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ATO SQUEEZE ON DEBT MAKES SME CASH FLOW KING

PRACTICAL TIPS FOR MANAGING DEBTORS AND IMPROVING CASH FLOW

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At a Small Business Summit in July 2015, the Commissioner for Taxation indicated the ATO will now take a more aggressive approach to debt collection and is prepared to wind up insolvent businesses far sooner than it has in the past.

Historically, the ATO has not initiated recovery action until a tax debt was over $340,000 compared to other creditors who initiate action at an average of $93,000. The Commissioner indicated the ATO will move toward that average.

The clear message was that businesses can no longer put tax debts last to supplement their working capital. With 90% of SME failures already caused by poor cash flow, the ATO's position elevates the importance of actively managing the cash flow conversion cycle in your business. It is more than just good practice: it is key to SME survival.

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Adopting the adage that prevention is better than the cure, we provide 8 tips for improving your credit management and cash flow systems.

1. HAVE A CLEAR CREDIT POLICY AND TERMS OF TRADE

Credit policies need to be routinely reviewed to ensure they are appropriate for your organisation's risk profile. Your credit policy should be clearly articulated in writing to all debtors and understood by all staff. Terms of trade should be documented and include prepayments, deposits, guarantees, security and payment terms and any discounts for early settlement. Having terms of trade reviewed by solicitors for compliance and enforceability will ensure there will be no impediment to the recovery process. It is recommended you get customers to accept the terms in writing.

2. KNOW YOUR CUSTOMER

Credit checks for new and existing customers should be carried out routinely to identify issues which can influence credit terms and limits. You should also identify precisely who you are dealing with and (if relevant to your security position) whether (and where) they have assets. For example, there is no point having security over a company if the client trades through a trust.

3. INVOICING AND QUOTES

All quotes, estimates, invoices, contracts, agreements, purchase orders, and related documentation should refer to your terms of trade and credit policy, and information on the nature of work/products supplied, quantities, timings and the structure and method of payment should be clearly articulated in order to minimise any misunderstanding. Invoice as early and as often as possible.

4. DEVELOP AND STRICTLY APPLY CLEAR RECEIVABLE/DEBT RECOVERY PROCESSES

Your process for collections should be clearly mapped out, understood and religiously followed by staff, with the timing of each step in the process (letters/emails/phone calls) very clearly articulated. If you are disciplined in your collections process, then your clients will elevate the importance of paying you on time and will (ironically) reduce your reliance on the actual recovery process. In the event of debtor disputes, payment of the non-disputed amount should always be sought to maintain cash flow.

5. DATA MANAGEMENT AND LEDGER MONITORING

Good debtor management relies on well-maintained information. There are numerous software solutions available to assist business owners in credit management, and increasingly more of them are cloud-based. Data integrity needs to be maintained to ensure that your business has good knowledge of the legal entities to which credit is extended.

Regularly review your credit limits to ensure settings are appropriate for individual debtors.

Routinely monitoring the days outstanding is critical to identifying adverse trends in your debtors' ledger and ensuring prompt action.

6. REGISTER YOUR SECURITY INTERESTS

Ensure security interests are documented and registered on the PPSA. Review them from time to time.

7. BAD DEBT PROVISIONING

Credit management is about safeguarding profitability and provisions for bad debts should ideally be made in any annual or ongoing budgeting process to minimise the risk of impacting on profitability.

8. RECOVERY: GO HARD AND GO EARLY

If prevention fails, then aggressively pursue recovery. The longer you wait, the less likely you are to receive anything. Implement your legal recovery process early. If your client is in financial difficulty and ends up in liquidation, then a payment in your hand is better than receiving nothing even if you do have to negotiate with a liquidator later on.

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