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Media Release

ATO beats the banks as biggest "lender' to small business

(19 August 2013 – Australia)The Australian Taxation Office is the single biggest lender to Micro businesses with annual revenues of up to $2 million a year, with outstanding "collectable" balances worth a total of $9.96 billion.

Research compiled by East & Partners from ATO records and from the Australian Prudential Regulatory Authority (APRA) reveals that the $9.96 billion owed to the ATO by Micro businesses to the end of the 2011/2012 financial year compared with total current bank lending balances to the segment by the Big Four banks and regionals of $10.7 billion.

The ATO debt, which comprises outstanding tax debt and interest from the ATO's general interest charge, comprises 88 percent of all bank lending balances to the segment of $11.3 billion. The Big Four and regional banks Bank of Queensland, Suncorp and Bendigo Adelaide comprise 95 percent of this $11.3 billion in lending.

The $9.96 billion debt is considered "collectable" by the ATO. In the 2011-12 financial year, 55,200 recovery actions were pursued against small businesses.

The agency determines that some debts are either "uneconomical to pursue" or "irrecoverable at law" and last year deemed that $2.6 billion – across all market segments – were in this category.

East's analysis shows that the total outstanding ATO tax debt for small businesses has increased on average by $750 million a year since 2007/8, suggesting that the ATO's current balances to small business will exceed 90 percent of banking lending balances when the 2012/13 financial year figures are published, and have grown at 19 percent over this period than main bank lending.

Australia has almost three million Micro enterprises in this segment, which employ one in five Australians and account for more than 25 percent of all tax revenue collected, including approximately $14 billion in Pay As You Go (PAYG) withholding tax for their employees.

Deferral of tax payments by Micro businesses has the potential to put the businesses in technical breach of loan conditions, something many Micro businesses and SMEs are unaware of.

Lachlan Colquhoun, Head of Markets' Analysis at East and Partners, said the analysis revealed a significant risk to the banking system.

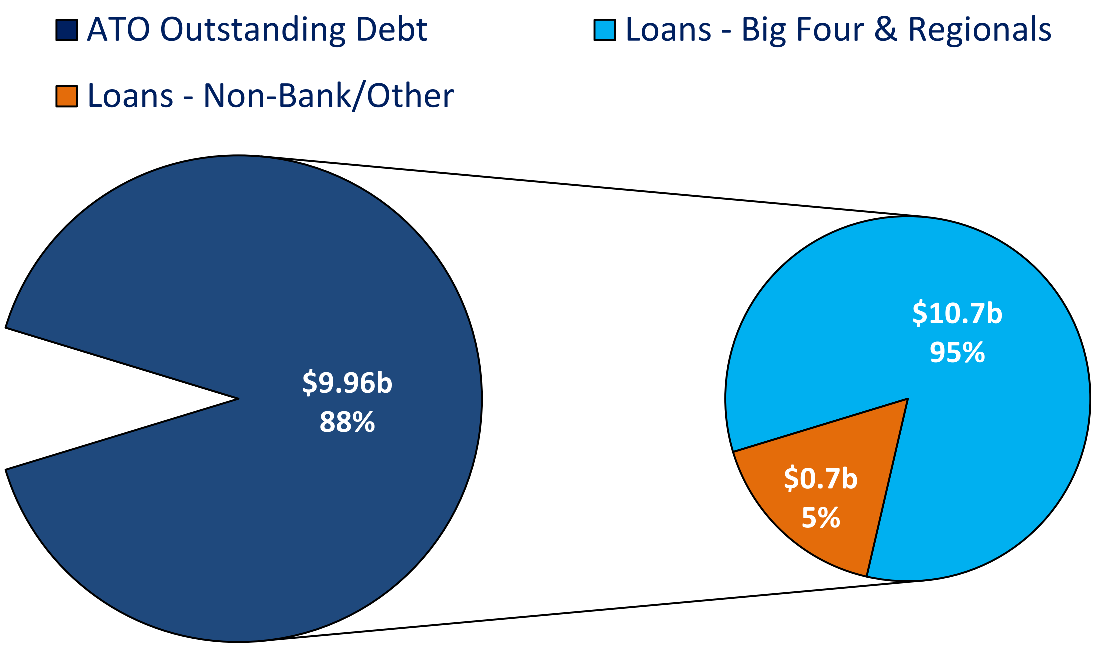
"If the ATO were to be more aggressive in calling in the $9.96 billion it is owed by these Micro businesses it would not only impact the businesses, but would have a knock-on effect on their banks," said Colquhoun.

"More aggressive action by the ATO would cause a proportion of these businesses to fail, which would then have a major impact on the bank debt.

"The analysis suggests that the 'work through' management of this debt balance by the ATO is preventing major financial problems not just for Micro businesses but also their commercial lenders.

"In considering where significant impairment stress may lie within Australia's banking system, small business could be a touch paper."

East & Partners understands the ATO's approach is to support viable businesses which work with them to address tax debts, and takes firm recovery action with unviable businesses and businesses which fail to engage.



Source: East & Partners Deposit Funding & Debt Index