16 October 2026

Mr Josh Burns MP
Chair
Joint Committee of Public Accounts and Audit
Parliament House
Canberra ACT 2600

Dear Chair,

Inquiry into the Australian Taxation Office's management of small business collectable debt

The Tax Ombudsman is pleased to lodge this submission to assist the Committee in its inquiry into the Australian Taxation Office's (ATO) management of small business collectable debt, informed by the Australian National Audit Office's (ANAO) performance audit on the same issue.

Tax debt and debt collection matters are consistently among the areas with the highest number of complaints lodged with the Tax Ombudsman. Last year, debt collection complaints accounted for almost 20% of all complaints lodged with our office. Small businesses are particularly affected, accounting for around 20% of all complaints and almost one-third of complaints that progress to investigation.

Debt issues have also been the subject of a number of Tax Ombudsman reviews, some of which have examined specific debt collection practices while others have explored the issue more generally, including:

- Review into the Tax Office's small business debt collection practices (2005)
- Debt Collection (2015)
- Investigation and exploration of undisputed tax debts in Australia (2021)

In 2024, we also worked with the Commonwealth Ombudsman and the ACT Ombudsman to jointly develop and issue a better practice guide for agencies on *how to tell people they owe the government money*.

Our submission is drawn from insights gathered both from our systemic reviews as well as insights and experiences brought to our attention through our complaints handling service.

The ATO's important role and the need to collect tax rightfully due

The Tax Ombudsman recognises and supports the important role that the ATO plays through its collection of debts rightfully due to the Commonwealth. Such collections are necessary and

serve a number of important functions, both for the revenue and for the community at large. These include:

- bringing in revenue to fund necessary services for the community,
- supporting fairness and confidence in the tax system by maintaining a level playing field between taxpayers who voluntarily pay on time and those that choose to avoid those obligations,
- recovering critical payments for employees, such as unpaid superannuation, that have downstream economic impacts both for the individual and for the system as a whole (i.e., retirees without sufficient superannuation are more dependent on government payments)

Accordingly, nothing in this submission should be read as detracting from that role. Consistent with the Committee's final term of reference for this inquiry, the Tax Ombudsman considers that in discharging its collection responsibilities, the ATO must act fairly and consistently in its treatment of taxpayers, taking into account their individual circumstances.

The post-COVID impacts and a perfect storm for small businesses

In our 2021 report examining undisputed tax debts, that is tax debts which were not the subject of objection or other challenge, we reported that across five financial years from 2016 to 2020, the amount of such debts had grown by 77.6% from $19.2 billion to $34.1 billion. At the time, it was observed that across those years, over 60% of outstanding debts were held by small businesses, with private and wealthy groups, and public and multinational businesses also holding levels of undisputed tax debts that exceeded their representation of the taxpayer population.

In the years since, including the years of the COVID-19 pandemic, the level of collectable debt has continued to grow:

	2020-21 ($b)	2021-22 ($b)	2022-23 ($b)	2023-24 ($b)	2024-25 ($b)
Total collectable debt	37.8	44.3	49.5	52.3	53.7

Source: Commissioner of Taxation annual reports

The scale of small business debt is significant. At 30 June 2025, small businesses accounted for $35.9 billion, or around two-thirds, of the ATO's total collectable debt, involving more than 1.3 million small businesses. Small business collectable debt had increased by $19.4 billion since 2018–19.

A contributing factor for the significant growth of debt between 2021 and 2022 is the COVID-19 pandemic, during which time the ATO rightfully moved towards relaxing recovery activity while delivering on government measures to support the community and businesses through the pandemic.

The ATO has itself acknowledged that its more lenient approach to payment to support taxpayers affected by natural disasters and during the COVID-19 pandemic had an impact on

payment culture and that it continues to see some taxpayers deprioritising payment of ATO debts.[1] The Tax Ombudsman recognises that a return to normal debt collection activity is therefore necessary. However, this needs to distinguish between businesses that are unwilling to meet their obligations and otherwise viable businesses that are willing, but temporarily unable, to do so.

The ATO's changed posture, commencing around 2023, in relation to debt collection comes at a time when businesses and the community are facing a perfect storm of pressures including cost of living increases and global instability. There are also less obvious and less visible pressures on small businesses, including vulnerabilities that emerged during the pandemic, issues of coercion and abuse, mental health challenges and the more recent advent of artificial intelligence that all impact on the challenges and cost of running a small business.

The Committee may wish to explore how the ATO communicated its change in posture to the community at large and available support options for taxpayers seeking to re-engage with the tax system.

Within this context, we consider that it is critical for the ATO to consider the individual's or business's circumstances when determining debt collection action or how to engage with businesses.

In our experience, the shift to firmer debt collection has at times operated as a blunt instrument. We see small businesses that appear viable and are willing to meet their tax obligations but are struggling to do so within the options available to them. In these circumstances, an approach that does not sufficiently account for the taxpayer's individual circumstances can make it harder, rather than easier, for the business to re-engage and get back on track. The following case study demonstrates the importance of looking beyond the existence of the debt itself and properly considering the circumstances affecting a taxpayer's capacity to comply.

Case study: Failure to consider individual circumstances

In 2023, a tax agent requested GIC remission for a client, citing the client's mental health challenges due to pregnancy-related complications. The initial ATO officer supported remission but lacked approval authority so it was escalated to a senior officer. The senior officer denied the remission. The senior officer appeared to only focus on the circumstances of the business, overlooking the personal health-related complications beyond the taxpayer's control. Despite the agent's reference to health matters, the ATO did not follow up to request the missing medical evidence before making the decision. Once we drew the ATO's attention to the above issues, the remission request was approved.

[1] Australian Taxation Office, *Deputy Commissioner Anna Longley's Speech to The Tax Institute Tax Summit* (Speech, 5 September 2025) <https://www.ato.gov.au/media-centre/deputy-commissioner-anna-longleys-speech-to-the-tax-institute-tax-summit>

Exercise of discretion to support businesses to re-engage with the tax system

The ATO has a range of discretionary powers that it can use as part of its debt collection activities. These include powers to:

- remit penalties and general interest charge
- accept payment arrangements
- defer debt recovery for a certain period of time
- enter different arrangements for payment (such as 50/50 arrangements, typically used while debts may still be under some form of dispute or challenge)
- accept compromises of tax debt

The Tax Ombudsman has continued to encourage the ATO, when engaging with taxpayers on debt matters, to consider the taxpayer's circumstances and to apply its discretion and take a more flexible approach to collect the outstanding debt while also re-engaging the taxpayer with the system. Greater flexibility may, depending on the circumstances, include remission of GIC or penalties, longer-term payment arrangements, including arrangements extending beyond two years where appropriate, or other arrangements that provide a realistic pathway for an otherwise viable business to repay its tax debt and return to ongoing compliance.

Concerning GIC, we continue to hear from stakeholders about the disproportionate impact that it can have on a business's ability to pay off debts and re-engage with the tax system, particularly where the GIC outpaces the primary debt.

The scale of this issue is increasing. Between 2019 and 2025, the balance of unpaid GIC increased by 185%, almost twice the 94% increase in uncontested tax debt over the same period. GIC now represents 18% of total collectable debt, compared with 13% in 2019.[2]

Case study: GIC an obstacle to payment plan

A taxpayer in financial hardship owed nearly $176,000 in tax and super liabilities. Due to seasonal income from their tree-lopping business and ongoing treatment for a rare cancer, they could only afford $4,000 per month over a five-year period. This made them ineligible for an interest-free payment plan, which requires full payment within 12 months. The ATO agreed to a general 36-month payment plan. However, with GIC continuing to accrue, it would have been impossible for them to comply with the arrangement.

In our 2026 review examining the ATO's management of remission of general interest charge, we cited a number of examples from stakeholders about the impact of general interest charge. In particular, we observed that while legislative instruments issued within the ATO contemplate the use of agreement-based remissions, including upfront and for ongoing arrangements, these

[2] Tax Ombudsman, *In the Interest of Fairness: A Review into the ATO's Management of Remission of General Interest Charge* (Report, March 2026) 4. [taxombudsman.gov.au]

did not appear to be incorporated into the relevant ATO practice statements. Similarly, the explanatory statement to Legislative Instrument 2023/27 states that:

> *21. The Commissioner may also remit a liability to a charge or penalty where it is appropriate to do so to encourage ongoing compliance with taxation laws. The Commissioner will have regard to a taxpayer's previous compliance history in determining whether to remit a liability in this case.*
>
> *22. This reflects the fact that the ATO aims to make it easy for taxpayers to comply with their tax obligations and seeks to encourage good compliance behaviour. A range of strategies are adopted to achieve that outcome, including the remission of interest and penalties where appropriate. For example, the Commissioner may seek to encourage compliance by remitting a charge or penalty amount for a taxpayer's first failure to lodge or pay on time.*

Despite this, the Tax Ombudsman continues to receive feedback and complaints from taxpayers, several of which are included in our report about the ATO's inflexible approach when considering remissions and the difficulties that this can pose for a taxpayer seeking to get back on track and re-engage with the tax system. Amongst others, we made recommendations to the ATO to explore greater use of partial remissions and upfront agreement to fully or partially remit general interest charge for taxpayers repaying their debts.

Concurrent with our review, the ATO was also undertaking work to review its approach to a range of concessions generally and, flowing from that body of work, the ATO has established a centralised function to consider remission requests and made improvements to its online forms for requesting remission to enhance consistency of decisions.

The Committee may wish to explore the results of the ATO's work in this area, including whether the use of remission can help to encourage re-engagement with the tax system and payment of debts.

Another issue that has been raised with our office is the perception that the ATO prefers to move individuals and businesses towards a bankruptcy or liquidation pathway rather than to flexibly explore options for payment. While bankruptcy and liquidation are possible pathways for dealing with unpaid debt, it is important that the ATO carefully considers the options available to it and to taxpayers before pursuing these options. This is particularly so as some otherwise viable businesses may only need a small amount of support to recover and re-engage with the tax system. In these circumstances, the ATO should have robust internal processes to assess business viability and to explore options to support these businesses.

Where a business is otherwise viable and willing to engage, consideration should also be given to whether insolvency action is likely to produce a better outcome for the Commonwealth than providing additional time to repay the debt. This is consistent with the ATO's own approach to small business restructuring, where it generally supports a restructuring plan if it would result in a higher payment to creditors within a reasonable period than would be received through winding up.

In some circumstances, maximising the immediate use of enforcement powers may not maximise the ultimate return to the Commonwealth. A more flexible arrangement that keeps a viable business operating may provide an opportunity to recover more of the outstanding tax debt while allowing the business to return to ongoing compliance.

The Committee may wish to inquire into the ATO's use of insolvency proceedings in debt collection practices, its case selection processes and the robustness of its approaches for assessing business viability.

Establishing measurable collection targets

Amongst other recommendations, the ANAO recommended that the ATO publish a range of performance measures and establish specific measurable targets to reduce the volume of small business collectable debt. The Tax Ombudsman supports increased reporting by the ATO on its performance against debt collection measures as this will improve transparency, accountability and enable greater oversight of its approaches.

We also support the development of measurable targets to reduce small business collectable debt. However, we would caution that these measures should sit at an enterprise level and should not be imposed on specific teams or individuals as this may drive inflexible approaches or other undesirable behaviour where officers feel they need to meet performance targets at all costs. The purpose of these targets should be to measure the ATO's overall effectiveness in managing its debt book, rather than creating incentives for individual officers to pursue particular enforcement outcomes. Any performance framework should preserve officers' ability to exercise judgement and discretion having regard to the taxpayer's individual circumstances.

One element to consider is the distinction between new debts and historical debts. It is axiomatic that newer debts are more likely to be collectable than those that are aged, in some cases aged for many years. This is a factor of people forgetting about debts that have accrued and records being lost, which makes it difficult for business owners to understand what the debts are or where they originated.

In late 2025, the ATO implemented a project to make visible debts that had been put on hold (i.e., those that were not actively pursued but still otherwise remained on the taxpayer's account). This was intended to help ensure taxpayers remained aware of their tax debts while also noting that the ATO was not actively pursuing them. However, the approach did cause a degree of anxiety for some taxpayers who did not understand where the debts came from due to their age.

Differences in the age of debts will likely require very different treatment approaches. Taxpayers with newer debts are likely to be more assured of their origins and basis, and likely to engage more freely with the ATO to address them. Taxpayers with older debt, including those previously put on hold, are less likely to be able to engage in the same manner and may require greater engagement and support from the ATO to understand the debt, its origins and options to pay. This is especially important as general interest charge on older debts may be significant.

The ATO has itself noted that more than half of the collectable debt balance is no more than 12 months old and that it is within this period that it has the best opportunity to collect. This reinforces the importance of distinguishing between emerging debt and long-standing historical debt, both when determining an appropriate collection response and when measuring the ATO's performance.[3]

The Committee may therefore wish to inquire into how the ATO currently differentiates its reporting on the age of debt, differences in performance measures or approaches based on the age of debt.

Ultimately, the Tax Ombudsman considers that the measure of an effective debt collection system should not only be the amount of debt collected or the number of firmer actions taken. It should also consider whether the ATO's approach supports willing and viable small businesses to return to sustainable compliance, while enabling appropriately strong action where taxpayers are unwilling to meet their obligations.

We trust that this submission is useful. If it would further assist the Committee, the Tax Ombudsman would be happy to provide a briefing to the Committee or otherwise provide further input at a future public hearing.

If you require any further information, please contact Duy Dam, Deputy Tax Ombudsman – Reviews on 02 8239 2108 or via email at duy.dam@taxombudsman.gov.au.

Yours sincerely,



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A/g Tax Ombudsman

[3] Australian Taxation Office (n 1).