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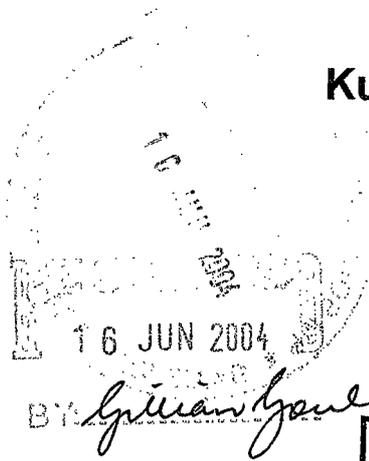
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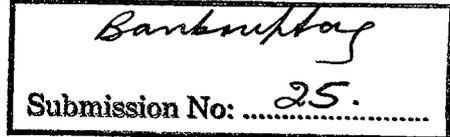
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4 June 2004

Senator Bronwyn Bishop
Chairperson

House of Representatives Standing Committee on Legal and Constitutional Affairs
Parliament House
CANBERRA ACT 2600



Dear Senator Bishop,

Bankruptcy Legislation Amendment (Anti Avoidance & Other Measures) Bill 2004

I wish to register my personal deep concern that the legislative changes referred to above could be enacted in a form represented by the recent Exposure Draft.

I am 51 years of age, in business as a consulting engineer and I have always taken a prudent and conservative approach to the conduct of both my business career and my personal financial position.

Your proposed legislative changes effectively lift the corporate veil. Clause 49 of the Exposure Draft EM states ".....while asset protection arrangements are not uncommon the Government considers that they should not continue ..."

There is absolutely no doubt that the corner stone of the private enterprise system is the survival of the availability of limited liability.

My understanding of the law that was being considered, was that it was to be based on the joint task force report "Use of Bankruptcy & Family Law to Avoid Tax "

The draft of the proposed legislation makes no mention of tax avoidance and has the effect of being retrospective legislation that attacks the related assets of every person who becomes bankrupt for whatever reason.

The Attorney-General has apparently stated that professionals should have insurance cover and thus the legislation should not affect them.

The heart of the matter is indeed insurance cover, which in this case means professional indemnity (PI) insurance. I am not raising an issue about the cost of PI insurance – that is being dealt with elsewhere. The issue here is that PI insurance is simply becoming less or not available, and this proposed legislation would remove all other protection from the professional.

You possibly have heard of other professionals with real life stories like mine. My PI cover was arbitrarily reduced by the insurer from \$5 million to \$2 million last year,

and then this year the \$2 million PI that I could get, won't cover certain parts of my practice. I have no ability to go elsewhere, because other cover simply isn't available.

This proposed legislation would mean that professionals who:

- are losing the protection of PI irrespective of price,
- now could lose their family home, their wife's assets and all other asset protection devices such as trusts if a PI claim succeeds against them personally and bankrupts them.

It is clear that no consideration has been given to the following consequences of this legislation.

- A person in business who has a "no fault bankruptcy" such as due to a bad debt or inability to insure is being penalised for trying to protect their assets for their family.
- Single people would get no relief from any seizure orders as they have no other parties to consider for hardship.
- "Long tail" litigation could be uninsurable for engineers, doctors and other essential professional persons who may get sued long after an insolvency event happens and any assets held would be at risk. For example a doctor who is sued 10 plus years after a negligence takes place.
- With recent case law on liabilities for non-executive directors of companies, non-resident directors' indirect assets would be at risk. This is likely to cause a reduction of investment in this country.
- Professionals and business people who take risks are likely to reduce their exposure to risk and this will have a direct impact on people wanting to go into business and employ people. This will have a direct impact on employment and GDP over time.
- Banks and other lenders will be forced to take further security to counteract the effect of the legislation, which will reduce returns to unsecured creditors, thus defeating the alleged objective of the proposed legislation.
- People close to retirement who lose assets held in related entities will become a burden on the social security system and medical system, as they will never recover financially or mentally from losing everything.

I support legislation that stops tax avoidance through bankruptcy, however it needs safeguards that:

- Allow people who legally have assets in related entities and who become bankrupt, to retain assets that have not been deliberately diverted JUST PRIOR to bankruptcy to avoid their tax or other responsibilities. This is relatively easy for a bankruptcy trustee to determine.
- Keep the existing limits of relation back periods.
- Modify the legislation to specifically make it applicable to tax avoidance.

- Remove the onus of proof on the bankrupt - the current legislation effectively means a bankrupt is guilty until he or she proves themselves innocent.
- Restrict access to assets by a Trustee, regardless of how held but external to the bankrupt, tied to the age of the tax debt.

Why I should gamble with my family's future every time I take a business risk?

In future if a negligence claim arises or is threatened, the plaintiff's advisers will know that as well as pursuing my insurance cover they can now threaten to seek assets held by my family created more than 10 to 20 years ago as a result of prudent and conservative planning.

My intention has always been to be self sufficient in my retirement and not to depend on Government Social Security in my retirement years. Your proposals now put this at risk.

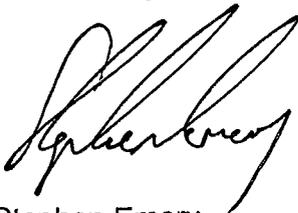
This legislation does not just apply to professionals; it applies equally to any contractor conducting their business through a corporate entity.

The simple solution to the mischief of those who brought about this change (the NSW Barristers) is to preclude them from practising their profession and pursue them for tax fraud, rather than to target those who have caused no mischief. Why has this not been addressed? In addition the Tax Office needs to be more vigilant in pursuing debt recovery.

I intend to raise the profile of this issue in the public arena to highlight the inappropriateness of this legislation.

I would be pleased to discuss this matter further with you or one of your officers should that be appropriate.

Yours sincerely



Dr Stephen Emery

cc The Hon Phillip Ruddock MP
Attorney General
House of Representatives
Parliament House
CANBERRA ACT 2600