ATO has a new weapon to counter unauthorised tax debts, SME funder warns business owners

February 12, 2020 - Using the ATO ‘as a bank’ by not paying tax commitments on time comes with new risks for SMEs, national business funder Scottish Pacific has warned.

Scottish Pacific senior executive Wayne Smith said many business owners are not yet aware of laws passed late last year allowing the Australian Taxation Office to disclose SMEs’ tax debt to credit reporting bureaus.

The new rules allow the ATO to report an SME to credit rating agencies if:

that business owes more than $100,000 in tax has an ABN is more than 90 days in arrears and doesn’t have a payment arrangement in place or being negotiated. Mr Smith said the new law provides even more incentive for businesses not to run up debts with the ATO.

“Traditionally, many SMEs have used the ATO almost like a ‘line of credit’ by not paying their commitments on time,” Mr Smith said.

“It’s not the best option but if a business is tight for cash they often make a decision to pay other creditors and delay paying the ATO, thinking they will eventually put a payment arrangement in place.

“This action will now likely have an adverse impact on credit ratings and credit insurance limits, making it harder to maintain or extend credit terms with suppliers.”

Details on the new credit reporting law are here.

Scottish Pacific’s most recent SME Growth Index research found that more than a quarter of SMEs (27.8%) say meeting tax payments on time would create cash flow difficulties for their business.

Mr Smith said during the GFC years the ATO showed leniency in allowing businesses to run up tax obligations, as they didn’t want to be seen as putting SMEs out of business in such a tough economic environment. This leniency is now being systematically reined in.

“Years ago, the ATO had one blunt instrument – if you don’t meet obligations and there was no payment arrangement in place, the only option was to wind up the business,” he said.

“Then the DPN (Directors’ Penalty Notice) was introduced, effectively making directors personally liable for unauthorised company tax debts. Now, with this new initiative, the message is clear: the ATO is no longer prepared to be viewed as a line of credit.”

“With forecasts for a poor economic outlook in 2020, if ever there was a time to make sure you have a sustainable funding structure in place for your business, that time is now.”

Time to get the right funding in place for SMEs

Mr Smith encouraged business owners to use the post-Christmas, pre-February BAS time to take the opportunity to consider their cash flow management and working capital arrangements.

“We’d encourage business owners to invest time with their funder, whether it be a non-bank like Scottish Pacific or a bank, or with their broker or accountant, to really consider what is the most appropriate form of funding for their business situation, and get that funding in place so they don’t end up on the wrong side of this credit reporting initiative,” he said.

He also encouraged them to access the FitsME Guide (and for their accountants and brokers to access the more detailed Business Funding Guide version) created by the Small Business Ombudsman (ASBFEO) and Scottish Pacific. This free download has comprehensive information on a range of business funding options, as well as handy tips to help SMEs become “finance fit”.

Invoice finance as a cash flow solution

Mr Smith said that one funding option that works for many Australian and New Zealand SMEs is invoice finance.

Invoice finance, also known as debtor finance, offers a line of credit linked to and secured by outstanding accounts receivable. Businesses can access this form of funding as needed or as a long-term working capital solution.

“As your business grows, the facility you’ve put in place grows with it, and unlike a traditional bank overdraft there is generally no need for real estate security,” Mr Smith said.

“Invoice finance provides a stand-alone facility that can sit alongside your other business borrowings (for example overdrafts, term loans, and asset finance).

“There are no capital repayment requirements and the facility helps you grow your business and increase purchasing power through improved cash flow.”

Scottish Pacific is Australasia's largest specialist working capital provider, helping thousands of business owners with the working capital they need to succeed. Scottish Pacific lends to small, medium and large businesses ranging from start-ups to SMEs with revenues of more than $1 billion. www.scottishpacific.com

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