Brief – General Interest Charge and Shortfall Interest Charge

This brief provides a short overview of concerns held by industry in relation to *Treasury Laws Amendment (Tax Incentives and Integrity) Bill 2024* (**the Bill**). The brief is authored by Chartered Accountants Australia and New Zealand (**CA ANZ**), CPA Australia (**CPA**), Institute of Public Accountants (**IPA**), National Tax and Accountants Association (**NTAA**) and Institute of Certified Bookkeepers (**ICB**).

Concerns

Schedule 2 of the Bill removes the ability for taxpayers to deduct payment of General Interest Charge (**GIC**) and Shortfall Interest Charge (**SIC**) from their assessable income. GIC and SIC are interest charges charged by the Australian Taxation Office (**ATO**) for late payment of tax.

Impacts on Small Business

The proposal to permanently deny deductions for GIC and SIC represents a punitive measure that risks exacerbating financial hardship for small businesses already facing challenges such as high inflation, elevated interest rates, and cash flow constraints. By making these interest costs on tax debts non-deductible, the proposal risks accelerating the accumulation of tax liabilities of small businesses to unsustainable levels, potentially threatening the viability of many small businesses.

GIC is currently 11.38%, an amount that is significantly higher than commercial interest rates available to many businesses and individuals. GIC compounds quickly. A 12.5% GIC rate will result in interest charges being equal to approximately 28% of the unpaid tax after two years, 65% by the end of four years and 112% after six years. Making GIC non-deductible will only make it more expensive.

Whilst it would be prudent for small businesses to obtain alternative finance from the private sector, in practice that is difficult to do as many financial institutions will not lend to businesses with tax debt. Thus, a business may not be able to swap tax debt for other forms of finance.

Impacts on Individual Taxpayers

1% of taxpayers owe 20% of the ATO's collectable debt. Our members often lament that it is taxpayers who are a couple of days late in paying their tax bill that often feel the wrath of the ATO rather than those with large, long outstanding debt. During a cost-of-living crisis, when many small businesses are struggling to make ends meet, existing ATO powers to rein in debt should be targeted at large old balances. It is further noted that this measure comes at a time when our members are concerned about long delays in service delivery by the ATO.

CHARTERED ACCOUNTANTS AUSTRALIA + NEW ZEALAND
CPA AUSTRALIA
IPA INSTITUTE OF PUBLIC ACCOUNTANTS
NTAA
THE INSTITUTE OF CERTIFIED BOOKKEEPERS

Making GIC and SIC non-deductible penalises taxpayers who have historically 'done the right thing' or, through no fault of their own, accrue these charges due to legitimate tax disputes or administrative delays. The proposal does not distinguish between good and bad taxpayers.

Obtaining GIC and SIC remission is difficult. Our members are consistently reporting long delays and inconsistent outcomes when they apply for GIC remission requests. Often the first response is 'no' and multiple phone calls to the ATO are required.

An ATO decision to deny the remission of GIC is not subject to an internal ATO review. The only recourse available to the taxpayer is to appeal the ATO's decision in the Federal Court of Australia under the *Administrative Decisions (Judicial Review) Act 1977* (Cth), which is a lengthy and complex process that is out of reach of most taxpayers, who are small businesses or individuals.

Request

There are significant issues with Schedule 2 of the Bill. Given this is the final sitting week before an election, we request:

- that Schedule 2 be removed from the Bill for greater consultation in the second half of 2025; or
- the start date of this measure be deferred to 1 July 2027. This allows small business to better plan for these changes.

Further Information

For further information please feel free to contact:

- Susan Franks – AU Leader – Tax, Super and Financial Advice, CA ANZ
- Jenny Wong – Tax Lead, CPA
- Tony Greco – Senior Tax Advisor, IPA
- Matthew Addison – Executive Director, ICB
- Geoff Boxer – Chief Executive Officer, NTAA

24 March 2025