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## Business on notice after ATO flags insolvency spike

By Michelle Hammond  
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Insolvency practitioners have put businesses on notice after the Australian Taxation Office said it was preparing for a new wave of business closures and taxpayer bankruptcies this year.

Tax commissioner Michael D'Ascenzo foreshadowed the rise in insolvencies at a meeting with union officials to discuss a \$73 million cut to the ATO's 2012-13 budget.

The tax office wrote off \$3.8 billion in tax debts last financial year, up from \$1.7 billion in 2009-10, because of taxpayer bankruptcies or businesses being wound up, or because the debts were "uneconomical to pursue".

Uneconomical debts are those where the cost of recovery is more than the likely amount of debt that would be recovered because the taxpayer has no assets or funds, and there is little chance of their situation improving.

The ATO has struggled to reduce the amount of outstanding tax debt owed by individuals and businesses affected by the global financial crisis and the spate of natural disasters in early 2011.

D'Ascenzo told officials the ATO is preparing for lower economic growth, which will hit tax revenue.

"While there is some concern as to whether we'll meet all of our compliance targets, some of the shortfall is attributed to the current economic environment," D'Ascenzo said in a briefing to union officials.

As a result, the ATO is preparing to intervene earlier with legal action, including garnishee actions, to collect tax debts.

Rapidly escalating tax debts will receive early attention, and the ATO will be more reluctant to wind up businesses that are still viable.

Accountants and insolvency practitioners expect more boarded-up shops in 2012, indicating the ATO will have its hands full.

In October last year, insolvencies fell for the second consecutive month, but experts dismissed speculation it was a sign of improvement for business.

The number of companies entering administration fell to 843 in October, compared with 991 the month before, according to figures from the Australian Securities and Investments Commission.

However, the 843 administrations represent a 9% surge over the past 12 months, and the second highest number ever recorded for the month of October.

Business failures for the financial year to date (July to October) reached a record high of 3,804 – a 15% jump compared with July to October 2008 when businesses were in the midst of the GFC.

Taylor Woodings partner Quentin Olde says regardless of whether the banks decide to pass on further interest rate cuts, businesses will undoubtedly find it harder to stay afloat in 2012.

“The cost of business credit is going to increase whilst there’s uncertainty in Europe,” he says.

“Whilst this uncertainty continues in the global and local economy, we expect there to be [a] continued overall increase... in the insolvency market.”

“They key is to control cashflow and do as much cashflow planning as possible... Try and tackle those things early to fill the gap, whether it be though alternative funding [or other measures].”

“Discuss funding options with your bank early on so you don’t get caught out [because] it will become more difficult to use the ATO as a buffer.”

Similarly, Michael Fingland, managing director of Vantage Performance, says the tax office has held back for the past two years on collecting debts.

“Small businesses are more prone to bad debts than large customers. Watch your customer base like a hawk and stay firm on your credit policies,” Finland told StartupSmart.

“If you’re about to start up or are in the process of starting up, now is the time to think about the business and see whether it really is different to everyone else’s.”

“If you haven’t got a point of difference, it will be much harder to compete. If you’re looking to raise money from banks or investors, focus on that point of difference.”

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