



CASH FLOW MANAGEMENT TIPS DURING THE TOUGH TIMES AHEAD

With talk of tighter credit conditions, a slowing economy and everyone anxiously watching interest rates, it's important for business owners to keep a tight reign on their cash flows.

If your cash flows are flagging, it's time to focus on your debt collection practices and zero in on collecting outstanding debts from your clients and customers.

Seven golden rules of debt collection

1. ensure your invoices clearly indicate exactly when you expect payment
2. to encourage payment, you may consider offering a discount if the invoice is paid before the due date
3. on the other hand, if your clients are outside your terms of trade you may want to indicate on all your invoices that a late payment penalty applies
4. when your clients are outside your terms of trade, you need to chase them up as soon as possible without damaging your business relationship
5. you should be clear about when you put your debt collection strategy into action:
 - **for business clients**, you may need to take account of their reporting cycles (eg monthly) before deciding when to chase up an outstanding debt
 - **for individual clients**, you may want to chase them up as soon as they are outside your terms of trade
6. your debt collection strategies should cover such things as:
 - whether your first request for payment will be by telephone or email
 - when to make a follow-up contact
 - when you will resort to legal debt recovery assistance
7. you can't get blood out of stone – if you know your client has no money, it may be better to consider negotiating a repayment schedule over a period of time

Can I get any tax relief for bad debts?

No one likes the idea of their clients and customers not paying their accounts, but unfortunately it happens.

If you have been unsuccessful in trying to collect money owed to your business, you may be entitled to some tax relief for bad debts.

In the first place, a debt is likely to be treated as bad for tax purposes if:

- you have made an effort to collect it
- there is little likelihood that you will ever be successful in collecting it
- you abandon any debt recovery action.



If you are in this situation, you may be able to claim a tax deduction for the bad debt (or part thereof) where:

- you have previously brought the debt to account as assessable income
- you have written off the debt as bad during the income year in which you want claim the deduction.

TIP

The bad debt deduction rules can be tricky to apply. If you think your business is going to be in this situation before 30 June 2009, it's important to get advice now to ensure you can claim a deduction for your bad debts.

Minimise your exposure to bad debts

We would all like to stop bad debts happening in the first place, but even with the best forward planning that may not always be possible.

However, you can take steps to minimise your exposure to bad debts by checking on a client's or customer's credit status:

- you may want to consider checking first with credit reference agencies
- you can even do an informal check with other suppliers, to see if there are any potential problems with a client or customer.

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