

TIME TO COLLECT DEBTS



Don't let bad debts squeeze your wallet.

We all have a lot of sympathy for the many businesses destroyed by the stringent measures taken to stamp out Covid-19 from New Zealand.

We have suddenly moved into a new business environment. There are going to be those walking a tightrope to survival. Others will desperately try to trade with no real hope of their business recovering. Some of them might be your customers.

Normally, if you buy something, you pay for it and take it away. For some businesses, such as builders, this is not always practical.

What can you put in place to get as close as possible to this ideal situation? I'm sure you'll think immediately of getting deposits, progress payments and so on.

Some businesses have to give credit on the basis they do the job and then send the bill. These are the ones who must focus on collecting their debts as quickly as possible. They should set their terms of payment as short as they can and they must continually follow up the slow payers.

Have you ever thought of following up before payment is due? The following is a letter received recently:

Hi XYZ,

I hope and trust that you and your family are well and safe. This is a friendly reminder that invoice I4068 for \$2,000 is due tomorrow.

Regards . . .

We suggest you choose carefully to whom you give extended credit. If you offer an arrangement for payment and it's accepted, look after the person who pays on the agreed basis, but be wary of anyone who abuses your kindness.

Constantly having to chase up to get paid takes your time and you might be better off without that customer, who might in due course turn into a bad debtor anyway.

Fortunately there will also be the clients who regularly pay promptly and on time. It is important to look after these valued clients and assist where ever possible if through no fault of their own circumstances change and they find themselves struggling to meet payments. It is important to keep the communication lines open and look at possible payment options to help them through this time.

COWLEY STANICH IS MOVING WITH THE TIMES

Like many businesses Covid 19 suddenly had us scrambling to set up working remotely from our homes and setting up the correct software to make it all happen. Thankfully due to good IT support we managed to get most problems ironed out to carry on business as usual. One of the areas that we needed to update was our phone system to enable calls to reach staff members working from home. We are currently improving this system further and within the next few weeks all calls to our office will be fully automated through our computers. This will mean all staff will have their own direct dial number and options available to leave messages directly with them. Once this system is fully in place we will email out these staff contact numbers.

TAX CHANGES WORTH NOTING

There have been several tax changes recently. Some of the important ones are listed here:

- Any asset you buy from 17 March 2020 until 17 March 2021 can be treated as an expense up to a total cost, excluding GST, of \$5000. For some small businesses, this could even mean buying a car and treating it as an expense. After 17 March 2021, this threshold for writing off assets as expenses is going to drop to \$1000 permanently. You should keep a record of these assets because if you sell them or take them privately their value will be added back as income.
- The owners of commercial buildings will be able to claim depreciation again at 2% DV. No such luck for residential. Air B&B, for this purpose, is deemed to be residential.
- At the moment, once your year-end tax works out to be more than \$2500, you have to pay provisional tax. This threshold is to be raised to \$5000 for the year ending 31 March 2021 or equivalent balance date.
- If you qualify for research and development tax credits, some law changes might benefit you.
- If you qualify for the right to a six months mortgage repayment holiday, remember the interest will still accumulate.
- The threshold for qualifying for the business finance guarantee scheme is a minimum turnover of \$250,000 and a maximum of \$500,000. Also, the maximum duration of the guarantee is three years. This is money your bank could lend you knowing the Government would repay up to 80 percent of the debt if you defaulted

DIRE IMPLICATIONS FOR LATE TAX PAYMENTS

If you pay your tax one day late you come out of what is called the Safe Harbour scheme.

Instead of having until 7 April to pay your terminal (year-end) tax, it becomes payable on the previous 7th of May. You won't know about this until many months later and by that time massive interest charges at the rate of 8.35 percent will have built up.

Make it a practice to check your bank account to ensure the payment has gone through on the right day. If it hasn't, we can still help you. We can use what is known as a tax intermediary.

Without going into detail, we can buy the tax for you at the date you should have paid it and it will cost you a fraction of the amount Inland Revenue would have charged.

Get in touch with us as soon as you know you have made a mistake to keep your cost to a minimum.

One way you could ensure your taxes are always paid on time is to authorise Inland Revenue to direct debit your account. But if you do, there's always the possibility of them taking the wrong amount.

Inland Revenue has announced it will write off penalties and interest for those who can't pay their tax on time due to Covid-19. It requests those who can't pay get in touch with them when they can. However, the department asks you continue to send in all returns on time.

NEW TELCO RULES FOR BUSINESS, PRIVATE USE

Inland Revenue has come up with some new rules on telecommunications.

Telcos now offer all sorts of plans, including ones which include use of your television and your internet. It's now difficult to split out the cost of your telephone as a separate item.

The department has come up with the solution.

If you have "telecommunications tools and usage" mostly for business, you claim 75 percent of the cost. If the costs are mostly private, claim 25 percent of the cost.

Sometimes you might wish to reimburse an employee for use of their telephone, on a casual basis. You are allowed \$5 a week per employee for this with a maximum of \$265 in any year per employee. This is to cover situations where the employer needs to use the employee's telephone. An employer might wish to be able to get hold of the employee by ringing their cellphone, for example.

Inland Revenue has expanded these rules to encompass computers as well.

Compliance with the above is voluntary. If you can work out the actual cost you can use that. If you could show the usage was entirely for business, you could claim 100 percent of the cost.

The onus is on you to prove you're right. Good luck if you can do it!



SCAM ALERT

We have had reported instances of clients receiving a text or phone call from an IRD representative asking for bank account/credit card numbers to deposit a refund into. Please note this is a scam – IRD would not request bank account/credit card numbers through a text message or phone call. If you are unsure please let our office know.

Another client also received a call from a person claiming to be from IRD saying due to outstanding debt IRD were taking a case against them. The client immediately hung up as he knew he owed no money, however not a nice call to receive **so be aware** these disgusting scammers will try anything to get access to your finances

Disclaimer:

This publication has been carefully prepared, but it has been written in general terms only. The publication should not be relied upon to provide specific information without also obtaining appropriate professional advice after detailed examination of your particular situation

