42</td>
<td>You may need to maintain your bank account in order to carry on trading. This will depend on the needs of your business.</td>
</tr>
<tr>
<td>Accountants</td>
<td>page 43</td>
<td>They could take a ‘lien’ (where they keep your books). This means, for example, you cannot access your figures for tax returns.</td>
</tr>
</tbody>
</table>
**Business and household priority debts**

You may have more than one priority debt. Some of these may be business debts, for example, rent arrears for your business premises. Some may be household debts, for example, council tax arrears. It is important to deal with all your priority debts. The first part of this step tells you how to deal with any priority business debts you have. The second part of this step tells you how to deal with any priority household debts you have.

The chart below tells you what might happen if you delay sorting out different priority household debts.

<table>
<thead>
<tr>
<th>Priority household debt</th>
<th>See this page for details</th>
<th>Possible action against you</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household mortgage</td>
<td>page 44</td>
<td>Repossess your home.</td>
</tr>
<tr>
<td>Second household mortgage or secured overdrafts and loans</td>
<td>page 44</td>
<td>Repossess your home (or repossess your home if the debt is secured on your home).</td>
</tr>
<tr>
<td>Household rent</td>
<td>page 44</td>
<td>Evict you from your home. Use of bailiffs. You may also still have to pay arrears, which could result in court action for a money judgment.</td>
</tr>
<tr>
<td>Council tax</td>
<td>page 45</td>
<td>Use bailiffs, deductions from your wages (if you are employed), deductions from some benefits, or you could be sent to prison.</td>
</tr>
<tr>
<td>Gas or electricity to your home</td>
<td>page 46</td>
<td>Cut off your supply.</td>
</tr>
<tr>
<td>Magistrates’ court fines</td>
<td>page 47</td>
<td>Use bailiffs, deductions from your wages (if you are employed), deductions from some benefits, a clamping order, enforcement through the County Court or the High Court, or you could be sent to prison.</td>
</tr>
<tr>
<td>Child maintenance</td>
<td>page 48</td>
<td>This will depend on whether you pay maintenance through the court, through the Child Support Agency (CSA) or the Child Maintenance Service (CMS). In some cases, you could have your driving licence taken away, or if you deliberately refuse to pay, you could be sent to prison.</td>
</tr>
<tr>
<td>Benefit overpayments</td>
<td>page 48</td>
<td>Deductions from most types of benefits, Universal Credit and, in some cases, deductions from your wages (if you are employed) and court action.</td>
</tr>
<tr>
<td>Tax-credit overpayments</td>
<td>page 49</td>
<td>Deductions from your ongoing tax credits, Universal Credit, or through your tax payments, or court action.</td>
</tr>
<tr>
<td>Hire purchase or conditional sale (for household items)</td>
<td>page 49</td>
<td>Repossess the goods or a court order to make you hand them back.</td>
</tr>
<tr>
<td>TV licence</td>
<td>page 47</td>
<td>Use bailiffs, deductions from your wages, deductions from some benefits, a clamping order, enforcement through the County Court or the High Court, or you could be sent to prison.</td>
</tr>
</tbody>
</table>

**Business mortgage debts**

**Business mortgage**

A lender has powers if you take out a mortgage for your home or for business purposes such as shop or office premises or a buy-to-let property.

Your mortgage lender may be more demanding if you took the mortgage out for business purposes.

The Law of Property Act 1925 (LPA 1925) applies to most business mortgages (for example, buy-to-let or commercial mortgages).

The Law of Property Act gives your mortgage lender the right to repossess the property or land without a court order. To do this your mortgage lender will need to appoint receivers (known as LPA receivers).

Your mortgage lender can appoint LPA receivers if you fail behind with your mortgage payments. The receivers’ job is to recover the money you owe to the lender. They can do this by collecting the rent direct from the tenant (if this applies), selling the property or both.

**Warning:** getting your property back from the receivers

Even if you clear the debt in full, the receivers do not have to hand the property back to you. They can still put it up for sale. If you feel that the receivers are acting inappropriately, you may need to get legal advice to help you make a complaint. **Contact us for advice.**

**Business rent**

If you do not keep up your rent payments, your landlord can send a bailiff to your business premises to remove your stock and equipment without a court order.

It is important to let your landlord know if you are in difficulties and to come to an arrangement to pay off any arrears. If you cannot make payments, your landlord could also change the locks on your business premises to stop you gaining entry. In some cases, the landlord may have to apply for a court order to evict you.

**Information:** changing locks and removing goods

Your landlord cannot change the locks on your business premises and remove goods at the same time. If your landlord has done this, they must give you the chance to come back to your business premises and take your goods. **Contact us for advice.**

Any action your landlord takes will depend on your relationship with them and the length of any lease you may have. It is important to negotiate with your landlord as soon as you realise you are in financial difficulties. You can use your business and household budget sheet to help you do this.

If you stop trading, you may still have to pay rent on your business premises. Check the terms of your lease. You may also have to pay business rates until the term of the lease has ended. Your landlord can still take court action to recover any rent arrears you might owe, even if you have stopped trading.

If you need more information about negotiating with your landlord, **contact us for advice.**

**Business rates**

The amount of business rates (sometimes called non-domestic rates) you have to pay for your business premises is based on the rateable value, which is calculated during a valuation carried out by the district valuer.

**Can I reduce my bill?**

If you want to appeal against the rateable value, you should do this within six months of taking over the business premises.
It is a good idea to get professional advice from a specialist in this field if you are thinking about making an appeal. Phone your council’s valuation office for a list of reputable firms in your area and be very careful when dealing with firms who approach you first.

Warning: do not stop paying
You should not stop paying your business rates just because you feel that the valuation is wrong. You have to keep paying the set rate until the valuation is changed.

Further action against you by the council
Once the council have got a liability order, there are a number of ways they can make you pay. This includes sending bailiffs to your business premises or home. Even if they have a liability order, it is not too late to try to make an arrangement to pay. Contact the council as soon as possible if you have not paid or agreed a payment arrangement with them.

Other types of action the council may consider include bankruptcy. They may even apply to the magistrates’ court for an order that you be sent to prison. The court can only do this if you have refused to pay, or neglected to pay, even though you had the money to do so. If you are concerned about this type of action, contact us for advice.

See our fact sheet: Business rates.

Complaining
You may be able to complain to the Local Government Ombudsman if the council have not behaved properly or if they have not followed the proper procedure. You will need to complain to your local council first.

See ‘Useful contacts’ on page 62.

Business gas and electricity
Gas and electricity companies can cut off your supply in a few weeks if you don’t pay them, but they should only do this as a last resort. You must give them notice first.

How do I make a payment arrangement?
The energy supplier will usually want you to pay their bill before the next bill is due. You can ask to pay your bills every week, every two weeks or every month. If you have arrears, phone or write to the supplier and ask for a payment arrangement.

Use your business and household budget sheet to support your offer of payment. This must cover the cost of the energy you are using and an amount to reduce the arrears. Even if the supplier does not agree to your offer, start paying what you have offered immediately. Do not offer to pay more than you can afford towards the arrears.

Ask if the supplier has a special department that deals with arrears and payment arrangements. If the first person you speak to is unhelpful, ask to speak to someone more senior.

By law, your supplier must give you 14 days’ notice before they disconnect you. The Extra Help Unit may be able to help you if you are threatened with disconnection. You cannot speak to them direct, you must speak to Citizens Advice consumer service first.

See ‘Useful contacts’ on page 62.

Extra advice: What if I live at my business premises?
Your energy supplier may have to offer you a prepayment meter before disconnecting you if you live at your business premises. This depends on what type of contract you have with your energy supplier. You may pay more for your energy if you have a meter fitted but, once you have one, your supplier cannot disconnect you. Contact us for advice.

Complaints
If you complain to your energy supplier and you are not happy with their response, you can complain to the Ombudsman Services: Energy. They are an independent organisation that will investigate your complaint and make recommendations about how it should be sorted out.

See ‘Useful contacts’ on page 62.

Business water rates
Your water company can, as a last resort, cut off your supply to your business premises if you do not pay your bills. However, if you are in financial difficulty, ask to pay your bills weekly, fortnightly or monthly to suit your budgeting.

If you have arrears, you will normally be expected to pay them before your supplier sends your next bill. Use your business and household budget sheet to make arrangements to pay the arrears.

For mixed-use premises (where you use part of the premises for business use and part for household use) remember to say which bill the payment is for, and be careful not to get payment codes for different years mixed up. You should not be cut off if you have only one supply for mixed-use premises.

Extra advice: Income tax, VAT and National Insurance
You must contact HMRC as soon as possible to arrange time to pay income tax arrears.

Make an offer to pay off the debt at a rate you can afford, and use your business and household budget sheet to support your offer. Even if your offer is refused, start paying what you can afford, no matter how small the amount.

If you think your offer has been unfairly rejected, ask HMRC to review it under their complaints procedure.
Important: tax returns
HMRC will not accept an offer to pay arrears unless your returns are up to date. If you are having trouble putting in your tax return, for example, because you have lost your figures or your accountant is holding on to your books because you have not paid his bill, contact us for advice.

‘Accountants’ on page 43.

### ‘Dealing with your priority debts’ on page 50 to 61

#### Keeping the goods
If it is important to you to keep the goods, you may want to treat this as a priority debt. If you do this, be prepared to explain to your creditors why you need the goods (for example, you need the car for your business or you live in a rural area with very limited transport).

#### ‘Working out your household outgoings’ on page 25.
If your lender will not agree to this, you may be able to apply to the County Court for a ‘time order’. If this is granted, you may be able to keep your goods and make smaller reduced payments to your lender. Contact us for advice.

#### Business hire purchase or conditional sale
You can buy goods on different types of credit agreements. With most credit, you own the goods straight away and are only repaying the money to the creditor. The creditor cannot ask you to return goods you bought with most types of credit. However, with hire-purchase and conditional-sale agreements, you do not own the goods until you have paid the last instalment. The most common type of goods bought on hire-purchase agreements are cars.

Can my lender take back the goods?
If you fall behind with your payments, the lender may be able to ask you to return the goods and then sell them to reduce the debt. You cannot sell the goods yourself without the lender’s permission.

Have you paid less than a third of the debt?
If you fall behind with payments, the lender may be able to repossess the goods. They do not usually need to go to court first if you have paid less than a third of the debt. However, they may have to go to court if you keep the goods inside your home or business. You may be able to return the goods.

### ‘Dealing with your non-priority debts’ on page 50 to 61

#### Bankruptcy
If your tax return is late, HMRC will decide (determine) how much you owe them. If your debt has been worked out in this way, you must send in your tax return as soon as possible. You should do this even if you think you may be too late. This may mean that the debt is reduced and will also stop you being charged penalties for not sending in your tax return. You will be charged interest on any tax you are late paying.

HMRC can use a number of enforcement methods to recover an unpaid tax debt. These include the following.

#### Debt collection agencies
- HMRC may pass your debt on to a debt collection agency. They are not bailiffs and have no rights to force entry to your business or home and take goods.
- Use your business and household budget sheet to make them an offer to pay by instalments based on what you can afford.

#### Bailiff action without a court order
- HMRC does not need a court order to visit your business premises to take away your stock and equipment, up to the value of the debt. This is known as taking control of goods.
- If there are not enough goods at your business premises to cover your debt, HMRC staff can go to your home and take goods from there (unless you trade as a limited company). If you refuse to let HMRC staff into your home or business, they could get a warrant to force entry, but this is rare. They are more likely to take you to the County Court for a money judgment or to start bankruptcy proceedings.

#### County Court action
- HMRC can apply to the County Court for a money judgment. If you do not make the payments the court has ordered, HMRC can take further action against you.
- This includes a charging order where any properties you own are used as security for the debt, taking money from your bank account and taking money from your wages if you are employed.

#### What if my creditors take court action?
See our fact sheet: Income tax debt.

#### VAT
- As with income tax, HMRC can take action to collect VAT arrears without a court order and can take away stock and equipment from your business premises. If there is not enough stock and equipment to cover the arrears they can visit your home address and take away goods (unless the debt is owed by a limited company).
- You will usually have to pay any VAT arrears in full before the next VAT return is due. Late payment penalties will be added to the bill from the time it becomes overdue.
- The VAT officer will usually look at your past record of VAT payments before deciding what payments to accept. So start paying what you can afford immediately, no matter how small the amount.
- If the arrears are based on an estimated assessment, you must send in an accurate return, which could reduce the bill. Even if you cannot pay, you may avoid a penalty for not making a VAT return.
- HMRC cannot recover the money you owe by taking away your goods, they will usually apply for a bankruptcy order. They can only do this if they owe you £750 or more. It is important to let HMRC know if you stop trading, and you should apply to deregister for VAT if your turnover is less than the deregistration limit shown on the tax information sheet included with this pack. It is then often easier to come to an arrangement to pay off your VAT arrears by instalments. Contact us for advice.

#### National Insurance
There are four classes of National Insurance contributions (NICs):
- Class 1 NICs are deducted from an employee’s wages and paid by the employer, along with income tax, under PAYE.
- Class 2 NICs are paid at a flat weekly rate by self-employed people (see our tax information sheet included with this pack for the current amount).
- Class 3 NICs are voluntary contributions paid to help people qualify for retirement pension and certain benefits.
- Class 4 NICs are paid by self-employed people on top of Class 2 NICs if earnings are above a certain threshold. See our tax information sheet included with this pack.

Class 1 and Class 4 NICs are collected by HMRC in the same way as income tax arrears. However, bailiff action can only take place at your business premises.

Class 2 NICs are collected by the National Insurance Contributions Office and, although they have the same powers as HMRC have for Class 1 and Class 4 NICs, their current policy seems to be to start proceedings through the County Court.

### Business hire purchase or conditional sale
You can buy goods on different types of credit agreements. With most credit, you own the goods straight away and are only repaying the money to the creditor. The creditor cannot ask you to return goods you bought with most types of credit. However, with hire-purchase and conditional-sale agreements, you do not own the goods until you have paid the last instalment. The most common type of goods bought on hire-purchase agreements are cars.

Have you paid less than a third of the debt?
If you fall behind with payments, the lender may be able to ask you to return the goods and then sell them to reduce the debt. You cannot sell the goods yourself without the lender’s permission.

#### Business equipment leases
As with hire purchase, equipment leases may be a priority or a non-priority debt. Most of your rights are set out in the terms and conditions of your agreement. They will help you consider whether to treat the lease as a priority or a non-priority debt.

Check your agreement very carefully to see whether you have the right to keep the equipment at the end of the lease. Some leases also state that you have to pay for the whole lease whether you keep the equipment or not. Check whether the debt will be reduced if you return the equipment.

Your agreement should also tell you what the lease company needs to do to get their equipment back if you do not pay.

If you do have the right to keep the equipment, or if the equipment is essential to your business running,
Dealing with your non-priority debts

Any arrears should be treated as a priority debt. Use your business and household budget sheet to make an offer of payment you can afford. If the equipment is not essential to running your business, you can treat it as a non-priority debt. Contact us for advice.

"Dealing with your non-priority debts" on pages 50 to 61.

Business overdrafts and loans

If your bank account regularly goes over any arranged business overdraft limit, interest and charges will be added to what you owe. You also run the risk of having the overdraft limit cancelled or not renewed when the agreement runs out. This can also happen if the bank suspects you are in financial difficulty, for example, if they see less money coming into the account than normal.

If you lose control of your business bank account, it can be very difficult to manage your business and household finances. Unpaid cheques, direct debits and standing orders will make your debts worse. The bank may use money you pay into your bank account to pay interest and bank charges rather than to cover the payments you need to make.

You may find it easier to convert your overdraft into a loan. However, remember that you will lose the flexibility of the overdraft because your bank will only usually let you run your bank account in credit from now on. You will also have to make a monthly repayment on the loan. Make sure you can afford this. Also, check that the interest rate on a loan is no higher than your overdraft rate. Use your business and household budget sheet to show the bank you can afford the repayment.

If you cannot meet your current loan repayments or are in danger of going over your overdraft limit, speak to your bank and try to come to an arrangement. For example, the bank may let you pay back what you owe over a longer period. If you are able to, it is generally easier to deal directly with your own branch than with a central debt-recovery unit. If you are able to reduce the balance to within the overdraft limit, this may reduce borrowing charges.

If the bank threatens to close your account or refer it to a debt-recovery unit, contact us for advice.

Secured or unsecured?

Bank overdrafts and loans may be secured or unsecured.

Secured

This is where the bank has security over some or all of your business assets. In some cases, they may also have security over personal assets such as a family home. A secured loan or overdraft must be treated as a priority debt. You do not have the same rights as someone with a personal debt, like mortgage arrears, if the lender threatens you with repossession.

All monies charge

This is a clause in one of your agreements that gives the bank security for all of the debts you have with that bank. It means that any borrowing with that bank in the past, now, and in the future will be secured.

All monies charges must be treated as a priority debt. You do not have the same rights as someone with a personal debt, like mortgage arrears, if the lender threatens you with repossession. Contact us for advice.

Unsecured

• Loans and overdrafts are unsecured if the lender does not have any security. However, depending on the circumstances, you may need to treat these as priority debts if you feel that you cannot get a banking service elsewhere and it is essential to keep your business running.

If the bank threatens to stop cheques and put restrictions on your account, contact us for advice.

Negotiating with your bank

If you are facing debt and cashflow problems, it is essential that you speak to your bank. If possible, make an appointment to see them. There are a number of options that you could think about putting to the bank. These will depend on your business plan.

Your local enterprise agency may be able to help you prepare a business plan – phone your local Chamber of Commerce for details of what’s available in your area.

Information: limited companies

If you are a director of a limited company, you may have signed a personal guarantee that may be supported by a security over your home. This must also be treated as a priority debt.

Information: accounts, like more information about business bank accounts,

You may need to treat your accountant’s bill as a priority if you need your books for things such as HMRC returns. This is because if you do not send HMRC returns off on time, HMRC can add penalties to what you owe. Contact your accountant and explain that you cannot pay. Explain that having your books back will help you put together a repayment plan, which should mean you can make a better payment offer to them. This is particularly important if you have to deal with income tax or VAT assessments, as sending these in may mean you get a refund.

You could take legal action to get your books back. However, it is important to get a solicitor’s opinion about this first. Contact us for advice about how to find a solicitor that may be able to help you.

Information: personal guarantee

If you are a director of a limited company, you may have signed a personal guarantee that may be supported by a security over your home. This must also be treated as a priority debt.

Information: always try to negotiate

Always try to come to an arrangement with your existing bank before moving your account. If you are in doubt or you would like more information about business bank accounts, contact us for advice.

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You could take legal action to get your books back. However, it is important to get a solicitor’s opinion about this first. Contact us for advice about how to find a solicitor that may be able to help you.
Dealing with mortgage arrears

Business Debtline has a detailed guide to ‘Dealing with mortgage arrears’. This covers the following areas.

- Coming to an arrangement with your lender
- What to do if you can’t afford your mortgage
- What if my home is worth less than the mortgage?
- Second mortgages or secured loans
- What if my mortgage lender takes me to court?

See our fact sheet: Homelessness.

Household rent

Rent arrears are very important because you could lose your home if you do not pay them. Your right to stay in your home depends on the type of tenancy you have. Each type gives different rights. So it’s important for you to find out what type of tenancy you have. If you are not sure, contact Shelter or your local citizens advice bureau.

See our fact sheet: Mortgages – help with your payments.

Dealing with mortgage arrears

Mortgage arrears are very important because you could lose your home if you do not pay them. They must be treated as a priority debt.

Check all your loan agreements to see if they are ‘unsecured’ or ‘secured’ on your home. If they are secured loans, lenders can repossess your home by taking steps to repossess your home if they can prove that you have not paid your mortgage. They can then sell your property to pay off your debt.

Has your lender taken you to court?

You cannot be evicted from your home without a court order. You will not be evicted on the day of the hearing. Before a lender can take court action to repossess your home, they should follow the steps set out in the pre-action protocol for mortgage possession claims. Lenders should consider all options before taking steps to repossession your home. Courts should take into account the pre-action protocol when deciding what order to make.

Who pays what?

Only people over 18 can be made to pay the bill. If there is more than one person over 18 living in your home, the owner will normally have to pay the bill if they live in the home. Joint tenants and owners may have to pay if their names are not on the bill, as long as the council sends them a ‘joint taxpayers notice’.

If you are either married, live with your partner, or live together in a same-sex civil partnership, both you and your partner will be responsible for paying the bill. Sometimes the owner of a house will be responsible for the bill even if they don’t live there, for example, if the house is unoccupied, or in ‘multiple occupation’ such as bedsits. If you are not sure who is responsible for the bill, contact us for advice.

Moving on

If you can’t pay your monthly instalments, don’t just stop paying! If you have made an offer to pay the arrears, start paying this as soon as possible, even if your landlord has not accepted the offer. You also need to pay your normal rent. If you haven’t paid for a while, pay as much as you can.

Have you been treated fairly?

If you think you have been treated unfairly, you may have reason to complain. You can complain to the Financial Ombudsman Service but you must complain to your lender first. You can get more information about making a complaint from the Financial Ombudsman’s website.

See ‘Useful contacts’ on page 62.

Dealing with rent arrears

Business Debtline has a detailed guide to ‘Dealing with rent arrears’. This covers the following areas.

- What type of tenancy do I have?
- Housing Benefit
- What if my landlord increases my rent?
- How can I pay off my rent arrears?
- My landlord is refusing to agree to my offer
- What if my landlord takes court action?
- Eviction – what can’t I do?

See ‘Useful contacts’ on page 62. If you have a private landlord, contact us for advice.

Council tax

The amount of council tax you pay is based on:

- the value of your home (homes are placed in a band – A to H in England and A to J in Wales); and
- the number of adults who live in your home and their status.

Before a social landlord (such as a local council or a housing association) can take court action to evict you from your home, they should follow the pre-action protocol for rent arrears. Courts should take the protocol into account before deciding what order to make.

Dealing with rent arrears

It is never too early, or too late, to come to an arrangement to repay your arrears. You may not be behind with your payments yet or your landlord may have already started court action. Whatever the situation, don’t delay. Contact your landlord as soon as possible by writing to them, phoning them or making an appointment to see them.

Make sure your rent arrears have been worked out properly. Get a breakdown of your rent account from your landlord. Check that all the payments you have made have been added to your account. Ask for regular statements. Keep your receipts.

If you have made an offer to pay the arrears, start paying this as soon as possible, even if your landlord has not accepted the offer. You also need to pay your normal rent. If you haven’t paid for a while, pay as much as you can.

Have you been treated fairly?

If you think you have been treated unfairly, complain to your landlord. If you are not happy, you can complain to the Housing Ombudsman Service (if you are a housing association tenant) or the Local Government Ombudsman (if you are a council tenant).

See ‘Useful contacts’ on page 62. If you have a private landlord, contact us for advice.

Dealing with mortgage arrears

Business Debtline has a detailed guide to ‘Dealing with mortgage arrears’. This covers the following areas.

- Coming to an arrangement with your lender
- What to do if you can’t afford your mortgage
- What if my home is worth less than the mortgage?
- Second mortgages or secured loans
- What if my mortgage lender takes me to court?

See our fact sheet: Homelessness.

Priority household debts

Household mortgage

Mortgage arrears are very important because you could lose your home if you do not pay them. They must be treated as a priority debt.

Check all your loan agreements to see if they are ‘unsecured’ or ‘secured’ on your home. If they are secured loans, lenders can repossess your home if you cannot pay your monthly instalments. They can then sell your property to pay off your debt.

Has your lender taken you to court?

You cannot be evicted from your home without a court order. You will not be evicted on the day of the hearing. Before a lender can take court action to repossess your home, they should follow the steps set out in the pre-action protocol for mortgage possession claims. Lenders should consider all options before taking steps to repossess your home. Courts should take into account the pre-action protocol when deciding what order to make.

Dealing with mortgage or secured loan arrears

It’s never too early, or too late, to contact your lender. You may not be behind yet or your lender may have already started court action. Whatever the situation, do not delay. Contact your lender as soon as possible by writing to them, phoning or making an appointment to see them. It is important that you pay as much as possible towards your mortgage or secured loan. If you have not paid anything for a while, you should start regularly paying what you can, even if you can’t afford the full monthly payment.

There may be benefits, tax credits or Universal Credit that you are not claiming or other ways of increasing your income. If you receive certain benefits, you can get help from the DWP with some of the interest payments on your mortgage. Check if you have any mortgage payment protection insurance that you can claim.

For more information what you can do, see our detailed housing guide ‘Dealing with mortgage arrears’.
If you don’t keep to any payment arrangement you make with the council, they may apply to the magistrates’ court to make a ‘liability order’ for the full amount they say you owe, plus court costs. The order will state that you are due to pay your council tax and have not done so.

Further action against you by the council

Once the council has got a liability order, there are a number of ways they can make you pay. Even if they have a liability order, it is not too late to try to make an arrangement to pay. Contact the council as soon as possible if you have not paid or come to a payment arrangement.

The council can take the following action to make you pay.

- The council can order your employer to take a fixed amount from your wages to pay the council tax you owe. It is called an ‘attachment of earnings order’.
- Bailiffs visit your business premises or your home to try and remove goods.
- If you claim certain benefits, you or the council can ask the DWP to take a set amount each week.
- The council can apply to secure the debt on any property you own. This is called a charging order. You could lose the property if you do not pay the debt. They can only apply for a charging order if you owe more than £1,000.
- The council can ask for an order to send you to prison if they think you have refused to pay, or had the money and neglected to pay. It is unlikely you will be sent to prison if you did not have enough money to pay.

See our fact sheet: Council tax recovery.

Complaining

You may be able to complain to the Local Government Ombudsman if the council have not behaved properly or not followed the proper procedure. You will need to complain to your local council first.

See ‘Useful contacts’ on page 62.

Household gas and electricity

Gas and electricity companies can cut off your supply in a few weeks if you don’t pay them but they should only do this as a last resort. They must give you notice first. They cannot cut off your supply unless they have first offered you a range of payment methods to help you pay. It is important to contact them as soon as you know you are going to have problems. You should treat gas and electricity bills as a priority debt.

How do I make an arrangement?

The energy supplier will usually want their bill paid before the next bill is due. You can ask to pay your bills every week, every two weeks, or every month. If you have arrears, phone or write to the supplier and ask for a payment arrangement.

Use your business and household budget sheet to support your offer of payment. This must cover the cost of the energy you are using and an amount off the arrears. Even if the supplier does not agree to your offer, start paying what you have offered immediately. Do not offer to pay more than you can afford towards the arrears. All energy suppliers should agree, under their standard licence conditions, to accept an offer of repayment in instalments at a rate that you can afford.

If the first person you speak to is unhelpful, ask to speak to someone more senior.

Ask the supplier for a copy of their code of practice. This explains your rights and how to make a payment arrangement. Most energy suppliers will not disconnect you if:

- you agree to a payment arrangement;
- you agree to have a pre-payment meter installed;
- the debt belongs to a person who lived in your home before you;
- it is between October and March and all the adults in the household are over retirement age; or
- you are considered vulnerable under the Energy UK safety net.

Under the Energy UK safety net, member companies will not knowingly disconnect you at any time of year if, for reasons of age, health, disability or severe financial hardship, you cannot protect your personal welfare or the personal welfare of other members of your household. If you are you are vulnerable because of one of these reasons, you should not be disconnected.

Extra advice: Ofgem guidelines

Ofgem is the regulatory organisation for gas and electricity. Energy suppliers must keep to Ofgem’s guidelines, which say they should take your circumstances into account when making an arrangement to pay.

Extra advice: Business gas and electricity arrears

Business gas and electricity arrears may need to be treated differently.

Business gas and electricity’ on page 38 or contact us for advice.

Important: business gas and electricity arrears

Business gas and electricity arrears may need to be treated differently.

The supplier still wants to cut my fuel off

If you are threatened with being cut off, contact the social services department of your local council or the DWP for help. The fuel supplier will delay cutting you off if they are told the social services or DWP are looking into your case. They will usually hold action for 10 working days but may agree to delay longer. This could give you time to make an arrangement to pay. The Children’s Act 1989 gives social services the power to make payments in certain circumstances to families with children.

You should contact the Citizens Advice consumer service if you are threatened with being cut off or have been disconnected.

Help to pay your bill

Some fuel companies have set up trust funds that may be able to help you pay your fuel bills if you are in financial difficulties. Auriga Services has a useful list on their website at www.aurigaservices.co.uk. Select the link ‘Schemes to help water and energy customers’.

Extra advice: ‘Help with gas, electricity and water costs’ on page 15.

If the first person you speak to is unhelpful, ask to speak to someone more senior.

Ask the supplier for a copy of their code of practice. This explains your rights and how to make a payment arrangement. Most energy suppliers will not disconnect you if:

- you agree to a payment arrangement;
- you agree to have a pre-payment meter installed;
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Ofgem is the regulatory organisation for gas and electricity. Energy suppliers must keep to Ofgem’s guidelines, which say they should take your circumstances into account when making an arrangement to pay.

Extra advice: ‘Useful contacts’ on page 62.

Extra advice: ‘Help with gas, electricity and water costs’ on page 15.

Extra advice: ‘Help with hardship’ on page 54

Extra advice: ‘Useful contacts’ on page 62.

Extra advice: ‘Schemes to help water and energy customers’.

Extra advice: complaining about your energy supplier

All suppliers should follow a code of practice when dealing with people in arrears. You can complain to Ombudsman Services: Energy about a billing or transfer problem but you must complain to your supplier first.

Extra advice: ‘Useful contacts’ on page 62.

Extra advice: ‘Useful contacts’ on page 62.

Extra advice: ‘Useful contacts’ on page 62.

Extra advice: ‘Help with hardship’ on page 54

Extra advice: ‘Useful contacts’ on page 62.

Extra advice: ‘Useful contacts’ on page 62.

Extra advice: ‘Useful contacts’ on page 62.

Extra advice: ‘Useful contacts’ on page 62.

Extra advice: ‘Useful contacts’ on page 62.

Extra advice: golden rules

If you have a magistrates’ court hearing or have arrears from failing to pay fines, contact us for advice.

- Always go to court hearings.
- Take your business and household budget sheet with you.
- Try to make arrangements that you can afford to pay or contact the court if you cannot pay.
- Keep paying what you can afford.

For not having a licence, it is a good idea to buy a licence as soon as possible. You should not need a copy of the licence to the court to help your case. It is also a good idea to plead guilty to not having a licence and explain the reasons why (even if this is just that you simply forgot). Remember: even if you have to pay a fine for not having a licence, you still need to buy a licence as well.

See ‘Find the easiest way to pay your TV licence’ on page 31.

You may already have a fine for not paying your TV licence.

See ‘Magistrates’ court fines’ below.

Magnistrates’ court fines

The magistrates’ court may order you to pay a fine, for example, for a driving offence, for not having a TV licence or for some other offence. You must treat a magistrates’ court fine as a priority debt. The court has a range of further types of action it can take, including using bailiffs and taking money from your wages or your benefits. Also, you could be sent to prison if you do not pay.

See our fact sheet: ‘Schemes to help water and energy customers’.

Extra advice: ‘Help with hardship’ on page 54

Extra advice: ‘Useful contacts’ on page 62.

Extra advice: ‘Useful contacts’ on page 62.

Extra advice: ‘Useful contacts’ on page 62.

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Extra advice: ‘Useful contacts’ on page 62.

Extra advice: ‘Useful contacts’ on page 62.
Parking penalty charges

Many local authorities have made parking offence non-criminal offences and instead enforce parking penalty charges through the Traffic Enforcement Centre in Northampton. There are special rules that apply if you have this type of parking penalty. You cannot be sent to prison but the local council can ask the County Court to use bailiffs to try to recover the money. If you have a parking penalty charge, contact us for advice.

Extra advice: which type of parking penalty do I have?
It is important that you know the type of parking penalty you have because the rules about what happens if you don’t pay are different. You should check if you have a penalty charge notice from the local council or a fixed penalty from the police. The rules are different if you pay on private land. If you are unsure, contact us for advice.

Child maintenance

You can be ordered to pay maintenance either by the court, as part of the separation or divorce process, or by the Child Support Agency (CSA) or the Child Maintenance Service (CMS).

Extra advice: the Child Maintenance Service
The CSA scheme is changing. Some child maintenance cases are now dealt with by the Child Maintenance Service. This is gradually replacing the CSA over a three-year period. This means some of the rules will be different when you apply for maintenance and there may be extra powers to make you pay. Contact us for advice.

Maintenance through the court
If the court has ordered you to make regular payments, you can apply to reduce the payments if you cannot afford them. If you do not pay, the court can order you to go to a hearing to explain why you have not paid. If the court decides that you are deliberately not paying, they may try to:
• use bailiffs to seize goods and sell them;
• take payments direct from your wages; or
• order you to be sent to prison.

See our fact sheet: Penalty charge notices (PCNs) for parking.

Extra advice: maintenance arrears
If you are behind with your maintenance, contact the court immediately. Take a copy of your business and household budget sheet to any court hearings and explain why you cannot pay the full amount. The court may reduce the amount you have to pay.

Maintenance through the Child Support Agency or the Child Maintenance Service
If you have a child or children who do not live with you, the CSA may ask you to pay child maintenance. The CSA will decide the amount you have to pay by using a set formula. If you do not pay, the CSA can collect it direct from your wages, or from benefits without a court order.

The CSA can apply for a deduction order to take payments out of your bank account. This can be for regular payments or for a lump sum, but there are rules about how much money the CSA are allowed to take out of your account.

If they cannot do any of these things, the CSA can ask the magistrates’ court for a ‘liability order’, if they do this, they may try to take further action. Contact us for advice.

Benefit overpayments

You may be told by the DWP that you have been overpaid a benefit, such as Income Support, and that they want you to pay this back. The DWP must tell you if the overpayment can be recovered from you and why. If you do not agree that you owe the money, you can appeal.

If you do not agree that you have been overpaid, or that the amount is correct, you may be able to appeal. Contact us for advice.

The DWP could take action against you in the County Court to get their money back, but there are steps you can take to deal with this. If the DWP threatens to take court action against you, or if you receive any court papers, contact us for advice.

Household hire purchase or conditional sale

The rules for dealing with hire purchase and conditional sale are usually the same whether they are a business or household priority debt.

Extra advice: special rules for Housing Benefit and Council Tax Benefit
If your council says you have been overpaid Housing Benefit or Council Tax Benefit, special rules apply. Different rules may also apply if the council say they have overpaid you as part of the Council Tax Reduction scheme. Contact us for advice.

Tax-credit overpayments

In some circumstances, you may be told that you have been overpaid Child Tax Credit or Working Tax Credit. If you do not agree that you have been overpaid, or that the amount is correct, you may be able to appeal. Contact us for advice.

Overpayments can be recovered in different ways, including deductions from your ongoing tax credits claim or your Universal Credit claim, by reducing your tax code or even through the same enforcement methods as a tax debt. In some cases, you can also agree in writing for deductions to be made from your benefits.

HMRC may agree not to recover the overpayment if it is caused by a mistake by them and you have followed the rules for reporting any mistakes you spot and changes in your circumstances. Contact us for advice if you are in this situation.

Next steps...

You are now at the end of step 3. If you have priority debts, hopefully this section has helped you work out how to deal with them. Make sure you update your budget sheet with any payments you have agreed to make to your priority creditors.

Step 4 is the last step in this pack and it’s called ‘Dealing with your non-priority debts’. This step will explain which debts are non-priority, the powers your creditors have to make you pay and your options for dealing with your debts.

You will need the information from your business and household budget sheet to help you decide which option is right for you.

Go to the opposite page to begin.
Step 4
Dealing with your non-priority debts

Use this section to work out how to deal with your non-priority debts. These are debts where the creditor hasn’t got extra powers to make you pay (for example, they cannot take your home). They are often called non-priority debts because of this. Non-priority debts can usually be treated differently to priority debts. Common non-priority debts include:

- personal loans with finance companies;
- some bank and building society loans, overdrafts and credit cards;
- charge cards;
- catalogue debts;
- personal debts to friends and family;
- doorstep-collected loans;
- payday loans;
- household water rates;
- non-essential business suppliers;
- some other business-related debts; and
- credit sale agreements.

Checklist

Use this simple checklist to make sure you take the right steps to deal with your non-priority debts.

- Do you need a safe bank account?
  Make sure that any money you receive (for example, earnings from your business, wages or benefits) goes into an account at a bank or building society that you don’t owe any money to. This means the bank or building society will not be able to take any of your income to pay your debt to them. This also applies to a business bank account.

- Work out a business and household budget sheet
  A business and household budget sheet is very important as it will help you decide what options you have for dealing with your debts. It will also help you to negotiate with your creditors, fill in any court forms, or ask for your debts to be written off.

- Deal with court forms on time
  If any of your creditors have issued a county court claim against you, you need to make sure you have replied to the court forms. This means filling in the forms the court sends you and returning them to the right place by the deadline. This will help you avoid any enforcement action, such as bailiffs.

- Explain your situation to your creditors
  Even if you haven’t decided how to deal with your non-priority debts, it’s a good idea to explain to your creditors in writing that you are struggling. Tell them you are taking advice and doing a budget. This may buy you some breathing space. Use the Hold action on your account sample letter included with this pack.

- Decide on a strategy
  You may have more than one option for dealing with your non-priority debts. You need to make sure you understand what each option means, and the advantages and disadvantages, so you can be sure what you decide is right for you.

Extra advice: less straightforward non-priority debts

There are some non-priority debts that are not straightforward to deal with. You should contact us for advice if you have debts such as:

- arrears of business or household rent, phone, gas or electricity from a previous property or supplier;
- hire-purchase or conditional-sale debts where the goods have gone back to the company;
- equipment leases where the goods have gone back to the company;
- debts with cheque-cashing services;
- gambling and spread-betting debts; or
- professional fees (solicitors’ and vets’ bills and so on).
Dealing with your non-priority debts

What are the options for dealing with my non-priority debts?

There are different options for dealing with your non-priority debts, depending on your circumstances. We have outlined some of the main options below.

Which option is right for you will depend on things such as your income, how much debt you have, your assets, whether you own your home and the possible effect on your business. Your credit rating will normally be affected, whatever option you decide to take. This means it may be difficult to get credit in the future.

See “Can I get credit again?” on page 61.

What if I have some money left to pay my creditors?

**Pro-rata offers of payment**

You can work out offers of payment based on a ‘pro-rata distribution’ of your available income. This means you offer all your creditors a fair share of what you can afford to pay. You also need to ask your creditors to freeze any interest and charges. You can write to your creditors, sending them a copy of your business and household budget sheet, and ask them to agree to your offers of payment. Use the Pro-rata offers sample letter included with this pack.

See ‘Working out offers of payment to non-priority creditors’ on page 29.

**Free debt-management plan (DMP)**

This means you make one payment every month to a debt-management company to cover all your non-priority debts. This will be divided up and sent to your creditors for you. You will not have to negotiate direct with your creditors to accept your offers and freeze the interest.

See ‘Dealing with your creditors’ on page 53.

**‘Consolidating your debts’ into a new loan**

This is where you add all your debts together and take out a new loan (a consolidation loan) to pay them off. You need to think very carefully before deciding to do this.

This may not be the best option for you, especially if your lender wants to secure the loan on your home. This means you could lose your home if you do not keep up with the payments. Before agreeing to a consolidation loan, contact us for advice.

What if I have no money left to pay my creditors?

**No payments or token payments**

After paying your outgoings and making arrangements to pay your priority debts, there may be nothing left to pay other creditors. If you have nothing left, say so. Show your creditors by sending them your business and household budget sheet and a letter to back this up. Ask your creditors to hold action until your circumstances improve. This is called asking for a ‘moratorium’. If you prefer, you could offer a token payment of £1 a month to each creditor instead. Use the Token offers or no offer of payment sample letter included with this pack.

See our fact sheet: Debt relief orders (DROs).

**Debt relief order**

You may be able to apply for a debt relief order (DRO). DROs can be an alternative option instead of bankruptcy and are cheaper to apply for.

You may qualify for a DRO if:
- you owe under £15,000 in total;
- you can’t afford to pay more than £50 a month to your creditors; and
- you have assets of less than £300 and a car worth less than £1,000.

If you get a DRO, your debts are written off after 12 months. You will need help from an approved advice agency, such as a money advice centre, citizens advice bureau or Business Debtline, to fill in an online application. You will have to pay a fee to the Insolvency Service to apply for a DRO. Contact us for advice.

See our fact sheet: Debt relief orders (DROs).

**Bankruptcy**

If you owe a lot of money and you cannot see a way out of your debts, bankruptcy might be a good option for you. You should consider going bankrupt if you have no assets or you are prepared to lose your assets and possibly your business.

You must own £750 or more before a creditor can make you bankrupt (although two or more creditors can club together and apply to make you bankrupt). Non-priority creditors are less likely to make you bankrupt than priority creditors because it costs them money in fees and costs.

They will probably not recover the debt and the costs of making you bankrupt unless you have assets that can be sold to pay your debts.

Once you are declared bankrupt, your creditors can usually take no further action against you. Going bankrupt can have important effects, particularly if you own or run a business and it is worth more than the mortgage you have left to pay. In this case, your home could be sold as an asset. Being made bankrupt could also affect your ability to carry on being self-employed. Bankruptcy may also affect you if you are a paid employee, if your contract of employment does not allow you to become bankrupt.

You can make yourself bankrupt but the fees are high. Your bankruptcy will normally last for one year. After this, usually debts that have not been paid are written off and you are ‘discharged’ from the bankruptcy. You may still have to make monthly payments for a total of three years under the terms of your bankruptcy order. If a creditor has threatened to make you bankrupt or you think it may be an option for you to consider, contact us for advice.

Extra advice: sample letter

Business Debtline have a sample letter you can use to ask your creditors to write off your debts. Call us on 0800 197 6026 or see www.businessdebtline.org

Dealing with your creditors

Check the name on the agreement

Only the person who signs an agreement is responsible for the debt. If you take out an agreement jointly with another person, you are each responsible for the whole debt and not just part of it. This is called joint and several liability. Make sure the creditor knows that someone else is also responsible.

Check your credit agreement carefully. If you don’t understand the terms or want to check that the agreement is in the correct format and that you are legally responsible for the debt, contact your local trading standards department or contact us for advice.

See our fact sheet: Bankruptcy.

Will my creditors write off my debts?

If you have no money for creditors and no assets, creditors may agree to write off your debts. This is very rare but may be an option if your circumstances are extremely difficult due to illness, age or a death in the family. You will need to give your creditors evidence of your circumstances.

Extra advice: sample letter

Business Debtline have a sample letter you can use to ask your creditors to write off your debts. Call us on 0800 197 6026 or see www.businessdebtline.org

Information: IVA through Business Debtline

Business Debtline may be able to refer you to an insolvency practitioner from a list of providers that have agreed to follow special guidelines (called the IVA protocol). Contact us for advice.

The IVA will be set up by an insolvency practitioner whose fees can be very high. Creditors can stop the IVA going ahead by voting against it. An IVA is usually only an option if you have a reasonable amount of money available every month to pay your creditors or you have a lump sum or assets that you can include. In rare cases, you may risk losing your home.

Contact us for advice.

See our fact sheet: Individual voluntary arrangements (IVAs).

Administration orders

If you have a county court judgment, you might be able to apply for an administration order. This is a way of putting all your debts together and making one monthly payment to the court. The court then shares the money between your creditors. The total of your debts must be no more than £5,000. Your creditors can’t take any further action against you if you have an administration order, as long as you keep up the monthly payments.

You may need help in filling in the application form as local courts deal with administration orders differently. To apply for an administration order, contact us for advice.

See our fact sheet: Administration orders.

Can I offer to pay a lump sum to clear my debts?

If you have a lump sum that is less than the full balance you owe on your debts, you can ask your creditors to accept the payment and write off the rest of the debts. This is known as ‘an offer in full and final settlement’. This may be an option if you come into some money or have some savings you can use. Creditors do not have to accept an offer in full and final settlement but if your circumstances are unlikely to improve, they may agree to your offer. If a creditor agrees to your offer, make sure they confirm this in writing.

See our fact sheet: Full and final settlement offers.

Individual voluntary arrangements

An individual voluntary arrangement (IVA) is another option instead of bankruptcy. This is a formal arrangement to pay an agreed amount off your debts over a shorter period, such as five years. The rest of your debts are written off.

See our fact sheet: Individual voluntary arrangements (IVAs).

Dealing with your creditors

Check the name on the agreement

Only the person who signs an agreement is responsible for the debt. If you take out an agreement jointly with another person, you are each responsible for the whole debt and not just part of it. This is called joint and several liability. Make sure the creditor knows that someone else is also responsible.

Check your credit agreement carefully. If you don’t understand the terms or want to check that the agreement is in the correct format and that you are legally responsible for the debt, contact your local trading standards department or contact us for advice.

See our fact sheet: Bankruptcy.

Will my creditors write off my debts?

If you have no money for creditors and no assets, creditors may agree to write off your debts. This is very rare but may be an option if your circumstances are extremely difficult due to illness, age or a death in the family. You will need to give your creditors evidence of your circumstances.

Extra advice: sample letter

Business Debtline have a sample letter you can use to ask your creditors to write off your debts. Call us on 0800 197 6026 or see www.businessdebtline.org

Dealing with your creditors

Check the name on the agreement

Only the person who signs an agreement is responsible for the debt. If you take out an agreement jointly with another person, you are each responsible for the whole debt and not just part of it. This is called joint and several liability. Make sure the creditor knows that someone else is also responsible.

Check your credit agreement carefully. If you don’t understand the terms or want to check that the agreement is in the correct format and that you are legally responsible for the debt, contact your local trading standards department or contact us for advice.

See our fact sheet: Bankruptcy.
Dealing with your non-priority debts

Information: partnerships and limited companies

In a partnership, business partners are liable for all partnership debts. This is called ‘joint and several liability’.

See ‘Partnerships’ on page 07.

If you are a director of a limited company, you will not be personally responsible for the company’s debts unless you have signed a personal guarantee.

See ‘Limited companies’ on page 08.

Under 18s

People under 18 can only be made to pay for ‘essential goods and services’ bought on credit, such as energy supplies. If you are under 18 and have an agreement for non-essential goods or services, the creditor cannot ask the court to make a county court judgment for the debt. However, it is not always clear which things are ‘essential’. The court can decide this for each case. Generally, parents are not responsible for their children’s debts unless they have signed a guarantee.

Guarantors

Creditor may ask for a guarantor before agreeing to lend money. This means that if the person who has borrowed the money does not pay it back, the guarantor will be asked to pay. If you have a guarantor for one of your non-priority debts, or are a guarantor for someone else, contact us for advice.

Interest

Debts have two parts – the money borrowed and the interest. Interest is part of the charge for lending you the money. Debts have interest added in different ways.

• Fixed-term loans. Interest is worked out at the beginning of your loan and included in your monthly payments. Sometimes, if you miss a payment, extra interest called ‘default interest’ is charged. Ask the creditor to freeze any default interest they are adding.

• Revolving credit agreements. These cover credit cards, bank loans and some loan agreements. Interest is added to your account daily or monthly. This means your debt grows unless the payments you make are higher than the interest being added. The company may also change the interest rates and add extra charges. Ask the creditor to freeze all the interest and charges.

• Late-payment interest. In the case of business-to-business transactions involving sole traders, partnerships or limited companies, the creditor can claim late-payment interest under the Late Payment of Commercial Debts (Interest) Act 1998. Contact us for advice. To find out if interest is still being added to any of your debts, check your agreement for details.

Important: still paying interest?

Your debt will continue to grow if your new monthly offer of payment to the creditor is less than the interest being added. Ask the creditor to stop charging interest. Ask for regular statements and check them. When a creditor accepts your offer, if they do not say they have frozen the interest, you should check with them again. The creditor may also try to add administration and late-payment charges. Ask them not to charge these (‘waive’ them).

What if a creditor refuses to freeze the interest?

Write to them again. If any of your other creditors have agreed to freeze the interest, point this out.

‘What if a creditor refuses my offer?’ on page 55 or contact us for advice.

Copies of credit agreements and account statements

You usually have the right to ask for a copy of your credit agreement and an account statement. There are different laws which allow you to ask for different types of information. You have to pay a small fee when you make your request. If your lender does not provide the information you have asked for, they may be limited in the further action they can take against you.

See our fact sheet: Credit agreements – getting information. This includes sample letters you may find useful.

Warning: claims management companies

There are lots of companies out there who say they can get your debts written off for you, or get compensation for you by claiming that your credit agreements cannot be enforced. Be very careful. Most of these firms charge you large up-front fees for each agreement they agree to check. However, there is no guarantee that they will be successful. In most cases, you will not get your money back. Before signing up, speak with a claims management company, contact us for advice.

Important: don’t pay more than you can afford

The offers of payment in your business and household budget sheet are fair to all your creditors and the most you can afford. If you allow one creditor to persuade you to pay more, you will not have enough for your outgoings and other creditors.

Extra advice: what if creditors ask for proof?

• Sometimes, creditors ask for extra information or ‘proof’ such as wage slips or letters from other creditors. You may want to help with reasonable requests but if the creditor wants proof of all your bills, point out this would not usually be asked for by the court. Contact us for advice.

What can I do if creditors harass me?

If you do not pay, your creditors are allowed to keep reminding you from time to time but they must not act illegally. If they threaten or harass you to try to make you pay, they may be committing an offence under the Consumer Protection from Unfair Trading Regulations 2008.

Making payments – ways to pay

If you have made arrangements with your creditors, you will need a convenient way to pay. There are several options.

• Open a basic bank account which offers free standing orders. Standing orders are regular payments you ask your bank or building society to make for you. There are basic bank accounts available for business banking and for personal banking. Contact us for advice.

• Ask your creditors for a paying-in book. Make sure there are no fees to pay.

• Some creditors accept payments through their website. Check with your lender.

• Check whether you have a PayPoint or Payzone outlet at a local shop. If your creditors are part of a scheme which accepts payments in this way. For details of your nearest PayPoint, see www.paypoint.co.uk. For details of Payzone, see www.payzone.co.uk.

• You may be able to pay at a creditor’s local office or retail outlet, such as a shop.

• If you send cheques or postal orders, make sure you send your reference number, and a covering note.

• Keep a record of all the payments you make.

Reviewing your offers of payment

Your creditors will offer you to review your offer, perhaps every three or six months, to see if you can now afford to pay more. If you can’t increase your payments, write back telling them this. Enclose a copy of your business and household budget sheet.

What if a creditor refuses my offer?

Sometimes a creditor will refuse to accept the offer of payment you have made on your agreement, perhaps every three or six months, to see if you can now afford to pay more. If you can’t increase your payments, write back telling them this. Enclose a copy of your business and household budget sheet.

‘Interest and charges’ on page 57.

• Write to the creditor again and ask them to reconsider their decision. Tell them your offer is reasonable and is all you can afford.

• If some of your creditors have accepted your offer of payment, write to the creditors who have refused and tell them this.

• If a collector calls for your payment, you should not let them persuade you to pay more than the amount you have offered. Otherwise, you will not be able to afford the payments you have agreed with your other creditors, particularly for your priority debts.

• Most creditors are members of a trade association and have agreed to a code of practice. The code usually says creditors should be sympathetic in cases of genuine difficulty.

• Credits may ask you to fill in their own budgeting form. Ask them to accept your own business and household budget sheet instead as this has all the information they need.

Contact us for advice if you feel a creditor is acting unreasonably. We can give you details of their trade association, advise you about the Financial Conduct Authority’s Consumer Credit sourcebook (CONC), CONC sets out rules and guidance which other creditors must follow when collecting debt. We can also tell you about making a complaint to the Financial Conduct Authority (FOS).

See our fact sheet: Payment offer – what to do if a creditor refuses. This includes sample letters you may find useful.
Dealing with your non-priority debts

The Financial Conduct Authority (FCA) has issued the Consumer Credit Sourcebook (CCS). It sets out rules and guidance that organisations must follow when collecting debt. If an organisation breaks these rules or guidelines, the FCA may discipline or fine the organisation to provide consumer credit. Contact us for advice.

Collection agencies

The creditor may pass or sell your debt to a collection agency. Don’t worry – you still have the same rights. A collection agency has no greater powers than the creditor. They are not bailiffs and have no right to come into your business or home. If you feel a collection agency is behaving unfairly, contact us for advice.

‘What can I do if creditors harass me?’ on page 56.

You should negotiate payments with the collection agency in the same way as your other creditors. Some collection agencies may try to charge you extra fees for collecting the debt from you. You may be able to explain to the agency how you have been treated unfairly, and try to negotiate a reduced amount. Contact us for advice.

See our fact sheet: Complaining about your lender

What if I already have a county court judgment?

If you already have a county court judgment, you should include this debt in your non-priority debts and work out an offer of payment in the same way.

‘What if my creditors take court action?’ on page 59.

If this offer of payment is less than the amount the court has ordered you to pay, you may need to apply to the court to reduce the amount. This will mean you are treating all your creditors fairly and you are not paying one creditor more than you can afford. If you need to reduce the amount that you have to pay on a county court judgment, contact us for advice.

See our fact sheet: County Court – suspending a bailiff’s warrant or reducing instalments on a county court judgment.

Debts with your bank – overdrafts, loans and credit cards

Many people use their current account with a bank or building society to have drawings from their business or wages paid into and to pay household bills. This can cause problems if you have a number of debts and your current account becomes overdrawn.

With an overdraft, you pay interest and charges on the amount owed. If you have a loan with the bank or building society, the full monthly instalment will usually be taken from your current account too. This may mean that you do not then have enough money to pay priority debts such as your mortgage, rent, council tax, gas or electricity. You need to be very careful in dealing with debts to your bank. Some banks or building societies will react by taking all the money in your account to clear the overdraft or loan. They can also try to do this if you have a credit card debt with your bank. This is called the ‘right of set-off’. Before negotiating a repayment arrangement with your bank, you should consider opening an account elsewhere to avoid drawings from your business or wages paid into. Do this immediately if the bank or building society does not agree to your offer. If your bank tries to take money from your account in this way, contact us for advice.

See ‘Useful contacts’ on page 62.

Extra advice: ‘Stop Loan Sharks’ helpline

What if I have a complaint about my credit agreement?

You have a right to complain to the Financial Ombudsman Service about how your lender or a debt collection agency has dealt with your account. You will have to contact us for advice. Your lender only has one opportunity to deal with your complaint before you can ask the ombudsman to look into it. To make a complaint to the ombudsman, you need to fill in their complaints form. You can either do this over the phone or download the form from their website. For more information, contact us for advice.

See ‘Useful contacts’ on page 62.

Extra advice: basic bank accounts

Contact the Money Advice Service for a list of basic bank accounts on 0300 500 5000 or see www.moneysadvice.org.uk.

Extra advice: the Lending Code and the right of set-off

The Lending Code (opposite) has guidance for banks and building societies when they are applying the right of set-off and the customer is in financial difficulties. See www.lendingstandardsboard.org.uk. The code says, if your bank or building society uses the right of set-off, you should be left with enough money to meet your reasonable day-to-day living expenses and priority debts. ‘The Lending Code’ opposite.

Opening a bank account

You may have difficulty opening a business or personal bank account if you have missed payments to your creditors. However, opening a basic bank account should not normally involve a credit check. Basic bank accounts allow you to have wages or benefits paid in and take cash out. Some accounts let you have direct debits and standing orders. You are not usually allowed chequebooks, cheque guarantee cards or an overdraft. Shop around the high-street banks and building societies for the best deal or contact us for advice.

If you are on benefits and don’t want a basic bank account, you can choose a post office ‘card account’. You can have this account if you have missed payments to your creditors. You may have difficulty opening a business or personal bank account if you have missed payments to your creditors. Contact us for advice.

Extra advice: ‘Useful contacts’ on page 56.

Interest and charges

If you are trying to make an arrangement to repay an overdraft, you should ask the bank or building society to stop the charges and interest, so that the amount you pay reduces the debt. If the staff at your local branch are not able to agree to this, contact the regional or head office of the bank or building society and ask them to agree to do so. Point out that The Lending Code says banks ‘should be sympathetic and positive when considering a customer’s financial difficulties’. The code applies to small businesses’ overdrafts as well as personal overdrafts.

The Lending Code

The Lending Code sets out how banks, building societies and credit-card providers should treat you when you have financial problems. Under the code, your lender should:

• look at your options with you;

• look at your income and outgoings and other debts;

• try to agree a debt-repayment plan with you; and

• make sure you have enough money to cover your day-to-day expenses and pay your priority debts.

For more information, contact us for advice.

Voluntary charges on your home

If you have a large overdraft or a personal or business loan, you may be asked to agree a voluntary legal charge on your home in return for reduced payments. This would mean that the debt would be secured on your home and you could then lose your home if you didn’t keep up the payments. Banks will sometimes ask you to agree to a legal charge, which means any future borrowing or overdraft you have with the bank will also be secured on your home.

Secured overdrafts

You may have a bank overdraft secured on your home. The interest charges can be high, with no fixed monthly instalment to pay. Sometimes, the bank will secure all the money you owe them now, and all the money you may borrow from them in the future, on your home. This is called an ‘all monies charge’. This usually applies to business lending such as business loans and overdrafts.

If the bank takes you to court, it may be difficult to suspend a possession order to pay off the overdraft or an all monies charge.
Dealing with your non-priority debts

Payday loans

A payday loan is a short-term loan, usually for a small amount of money. Many people use these loans to help them if they have run out of money before their next payday. The interest rates on these types of loans can be very high. Charges will also be added if you cannot pay the loan back on payday. This means that the debt can build up so you end up owing a lot more than you borrowed.

A payday loan is a non-priority debt but it can be difficult to deal with as you may have given what is called a ‘continuous payment authority’ to the loan company. This means that you have given the loan company permission to take money from your bank account. You may not realise you have given this permission, but you can get a continuous payment authority stopped by telling the bank or the payday loan company. Contact us for advice.

Catalogue debts

Mail order catalogues offer a way of buying goods by post and spreading the payments over a period of, typically, 20 to 40 weeks. Orders for goods and the collection of payments are sometimes undertaken by a local part-time agent; often a friend, relative or neighbour.

You should treat catalogue debts as a non-priority debt in the same way as your other non-priority debts. Goods ordered from a catalogue belong to you and cannot be taken back if you do not pay. If you have a dispute with the company or an agent about how much you owe, contact us for advice.

If you have a catalogue that you took out before 6th April 2007, you may find that this debt is not enforceable if you have not paid for the goods ordered. See our fact sheet: Catalogue debts.

Charge cards

You may have a debt on a charge card such as American Express, where you have to pay the full balance off each month rather than in instalments as with a credit card. It can be more difficult to negotiate reduced offers of payment on charge cards as they are not ordinary credit agreements. You should still include them with your other non-priority debts. If your charge card company is threatening to take further action, contact us for advice.

Personal debts to friends and family

You may owe money to friends and family. You should usually treat these debts the same as ordinary non-priority debts and make offers of payment in the same way.

Dealing with your non-priority debts

Important: defences

• If you don’t agree with the amount the creditor says you owe, you will need to put in a defence. Putting in a defence or counterclaim is complicated. Contact us for advice.

• If you are a director of a limited company, court action should not be taken against you as an individual unless you signed a personal guarantee or have been made personally liable by the court following a formal liquidation of the company. If action is taken against the company, the directors need to agree how to reply. If you have been taken to court as an individual, even though the business is a limited company and you have not signed a personal guarantee, you should get advice from a solicitor immediately. If you are being taken to court as an individual and there is no immediate need, use the information in this pack as a general guide.

Warning: beware of consolidation loans

Beware of adverts in newspapers and on television offering loans to clear all your debts (often called ‘consolidation loans’). They can be very expensive and will put your home at risk. Contact us for advice.

In this section, we give information and advice on some non-priority debts that can be more difficult to deal with. They are:

• charge cards;
• payday loans;
• catalogue debts;
• personal debts to friends and family;
• household water-rates arrears; and
• non-priority business debts.

Extra help

In this section, we give information and advice on some non-priority debts that can be more difficult to deal with. They are:

Extra advice: liability of agents

If you act as an agent for the catalogue company and sell goods, or collect money for the company, you need to be careful. You should create a separate account for each of your customers. If you do not do this, then the catalogue company may hold you responsible for any payments missed by your customers. As long as you set up separate accounts, you (as an agent, should not be held personally liable for your customers’ missed payments.

What if my creditors take court action?

Many people are frightened of courts especially when they feel guilty because they owe money. The County Court is not a criminal court and is not there to judge anyone as guilty or innocent. It is there to settle disputes about money owed and how to repay it. The court is not there to protect the interests of creditors alone. Under court rules on ‘pre-action conduct’, the court is keen to see you come to an arrangement with your creditors without court action. If court action is taken, you will not usually have to go to a court hearing. Most of the procedure is done through the post.

• Your creditor should send you a letter before they start court action telling you how to pay and how to contact them to discuss your repayment options. They should also send you a list of free, independent advice agencies you can contact.
• The rules allow you to ask your creditor for time to get debt advice if you need to, before they take court action.
• If the creditor goes on to take court action, you will receive a ‘claim form’ from the court. The claim form will include details of the debt, known as the ‘particulars of claim’.
• If you do have to go to a court hearing, your name will not appear in the local paper, so don’t worry about other people finding out.
• The court staff and the District Judge who decide the cases are used to dealing with people who do not have a solicitor.

If you receive a claim form or letter from the court, contact us for advice.

Household water-rates debt

Include any water-rates arrears with your other non-priority debts, but keep up with your ongoing bills so your debt does not get any bigger.

Extra advice: Water-rates arrears and water trust funds.

If you do not need to continue to trade with a particular supplier or service provider, you could treat any debts you have with these companies as non-priority debts. However, you may need to take care as some business suppliers are more likely to take court action, or make you bankrupt. If you are not sure whether to treat a business debt as a priority or a non-priority debt, contact us for advice.

Non-priority business debts

If you are a sole trader, partnerships and limited companies

• If you are a sole trader, you can use the information in this pack as a general guide if you don’t dispute the debt.
• If you are in a partnership, the partnership should serve a copy of the claim form on each of the partners. The court is keen to see you come to an arrangement with your creditors without court action. If court action is taken against the company, the directors need to agree how to reply. If you have been taken to court as an individual, even though the business is a limited company and you have not signed a personal guarantee, you should get advice from a solicitor immediately. If you are being taken to court as an individual and there is no immediate need, use the information in this pack as a general guide.

If you are a limited company, court action should not be taken against you as an individual unless you signed a personal guarantee or have been made personally liable by the court following a formal liquidation of the company. If action is taken against the company, the directors need to agree how to reply. If you have been taken to court as an individual, even though the business is a limited company and you have not signed a personal guarantee, you should get advice from a solicitor immediately. If you are being taken to court as an individual and there is no immediate need, use the information in this pack as a general guide.

Includes sample letters you may find useful.

See our fact sheet: Payday loans. This includes sample letters you may find useful.

See our fact sheet: Water-rates arrears and water trust funds.

Information: sole traders, partnerships and limited companies

• If you are in a partnership, the partnership should serve a copy of the claim form on each of the partners. The court is keen to see you come to an arrangement with your creditors without court action. If court action is taken against the company, the directors need to agree how to reply. If you can’t reach an agreement with the other partners, you need to get legal advice from a solicitor. If the partnership has been dissolved (ended), creditors can take court action against each partner individually. If the partnership has been dissolved, you can use the information in this pack as a general guide if you don’t dispute the debt.

• If you are a director of a limited company, court action should not be taken against you as an individual unless you signed a personal guarantee or have been made personally liable by the court following a formal liquidation of the company. If action is taken against the company, the directors need to agree how to reply. If you have been taken to court as an individual, even though the business is a limited company and you have not signed a personal guarantee, you should get advice from a solicitor immediately. If you are being taken to court as an individual and there is no immediate need, use the information in this pack as a general guide.

For advice on your other non-priority debts, contact us for advice.
If you agree you owe the debt

There will be a reply form with the claim form for you to make your offer of repayment. This is called the ‘admission form’. There are instructions included on how to fill in the form. It looks quite like a household budget and asks for similar information on your income and essential outgoings. You should fill this in and send the court a copy of your business and household budget sheet so it has a full picture of your circumstances. Contact us for advice.

If your creditors take court action, what are the disadvantages?

The court will stop interest being charged on most ordinary credit agreements. This means that the amount you owe cannot increase. Some creditors may tell you they will not charge interest on a debt before and after judgment. If that happens to you, contact us for advice.

If you creditors take court action, what are the advantages?

• The court will stop interest being charged on most ordinary credit agreements. This means that the amount you owe cannot increase. Some creditors may tell you they will not charge interest on a debt before and after judgment. If that happens to you, contact us for advice.

See our fact sheet: County Court – suspending a bailiff’s warrant or reducing instalments on a county court judgment.

Further action the creditor can take

Usually, if you do not pay the monthly amount the court orders, the creditor can ask the court to take further action. The following methods are most commonly used.

Bailiffs’ warrant

The creditor can ask the court to instruct bailiffs. You do not have to let the bailiffs in. The bailiffs cannot force their way into your home unless you have let them in before. Bailiffs can force entry into a business premises with the court’s permission. The court can only grant permission for this if there is no living accommodation attached to the business. If a creditor is threatening to use bailiffs, contact us for advice.

See our fact sheet: County Court – suspending a bailiff’s warrant or reducing instalments on a county court judgment.

Attachment of earnings

If you are also employed, the court can order your employer to make deductions from your wages to clear your debt. The court uses a set formula to work out the rate of the deductions. This order can be suspended if it might affect your employment and you can make the payments yourself. If a creditor is threatening to make an attachment of earnings against you, contact us for advice.

See our fact sheet: County Court – attachment of earnings orders.

Charging orders

If the court makes a county court judgment, the creditor can ask for a legal charge on your business premises or home. This is called a ‘charging order’. This only applies if you own or have a mortgage on your business premises or home, and not if you rent or lease them. The charging order means the debt is secured like a mortgage and may put your property at risk.

There must be a hearing in the court before a charging order is made final. It is up to the court to decide and there are several arguments you can use against a charging order being made. If a creditor is threatening to apply for a charging order, contact us for advice.

See our fact sheet: County Court – charging orders.

Can I get credit again?

There is no such thing as a ‘credit blacklist’ but if you do not pay your debts, you may find it difficult to get credit in the future.

When you apply for credit, most companies will consult a credit-reference agency. They keep records of all county court and high court judgments, bankruptcy orders, IVAs, DROs and details about credit accounts. This information is kept on file for six years. It will show if you are behind with your payments. If you are in arrears or have a county court judgment, you may be refused credit.

If you are refused credit, you have a right to ask if the finance company has used a credit reference agency. They must give you the agency’s name and address.

The finance company should give you good reasons why they turned you down for credit. This includes telling you if they have used a credit-scoring system. To get a copy of your credit report, you need to contact the credit reference agencies and fill in an application form. There is a fee of £2. You can usually apply in writing, by phone or online.

The Information Commissioner’s Office publishes a useful guide to credit reference agencies called Credit Explained.

See ‘Useful contacts’ on page 62.

Next steps...

You are now at the end of step 4, the last step in this pack. We hope you have been able to follow the steps easily and now feel better able to deal with your debts. There is a lot more help available if you need it.

Sample letters

There are sample letters included with this pack which you can use to help you write to your creditors. You can also use our sample letter suite to fill in sample letters on our website at www.businessdebtline.org.

Useful contacts

See page 62 for useful contact details for other organisations.

Fact sheets

See www.businessdebtline.org for a list of the fact sheets that we produce. These cover specific subjects in depth that are not included in this pack.

Remember – you can always contact us for help, information and advice on 0800 197 6026 or see www.businessdebtline.org.