

Parliamentary Joint Committee on Corporations and Financial Services Inquiry into Corporate Insolvency in Australia

Question:

Respond to the Australian Institute of Credit Management's (AICM) proposals to reduce the threshold when the Australian Taxation Office (ATO) may report a debt to credit reporting bureaus from \$100,000 to \$10,000.

Answer:

On reviewing the transcript from the hearings, the primary reason provided by AICM for this reduction is that providers of credit are not aware if a person's "ATO payments are up to date" and that greater disclosure of tax debt by the ATO is needed so they can "make a fully informed decision."¹

We agree that to assess credit risk ascertaining the total debt exposure of a business against the risk appetite of the lender is paramount. In respect of tax liabilities, there are no prohibitions on a provider of credit asking a person for a copy of their Running Balance Account with the ATO to verify that tax obligations have been met. If a person declines to provide this information, that action will form part of the credit assessment. Further, a credit provider should register their security interest on the Personal Property Security Register so, if the borrower defaults, they are a secured creditor.

Therefore, we do not support AICMs' call for a reduced threshold of \$10,000 to increase transparency as its members can already simply ascertain a tax debt and protect their business.

The purpose of empowering the ATO to report a debt to credit reporting bureaus is to provide the ATO with another tool to encourage taxpayers, even with a sizable debt, to engage with the ATO and commence paying their collectable tax debt. The extensive consultation prior to enacting this law sought a threshold that would balance the investment of the limited resources of the ATO with preventing tax avoidance that disrupts an even playing field. We remain of the view that the current threshold of \$100,000 strikes the right balance between the commerciality of the ATO collecting tax due and incentivising businesses to seek an arrangement to pay their tax debt.

It is important that the resources of the ATO are applied in a cost-effective manner and collection of tax due is directed by interrogating the database accumulated by the frequent reporting by businesses. For example, across the debt levels of small businesses in FY20, only 2.5 per cent owed greater than \$100,000 yet represented 39 per cent of collectable debt due from small businesses.² The majority of small businesses, 86.71 per cent, owed less than \$25,000³.

This would suggest the ATO collection efforts are, in the first instance, best directed at the 2.5 per cent of small businesses that owe upwards of \$100,000. We consider that the threshold of \$100,000 remains appropriate.

¹ Proof Committee Hansard, Corporate Insolvency in Australia, Tuesday 28 February 2023, page 18

² *ibid*

³ Inspector General of Taxation, Investigation and Exploration of undisputed tax debts in Australia: Key messages from the report, June 2021, page 17