

## **How To Avoid A Financial Crisis**

Author: Robert Warlow, Small Business Success

***Having a superb product, soaring sales and stupendous customer service are undoubtedly some of the things which go into making a successful business. But all of this is irrelevant if you suffer a financial crisis.***

So what can you do to ensure that all your hard work is not in vain? What can you do to make sure that a financial crisis doesn't rock the boat or even sink it? Let's take a look at what can cause these jolts and, more importantly, what you can do about it.

### **Poor Record Keeping and Administration**

Business owners are usually not good record or bookkeepers! People who start businesses are the ones who have great ideas, see a gap in the market or have the personality to sell anything. They are not people who jump out of bed in the morning and say "Great, it's a VAT and paperwork day today!"

If you are to keep your business on the straight and narrow then you have to accept that there are going to be days like this; you can't avoid it. You must keep records of your sales, your purchases, how much you have, how much raw material or finished goods you hold.

Without these records you will very quickly lose track of where you are. You won't know:

What you have spent your money on

You won't know where your cash is going

You won't know where all your stock is – has someone stolen it? Who knows?

You are effectively working in the dark and this is not conducive to financial stability. So what sort of records are we talking about? Nothing sophisticated. It can be as simple as a book with one page for your income and another for your expenditure. At least once a month total it all up to see how money you have made (I hope!). There's a saying. 'The people who keep records are the people who break records' – so true.

### **Not Watching Your Bank Balance**

Do you know exactly what your bank balance is today? Why is it important? Because if you are going to write a cheque you must know whether you have the money on your account. If you don't that nasty Bank Manager may just bounce it.

Obviously this can have a negative effect on your reputation; your credit will be damaged and you may struggle to get support from your Bank and suppliers in the future. All because you didn't check what your balance was.

To avoid this make sure you keep a running total in a cash book of what you have on your account. Why not sign up for Internet Banking? These days all the High Street Banks make this facility available, so there is no excuse for losing track of where you stand.

### **Poor Cash and Credit Management**

Closely linked to keeping an eye on your Bank balance is how you handle your cash flow. There are 3 aspects to this.

1. Don't be tempted to keep too much at your home or on your business premises. You could lose it to thieves, fire or flood.
2. If you are doing 'business-to-business' sales then you may be faced with having to sell on credit. If so then be disciplined in chasing up any outstanding payments. You can't afford to be embarrassed about asking for a cheque. If you have agreed 1 month credit, why wait for 3 months? Chase as hard as you can because remember you have your own debts to pay!
3. You may be lucky to have a period of credit granted by the people you buy from. If they give you one month's credit, then stick to it. If you decide to hold onto your bills before paying you may be faced with a Solicitor's letter. Don't ignore the problem and hope the phone calls will go away - they won't!

### **No Cost Controls**

To keep yourself in a strong financial position shop around for purchases you have to make. Compare prices and specifications. Have an upper limit beyond which you will not pay. Always be on the lookout for a good deal.

### **Spending On the Wrong Things**

Running your own business can be a very powerful feeling! You may be tempted to spend on anything but the business – a new car, flash clothes, a new kitchen. Well, you have to look the part don't you??

During the early years and even when you are established make sure you spend your hard earned cash on the right things. The trappings of success may not be right at this stage of your business life. Your business, in order for it to grow, needs cash. Remove the cash and you remove the life blood which keeps your business alive.

You have to be disciplined in your expenditure and ask yourself the question, 'Will this cost add anything to my business?'. Don't act on impulse; go away and think about every large expenditure. If the answer to the question is no, then you should think twice about spending.

### **Failing To Make Cuts in Time**

Failing to make the necessary cuts to ensure the survival of your business is something you cannot afford to do. If you spot you have a problem do something about it! Don't sit back and hope things will get better; the chances are it won't.

If you have product or service which is not performing and it's costing you money don't try and dress it up – be ruthless and cut it out. Make your decision quickly; don't hang about. Not acting fast will only compound the problem.

### **Depending On a Small Number of Customers**

Having a small number of customers is not a problem when everything is going well, but if one or two leave you or fail to pay up on time, then this can cause problems.

If you depend on 3 customers and one of them leaves then you are faced with a 33% reduction in sales. Unless you can replace him immediately you may not be able to cut your overheads quick enough to avert any crisis.

You cannot afford for your business to be held to ransom. Try and diversify as much as you can. Get out there and get new customers.

The same applies to businesses which rely on only one or two products. A shift in public tastes can leave you high and dry with unsold stock and no business!

### **Not Having a Budget**

One good financial discipline is to have a budget. At the beginning of each year sit down and, based on your previous year's income and expenditure, set new targets. Look to see where you can cut back in expenditure or even what to cut out all together.

Armed with your budget you will have a guide to work to. This will be a second check before you make any large unnecessary purchases.

Having a budget will provide discipline to your expenditure. At the end of every month up date it by including your actual income and expenditure then compare your budget with the actuals. Going through this exercise will give you more focus and what your business is doing. It can help you put things right by highlighting the problem areas.

### **No Contingency Plan In Place**

Bigger businesses need to have a contingency plan for all parts of the business. A contingency plan is basically a plan which answers the question, "What would we do if this happened ...?"

What is your "if"? What if you lose your premises? What if your computer goes down?

For a small business the biggest risk is you! What would happen to your business if you fall ill or even die? Most small businesses are totally dependent on the owner. You do everything!

If you are ill enough for one or two months that you can't work who will see to the customers? Who will get new ones? Who will see to the paperwork? Who will collect the money owed to you?

These are important questions you must answer now. You have to identify someone who could fill in for you if you are to avoid a potential financial crisis. Your next step is to write a manual on how your business works, and outlining all the key processes. If something does happen then at least there is a path to follow!

### **Not Talking To Your Bank Manager**

As soon as most people see a financial crisis looming the person they try and avoid most is their Bank Manager! If they see him walking on the same side of the road they will cross to avoid bumping into him.

The Bank Manager is usually the first person you should speak to. Bank Managers like to be kept up to date with what is happening in your business. They don't like surprises. It's when they are kept in the dark they make decisions that can have a major impact on your business.

You must resolve to talk to your Bank Manager the moment you suspect there is a problem. Who knows, he may surprise you by offering to do something to help!

Financial problems can usually be avoided by taking a step back from the business and thinking about what can go wrong. Once you know that, then you can take actions to put preventative measures in place before it's too late.

#### **About the Author**

Small Business Success is a resource dedicated to helping small business owners be more successful. If you are looking for a regular flow of ideas and tips then subscribe to Small Business Success a free newsletter, which provides you with quick tips, ideas and articles. <http://www.smallbusinesssuccess.biz>

## **A SARS investigation should not deter a small business from applying for the tax amnesty**

Author: Dynamo Africa

***There is a widespread belief that a small business which is currently under investigation by SARS cannot apply for the small business tax amnesty.***

Bennie Botha, a tax partner at PricewaterhouseCoopers, says that this is not what the Small Business Tax Amnesty Act says. "What the Act says is that the Commissioner cannot approve an application for amnesty if, before the application is submitted, SARS has given the applicant notice of an audit or investigation."

This, says, Botha, is somewhat ambiguous. He points out that the Act does not specifically say that a business that is undergoing a tax investigation or audit is not permitted to submit an application for amnesty. In Botha's view, if the business would otherwise qualify for amnesty, it should submit an application for amnesty before the application period closes at the end of June. This, at least, gives the taxpayer a foot in the door. Botha's advice is – if in doubt, taxpayers should always apply for amnesty, because the application is simple, relatively inexpensive, and there is nothing to lose.

Botha says there are ambiguities in section 5(2) and 5(4) of the Act, and that, "It is arguable that, if a business which, in all other respects would qualify for amnesty, is under investigation or audit by SARS, and it submits an application for amnesty and the investigation is in due course withdrawn or the audit is concluded in the taxpayer's favour, amnesty must be granted." A business which is under audit or investigation and which submits an application for amnesty may also be able to argue, on technical grounds, that the notice of investigation or audit was defective and invalid.

Botha points out that, in terms of the Amnesty Act, the statutory pre-conditions for the granting of amnesty are compliance with sections 2, 3 and 4 of the Act. The Act is clear that if these are complied with, then SARS must grant amnesty. Not being under audit or investigation is not stated to be a pre-condition for the granting of amnesty.

Botha says, further, that one of the vaguest, and arguably most unfair provisions of the Amnesty Act is the section stating that no amnesty can be granted in respect of tax that is payable or becomes payable as a result of information furnished to SARS by the applicant in any return, declaration, or otherwise before the submission of the application for amnesty.

The scope of this provision, he says, is uncertain. It is clear that it covers the situation where a taxpayer, before submitting an application for amnesty, had confessed to SARS that he had failed to disclose certain pre-2006 income. In that event, this provision disqualifies the taxpayer from being given amnesty in respect of that income.

However, Botha says this provision may also mean that SARS could deny amnesty to an applicant on the grounds that, "in consequence of what you had previously told us in your tax returns and/or our correspondence with you, we had by a process of deduction determined that you had derived certain undisclosed income – even though we hadn't yet got round to issuing an assessment – so you don't qualify for amnesty in respect of tax on that income because it became payable as a result of information which you had given us".

Botha says that a taxpayer, refused amnesty on these grounds, should object to the refusal of amnesty and take the matter on appeal to the Tax Court, but he would bear the onus of proving that the decision to refuse amnesty was wrong.