

Time to claim debts

AS THE end of financial year looms small and medium businesses have been warned to write off bad debts.

Businesses hanging on to unpaid invoices in the hope they will be paid should deal with them before June 30.

If unpaid debts are reclassified as bad debts before June 30 they can be turned into a tax deduction on unrecovered income.

Debt collection agency Prushka said failure to reclassify the debt meant businesses would be taxed on income they were unlikely to receive.

Prushka chief executive Roger Mendelson said many businesses waited until after the financial year's end to review outstanding debts.

"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," he advised.

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

He said resolving unpaid debts would allow businesses to focus on other issues.

Mr Mendelson said businesses should seize any opportunity to increase their cash flow because of reduced profit margins and increased pressure from banks.

"The financial squeeze on business is also coming from wage pressures arising from low unemployment," he said.

Mr Mendelson said if businesses referred bad debts to a collection agency, the agency should act strictly on a no recovery, no charge basis.

"Ultimately, spending money on collection activity is not consistent with writing off debt," he said.

— Claire Heaney

Tackling debt

GET a print-out of your debtor's ledger well before June 30.

MARK the debts where bankruptcy or liquidation has occurred.

MAKE a note of those debts which are more than six months old.

NOTE on a ledger the debts which are being treated as bad, ensuring the entry is dated.

Source: Prushka Fast Debt Recovery