

# the bottom line

In this edition of "the bottom line" we consider debt collection techniques, VAT on bad debts and old supplier invoices and News in Brief.

## Debt Collection

In the current economic climate it is vitally important for credit checks to be undertaken for new and existing customers. Businesses should establish credit limits and regularly review balances and ageing of debts. Special consideration should be given to customers in risk industries such as retail, financial services etc.

There are many methods of debt recovery that may work for different businesses or for specific customers. It is necessary to assess the most appropriate cost effective method of collection considering the internal resources available. Collection of debts by Court Action is costly, both in terms of money and time, and so where possible it should only be used as a last resort.

It may be possible to hire a debt collection agency to recover debts. They may be paid a percentage of the debt recovered as well as a fixed fee, which can prove expensive. Using such an agency reduces the time and hassle incurred by the business. They are also specialised in the field of debt collection and should therefore be more efficient. Provided the agency handles the matter in a professional manner there should be minimal risk of losing the customer.

It is also possible to use solicitors to recover debts. They can provide pre-litigation debt recovery services

by sending letters to the debtor and following up with phone calls. Fees are often fixed in advance, in order to avoid high charges.

There are alternative dispute resolution techniques where the debt is not settled due to an unwillingness to pay rather than an inability to pay. Negotiation, mediation, arbitration and conciliation are useful tools that may be used to recover debts achieving a custom made solution to the dispute possibly giving rise to a win-win outcome.

However, if the alternatives do not bear fruit, court action may be the only feasible option. Legal action is likely to sever the business relationship with the customer and before proceeding you should consider the strength of your case, proof of your claim, degree of risk of a counterclaim, available time and resources to pursue the debt through legal channels, and the financial position of the debtor as even if the claim is successful, the debtor may be unable to pay and further costs may have been incurred unnecessarily. If a creditor succeeds in getting judgement the customer is required to pay the sum claimed, probably with costs and statutory interest. If they still do not pay, the creditor will need to enforce payment which can mean further time and costs.

The Late Payment of Commercial Debts (Interest) Act was enacted in 1988 and gives businesses a statutory right to claim interest on

late payments. This has not been particularly successful as businesses are reluctant to use it for fear of upsetting important customers. Nevertheless a business can use this legislation to warn their customers that interest may be charged.

Legal action should only be used as a last resort. If you require any assistance on credit control procedures or how to enforce payment, please contact us.

## VAT on bad debts and old supplier invoices

Where businesses account for VAT on an accruals basis they often end up accounting for VAT on debts for which they have not yet received payment. Bad debt relief allows businesses that have made supplies on which they have accounted for and paid VAT but for which they have not received payment to claim a refund of the VAT by reference to the outstanding amount.

In order to make a claim a business must satisfy the following conditions:

- goods and services have been supplied and the VAT in question has been accounted for and paid;



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- six months has elapsed since the later of the date of supply and the due date for consideration;
- all or part of the outstanding amount must have been written off in the accounting records as a bad debt.

A claim is made by entering the appropriate amount in Box 4 of the VAT return for the period in which entitlement to the claim arises (or any permissible later period).

Businesses making bad debt relief

claims must keep records for four years from the date of the claim to show:

- the time and nature of supply, purchaser and consideration - normally a VAT invoice will show this;
- the amount of VAT and the accounting period it was paid to HMRC;
- any payment received for the supply;
- details of entries in the 'refunds

for bad debts account'.

Consequently, where a business has not paid a supplier within six months of the date of the supply or, if later, the date payment is due, VAT previously claimed as input tax, must be repaid. This puts a burden on all VAT registered traders to monitor their transactions to anticipate whether they need to reverse any input tax recovered on goods received from suppliers.

## NEWS IN BRIEF

### National Minimum Wage

The principal national minimum wage rates were increased from 1 October 2008 to £5.73 per hour, with the rate for workers between 18 and 21 increased to £4.77 per hour and the rate for workers aged below 18 increased to £3.53 per hour. In addition, the system for enforcement has been overhauled and strengthened with new mechanisms for calculation of underpayments and penalties.

### Accounts Filing Deadlines

As a result of changes introduced by the Companies Act 2006, there are new deadlines for the filing of accounts with Companies House. At present a private company is required to file its accounts within 10 months of the accounting reference date. For accounting periods commencing after 6 April 2008 the period allowed for filing for a private company has been reduced to 9 months e.g. for accounts for the year to 30 April 2009, these accounts will need to be filed by 30 January 2010 rather than 28 February 2010.

For a public company the previous 7 month filed deadline has been reduced to 6 months with effect for accounting periods commencing on or after 6 April 2008.

There are special rules for filing deadlines in the first accounting

## Late Filing Penalties

With effect from 1 February 2009, accounts that are filed late with the Registrar of Companies will be subject to increased penalties. The penalties have not been increased since their introduction in 1992 and it was also considered that a greater penalisation for persistent defaulters and accounts that are very late should be introduced. The revised penalties are:

How late are the accounts?	Penalty for private limited company	Penalty for public limited company
Not more than one month	£150	£750
More than one month but not more than three months	£375	£1,500
More than three months but not more than six months	£750	£3,000
More than six months	£1,500	£7,500

In addition, where there was a failure to comply with filing requirements in relation to the previous financial year (provided that financial year had commenced on or after 6 April 2008) the penalties shown in the table will be doubled.

period, or where the accounting reference date has been changed in the period. The deadlines apply to LLP's as well as limited companies.

### Corporate Enquiry Periods

For accounting periods ending after 31 March 2008, the enquiry window in respect of corporate tax returns has been amended to 12 months from the date of receipt of the return by HMRC, provided the return was filed on time. Previously the window was 12 months from the due date for filing. This encourages companies to now file their returns early as it may provide certainty that a return will not be

enquired into sooner.

The changes apply to the majority of companies, with the exception of companies in groups that are not classified as small groups. There is a requirement to report this fact on the return and a new check box has been introduced on the front page of the return.

### Interest Rates

With significant reductions in bank base rate, HMRC have published new rates on direct and indirect taxes and national insurance contributions effective from 6 December 2008. Further reductions are likely should the base rate further reduce. Please contact us for current interest rates in force.

#### Contacts:

For further information about the issues raised in this newsletter or if you would like to find out about the range of services that we can offer, please contact Stephen Dabby, Morisha Christy, Tony Sian, Nick Nicolaou or Alex Green.