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Tax chief and insolvency experts expect rise in company collapses

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Tax commissioner Michael D'Ascenzo has foreshadowed the rise in insolvencies this year, reportedly telling public service union officials that the agency would need to beef up its resourcing in debt collection areas.

The comments were made at a meeting with union officials to discuss the effects of the Government's November "mini-budget".

According to a report in the *Australian Financial Review*, the ATO said in a union briefing that "the current financial climate and recent case outcomes may require some adjustment to workloads and processes to meet commitments".

Insolvencies have fallen slightly for the past two months, but managing director of business turnaround firm Vantage Performance Michael Fingland agrees with the Tax Office that in 2012 insolvencies would certainly increase.

"There'll definitely be a rise, and it will be significant," he says.

"There will be a wave of insolvencies that have been held back for a year or two because of a generous ATO stance [to chasing owed taxes] and waves of stimulus. This year will see the collapse of businesses that should have collapsed in 2010."

Fingland believes retailers were some of the most financially distressed, as most had been reluctant to hold onto left-over Christmas stock, and many transporters were recording reduced volumes, which meant retailers bought less stock from wholesalers.

Alarming for SMEs, Fingland says it would be smaller firms that would suffer the most.

"Larger companies have been able to access debt and equity less easily because of their scale. They are perceived as less risky for lenders."

SMEs however tend to rely on the personal assets of their owners to secure funding.

"Most small businesses have tapped that out already," says Fingland. "They have fewer avenues through which to raise funding."

Fingland says another difficulty for small businesses in the current economic environment is that most of them competed primarily on price, and had little to differentiate them between their competitors.

"It's coming back to that one thing we always look for, when we go to a business that is in a bit of distress. Businesses need to find unique points of interest so they're not competing on price."

Fingland says good service is not sufficient to achieve this.

"Everyone says they've got the best service – that doesn't cut it."

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Businesses in distress should do everything they can to increase their points of differentiation from their competitors.

“If you can’t do that and don’t have cash reserves, maybe you need to change your business or merge with someone else,” says Fingland.

Business failures for the financial year to date have reached a record high of 3,804, a 15% increase on the same period in 2008 in the midst of the financial crisis.

The Tax Office wrote off \$3.8 billion in tax debts last financial year due to taxpayer bankruptcies or businesses being wound up. That’s up from the \$1.7 billion in 2009-10.

The debts are classed as “uneconomical to pursue”, as the taxpayer has few funds to dip into and the situation is unlikely to improve quickly.

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