

## A Direct Message from IRD:

### Important message for businesses regarding overdue tax payments, 09 April 2020

Inland Revenue has issued an important message for businesses regarding recent legislative change on the remission of use of money interest (UOMI). The message is intended to provide clarity on the remission of UOMI and other measures available to taxpayers who are struggling to pay their tax in full and on time as a result of the COVID-19 crisis.

#### When the Commissioner will remit penalties and UOMI

To be eligible for remittance of UOMI and penalties, a taxpayer must meet the following criteria:

- the taxpayer has tax that is due on or after 14 February 2020, and
- the taxpayer's ability to pay by the due date, either physically or financially, has been significantly adversely affected by COVID-19.

The Commissioner may exercise her discretion to remit the interest if the taxpayer has contacted the Commissioner as soon as practicable to request relief and has paid the outstanding tax as soon as practicable.

The Commissioner's ability to exercise the discretion applies until 25 March 2022.

#### Significantly adversely affected by COVID-19

It is the Commissioner's view that a taxpayer has been "significantly adversely affected by COVID-19" financially where their income or revenue has reduced as a consequence of COVID-19 and, as a result of that reduction in income or revenue, is unable to pay their taxes in full and on time.

#### As soon as practicable

"As soon as practicable" will be determined on the facts of each case. For guidance, the Commissioner considers the term means that so long as the taxpayer applies for the relief at the earliest opportunity and agrees to an arrangement that will see the outstanding tax paid at the earliest opportunity, or will be paid over the most reasonable period given the taxpayer's specific circumstances, the test will have been met.

#### Information to be provided

If asked, taxpayers should be able to provide at least three months' banks statements and credit card statement, any management accounting information and a list of aged creditors and debtors.

#### No leeway on filing returns

Inland Revenue notes that while taxpayers may have difficulty in paying their taxes on time, it is important that they continue to file their returns on time.

## Credit Management Guide – Tips from our Team

### Overview

The impact of Covid-19 and the resulting lockdown means that it's more important than ever to ensure that you're getting paid.

This guide has been designed to support you to manage your accounts receivable and ensure you're getting paid as much as possible. It focuses on key processes that can reduce your business's exposure to credit risk, including your Terms of Trade, how you conduct credit checks, how you bill and accept payment from customers, how you automate invoicing and payments, and how you manage your accounts receivable.

Your credit management strategy should focus on:

- Reducing the amount of financial risk your business is exposed to
- Increasing the likelihood your business will be paid on time
- Reducing the chances of cashflow disruptions caused by late payments and bad debts

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### Terms of Trade

**You must have robust Terms of Trade in place before offering credit to your customers.**

Your Terms of Trade depict the terms and conditions of a sale and form a contractual relationship between the buyer and seller. Your Terms of Trade allow you to do what you need to do in the event a customer doesn't pay on time, as well as ensuring you maximise your margin and profit and therefore maximising your cash position.

Ensure customers accept your Terms of Trade before they first buy from you. Customers must acknowledge in some way that they've read and accepted your Terms of Trade; it's not enough to simply send them to customers. It's likely some of your terms will need to be updated to reflect changes to your business practices as a result of the impact of Covid-19. Pay particular attention to your payment and delivery terms and how these may need to change.

Review your Terms of Trade and ensure that they cover:

1. Delivery (how, when, cost, late delivery).
2. Installation.
3. Limits on liabilities.
4. Warranties.
5. Details of each party.
6. Payment terms and late payment implications (interest on late payments, cost of pursuing debt).
7. Personal guarantees from company Directors or Trustees of a Family Trust.
8. Price and matters that impact price (tax, estimates vs quotes, variations).

9. Reservation of title.

10. Risk and insurance.

11. Other relevant items (indemnities, governing laws, force majeure, privacy, credit checks, etc.).

After reviewing and updating your Terms of Trade, share them with your customers, highlighting key changes.

Ensure that if you need help developing robust Terms of Trade for your business, get in touch with us. While any updates won't apply to current accounts receivable; it will ensure you have clear terms for customers to adhere to in the future. Contact us if you need help updating your Terms of Trade.

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## Billing and Payments

### Billing

It's essential to invoice your customer immediately after supplying the products or services. The time between the delivery of the products or services and receipt of payment should be as short as possible.

Utilise online billing software, such as Xero/MYOB, to invoice customers. Clearly identify the amount due, due date and payment options on each invoice. Make it as easy as possible for the customer to pay, e.g. direct debit, direct credit, online payments or credit card.

We recommend including a statement on all invoices and statements acknowledging the impact Covid-19 will be having on your customers, for example:

*We understand that financial pressure is inevitable over the coming months and we'll do all we can to support you through this. We do want to stress, however, that as a business, we're facing the same financial pressures as you, so your immediate attention to this account is appreciated.*

*To this end, if you're not in a position to pay an invoice in full, we ask that you communicate this early by calling us so we can work together and discuss your options. Thank you in advance for your co-operation and support.*

### Payment Terms

Review your current payment terms. Consider:

- Shortening your payment terms, e.g. from 20<sup>th</sup> of following month to 10 days after invoice
- Offering additional payment alternatives, e.g. credit card, direct debit, online payments offering a small discount for prompt payment

The best-case scenario is for customers to pay on receipt of invoices, however, many businesses will be struggling with cashflow right now and you may need to offer them additional flexibility, for example:

- A partial payment within the next week with the remainder paid at an agreed future date
- An instalment arrangement to spread payments over a specified timeframe (e.g. 6-12 months)
- Use of a fee funding or invoice funding service

## Debtor Management

You need to have a debtor management process in place to ensure overdue accounts are followed up as soon as they become overdue. Your process should cover:

- Exactly when debtors are to be followed up, e.g. the day after payment is due
- How often debtors are to be followed up
- Alternative payment methods available
- Use of 'copy' invoices or an 'overdue' invoice layout for customers who need to be rehabilitated
- Use of one-off payment terms or special pricing terms based on current debt

### Review your debtors

Ensure that your debtor information is up to date and that all payments have been reconciled. Ensure that for each debtor you're clear on:

- How much is outstanding
- When the account was due
- Whether there has been any variation to the payment terms
- Who the contact person is
- If a business, who authorised the work
- Details of the work completed

When you have all this information, prioritise the follow up of your debtors, starting with those most overdue. Remember that some businesses will be more affected by the impact of Covid-19 than others, so be mindful of this when following up and requesting payment.

### Referral to an external debt collection agency

It may be reasonable to refer certain customers to an external debt collection agency if they repeatedly fail to pay or respond to your requests for payment. If a customer is unable to make payment, it seems pointless referring the account to an external agency. In addition, you need to consider the potential damage you may do to your brand if you appear to be behaving aggressively in such extreme times.

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## Additional strategies to maximise prompt payment

Implement the below strategies to encourage prompt payment:

- Be upfront from the beginning, explaining 'how we do it here'
- Quantify prices in advance
- Invoice regularly
- If the work required spans a period of time, consider progress billing
- Provide payment options
- If a service provider, consider agreed fees
- Follow up debts systematically and frequently
- Articulate the value of the work provided
- Build a strong relationship with the customer