

## Credit still a small-business concern

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Small-business proprietors who want to keep more cash in their pockets will not go short of advice as the end of the financial year approaches.

Roger Mendelson, one of the leading lights in the debt collection business and head of the Prushka agency, has warned businesses to write off bad debts before June 30.

He recommended that businesses reclassify debts as "bad" before June 30 if they wanted to claim tax deductions on unrecovered income.

Otherwise if businesses don't act on that advice over the next day or so, they will pay tax on income they are unlikely to receive.

"Tax laws state that claiming a tax deduction for a bad debt requires a business to make physical efforts to treat them as bad debts before June 30," said Mr Mendelson.

"It is not sufficient to wait until preparation of accounts after the end of the financial year."

This year the pressure is on businesses to protect their cash flow as profit margins are squeezed, banks take a tougher approach in their lending and wage demands are noisier due to low unemployment.

Among his practical advice, Mr Mendelson instructs small-business owners and managers to first get a



Sort bad debts by June 30, says Prushka's Roger Mendelson. Photo: ANDREW DE LA RUE

print-out of their debtors' ledger well before June 30.

Then identify those debts where bankruptcy or liquidation has occurred, and note debts that are more than six months old.

On the ledger, record those debts that are regarded as bad, ensuring the entry is dated.

"If businesses refer their bad debts to a collection agency that agency should be acting strictly on a 'no re-

covery — no charge' basis, because ultimately, spending money on collection activity is not consistent with writing off debt," Mr Mendelson warned.

"In the event the collection agency successfully recovers a debt after June 30, the recovered amount can then be brought back in as income."

Fellow debt recovery firm Dun & Bradstreet also picked up the cash flow pressures on small businesses in

its Business Expectations Survey, which examined the likely outlook for the September quarter.

Among its findings, the survey showed that 19 per cent of executives believed access to credit would be the most important business influence in the quarter ahead. Also, 24 per cent expected wages growth to be the primary influence.

Another indicator of cash flow pressures is D&B's trade payment analysis, which showed a deterioration in payment terms in the March 2010 quarter. On average, businesses are taking 54.1 days to pay suppliers, which obviously makes it tougher for those businesses with limited sources of funds until they get paid.

Into this cash crush have stepped financiers such as American Express, which have benefited from the tougher lending criteria of the banks to help small businesses looking for new ways to access funds and pay business expenses.

Amex reported a 19 per cent increase in its lending to small businesses using its Business Charge Cards in the first four months of 2010, compared with the same period last year.

The card provides sufficient funds to pay business expenses and buy goods for resale each month.

"While banks provide a viable

source of finance for small business 'start-ups' and major expansion initiatives, they are often not the right finance option to improve cash flow, purchase stock and inventory or pay outstanding invoices," said Amex's head of small-business services, Jason Fryer.

As a result, said Mr Fryer, small businesses were looking around for financial solutions that suited them rather than relying on the banks to provide an overdraft.

Veda Advantage's database showed that while business credit demand appeared strong in the first quarter of 2010 — with large increases in business credit cards and phone applications — hesitancy remained around taking out loans.

Business credit inquiries grew steadily in the first three months of 2010. Business credit applications for the March quarter were up an average of 3 per cent over the same period in 2009.

"The long-term outlook appears to be positive, with the small and medium enterprise business sector showing more robust demand than 12 months ago. However some caution clearly remains in the market, with SME credit demand flattening and even starting to decline again," noted Chris Gratton, head of external relations at Veda Advantage.