

Guide: What if debtors still don't pay

You really don't want to write off bad debts. All you invested in the sales cycle (not to mention the effort invested in trying to recover payment) and the profit margin you expected to earn on the transaction is lost.

Consider carefully whether to write-off a bad debt and at what stage in the collection process to hand over the debt to a collection specialist. The decision to incur further costs to chase relatively bad money is not always easy. If you intend to claim a tax deduction for bad debts you have written off, make sure your documentation is in order.

Credit insurance

Credit insurance may be a good idea, especially where a large percentage of total sales are made to a small number of customers.

There are relatively few credit insurers in New Zealand. Before approving an application for cover, the insurer is likely to run credit and other checks on a selection of your larger customers.

Where the business relies on a small number of customers, perhaps even only one, the insurer is likely to request full financial statements and other detailed information from the debtor/s.

Debtor finance

It may be possible to shift the risk and restore cash flow using a debtor finance strategy. Debtor finance can provide immediate access to cash tied up in the debtors' ledger. There are various forms of debtor finance:

Term	What it does...
Factoring	Allows you to raise finance based on the value of your outstanding invoices. The factoring house pays you for the outstanding invoices and takes on the risk of getting paid (see the guide on Factoring).
Invoice Finance	Maximises your cash flow by funding up to 80% of the value of your credit sales invoices. The BNZ website which has some useful tips on invoice finance .
Invoice Discounting	Allows a business to draw money against its sales invoices before the customer has actually paid. The business borrows a percentage of the value of its sales ledger from a finance company, the unpaid sales invoices as collateral for the amount borrowed. Unlike factoring, you don't have to commit your whole debtors' book to the invoice discounting firm.
Fee Funding	Allows the supplier access to their cash immediately, while providing a seamless, low cost funding facility for their customer. Customers complete an instalment plan and pay off the bill by direct debit over time, for example, over 6, 10 or 12 months. It's typically available to professional services businesses such as accounting or legal firms. The smartAR Group's website has more information.

A quick web search on "debtor finance", "factoring", or "invoice finance" will turn up various companies offering debtor finance products. For further information, refer to our guide on debt factoring and invoice finance.

If you would like to discuss debtor finance options suitable to your business, please contact us.

Debt collectors

Most debt collectors charge a sliding commission scale depending upon the amount of debt but there's often also a minimum fee. Arrangements vary but a combination of upfront fee plus commission on actual collections (as high as 30% of the total debt) is common.

Some debt collectors prefer to work for large businesses. Shop around to find someone prepared to do it for a reasonable price. Check that the collection business is reputable and will not resort to heavy-handed stand-over tactics.

Ask your industry association, local Chamber of Commerce, or business contacts who they use for debt

collection and how efficiently the process was handled. Most of the main debt collection agencies belong to Associated Credit Bureaux NZ (ACB), so before hiring a debt collector ensure you have proof that the person or company is a member. Before hiring a debt collector, ask for proof that the person or company operates a trust account.

Remember! If the debt collection agency you use charges collection costs and your debtor will be liable for these, you must have advised the debtor of this when they bought (or ordered) the goods or services (for example in the terms of trade).

Taking it to court

If all else fails, taking the matter to court is your last resort. Traders used to take bad debts to the Small Claims Tribunal. This has been replaced by the Disputes Tribunal. However, the Tribunal only has jurisdiction to deal with debts that are in dispute — in other words, it cannot be used as a debt collection agency. Matters where there is no dispute, but the debtor just has not paid the debt are processed through the District Court. See the guide on the Disputes Tribunal and the District Court.

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