

How the ATO will help small businesses with tax debts

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To his credit, the Tax Commissioner Michael

D'Ascenzo has for many months been saying that the Tax Office would help small businesses manage their tax debts through these difficult economic times. And I have written about this on several previous occasions. It is however (and not unreasonably so), a two-way street - the Commissioner expects SMEs to hold up their end of the bargain and to meet any concessional payment arrangements negotiated. The Australian Tax Office will not be taken for a ride!

D'Ascenzo warned that, where necessary, the ATO will take action to collect tax debts in relation to taxpayers who have not worked with the ATO to meet their payment obligations or continually default on agreed arrangements. "It's about fairness for all taxpayers and ensuring that businesses can operate on a level playing field," he said.

The Commissioner emphasised that the current economic climate makes it important for the ATO to provide an empathetic approach to individuals and viable businesses that may be in financial difficulties. For example, he said it was more important than ever for the ATO to "differentiate between businesses likely to remain viable, if given reasonable latitude, and those that show little prospect of surviving the present downturn".

In the last couple of days, the Tax Office has also announced new measures to help businesses with annual turnovers of less than \$2 million (so-called 'micro businesses') that are struggling to manage their tax debts. Highlighting the extent of the problem, the Commissioner says there are currently about 706,000 such businesses that have a tax debt and they in total owe the ATO some \$6.5 billion - no small beer!

In addition to that, as at the end of April 2009, the ATO says it had 7% more tax debt cases under arrangement than it had 12 months previously. Collecting and managing tax debt is a big ticket item for the ATO.

Interest-free payments

As one of the new measures, the Tax Office is offering 12-month general interest charge (GIC) free payment arrangements (until 30 June, 2010). This offer is available to all businesses with an annual turnover of less than \$2 million who have an activity statement debt.

The Commissioner said the ATO recognises the pressures on small business and does not want the GIC to be the difference between a business surviving (and being able to meet its tax and superannuation obligations) and the insolvency of that business.

For these businesses, payment arrangements (activity statement and income tax) negotiated from 1 June, 2009 until 30 June, 2010 will have GIC remitted in full for the period the payment arrangement is maintained (up to a maximum of 12 months).

Businesses need to contact the ATO on 13 11 42 as early as possible if they would like to take advantage of this offer.

Deferral of activity statement liabilities

The ATO is also offering deferment for up to two months of the payment date for activity statements. This will operate as follows:

- Micro businesses facing short-term financial difficulties can contact the ATO on 13 11 42 (8am to 6pm Monday to Friday) to request a deferral of payment on their next activity statement.
- A deferral of up to two months can be granted for quarterly and annual payers and up to one month for monthly payers.
- Activity statements still have to be lodged on time.
- The deferral applies to activity statements which are required to be lodged and have not yet been lodged.
- No interest applies for the period of the deferral.

Credit card payments - pilot scheme

In a first for the ATO, in February this year it introduced a credit card pilot scheme for tax payments. The Commissioner said that offering credit cards as a payment option provided taxpayers with greater choice and convenience "but taxpayers have to pay an extra fee to their credit card provider". By the end of May this year, around 8000 payments worth \$24 million had been made by credit card.

Other measures

Other measures on offer to small businesses include:

- In the 2009 Federal budget, the Government proposed to reduce the GDP uplift factor from 9% to 2%. The Bill to implement this has been introduced into parliament and has been passed by the House of Representatives without amendment. The Senate is due to debate it next week.
- The Commissioner is reducing the GDP uplift factor used to calculate GST quarterly instalments for the 2009-10 income year to 2%.
- The ATO has been encouraging people to vary their tax instalments downwards in line with their likely end of year tax performance. The Commissioner said "people can be confident that the variation shortfall penalty will not be imposed if reasonable steps are taken to get the variation right". Getting the variation right can present its own problems, but the intention is admirable and the help of your accountant is important here.

ATO targets certain business sectors

While a helping hand is available from the ATO, it has also warned there are several business sectors that are attracting its attention, particularly in the cash economy:

- The home renovations sector. The Commissioner said the ATO noticed that, in tough economic conditions, some householders change their plans, from selling their homes and buying other premises to maintaining and upgrading the accommodation they already have - this can lead to an increase in home renovation work and tax obligations related to that need to be met.
- Some sections of the retail industry such as small value, high turnover retailers.
- Certain sections of the hospitality industry, particularly those establishments offering lower cost products.

An example

The ATO said it selected a plumber for audit after he lodged income tax returns with net business losses of \$84,000 over a two-year period. On completion of the audit, the ATO found that the plumber had understated his net business income by \$394,000 over two years. This led to a GST adjustment of \$46,000, an income tax adjustment of \$102,000, and a 75% administrative penalty. The case is being considered for prosecution, the Commissioner said.

A pragmatic approach

The Commissioner said the ATO is seeking to provide the "latitude and support that give businesses the best chance of survival". The offer is genuine.

The rationale is probably quite simple - in the current circumstances, and up to a certain tipping point, some tax is better than no tax at all and a business being forced into bankruptcy. A bankrupt business means no tax collected and employees (and the business owner) out of work. The revenue suffers. The ATO knows that. The Government knows that. It's a pragmatic approach to a difficult problem brought about by difficult circumstances - but it won't last forever.

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