



Experts warn tax breaks could cost companies dearly

Wednesday 07 October 2009

James Thomson

Companies that take advantage of the ATO's downturn-busting tax breaks could find it very hard to borrow money in the next few years, experts have warned.

While large numbers of companies have taken advantage of the ATO's tax relief measures - including deferral of tax payments and interest-free payment arrangements - Gary Wilkie, director of finance broking firm Interlease, has warned companies could be digging themselves a big financial hole down the track.

"There is a view in the business arena that tax arrangements are fine as long as the terms of repayment are met. But this is not the view of bank and finance companies," he says.

"Once a company has gone down the path of deferring their tax debt, which is then recorded as an outstanding liability on their balance sheet, they are effectively warning their financiers that they are having cashflow difficulties."

Sue Prestney, principal of MGI Boyd Accountants, says lenders are now demanding a copy of a company's tax records as a standard part of any new lending agreement.

"And they want to see a clean slate."

The worst result for a company that is seeking funding while still dealing with a tax debt is that the application will be rejected. At best, the company will have a lot of explaining to do. Wilkie says banks and finance companies require a full explanation from the company's accountants as to why and how the deferral arrangement was entered into, and this may appear in the company accounts for two to three years.

"From a cashflow and business point of view, being able to defer your tax liability and not having to pay interest charges with the blessing of the ATO may sound a perfect opportunity."

"Yet once the tax deferral is recorded on the balance sheet, this will remain on the company's books for several years, and any financier examining the company's records in this time period is likely to consider the deferral of payments to the ATO a negative and that the business is not being run effectively."

Sue Prestney says businesses that have entered into arrangements with the ATO should, if possible, look to clean these up well before they plan to seek new funding to grow.

"We know the banks don't have much money to lend to SMEs. Don't give them an excuse."

Experts warn tax breaks could cost companies dearly

Wednesday 07 October 2009

James Thomson

Companies that take advantage of the ATO's downturn-busting tax breaks could find it very hard to borrow money in the next few years, experts have warned.

While large numbers of companies have taken advantage of the ATO's tax relief measures - including deferral of tax payments and interest-free payment arrangements - Gary Wilkie, director of finance broking firm Interlease, has warned companies could be digging themselves a big financial hole down the track.

"There is a view in the business arena that tax arrangements are fine as long as the terms of repayment are met. But this is not the view of bank and finance companies," he says.

"Once a company has gone down the path of deferring their tax debt, which is then recorded as an outstanding liability on their balance sheet, they are effectively warning their financiers that they are having cashflow difficulties."

Sue Prestney, principal of MGI Boyd Accountants, says lenders are now demanding a copy of a company's tax records as a standard part of any new lending agreement.

"And they want to see a clean slate."

The worst result for a company that is seeking funding while still dealing with a tax debt is that the application will be rejected. At best, the company will have a lot of explaining to do. Wilkie says banks and finance companies require a full explanation from the company's accountants as to why and how the deferral arrangement was entered into, and this may appear in the company accounts for two to three years.

"From a cashflow and business point of view, being able to defer your tax liability and not having to pay interest charges with the blessing of the ATO may sound a perfect opportunity."

"Yet once the tax deferral is recorded on the balance sheet, this will remain on the company's books for several years, and any financier examining the company's records in this time period is likely to consider the deferral of payments to the ATO a negative and that the business is not being run effectively."

Sue Prestney says businesses that have entered into arrangements with the ATO should, if possible, look to clean these up well before they plan to seek new funding to grow.

"We know the banks don't have much money to lend to SMEs. Don't give them an excuse."

