



## **DENYING DEDUCTIONS FOR ATO INTEREST CHARGES**

### **SUMMARY OF CONSULTATION PROCESS OUTCOMES**

The Government announced in the 2023-24 Mid-Year Economic and Fiscal Outlook (MYEFO) on 13 December 2023 that it would remove the ability to deduct general interest charge (GIC) and shortfall interest charge (SIC) expenses incurred on or after 1 July 2025.

Removing these deductions will enhance incentives for all entities to correctly self-assess their tax liabilities, pay on time and assist in lowering the amount of collectible debt owed to the Australian Taxation Office (ATO). Tax collected is used to fund essential public services of benefit to the whole Australian community such as health, education, and defence.

This measure was included in Treasury Laws Amendment (Tax Incentives and Integrity) Bill 2024, which was introduced into Parliament on 28 November 2024.

Consultation on the draft legislation was conducted between 24 September and 16 October 2024. Treasury also offered to meet with a range of stakeholders to discuss the draft legislation. Twelve submissions were received.

Submissions can be viewed on the Treasury website [www.treasury.gov.au](http://www.treasury.gov.au).

### **SUMMARY OF FEEDBACK**

Stakeholders recognised the need to address growth in outstanding tax debts.

The ATO debt book has grown substantially in recent years, increasing by 99 per cent between 2018-19 and 2023-24.

At 30 June 2024, there was \$52.8 billion of collectable debt owed to the ATO. Of this, a significant proportion reflects amounts that businesses are required to collect and pass on to the ATO.

Some stakeholders expressed concerns that the measure could impact small business and high-income individuals already facing cash flow challenges, and suggested alternative approaches to reduce the growth of tax debts including:

- increasing the rates of GIC and SIC charges rather than denying deductions;
- removing deductibility for only the additional interest over the base rate, or only after an initial grace period following the due date;
- reducing the rate of interest charges to reflect the change to deductibility;

- a greater focus and targeted recovery efforts on those intentionally delaying payment of tax debt; and
- retaining deductibility for interest on debts arising prior to the start date.

While these alternative approaches were carefully considered changes to the measure were not made. Stakeholders agreed the need to act to address the growth in outstanding tax debt. The measure ensures that taxpayers who correctly assess their tax and pay on time are not disadvantaged. The suggestions offered generally sought to lessen the impact of the measure on those with outstanding tax debt and therefore would reduce the impact of the incentive to correctly report and pay on time.

Not allowing deductibility consistent with the treatment of penalties generally provides a clearer message to discourage the late payment of tax debt than retaining deductibility but increasing interest rates. Further, imposing higher rates while retaining deductibility would have a greater beneficial impact on those facing higher tax rates. Reducing the rates to reflect the removal of deductibility would nullify the intended incentive to pay on time.

Alternatives that would retain deductibility for interest in respect of existing debt or only a portion of interest charges, for example the additional interest over the base rate, would lessen the intended incentive to repay tax debt. Further, these approaches would impose additional complexity for both taxpayers and the ATO and this would be exacerbated if necessary to separately identify components of interest compounding after the start date to identify deductible and non-deductible portions. Similarly, the provision of an initial deductible 'grace' period would lessen the incentive while increasing complexity.

There was also a suggestion in relation to SIC to link deductibility to whether a taxpayer has taken reasonable care or has a reasonably arguable position. The measure delivers this outcome through existing mechanisms which allow remission of SIC under specific circumstances such as where the taxpayer has relied on ATO advice or general administrative practice, or where judicial interpretation has been overturned.

The Commissioner of Taxation will also retain the ability to remit GIC and SIC in other circumstances, including natural disasters, sudden illness or financial hardship.

Suggestions for a greater focus and targeted recovery efforts on those intentionally delaying payment of tax debt were noted. The measure takes account of and complements existing tailored debt collection efforts made by the ATO.

## **Questions**

Questions on the consultation process for this measure can be forwarded to [deductions@treasury.gov.au](mailto:deductions@treasury.gov.au).

Thank you to all participants in the consultation process.