

help with **debt**

CONTENTS

Click on any heading or page number to go to that page

PERSONAL DEBTS	2
WHAT CAN YOU DO	3
BUSINESS DEBTS	5
BANKRUPTCY	5
INDIVIDUAL VOLUNTARY ARRANGEMENT (IVA)	6
WHERE TO GO FOR HELP WITH DEBT PROBLEMS	7
MORE HELP FROM THE LICENSED TRADE CHARITY	8

PERSONAL DEBTS

It has never been so easy to get into debt. Everywhere you look, there are offers of easy money. Mortgages, student loans, car financing, credit cards, store cards – getting credit is easy.

If you are lucky you will be able to juggle repayments without too many problems. But many people just cannot do this, and it is often not their fault. Because of things they cannot control, debts mount up. Paying money back can get difficult.

You might get ill, lose your job, split up with your partner, lose someone you love – just one of these can tip the balance. If you are really unlucky you might have to cope with more than one disaster at the same time. So you fall into debt.

If you find yourself in this position, do not panic.
There are a number of things you can do to try and sort things out.

First, face up to things.

Do not just ignore the problem – it may get worse.
Do not stuff those brown envelopes out of sight – open them.
Do not be panicked by threatening letters or phone calls from your lenders.

Look at the debts you MUST tackle first.

These are called **priority debts**. If you do not pay them, you could be in real trouble – you could end up without light or heating, or homeless, or in prison. So you cannot turn a blind eye to things like rent, mortgage payments, gas and electricity bills. You must deal with council tax, TV licence fees, court fines or child maintenance payments – any of these debts could land you in court. And if you are self-employed, you cannot ignore VAT, national insurance and tax. The following are all priority debts which you must not ignore

- Mortgage /secured loans
- Unpaid fines
- VAT
- Gas/electricity
- Rent
- Child Maintenance
- NIC
- Council Tax
- Income Tax
- TV licence

Other debts come second.

Although the people you owe money to can jump up and down and scream, they cannot actually do anything very serious. You might face credit blacklisting or might lose some goods, but you cannot be thrown out of your home or sent to prison. These **non-priority debts** include benefits overpayments, loans, overdrafts, hire purchase, credit card accounts, catalogues and gambling debts.

The people you owe money to need to know your situation.

They know they cannot get blood out of a stone. If you simply have not got the money, you cannot pay. But they need to know **why** you cannot pay and **what you are trying to do about it**.

First of all:

You **must** get in touch with the people and firms you owe money to.
Tell them what your problems are.
Tell them you will be in touch again (say when) after you've tried to sort things out.
Do not just stop paying and hope no-one will notice.
Where you can, write rather than phone.
Keep a copy of each letter you send.

WHAT CAN YOU DO

See if you can make more money to help clear your debts. For example:

- Can you or your partner take on extra part-time work?
(But check first if this will affect any benefits you might be getting)
- Can you take a lodger?
(Again, check any effects on benefits. And check if you need to tell your landlord or mortgage company).

Are you getting all the benefits you can claim?

- You may qualify for housing benefit or council tax benefit.
- Or working tax credit, child tax credit, or pension credit if you are over 60.
- If you are out of work or earning very little, you may qualify for job seeker's allowance or income support.
- If you are sick or disabled, or anyone in your family is, you may qualify for disability living allowance, attendance allowance (over 65), or carer's allowance.
- If you are on some benefits, then you may also qualify for others like free prescriptions, or free school meals for your children.

You can find details of all these benefits from your local Job Centre Plus, or from the Citizens Advice Bureau. You will find them in the local phone book. **Your local tax office will tell you about tax credits.**

Phone the tax credit helpline: **0845 300 3900.**

FIND OUT WHERE YOUR MONEY GOES.

Do you know exactly how much you spend each week or month?

Do you know what you spend it on?

Are there things you can cut down on or go without?

Work out a weekly or monthly budget.

Keep a note of all money coming in and going out.

Get the details right – do not just guess, write everything down.

Be realistic – do not plan cuts you will not be able to stick to.

LIST ALL THE MONEY COMING IN:

- How much you and your partner earn after taking off tax and national insurance.
If wages vary, work out the average over 3 months.
- Any benefits you get, including child benefit, child support, or maintenance.
- Any money you get from members of your family or from lodgers.
- Any other money coming in regularly (pension, rent, interest on investments, etc).

LIST ALL THE MONEY GOING OUT:

Get it right. Keep records of what you actually spend. Do not just guess.

You will need to count all of these:

- What you spend on food, toiletries, cleaning stuff, lunches at work, school dinners, kids' pocket money.
- Rent or mortgage (and any other costs to do with housing, like ground rent or insurance).
- Council tax
- What you spend on fuel (gas, electricity, coal, oil) and water rates.
- Phones – mobile and landline.
- Travel expenses – fares, car costs (include road tax, insurance, petrol, MOT, repairs).
- Any other insurance costs

- Anything you spend on childcare
- TV licence, rental costs
- Clothes for yourself and everyone in the family
- Money for essential repairs and maintenance
- Any medical or dental costs, including prescriptions, glasses, etc.
- What you spend on pets or hobbies
- What you spend on extras or on going out – including papers and magazines, sweets, drinks and cigarettes. (If you plan to cut back on these, be realistic. How long can you keep it up?)

Add up the totals of money coming in and going out. COMPARE THEM. How much money (if any) is left over?

When you have worked out the sums,

- decide what you can manage to afford on a regular basis, to start paying off what you owe.
- **Write to your priority creditors** (the ones you cannot ignore)
- Tell them how much you can afford to pay back every week or every month
- If you are getting some benefits, you can ask for direct deductions from your benefit to pay things like rent arrears, fuel bills, water rates, council tax or court fines.
- If you cannot afford anything, or people will not accept what you offer, **get advice**. (See the end of this leaflet for list of people who can help).

Non- priority creditors

Any money you've got left after paying living costs and essential debts to your **priority creditors** will be needed to pay the rest of the people you owe – your **non-priority creditors**.

Some of them will shout louder than others, but you have to treat them equally. You need to work out fair **pro-rata** payments, depending on how much you owe each of them. To do this, you have to multiply what you owe each one by the amount you have available, then divide this by the total amount of all your non-priority debts. Include all your creditors, even those where you've managed to keep up with payments.

Write again to all your creditors.

- Send them full details of your financial situation, a list of all other creditors and how much you owe, and details of any offer you can make.
- If you include all the details, then everyone can see that you are treating them all equally.
- You may be able to offer to pay back a reasonable sum to each creditor.
- Or you may only be able to make a token offer of £1.00 a month to each of them.
- If you cannot offer any repayment at all, tell them, and say you will try and make an offer when things improve.
- Ask them to freeze interest on your account.
- Cut up any store cards or credit cards and send them back (it is a good idea to take a photocopy of the pieces as proof).
- Where you have promised to make regular repayments, do your best to stick to what you have said.

Of course, the people you write to do not have to agree with your proposals. But if you give them all the facts they may well accept that this is the best they can hope for.

You may find all this too complicated to cope with.

If you feel like that, then get help. (See the list of contacts at the end).

BUSINESS DEBTS

All the information so far has been about personal debts and how you might deal with them. Some of you who are self-employed may be worried about business debts.

The first thing to do is to get a clear picture of how much money is coming into your business, and how much is going out.

- Make sure you keep business and household budgets separate.
- Look at your household budget to see how much you can really afford to pay yourself each month.
- Can you cut back your household expenditure to try and help your business survive?
- Work out how much tax and VAT you will have to pay.
- When you've done the sums, you may find you are trading at a loss. This may be due to short-term cash flow problems, or it may be more serious.
- Think carefully about whether or not to continue in business.

If you are thinking of closing your business, get advice.

Contact **Business Debtline**. (See list at end of leaflet).

Meanwhile, here are some pointers to the things you will need to do:

- Tell the tax office.
- Tell the VAT office.
- Check your business lease. You may be able to transfer it to someone else, but you will have to talk to your landlord and pay any costs
- Tell the Contributions Agency, so you will not have to continue paying Class 2 National Insurance Contributions.
- Tell the local council, as it will affect business rates.
- Sign on as unemployed and claim Job Seekers Allowance (JSA) and any other benefits you are entitled to.
- **Some special risks with business debts:**
 - If you are 6 months behind with VAT payments, or 12 months behind with tax, the revenue people can make you bankrupt.
 - The local council can make you bankrupt if you get behind with business rates.
 - If you are behind on rent for business premises, you can be evicted.

If you find yourself in these situations, see a solicitor.

BANKRUPTCY

If you have a lot of debts, you may choose to go bankrupt.

You do this through the civil courts. The Official Receiver takes control of your money and property, and deals with your creditors.

You may think it is the easiest way out of an impossible situation, but it is not necessarily the best thing to do.

You also need money in order to go bankrupt – current fees are £460.

Or someone else may make you bankrupt, even if it is not what you want to do. Any creditor that you owe more than £750 can make you bankrupt.

If you are thinking of going bankrupt, or someone else is about to make you bankrupt, you **MUST** seek advice.

You can get help from a Citizens Advice Bureau, a solicitor, a qualified accountant, an authorised insolvency practitioner, a reputable financial adviser or a debt advice centre (more details at the end).

Once you have been made bankrupt everything you own will come under the control of the court – this includes your home.

There are some advantages to going bankrupt:

- You do not have to deal directly with your creditors.
- The court will let you keep a reasonable amount to live on.
- You can keep any tools, books, vehicles (unless you own an expensive model) and any equipment you need for your job or your business.
- You can also keep things like clothes, bedding, furniture and basic household items.
- When the bankruptcy order is over, you can make a fresh start. In many cases, this can be after only one year.
- The money you owe can usually be written off.

You may find the disadvantages outweigh the advantages:

- The court may have to sell your home to pay your debts.
- If your home is mortgaged and you do not keep up payments, your lender may be able to sell your home.
(If your husband, wife or children are living with you, it may be possible for the sale to be put off until the end of the first year of your bankruptcy, and the local council may find you somewhere to live.)
- You cannot get any more credit while you are bankrupt.
- Your credit rating will be affected for a long time, even after the bankruptcy ends.
- You may lose your job (it depends what it is).
- You cannot hold certain public positions.
- If you own a business, the Official Receiver may well close it down, dismiss your employees and sell off the assets.
- Bankruptcy is always made public. You may have to tell people you deal with. You cannot keep it private.

You must get proper information and help before you get to this stage.

(See list at the end).

Your bankruptcy will normally end after one year. It could be less than a year if you've been very co-operative. But in some cases it could be much longer. Most debts that have not been paid will be written off. Some things like court fines and student loans will never be written off.

INDIVIDUAL VOLUNTARY ARRANGEMENT (IVA)

There is an alternative to bankruptcy that works for some people. This is called an IVA.

Sometimes, if you apply to go bankrupt, the court may suggest that you go for an IVA. You can only do this if you owe less than £40,000; if you have assets of £4,000 or more; and if you have not been bankrupt or had an IVA before.

An IVA is legally-binding. It is arranged by an Insolvency Practitioner.

The creditors have to agree to it. You have to repay a percentage of your debt over an agreed period of time, usually 5 years. At the end of the IVA any money you still owe is usually written off, though this isn't automatic.

If the court suggests you take out an IVA, then the initial fee of the Insolvency Practitioner is limited to £310 including VAT. This will be paid out of the deposit you have already paid to the court to issue the bankruptcy petition.

In other cases, an IVA can be very expensive to set up.

If you are self-employed, and a creditor is threatening to make you bankrupt, then an IVA may be a good idea. It may give you a chance to save your business and your home. Creditors may go along with the idea because you will be able to continue to make money in your business, and this will generate profits for the creditor.

Again, independent professional advice is needed.

GO TO
CONTENTS
PAGE

WHERE TO GO FOR HELP WITH DEBT PROBLEMS

Business Debtline: 0800 197 6026

Free telephone debt counselling service for self-employed people and small businesses.
Funded by banks.

Citizens Advice Bureau.

They give free, practical, up-to-date advice. They do not judge or criticise anybody, and what you tell them is completely confidential. You can find their address and phone number in your local phone book.

Website: www.adviceguide.org.uk

Page
7

The Consumer Credit Counselling Service

Freephone helpline: **0800 138 1111**, 8am to 8pm Monday to Friday.

If the helpline counsellor believes that you will benefit from a full debt counselling session they will arrange an appointment for you.

This is a registered charity to help people who are in financial difficulty. They provide free, independent, impartial and realistic advice. They can help you wherever you live, no matter how much debt you owe.

The Insolvency Service 020 7291 6895

Website: www.insolvency.gov.uk

This is a government agency, with offices throughout the country. They provide information about bankruptcy, and copies of official forms needed. But they cannot give individual advice.

GO TO
CONTENTS
PAGE

National Debtline

Freephone: **0808 808 4000**, Monday to Friday 9am to 9pm Saturday 9.30am to 1pm
24-hour voicemail, please leave a message to request an information pack.

This is a national telephone helpline for people with debt problems in England, Wales and Scotland. It is free, confidential and independent.

Website: www.nationaldebtline.co.uk

Office of Fair Trading 08457 22 44 99

Website: www.offt.gov.uk

Payplan

Freephone: **0800 917 7823**

A free debt advice and debt management agency. No matter how large the debt, Payplan can help find an individual solution that will avoid borrowing more money.

Website: www.payplan.com

MORE HELP FROM THE LICENSED TRADE CHARITY

More information and support is available from the Licensed Trade Charity.

- There are further 'help with' leaflets including '**Relationship Breakdown**', '**Problems with Alcohol**', and '**Housing**'.
- Our website details other ways in which the charity may offer support.
www.licensedtradecharity.org.uk
- Call our welfare department on **01344 884440**

GO TO
CONTENTS
PAGE

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Page
8



GO TO
CONTENTS
PAGE

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