Veda: Federal Budget potentially leaves SMBâ€™s exposed to credit risk

SYDNEY, Australia, 26 June 2012 With the start of the financial year just days away, Veda, Australias leading data intelligence and insights company believes that the Federal Governments asset write-off scheme will not be robust enough to assist all small businesses in FY13 and those who do take it up potentially are exposed to higher credit risk.

For those businesses who take up the incentive, there is also a risk of businesses overcommitting themselves as they acquire additional credit to purchase new assets, Vedas Head of Commercial Credit & Procurement Risk, Moses Samaha said.

Its obviously very important to closely manage the credit you take on as a small business and there are simple steps you can take to manage risk. First and foremost you need to work out if you can afford to borrow in the first place, plan your budget appropriately to see when you spend your money and how much you can afford in repayments, added Samaha.

Allow for interest rate rises and anything that might affect your future income, ensure you make regular and sufficient repayments to keep the credit debt below the agreed limit and be aware of penalties if you miss a payment.

Its crucial to keep your cash flow coming in greater than cash flow going out staying on top of this is a key success factor to keeping your business running and driving revenue. These are all simple tips but they seem to be the same traps that SMBs continue to fall for and they can be easily avoided.

The new small business instant asset write-off scheme introduced in the 2012/13 budget allows businesses with a turnover of less than A$2 million to write off each eligible business asset costing under A$6,500. The purpose of the scheme is to provide an injection of funds for businesses to invest in new ideas.

Vedas data shows that as the asset write-off scheme wound down in 2009 under the Rudd stimulus package there was a dramatic spike in asset finance. However Moses Samaha said that he believed that there wont be another asset finance spike in FY13 due to the asset value cap not being high enough.

There really wasnt enough bite in the Federal Budget. I believe SMEs were really counting on the promised one per cent corporate tax cut that was associated with the mining boom to ease some of the pressure. It is good to see that recently the Prime Minister is seriously reviewing this decision, said Samaha.

Small businesses are certainly the most credit active in the market but we dont think we will see a repeat of what occurred in 2009 due to the cap on the $6500 asset value.

Vedas Business Credit Demand Index for January-March 2012 showed that small to medium sized businesses (SMBs) generated the greatest amount of credit activity. SMBs account for only 6.5% of all businesses but they were responsible for 42% of commercial credit enquiries in the March quarter. There was also an increased use of credit lines such as trade credit, corporate credit cards and over drafts.A recent report from the RBA showed that small businesses were hit harder by the global financial crisis and have found it more difficult to recover than larger businesses in Australia which could drive SMEs to overcommit when trying to benefit from the new scheme.

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