

Introduction

Bounce back loans are not subject to write off as they are regarded as company debts that must be repaid, even in the case of business insolvency.

However, this guide will outline several alternative solutions to writing off a bounce back loan.

What is a bounce back loan?

A Bounce Back Loan, or BBL, was a unique financial lifeline provided by the UK government in response to the economic upheaval brought about by the COVID-19 pandemic.

The BBL scheme targeted small to medium-sized businesses, allowing them to borrow from £2,000 up to a maximum of 25% of their turnover. The cap on the loan amount stands at £50,000.

The distinctiveness of the BBL scheme stemmed from its terms - the government provided a full guarantee, meaning the lenders have no risk, thereby encouraging more lending during these financially tumultuous times.

For the first 12 months, businesses were not required to repay, and no interest was charged.

After the first 12 months, the interest rate was set at 2.5% per year.

Can my company write off its bounce back loan?

While many businesses might entertain the idea of writing off a bounce back loan, it's important to understand that this isn't typically feasible under normal operating conditions.

The government introduced the BBL scheme as a lifeline to businesses during the pandemic, not as a grant or free money.

Repayment of the loan is the duty of the borrower.

The government's guarantee is designed to shield the lender from losses in the event of defaults. It's not an insurance policy for borrowers hoping to escape repayment responsibilities.

In case your business becomes insolvent, this does not automatically write off the debt.

Government (HMRC) position on bounce back loan write-offs:

The HMRC stance is clear: Bounce Back Loans are classified as debts, and as such, they should be repaid.

Despite being government guaranteed, the loan doesn't feature any provisions for an automatic write-off.

The government's position remains consistent even if your business enters insolvency.

Under insolvency, the liquidator's role is to ensure the maximum possible recovery of debt from the company's assets for the benefit of all creditors, including the bounce back loan lender.

What if you can't repay your bounce back loan?

If you find that your company cannot meet the repayment terms of the BBL, don't despair.

There are numerous alternative strategies you can employ.

It's critical to consider your options carefully, to understand their implications, and to seek professional advice when needed.

Businesses have several potential lifelines, from restructuring your loan to other repayment methods.

What happens to a bounce back loan if a company is insolvent?

When a company can no longer stay in business due to insolvency, liquidators will use its possessions to pay back creditors, including the bounce back loan lender.

The lender will aim to collect the loan's remaining balance from the company's assets.

If the assets do not provide enough to cover the amount, the lender may look to get the balance from the government through the [loan guarantee conditions](#).

If it is found that the company's directors used the loan for personal benefit, they may be held responsible for the loan's remaining balance or face prosecution.

Using a Creditors' Voluntary Liquidation (CVL) to write off a bounce back loan

In certain circumstances, a BBL may be written off through a procedure called Creditors' Voluntary Liquidation (CVL).

What is a CVL?

A Creditors' Voluntary Liquidation (CVL) is a self-initiated procedure wherein the directors of a financially struggling company decide to terminate its operations in an orderly and fair manner.

The primary objective of a CVL is to maximise the returns for the company's creditors.

Consequences of liquidation

Undertaking a CVL is a grave decision with serious ramifications. The most immediate consequence is the termination of your company.

1. **Disqualification:** If a director places a company into liquidation, they may be disqualified from acting as a director or being involved in running any other company in the UK for up to 15 years.
2. **Liability:** Directors may be held liable for the company's debts and other liabilities due to the company if it can be established the directors' actions were negligence or mismanagement.
3. **Loss of assets:** A director may have to surrender any assets belonging to the company to help pay off its debts.
4. **Personal liability:** If the liquidation is found to be an abuse of the company's creditors, the director may be personally liable for any fraudulent or wrongful acts.
5. **Loss of reputation:** Voluntarily liquidating a company can hurt a director's reputation and career prospects.

5 alternatives to writing off a bounce back loan

If a CVL is not a practical solution for your company, there are other strategies available to manage your Bounce Back Loan.

1. Contact your lender

Your first course of action should be to speak with your lender if you're encountering difficulties with loan repayments.

Banks and other financial institutions may have measures in place to assist borrowers experiencing hardship, such as altering the loan's terms or providing a temporary repayment holiday.

2. Time to Pay (TTP) agreement

A Time to Pay (TTP) agreement with HMRC is another possibility.

A TTP agreement allows your debt to be paid back over an extended period in manageable instalments.

This can grant your business the breathing space it needs to recover and can help keep HMRC's debt collection activities at bay.

3. Pay As You Grow

To ease the financial burden on small businesses, the government introduced the '[Pay As You Grow](#)' initiative for BBLs.

This initiative extends the loan term from six years to ten, effectively reducing the amount of each monthly repayment.

Moreover, businesses can request interest only periods of up to six months and payment holidays.

4. Company Voluntary Arrangement

A Company Voluntary Arrangement (CVA) is a formal procedure where your company enters into an agreement with its creditors to repay a portion of its debts over time.

This can be an excellent option for businesses that remain viable but are experiencing temporary financial difficulties.

5. Sell your company

While it might seem drastic, selling your company could be a valid option.

1. **Gather all relevant information:** get the company's financial statements, the amount outstanding on the Bounce Back Loan, any other outstanding debt, and any other liabilities (such as VAT, PAYE, and Corporation Tax).
2. **Valuation:** Get an independent business valuer to assess the company's assets and liabilities to calculate the company's true value.
3. **Prepare the company for sale:** This includes ensuring accounts are up to date, filing any overdue documents or accounts, informing any staff of the sale process, and ensuring any other legal requirements are met.
4. **Create a sales proposal:** This should include the company's background, financial performance, and assets.
5. **Market the sale of the company:** This can include using a professional broker or auction house, advertising the company on business for sale websites, or using your accountant or lawyer who may have good connections.
6. **Negotiate the sale:** Once a potential buyer is found, work with a lawyer to negotiate the terms of the sale, including any liabilities the buyer will take on.
7. **Complete the sale:** Once the terms are agreed upon, complete the sale, including the transfer of any outstanding debts and liabilities and any payment of the Bounce Back Loan.

Conclusion

Navigating the repayment of a bounce back loan can be tricky. If you're considering writing off the loan, remember the potential risks and consider alternatives.

Need professional advice? Don't hesitate to reach out to us.