

Friday, 25 April 2025

UK Businesses Under Pressure Ahead of Impending Tariff and Tax Changes

'Critical' financial distress up by 13.1% year-on-year, despite 3.1% decrease across first quarter of 2025

- The number of businesses in 'critical' financial distress rose 13.1% year-on-year in Q1 2025, with 45,416 companies now affected (Q1 2024: 40,174)
- This follows a 3.1% decline in the number of businesses in 'critical' financial distress versus Q4 2024 (46,853)
- Consumer-facing industries - Bars & Restaurants (+31.2%) and Travel & Tourism (+25.5%) experienced the greatest increase in 'critical' financial distress over the last 12 months
- Nearly two-thirds (14 of 22) of the sectors covered by Red Flag Alert research experienced double-digit percentage growth of companies in 'critical' financial distress over the last year
- 'Significant' financial distress rose 4.5% year-on-year to 579,276 firms (Q1 2024: 554,554), despite an 11.5% fall from 654,765 in Q4 2024
- Hotels & Accommodation (+15.4%), Real Estate & Property Services (+12.1%) and Leisure & Cultural Activities (+9.5%) saw the highest year-on-year growth in 'significant' financial distress

The latest "Red Flag Alert" report from Begbies Traynor, which has provided a snapshot of British corporate health for almost two decades, highlights how tens of thousands of UK businesses are struggling as the economy heads towards major tariff and tax regime changes.

As of 31 March 2025, 45,416 businesses were in 'critical' financial distress - a 13.1% rise versus Q1 2024, despite a 3.1% fall during the first quarter of 2025 (Q4 2024, 46,853). Nearly two-thirds (14 of 22) of sectors covered by Red Flag Alert experienced a double-digit percentage increase of companies in 'critical' financial distress over the last year.

The picture is most concerning in the UK's consumer-facing economy where 'critical' financial distress leapt across Bars & Restaurants (+31.2%), Travel & Tourism (+25.5%) and General Retailers (+12.4%).

Importantly, three of the bellwether sectors in the UK: Real Estate & Property Services (6,480 companies), Construction (6,367 companies) and General Retailers (3,401 companies), represented more than a third of the companies in 'critical' financial distress, highlighting the perilous situation for the UK economy.

Levels of 'significant' distress rose 4.5% in the last twelve months (Q1 2024, 554,554; Q1 2025, 579,276), despite the 11.5% decrease during the first quarter of 2025 (Q4 2024, 654,765). The highest increase in 'significant' distress since Q1 2024 was seen in the Hotels & Accommodation (+15.4%), Real Estate & Property Services (+12.1%) and Leisure & Cultural Activities (+9.5%) sectors.

Overall, 'significant' financial distress is most pronounced in the Support Services (86,725), Construction (86,312) and Real Estate & Property Services (68,744) sectors.

Julie Palmer, Partner at Begbies Traynor, said:

"As we progress through 2025, optimism remains in short supply for UK businesses. The first quarter of the new year started positively with unexpected economic growth figures, positive retail sales and cooling inflation - and that is reflected in our latest data.

"Indeed, the travel and hospitality sectors may see an opportunity to attract tourists looking to holiday somewhere else other than the United States. However, every business in the UK will have their eyes fixed on the impact of US tariffs and increases to homegrown taxes and that could make the situation even worse.

worryingly, the consumer-facing corners of the economy, which have been on the frontline over the last few years, are clearly continuing to struggle. Bars & Restaurants have seen a 31.2% year-on-year increase in critical distress, while Travel & Tourism is not far behind with a 25.5% rise. These sectors, which are notorious for operating on tight margins, are bracing themselves for further economic fallout from both domestic tax increases and US tariffs which could push many over the edge.

"However, there is a small window of opportunity for business leaders who stand at the crossroads and must decide which path to take. Restructuring, refinancing, selling or closing will be options many will have to decide between, so navigating towards the right outcome will be the target for 2025. Sadly, I fear there will be many potholes that cannot be avoided later this year which will prove too much for some."

Ric Traynor, Executive Chairman of Begbies Traynor, said:

"After a year characterised by weakening consumer confidence and the spectre of a higher tax burden, 2025 looks like it will offer more challenges.

"Whilst the number of critically distressed businesses did fall in the first quarter of 2025, it feels like this could be the calm before the storm as uncertainty around US tariffs are likely to impact growth and suppress profitability for some time. Businesses will be watching trade talks closely.

"Additionally, the recent increases to both employers' national insurance contributions and the national minimum wage is likely to result in increased distress levels later in the year as many marginal businesses struggle to absorb further cost inflation.

"Ultimately, if the current pressures on businesses do not ease over the next 12 months, Red Flag Alert's data points to a large number of these critically distressed businesses progressing towards formal insolvency."

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Most significantly Distressed Industries	Number of businesses in significant distress	Most critically distressed industries	Number of businesses in critical distress
Support Services	86,725	Support Services	6,655
Construction	86,312	Real Estate & Property Services	6,480
Real Estate & Property Services	68,744	Construction	6,367
Professional Services	50,055	General Retailers	3,401
General Retailers	39,905	Professional Services	3,163
Health & Education	38,501	Health & Education	2,720
Telecommunications & Information Technology	37,414	Telecommunications & Information Technology	2,585
Media	24,066	Bars & Restaurants	1,941
Financial Services	16,502	Food & Drug Retailers	1,797
Leisure & Cultural Activities	16,348	Media	1,700
Significant distress by region		Critical distress by region	
London	165,271	London	14,889
South East	99,663	South East	6,860
Midlands	70,785	Midlands	5,379
North West	60,504	North West	4,851
Yorkshire	40,041	Yorkshire	3,209
South West	41,164	South West	2,620
East of England	37,215	East of England	2,681
Scotland	28,657	Scotland	2,190
Wales	15,735	Wales	1,228
North East	10,677	North East	782
Northern Ireland	9,513	Northern Ireland	725
Misc	51	Misc	2

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Notes to Editors

About Red Flag Alert

Red Flag Alert has been measuring and reporting corporate financial distress since 2004. It has become a benchmark on the underlying health of companies across every sector and region of the UK.

Red Flag Alert's algorithm measures corporate distress signals, drawing on company accounts and factual, legal and financial data from a wide range of relevant sources, including intelligence from the UK's leading insolvency business, Begbies Traynor. The algorithm was refreshed in H1 2023 to enhance the risk factors analysed in the data. The reported results have been backdated to ensure the consistency of comparative data.

Algorithms which drive Red Flag Alert were improved at the end of 2023, with companies now measured against a new scorecard of indicators to give greater insight and accuracy into the health of businesses. Two years of work by data scientists analysing eight years of data, taking into consideration pre, during and post-pandemic insights to find signals and patterns indicating businesses in distress, combined with AI tools, means that Red Flag Alert aims soon to be able to predict how many companies in trouble will go on to fail.

The release refers to the number of companies experiencing "Significant" or "Critical" problems, which are those that have been identified by Red Flag Alert's proprietary credit risk scoring system which screens companies for a sustained or marked deterioration in key financial ratios and indicators including those measuring working capital, contingent liabilities, retained profits and net worth.

Red Flag Alert is commercially available to all businesses, on an annual subscription basis, to help them better understand risk and exposure and help subscribers to plan for the future. Further information about Red Flag Alert can be found at: www.redflagalert.com

Economically active businesses exclude those that are flagged by Companies House as being, Non-trading, Listed for Strike off / Strike off pending, Insolvent or Dissolved. Companies where there is insufficient information available for RFA to assign a health rating are also excluded.

About Begbies Traynor Group plc

Begbies Traynor Group plc is a leading UK advisory firm with expertise in business recovery, advisory and corporate finance, valuations, asset sales and property consultancy.

We have over 900 fee earners operating from 45 locations across the UK, together with four offshore offices. Our multidisciplinary professional teams include insolvency practitioners, accountants, lawyers, funding professionals and chartered surveyors.

- Business recovery
 - Corporate and personal insolvency; business restructuring and turnaround; contentious insolvency; creditor services
- Advisory and corporate finance
 - Debt advisory and finance broking; corporate finance; special situations M&A; financial advisory
- Valuations
 - Property, business and asset valuations
- Asset sales
 - Property, plant and machinery auctions; property and business sales agency
- Property consultancy
 - Building consultancy; transport planning; commercial property management; insurance and protection

Further information can be accessed via the group's website at: <https://www.begbies-traynorgroup.com/>

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