

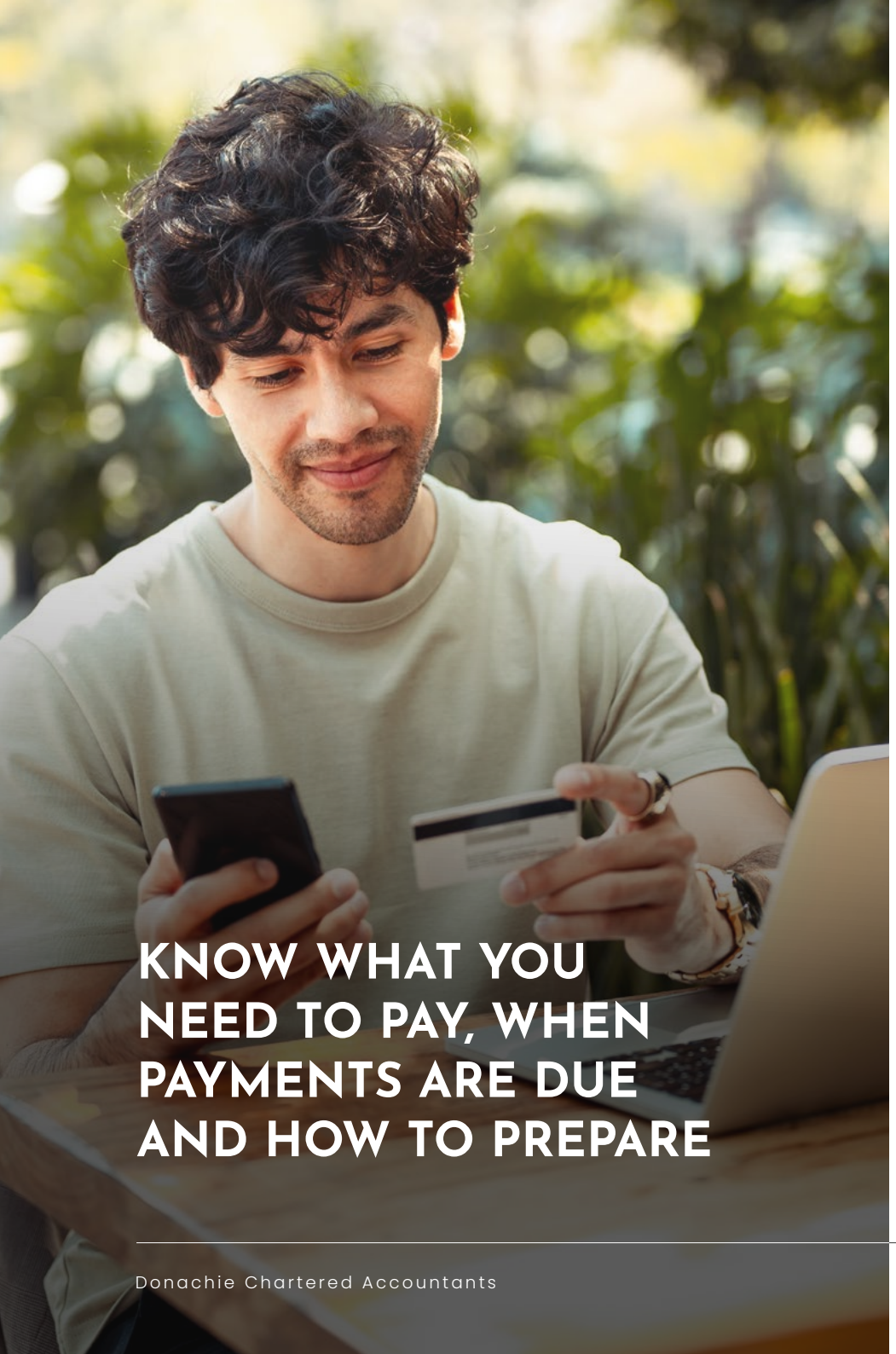
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SPOTLIGHT ON:

Cash flow planning for 2027

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KNOW WHAT YOU NEED TO PAY, WHEN PAYMENTS ARE DUE AND HOW TO PREPARE

Cash flow planning means forecasting the money you expect to come into and go out of your business, week by week or month by month, so you can ensure that your business has available cash to meet its financial obligations. It is not the same as profit, and a profitable business can still experience cash flow difficulties, such as when customers pay late, stock has been bought upfront, or a large tax bill lands in a quiet month.

Businesses could face increasing pressure on their cash reserves in the year ahead. Costs are rising again: the Bank of England expects inflation to climb to around 5% by mid-2027, and on 5 November 2026 it raised the Bank Rate to 4%, its first increase since 2023. Budget 2026, delivered on 28 October 2026, adds a 3.9% rise in the National Living Wage and National Minimum Wage from 1 April 2027. There are also changes to capital allowances and benefit in kind reporting.

Each of these pressures may be manageable on its own. Problems tend to arise when they coincide with tax deadlines, a slow-paying customer, and a seasonal dip in sales. This guide explains how to build a forecast that works, which tax bills to plan for in 2027, and what to do if the figures show a gap.

KEY TAKEAWAYS

- **Forecast cash, not profit:** a rolling 13-week forecast shows near-term pinch points, while a 12-month view captures tax bills and seasonal swings.
- **Plan around the big tax dates:** monthly Pay As You Earn (PAYE), quarterly Value Added Tax (VAT), corporation tax nine months and one day after most companies' year end, and income tax on 31 January and 31 July 2027.
- **Budget for higher wage costs from April 2027:** the National Living Wage will increase to £13.21 an hour for employees aged 21 and over. This will add £910 a year for each full-time worker on minimum wage. Employers should factor in the associated increase in employer National Insurance contributions (NICs) and pension costs.
- **Talk early if there is a gap:** contacting lenders and HMRC before missing a payment can give businesses access to more options and better terms than waiting until they fall behind.

WHAT SHOULD A CASH FLOW FORECAST INCLUDE?

A cash flow forecast should record every payment into and out of the business bank account, on the date the money is due to actually move. Forecasts often go wrong because they are built from the profit and loss account, which records sales when invoiced and costs when incurred, rather than when the money physically changes hands.

A practical forecast normally includes:

- **Opening balance:** the actual cleared balance on the first day.
- **Receipts:** customer receipts including VAT, loans, grants, and asset sales.
- **Payments:** suppliers, wages, rent, loan repayments, interest, and capital spending.
- **Tax:** VAT, PAYE and NICs, corporation tax or income tax, and business rates.
- **Owner withdrawals:** dividends, drawings, and repayments of directors' loans.
- **Closing balance:** the cash available at the end of each period, which you can compare with your overdraft limit or minimum cash reserve.

Depreciation does not belong in a cash flow forecast, but capital spending and loan repayments do.

HOW FAR AHEAD SHOULD I FORECAST?

Most owner-managed businesses will benefit from preparing two types of cash flow forecast.

- **A rolling 13-week forecast:** updated weekly, to show whether the business will have enough cash to pay wages, suppliers and other bills over the next quarter.
- **A 12-month forecast:** to help plan for seasonal changes in trading, annual bills, and planned investments.

For 2027, the longer-term forecast should ideally extend to at least March 2028. This will help businesses plan for the April 2027 wage increases, as well as any dividends directors may need to fund their personal tax liabilities on 31 January 2028.

It is worth preparing different scenarios alongside the main cash flow forecast to see how the business would cope if things do not go to plan. For example, what would happen if sales were 10% below plan or your largest customer paid late? If either scenario resulted in the closing cash balance falling below zero, this could indicate that the business does not have sufficient cash reserves to deal with unexpected problems. Identifying this early gives you time to take appropriate action.

BUILDING IN REALISTIC ASSUMPTIONS

A forecast is only as reliable as the assumptions behind it. One common mistake is to assume customers will pay according to the payment terms of their invoices, rather than how they actually behave. If a customer on 30-day terms routinely pays after 45 days, your forecast should reflect this.

Other assumptions worth testing include:

- **Sales:** start from last year's monthly pattern and adjust for known changes.
- **Customers:** allow for customers to take longer to pay invoices than their payment terms.
- **Supplier prices:** allow for increases, especially from suppliers with high energy or fuel costs.
- **Interest:** if you have variable-rate borrowing, model further interest rises.

Compare actual cash flow with the forecast each month. Large differences can highlight where assumptions need to be revised and improve the accuracy of future forecasts.

WHAT IF THE FORECAST SHOWS A CASH SHORTFALL?

Not all cash flow problems have the same cause. Sometimes a business simply needs to bridge a temporary gap between paying its bills and receiving money from customers. In other cases, ongoing costs may consistently exceed income, indicating a more fundamental problem with the business.

Short-term finance or a payment arrangement may help with a temporary shortfall. However, persistent cash flow problems are likely to require changes to pricing, costs or the way the business operates. Identifying the cause early will help you decide what action to take.



BRIDGING A CASH FLOW GAP WITH FINANCE

If your cash flow forecast shows that your business may run short of money, there are several financing options to consider. The most suitable option will depend on how much you need, how long you need it for and what the money will be used for:

- **Overdraft or revolving credit:** useful for short-term or recurring cash flow shortfalls, such as periods when tax bills fall due before customer payments arrive. It is generally better to arrange this before your business comes under financial pressure.
- **Invoice finance:** allows businesses to access cash tied up in unpaid customer invoices, rather than waiting for customers to pay. However, fees can make this an expensive option.
- **Asset finance:** spreads the cost of buying equipment or vehicles over an agreed period, helping to preserve cash for other business expenses.
- **Term loans:** may be suitable for longer-term funding needs, such as business investment or consolidating existing debt.
- **Director funding:** a director may be able to lend personal funds to the company to cover a temporary shortfall. The director should consider the personal financial risk involved and any loan should be properly documented.

With the Bank Rate at 4% and further rises possible, compare fixed and variable rates, and expect lenders to ask for management accounts and a cash flow forecast.

Before borrowing, consider whether the shortfall could be reduced by collecting payments sooner, negotiating longer payment terms with suppliers or postponing non-essential spending. Finance can help bridge a temporary cash flow gap, but it will not solve an underlying problem where costs consistently exceed income.

GETTING CASH IN SOONER

One of the simplest ways to improve cash flow is to collect money from customers sooner. Businesses can do this by invoicing promptly, taking deposits on larger jobs and following up overdue invoices consistently. It is also worth reviewing payment terms and considering whether customers could be encouraged to pay sooner.

Businesses with VAT-taxable turnover of up to £1.35 million may also be able to use the VAT Cash Accounting Scheme. This generally means VAT on sales is accounted for only once customers have paid, rather than when an invoice is issued. This can help businesses avoid having to pay VAT to HMRC before receiving the money from their customers.

THE 2027 TAX CALENDAR

A cash flow forecast should include estimates of tax payments. January and July can be particularly important months for cash flow planning for unincorporated businesses, as Self Assessment payments on account and balancing payments may fall due. Limited companies should also plan for corporation tax payments based on their individual accounting periods.

The main dates on which tax payments fall due are:

- **22nd of each month:** PAYE and NICs for the previous tax month, if paid electronically.
- **One month and seven days after each VAT quarter:** VAT returns and payments are due. For example, 7 April 2027 for the quarter to 28 February 2027.
- **31 January 2027:** any 2025/26 balancing payment and the first 2026/27 payment on account, for anyone who files a Self Assessment tax return (SATR) and is required to make payments on account.
- **31 July 2027:** the second 2026/27 payment on account.
- **Nine months and one day after the accounting year end:** corporation tax, for companies that are not required to pay by quarterly instalments.

Sometimes tax payments fall due on a bank holiday or weekend. Unless you pay by Faster Payments, the money generally needs to reach HMRC by the last working day before the deadline.

For example, suppose your company has a 31 March year end, monthly PAYE liabilities of £9,000 and a VAT bill of £18,000 for the quarter to 31 December 2026. It also expects to pay a corporation tax bill of £28,050. Between 1 January and 22 February 2027, the company will therefore need £64,050 to meet these tax liabilities, before allowing for any dividends paid to directors who may also need to consider whether they will have sufficient funds to pay their own January personal tax bills.

WHEN IS CORPORATION TAX DUE?

For most companies, corporation tax is due nine months and one day after the end of the accounting period. For example, a company with a 31 March 2026 year end must pay its corporation tax by 1 January 2027. A company with a 31 December 2026 year end must pay by 1 October 2027.

Companies with annual profits of more than £1.5 million generally have to pay corporation tax in quarterly instalments, starting in the seventh month of their accounting period. The £1.5 million threshold is divided between associated companies.

Budget 2026 confirmed that the current corporation tax rates will remain unchanged. The 19% small profits rate, for companies with profits of up to £50,000, and 25% main rate, for companies with profits above £250,000, will continue. Marginal relief applies to profits between the two thresholds.

Corporation tax can represent a significant cash outflow, particularly where a large bill falls due at once. Setting aside money each month in a separate bank account can help spread the cost and ensure funds are available when the payment deadline arrives.



WHAT HAPPENS IF YOU CANNOT PAY YOUR TAX BILL?

Paying tax late can be expensive. HMRC may charge late payment penalties and interest on unpaid tax, with the amount depending on the type of tax and how late the payment is. These costs can quickly add to an existing cash flow problem.

If your business cannot pay a tax bill in full when it falls due, you may be able to agree a Time to Pay arrangement with HMRC. This allows you to spread the cost over an agreed period, although interest will generally continue to accrue. HMRC will consider your financial circumstances, including your income, outgoings and ability to repay the debt. An arrangement is not guaranteed, and you will need to keep up with both the agreed payments and any new tax bills.

Contact HMRC as early as possible if you think you may struggle to pay. Approaching HMRC before a payment is missed can give you more options and may help avoid some penalties. Waiting until the debt has built up can make the situation harder and more expensive to resolve.

WAGE COSTS FROM APRIL 2027

The National Living Wage and National Minimum Wage rise by 3.9% to £13.21 and £11.27 an hour on 1 April 2027. The rates apply across the whole UK.

Rate	From 1 April 2026	From 1 April 2027
National Living Wage (21 and over)	£12.71	£13.21
National Minimum Wage (Aged 18 to 20)	£10.85	£11.27
Apprenticeship rate and National Minimum Wage for those aged 16 to 17	£8.00	£8.31
Accommodation offset (per day)	£11.10	£11.53

The increase in wages will also bring additional costs for employers. For an employee on the National Living Wage working 35 hours a week, the annual pay increase will be £910. Employers may also pay an additional £136.50 in Employer NICs and £27.30 in minimum pension contributions. This would bring the total additional cost to £1,073.80 per year.

For a business employing 12 people on National Living wage, this represents an additional cost of around £12,900 a year, or approximately £1,075 a month from April 2027.

Businesses may also face pressure to increase wages for employees earning slightly more than the minimum rates, to maintain the difference between roles and levels of experience. This could increase overall costs further.

These factors need to be included in any cash flow planning for 2027.

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HOW DO CAPITAL ALLOWANCES AFFECT CASH FLOW?

When a business buys equipment, machinery or other qualifying assets, capital allowances allow it to deduct some or all of the cost from its taxable profits. This reduces its tax bill, but the tax saving does not arise when the asset is purchased. The business still needs to fund the purchase upfront, while the benefit of the tax relief may not be received until a later tax payment is due. For companies paying corporation tax in the usual way, this could be up to 21 months after the purchase.

For many smaller businesses, the £1 million Annual Investment Allowance (AIA) already provides 100% tax relief on most qualifying equipment purchases. Companies can also claim full expensing on most new and unused main-rate plant and machinery, allowing the full cost to be deducted from taxable profits in the year of purchase.

However, some businesses will be impacted by changes to capital allowances announced in Budget 2026. From 1 January 2027, the main rate first-year allowance will increase from 40% to 50%. This will particularly benefit businesses where the AIA or other allowances are unavailable, for example, for businesses buying qualifying plant and machinery for leasing. Cars and second-hand assets do not qualify.

The wider change is the cut in the main writing-down allowance, which provides tax relief on the remaining balance of a business's main pool of assets. The allowance will fall from 14% to 12% from 1 April 2027 for companies and 6 April 2027 for unincorporated businesses. This means some businesses will receive tax relief more slowly on expenditure that does not qualify for full upfront relief.

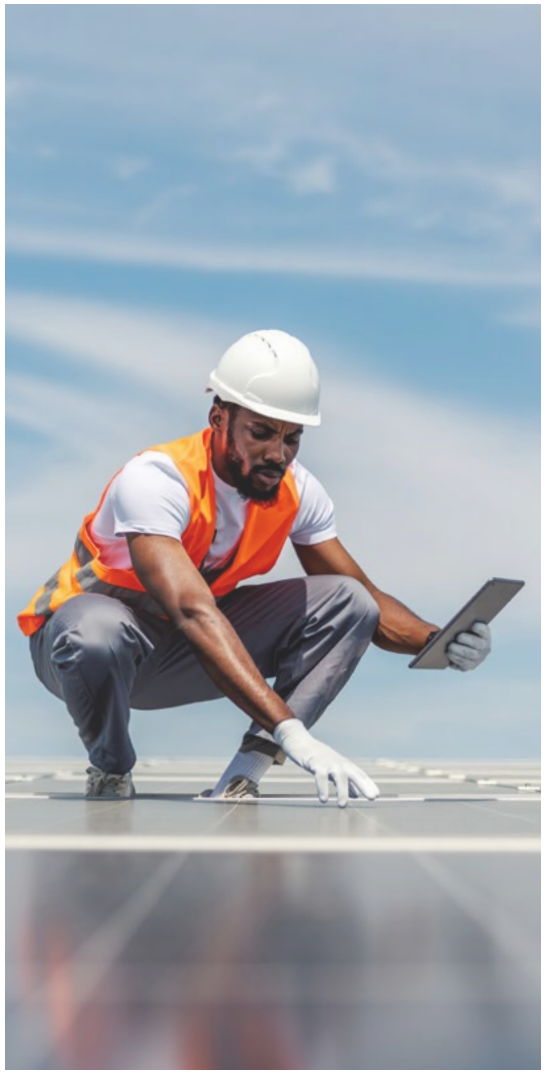
Furthermore, businesses considering purchasing a new electric car should be aware that the 100% first-year capital allowance is due to end in April 2027. Bringing forward a planned purchase to before 1 April 2027 for companies, or 6 April 2027 for unincorporated businesses, could allow the full qualifying cost to be deducted from taxable profits in the year of the purchase, rather than obtaining tax relief more gradually through writing-down allowances.

When planning an investment, businesses should therefore consider both the cost of purchasing the asset and when the associated tax relief will reduce their tax bill. Tax relief can help make an investment more affordable, but it does not remove the need to have sufficient cash available to fund the purchase.

ENERGY, FUEL, AND OTHER COST CHANGES

Energy and fuel costs can have a significant impact on business cash flow, particularly where a business has high levels of consumption. The Bank of England has noted that some businesses may not yet have felt the full effect of higher energy prices because they are protected by fixed contracts or hedging arrangements. Office for National Statistics survey data cited in Budget 2026 showed that, as at March 2026, 42% of businesses had at least half of their electricity prices fixed or hedged.

If your energy contract is due to end in 2027, consider whether your forecast allows for the possibility of higher prices when you renew.





Other changes to build in include:

- **Fuel:** the temporary 5p a litre duty cut is proposed to run until 30 June 2027. From 1 July 2027, duty is due to return to its pre-2022 level and rise in line with the Retail Prices Index.
- **Mileage:** from 6 April 2027, the approved mileage allowance will increase from 25p to 35p for qualifying travel over 10,000 business miles. The rate for the first 10,000 miles will remain at 55p per mile.
- **Business rates:** in England, from 1 April 2027, qualifying retail, hospitality, and leisure properties will benefit from increased Small Business Rate Relief thresholds. The threshold for 100% relief will increase from £12,000 to £18,000 in rateable value, while properties with a rateable value between £18,000 and £21,000 will receive tapered relief. In addition, business rates relief for qualifying pubs, social clubs and most live music venues will increase from 15% to 35%. Scotland, Wales, and Northern Ireland operate their own business rates system.
- **Benefits in kind:** from 6 April 2027, employers must report relevant benefits, including company cars, vans, fuel, and medical benefits through payroll. Income tax will be deducted from employees' pay, while employers will pay Class 1A NIC monthly rather than annually. However, the annual Class 1A NIC payment for 2026/27 benefits will still be due by 22 July 2027, meaning employers will temporarily need to fund both the annual payment and the new monthly payments.

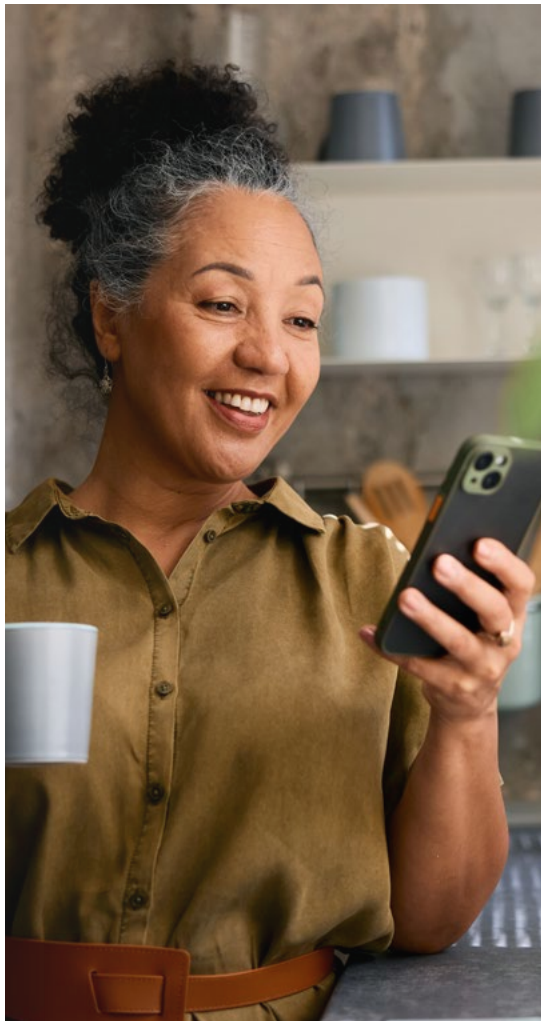
FINAL THOUGHTS

Cash flow problems do not necessarily mean a business is unprofitable. Even businesses that are performing well can struggle if payments to suppliers, employees and HMRC fall due before money is received from customers. Rising wages, operating costs and borrowing costs may add further pressure in 2027.

Preparing a cash flow forecast covering at least the next 12 months and updating it regularly can help you identify potential problems early. This gives you time to set money aside, review spending, arrange finance or agree a payment plan with HMRC before a deadline is missed.

The key is not to wait until your bank balance shows there is a problem. If your forecast suggests you may struggle to meet upcoming payments, speak to your accountant early so you can consider your options and act before the situation becomes more difficult to manage.

If you would like help preparing a cash flow forecast, or you are unsure what your tax liabilities will be in 2027, contact us to discuss how we can help.



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