



Lisa Maletta Director/Accountant

Case Study



Raj Ghedia, Director/Insolvency Practitioner

How Accountants and Insolvency Practitioners Work Together to Help Small Businesses Navigate ATO Debt

Running a Small Business Can Be Tough

Small business owners in Australia face many challenges, including cash flow constraints which are becoming more prevalent. When these challenges escalate, we are seeing tax obligations with the Australian Taxation Office (ATO) start to accrue debt placing both the business and its directors at risk of enforcement action and personal liability.

In these circumstances, understanding the roles of your accountant and an insolvency practitioner can be the difference between business survival v closure, and being held personally liable for the tax debt.

This case study demonstrates how accountants and insolvency practitioners can work together to help a small business experiencing financial distress navigate through insolvency.

Meet the Client

Who: A NSW company operating two businesses- bookkeeping and fast food- under a single company structure for over 20 years.

The challenge: Due to COVID-related declining sales and rising operating costs, the fast food business was unable to meet its ATO obligations, even though staff and suppliers continued to be paid. The ATO issued multiple payment reminders and the accountant anticipated that the ATO would escalate its debt recovery actions.

The business owner attempted a small business restructure (SBR): however, the proposal was rejected by the ATO.

Recognising the limited remaining options, the accountant recommended engaging an insolvency practitioner to explore all other insolvency options.



How Accountants Help

An accountant's first priority is to help the business understand its financial position and manage compliance with the ATO.

What they do:

- Review the company's financial position to identify the full extent of tax and other liabilities.
- Liaise with the ATO regarding payment options and instalment arrangements.
- Advise directors on the implications of unpaid taxes, including personal exposure under Director Penalty Notices (DPNs).
- Prepare accurate and timely Business Activity Statements (BAS) and other compliance documents to prevent further penalties.
- Identify early warning signs that may require intervention by an insolvency practitioner.

Why it matters:

Accountants understand how to manage the ATO processes, deadlines, interest, and penalty regimes. Acting early can help secure more flexible arrangements and prevent escalation.

When additional support may be needed:

Where a business has defaulted on prior payment plans, the ATO is unlikely to accept further arrangements. At this stage, the accountant may seek to introduce you to an experienced insolvency practitioner to discuss insolvency options.

How Insolvency Practitioners Help

An insolvency practitioner is a qualified specialist engaged when a business can no longer meet its tax obligations (and other debts) as and when they fall due.

Directors have a legal duty to cease trading or seek professional advice once insolvency is suspected. Continuing to trade while insolvent may result in personal liability for debts incurred after insolvency (known as insolvent trading claims). Therefore, it is imperative a business owner seeks advice from an insolvency practitioner as early as possible.

What they do:

- Formulate an appropriate strategy given the current circumstances, such as an exit strategy (i.e. Liquidation) or a restructure strategy (i.e. Voluntary Administration (VA) or Small Business Restructure (SBR)).
- Execute the formulated strategy.

Why it matters:

Early engagement with an insolvency practitioner can significantly reduce personal exposure for directors and improve the likelihood of a successful restructure, allowing the business to continue trading under a structured plan.

Working Together for the Best Outcome

When accountants and insolvency practitioners collaborate, businesses in distress can navigate out of insolvency by:

- 1. Identifying the problem early:** The accountant flags to the business owner the cashflow constraints and the likely insolvency and introduces the business owner to an insolvency practitioner.
- 2. Plan a strategy:** The accountant provides the insolvency practitioner with financials and any other information required. The insolvency practitioner utilises the information to formulate a strategy.
- 3. Execution:** The insolvency practitioner executes the strategy.
- 4. Post execution:** The accountant continues to monitor the business, ensuring compliance and supporting long-term recovery.

This teamwork helps directors make informed decisions, avoid unnecessary personal exposure, and preserve business continuity (where possible).

A Real-Life Example

The situation:

The company had unpaid BAS obligations of approximately \$700,000. Previous attempts to negotiate with the ATO had failed, and directors were at risk of personal liability under DPNs.

Steps taken:

1. The accountant prepared accurate and up-to-date financial reports.
2. The insolvency practitioner reviewed the financial reports and determined that a restructure via voluntary administration was appropriate.
3. The business entered into voluntary administration in June 2025. During the voluntary administration process, the insolvency practitioner worked closely with the accountant to identify opportunities to increase revenue, and reduce costs, including reducing staff head count and cancelling onerous financial contracts.

Outcome:

The ATO accepted a compromise of 40 cents in the dollar, payable over two years in monthly instalments. The directors avoided personal liability and retained ownership of the business.

Post voluntary administration the accountant advised the client to restructure the company so that both businesses (i.e. the bookkeeping and fast food business) operated as separate entities (no longer under a single company structure).

Key Lessons for Small Business Owners

1. **Act early:** ATO debt escalates quickly and can lead to personal liability if ignored.
2. **Seek expert advice:** Seek advice from your accountant—or, in complex cases, an insolvency practitioner—before the situation worsens. Early specialist input can sometimes provide better restructuring options and avoid failed SBR attempts.
3. **Understand your risk:** DPNs mean that directors can be personally responsible for unpaid PAYG withholding and superannuation. Insolvency advice may be needed if payment isn't possible.
4. **Collaboration is critical:** Accountants and insolvency practitioners complement each other. Accountants focus on compliance and financial management, while insolvency practitioners manage legal restructuring, and creditor negotiations.

Transparency matters: Keeping accurate records and being transparent with both your accountant and insolvency practitioner helps prevent personal liability and increases the chance of business recovery.

Takeaway

Managing ATO debt requires timely action and professional advice. Early engagement with your accountant—and, where necessary, an insolvency practitioner—can reduce personal exposure and significantly improve the chances of saving your business from going into liquidation.

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