

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 Draconian 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,

Hope and trust that you and your family are well and safe.

Just 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.

Wage subsidy is not part of sales

If you've received a wage subsidy, don't treat it as being part of sales.

It's not taxable income and not subject to GST. You are required to forward the money on to the employee and deduct PAYE when you pay it.

When you pay wages to your staff the subsidy portion will not be tax deductible. We will adjust for this.

Although the wages subsidy received for employees is not taxable, it becomes taxable income for the self employed and will need to be included in their tax returns.

Similarly, a shareholder-employee not receiving a PAYE salary needs to treat the subsidy as taxable income.

Confidentiality clauses

Do we sign confidentiality clauses a little too readily?

A bank client had a battle with one of the big four banks, who had, he alleged, ripped him off for \$3000. After much haggling, the bank agreed to pay out the full amount but required a confidentiality clause. The man refused to sign it and still got his full settlement.

He said it was tempting to just give in, but why should he?

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.

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!



Support local businesses, and ditch the loyalty card.

Find an excuse to spend again

Kick-starting the economy – what a cliché! Here are some thoughts about ways we can all help:

Buy from small businesses whenever possible. Go out of your way to do this. Try to maintain the habit.

Bring forward projects you have been thinking about.

Look at your small-business suppliers and see if you can place an order earlier than you might otherwise have done.

Put away your loyalty cards when you go to cafés and restaurants. They are going to be desperate for cash flow.

In a nutshell, find an excuse to spend, if you can afford to do so.

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.

Keep in touch with customers

In our last newsletter we warned you to prepare for a change of business environment. It's come on quicker than expected.

Now is the time to focus on keeping in touch with customers or past customers and networking.

Networking? Yes, with a bit of ingenuity you could organise this by means of internet meetings using Zoom and similar. Have an internet drink with your mates!

Do you always get the email address of your customers so you can send them offers?

Cafés and restaurants are going to be badly hurt by the shutdown. If they could be sending email information about new menus planned for after this shutdown, could this tempt more people to come in?

Offer guarantees with confidence

If you are going to give a guarantee, make it worthwhile and real. No vague statements.

A guarantee takes the risk away from the buyer so you carry it yourself. This will help you sell your product or service.

Guarantee with confidence. If you have painted a house, for example, you would expect the paint to be good for more than five years. Would it matter if your guarantee was for one year or three years? There shouldn't be any harm in being generous.

A painting contractor offered "if anything goes wrong with the paint within the next two years, we will come back and fix it without charge".

In the post-Covid-19 environment, your guarantee might be the difference between getting a contract and missing it.

Trouble paying tax?

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.

CRS explained

You might have been contacted by your bank to fill in a form enquiring about your CRS status. In simple terms, CRS stands for Common Reporting Standard. New Zealand is a member of the international Organisation for Economic Cooperation and Development (OECD), which, among other things, aims to minimise money laundering. Its members use this standard. If you read the form carefully, you are likely to find you are either an active non-financial entity or a passive non-financial entity.

A typical active non-financial entity might be the company you use to run your business. This is because it is actively trading. You might be a passive non-financial entity if you are not undertaking any business enterprise other than through your company.

Buying real estate

Not all property is insurable, particularly in areas seen as at high risk of earthquake. When you buy a property, make sure you can get insurance before you proceed. One way you might be able to do this is to negotiate to take over the seller's insurance policy. Insurance companies are becoming choosy about their risks.



Do what you're good at

If you know someone who is starting in business, you might wish to pass on this message.

The starting point in any business is to exploit something you're good at. You need to have an edge over your competitors – something you can do better than most of them.

It's generally wise to steer clear of any industry you're not familiar with.

When planning for a business, don't pluck hopeful figures out of the air. If you're considering your prospective sales – and why wouldn't you – make sure you're looking at repeat business and have a reasonable basis to support your forecast income.

The business will not usually come to you, particularly after the initial honeymoon period. You have to go out and chase it.

Learn how this is done, quickly. There's a lot to learn.

BOOST STAFF MORALE: Think of your business from your staff viewpoint. They get regular instructions and the good ones go out of their way to do their best for your firm. But they're not often noticed. Surprise your staff by noticing when they do the right thing, tell them how pleased you are and thank them. See how it lifts their spirits and their willingness to keep doing well.

Binding rulings for small businesses

Inland Revenue has recognised the system of binding rulings doesn't work for small businesses because it's too expensive.

It can be very useful putting the facts of a case to Inland Revenue and getting agreement on the tax situation, in advance.

Inland Revenue has introduced a new scheme for small businesses in which it will commit itself on issues relating to tax, duty or any levy for which Inland Revenue is responsible. You will also be pleased to know there's a fixed cost for this which is \$2000 including GST.

The department will tell the client how the tax law applies to the situation and what conditions apply.

A lesson in more listening, less talking

A travel agency had given excellent service until one of the agents messed up badly.

The customer, James, went elsewhere, but two or three years later reflected on how well he had previously been treated by the firm.

James and his wife decided they should give the firm another chance, but made it clear they did not want to deal with the person who had caused them to go elsewhere. So the owner and the clients went out for a cup of coffee.

Unfortunately, the owner talked non-stop for almost the entire time, leaving his former customers frustrated. They never returned.

You learn more by listening than you do by talking.

TAX CALENDAR

7 May 2020

3rd instalment of 2020
Provisional Tax
(March balance date)
GST for March 2020

1 June 2020

Deadline for Fringe
Benefits Tax returns

30 June 2020

Last day to apply for
annual FBT returns
for those who qualify

28 July 2020

3rd instalment 2020
Provisional Tax
(June balance date)