

# ACCELERATE

THE MONTHLY NEWSLETTER FOR GROWING BUSINESSES

## MANAGING DEBTORS CAN BE A CHALLENGE FOR SMES.

THIS MONTH'S ACCELERATE FOCUSES ON DEBTOR MANAGEMENT. WE HOPE YOU PICK UP SOME IDEAS THAT HELP MAKE THIS PART OF YOUR BUSINESS GO MORE SMOOTHLY.



## SLOW PAYERS COST YOU REAL MONEY

You know you have to get your debtors to pay, but do you understand the true impact of slow payers? Without a realistic picture of the direct and indirect costs of slow payment, your debt management practices may hurt your business. You may:

- Reduce your cashflow.
- Create a snowball effect – if debtors think you're relaxed about payment, you encourage them to be slow.
- Build up an increasing number of debtors, leading you to let smaller debts slide.

- Chew up valuable time and resources in managing slow payers and following them up.

### What you can do

- If credit reporting information shows a customer is a slow payer, you can put tighter terms in place.
- Use online tools to manage receivables (see sidebar).
- Be straight up about discussing alternate invoicing patterns, payment options and terms.

## ONLINE TOOLS MAKE DEBT MANAGEMENT EASIER

### ARCOLLECT

ARCollect says you can stay on top of receivables without worrying about staff performance and customer behaviour. It's made to:

- Boost your cashflow.
- Email smart payment reminders with invoices attached.
- Set your rules for automatic payment reminders.
- Track all collection notes easily.
- Tag invoices with common reasons for late payment.

### INNOVATIVE ONLINE DEBT MANAGEMENT (IODM)

With IODM, you upload your outstanding invoices, and IODM automatically schedules the reminder letters, debt collection letters workflow, all with SMS and/or text messaging. IODM gets you paid in three easy steps: Upload debtors, select debtors to be notified, count your money.

### CREDIT2CONTROL

Credit2Control gives you an online dashboard to monitor customers at a glance or drill down on individual companies and their behaviour. You can review company activity on an ongoing basis, identify early warning signs, handle disputes within the online platform and manage collections easily and cost-effectively.

**There are many online tools. We can suggest others.**

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# COMMUNICATION IMPORTANT IN MANAGING DEBTORS



Like any relationship, timely communication between creditors and debtors goes a long way to avoiding trouble. One of those tools for small businesses is the financial web.

The financial web describes the growing electronic connectivity between small business, accountants and financial institutions, particularly when coupled with Cloud computing.

According to Xero, the continued expansion of the financial web will help small businesses make smarter decisions, improve cashflow, get paid faster and access capital quickly.

At the same time, traditional practices still go a long way to helping small business stay on top of debtor management.

If you don't have large reserves of cash, you may want to reduce your terms to 10 days or seven days. You should also:

1. Be up front. Explain "how we do it here".

2. Quantify fees in advance.
3. Bill regularly.
4. Bill as near as possible to the conclusion of work segments.
5. Where practical, present the account to the customer.
6. Provide payment options.
7. Consider fixed fees.
8. Follow up debts systematically and often.
9. Explain the value of the work.
10. Build a relationship and show your value.

In the case of debt collection costs, the Fair Trading Act requires you to disclose your terms of trade to customers at the time credit is given.

Your terms of trade must include provision for the recovery of collection fees. Make sure your terms of trade are clearly identified on your website, invoices and statements.

## THE RIGHT WAY TO COLLECT DEBT

Before you follow up on debt, you want to be sure you supplied the right goods and services, in the right quantities, to the agreed standard, for the agreed price and within the agreed timeframe.

In collecting a debt, you must not use force or pressure, or harass or hassle anyone, or mislead or deceive the debtor. You must not pass on false or private information, and you cannot charge unreasonable debt collection fees.

Do not tell a debtor that they will be fined or face legal and court costs on top of the original debt. This is a breach of the Fair Trading Act.

One approach that's proven successful is to visit slow payers and ask them how they are finding your company's service. One businessman reports that with this approach he almost always got payment on the spot, or soon after.

## GIVE YOUR BUSINESS A MEDICAL

The end of June marked the quarter point for this financial year, making it a good time for a business health check.

Comparing your past three months to the same period in previous years can show if your business has been growing, and most accounting programmes will easily produce year-to-date reports.

When you identify changes and opportunities, look at the challenges you had, and work out your profit for the year, you'll be better able to make decisions about staffing or stock levels, and have a

clearer idea of how much tax to put aside.

There are other things:

- How do you think the next three months will go?
- Do you expect better growth this year?
- Will you need extra staff, equipment or stock?
- Do you have the systems to run your business well?

**Of course, we are always happy to give you a hand.**



# DEBT MANAGEMENT FREES UP SIX-FIGURE SUMS

**Two case studies show what a huge difference proper debt management can make to a business.**

## November 2014-March 2016

An established professional service firm – operating in provincial New Zealand since the 1950s – had grown in a competitive market and become the leading service supplier.

A new business manager had been brought on to coordinate the client services delivered by five partners/directors. As part of her brief, she also explored smartAR as an option to coordinate essentially five different credit processes, as each partner was doing something different.

When she started, the client (with about \$8 million turnover) was taking an average of 68 days to turn an invoice into cash at the bank.

She turned that around in 18 months.

Outcome:  
Historic Debtor Days: 68 Days - \$1,490,410.96

Debtors 18 months later: 25 Days - \$547,945.21

Missing Cash Returned: \$942,465.75

## June 2015-February 2016

An electrical services business outside Auckland provides services to the wider Auckland region.

Because of the nature of the accounts person's role and the amount of outstanding cash, the client was open to considering another solution. The owner was mainly concerned about how to manage an external resource, and the security of clients' data. After a review of other smartAR reference

sites and the introduction to their nominated account manager, the owner had a high level of confidence and trust in the smartAR staff and service.

The combination of an owner who was enthusiastic to improve cashflow, and a skilled account manager, saw debtor days quickly decline.

Outcome:  
Turnover: \$4,000,000

Historic Debtor Days: 68 Days - \$840,154

Debtors nine months later: 48 Days - \$333,967

Extra Cash Returned: \$506,187

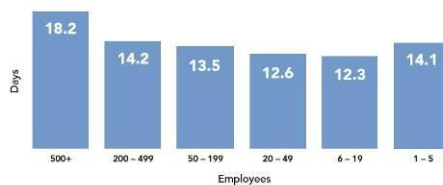
## DO LARGE BUSINESSES REALLY CALL THE SHOTS?

**Large companies are "killing" New Zealand's small businesses by making them wait too long for payments.**

The need for a policy or terms of trade is crucial when it comes to smaller business working with larger companies. For example, New Zealand's largest firm, Fonterra, changed its payment terms for contractors and suppliers last year, so now it can take a small business between 60 and 90 days to get paid.

According to a recent report from Dun & Bradstreet, larger companies were the slowest to pay, averaging 8.1 days later than normal. As highlighted in the graph above, late payment times for New Zealand businesses vary from year to year based on the size of the firm.

Larger companies were slowest to pay invoices in Q4 2016



Source: Dun & Bradstreet

The late payment problem is shared with the Australian economy, with more than 62 percent of small businesses encountering late or unpaid invoices in the past year.

Here are some tips to avoid late payment:

- Make sure you have a clear and signed terms of trade agreement.
- Train your top payers to pay on time (regular calling).
- Offer a variety of payment options.
- Hire an expert or a specialist accounts receivable service to chase slow payers.
- Pay your professional service fees over a fixed term through fee funding.
- Don't take no or later for an answer.
- Offer flexible payment options.
- Adjust your existing credit terms.

- Source: Dave Birch, SmartAR

## YOU CAN NOW USE PAYE FOR EMPLOYEE SHARE SCHEMES

Since 1 April this year, new tax rules have applied to share purchase benefits provided by an employer to an employee.

In this case, a benefit occurs when the

amount the employee pays for the shares is less than market value. IRD then sees this as employment income.

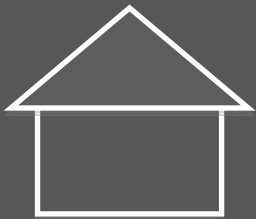
Before 1 April, a benefit received from a share purchase agreement was subject to neither PAYE nor FBT. The employee had to file a tax return including the benefit and pay the tax on it.

IRD had compliance concerns with the old method as there was no transparency around when employee share scheme benefits were received by employees and also considered

the previous system restricted the use of employee share schemes. There was uncertainty, a degree of unfairness, and there could be either under-taxation or over-taxation.

Now an employer can choose to withhold tax on income a staff member receives under a share purchase agreement. The employer also has to report to IRD in the employer monthly schedule (EMS) the value of any benefits an employee receives under a share purchase agreement.

**If you want to know more, contact us.**



## DO YOU RUN A BUSINESS FROM HOME? THEN THIS AFFECTS YOU

The tax deductibility rules around running a business from home changed on 1 April this year.

Under the new rules, the premises for a home business have to be a separately identifiable part of the house, which is used mainly for business. This does not mean it has to be an actual, closed off room.

There will be a choice of methods for calculating a claim for use of home:

1. Continue to make your calculations in the usual way.
2. Determine the percentage of mortgage interest and rates (or rent) used for business. Inland Revenue will then provide a per square metre rate to use to cover the other costs.

If you need more detail, contact us.

## IDEAS WANTED ABOUT EMPLOYEE SHARE SCHEMES FOR START-UPS

The Government is trying to figure out a fairer tax regime for employee share schemes in start-up businesses.

An officials' issues paper released on 30 May, "Taxation of employee share schemes: start-up companies", outlines possible deferral rules for start-up companies in this position. The paper expands on a proposal raised last year.

The thinking is to make it possible to defer the taxation point for employees – with a corresponding deferral of the company's deduction. The proposed deferral rules would delay the time of taxation to when the shares are sold or listed on a stock exchange.

The paper follows the development of new rules for taxing employee share schemes, as described in the Taxation (Annual Rates for 2017-18, Investment and Employment

Income, and Remedial Matters) Bill, introduced on 6 April this year.

The issues paper is looking for submissions about the design of a deferral scheme. This means you can present your ideas on the scope, nature and timing, deductions, administration and compliance of any deferral scheme. More especially, you might want to think about whether it will affect your business. If it does, we're happy to help you with your submission.

Submissions may be sent to:

policy.webmaster@ird.govt.nz with "Taxation of employee share schemes: start-up companies" in the subject line.

The closing date is 12 July 2017.

- Source: [www.taxpolicy.ird.govt.nz](http://www.taxpolicy.ird.govt.nz)

## KEY TAX DATES:

DATE	CATEGORY	DESCRIPTION
5 July	PAYE	Large employers return and payment
20 July	PAYE	Small employers return and payment Large employers return and payment
20 July	RWT	RWT Return and payment due for deductions from dividends and deductions of \$500 or more from interest paid during June
20 July	NRWT / Approved Issuer Levy	Payment and Return for June
20 July	FBT	FBT Return (if completed quarterly)
28 July	GST	Return and payment (if you pay it annually)

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