

# The Small Business Guide to Sorting Your ATO Debt

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What you owe, what you can do about it,  
and how to stop losing sleep over it.

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## Chapter 01

# You're Not Alone

*If you've got a tax debt with the ATO, the first thing to know is that you're in very common company.*

Let's call it what it is: owing money to the ATO feels terrible. There's the guilt, the anxiety, and the creeping dread every time you see an envelope from Canberra. But here's the thing – you're not alone, and it's not a sign you've failed.

The ATO is currently owed over \$35 billion in unpaid taxes from small businesses across Australia. That's not a typo. Tens of thousands of businesses – from cafes to construction firms, consultants to tradies – are carrying some form of tax debt right now.

**\$35B+**

Total small business tax debt  
owed to ATO

**84,000+**

Director Penalty Notices issued  
in 2024–25

**136%**

Increase in DPNs  
year-on-year

Tax debt doesn't discriminate. It hits businesses that are growing fast and can't keep up with their obligations, businesses that had a tough year, businesses whose accountant dropped the ball, and businesses that simply got overwhelmed by the admin of running a company while also doing the actual work.

The point is: having a tax debt doesn't make you a bad business owner. But ignoring it? That's where the real trouble starts. This guide is here to help you understand what you're dealing with, what the ATO can do, what you can do, and – most importantly – how to get it sorted so you can get back to running your business.

### The bottom line

ATO debt is common. It's manageable. And the sooner you deal with it, the more options you have. This guide will walk you through all of them.



## Chapter 02

# How ATO Debt Happens

*There are four main types of ATO debt – and most businesses end up with a combination.*

## The four types of ATO debt

### 1. GST (Goods and Services Tax)

If your business is registered for GST, you're collecting 10% on most goods and services and passing it on to the ATO via your Business Activity Statement (BAS). Fall behind on BAS lodgements or payments, and GST debt accumulates fast.

### 2. PAYG Withholding (Pay As You Go)

When you pay your employees, you're required to withhold income tax and send it to the ATO. This money isn't yours – it's your employees' tax. The ATO takes unpaid PAYG very seriously, and it's one of the debts that can trigger personal liability for directors.

### 3. Income Tax

Your business's annual income tax assessment can result in a lump sum owed. If you haven't been setting aside enough during the year – or if your business had a particularly profitable period – the bill can come as a shock.

### 4. Superannuation Guarantee Charge (SGC)

If you don't pay your employees' super on time, the ATO can issue a Superannuation Guarantee Charge. This includes the original super amount, plus interest and an administration fee. From July 2026, 'Payday Super' will require super to be paid at the same time as wages – making compliance even more critical.

## How it snowballs

Here's what catches most business owners off guard: the ATO charges General Interest Charge (GIC) on overdue amounts, and it compounds daily. The current GIC rate is 10.65% per annum (January–March 2026). That means a \$50,000 debt grows by roughly \$14.60 every single day – before you even factor in penalties for late lodgement.

On top of that, if you lodge your BAS or tax return late, the ATO can impose a Failure to Lodge (FTL) penalty of \$313 for each 28-day period the lodgement is overdue, up to a maximum of five periods. For medium and large businesses, these penalties are multiplied.

### Real example

A landscaper owes \$40,000 in GST. With GIC at 10.65%, that debt grows by over \$4,200 in a year – just in interest. Add late lodgement penalties, and you can see how a manageable debt becomes overwhelming.



## Chapter 03

# What the ATO Can Actually Do

*The ATO has broader enforcement powers than almost any other creditor in Australia. Here's what that looks like in practice.*

## The ATO's escalation path

The ATO follows a staged approach to debt recovery. Understanding where you sit on this path is crucial to knowing how much time you have – and what action to take.

- 1 Prevention and reminders** Automated letters and SMS reminders about upcoming or recently missed due dates. This is the gentle nudge stage.
- 2 Early intervention** Phone calls from ATO officers. They'll ask about your situation and try to get you onto a payment plan. Engaging at this stage gives you the most options.
- 3 Firmer action** This includes Director Penalty Notices (DPNs), garnishee notices to your bank or debtors, and disclosure of your tax debt to credit reporting bureaus for debts over \$100,000 that are more than 90 days overdue.
- 4 Stronger action** Statutory demands, wind-up applications, and bankruptcy proceedings. At this stage the ATO is actively seeking to shut down non-compliant businesses or pursue directors personally.

## The tools in the ATO's toolbox

### Director Penalty Notices (DPNs)

A DPN makes you personally liable for your company's unpaid PAYG withholding, GST, and super obligations. In 2024–25, the ATO issued over 84,000 DPNs – a 136% increase on the year before. If your company's BAS is lodged on time, you get 21 days to respond. If it's overdue by more than three months, a 'lockdown DPN' applies and your only option is to pay the debt in full.

### Garnishee notices

The ATO can issue a notice directly to your bank, your clients, or anyone who owes you money, requiring them to pay the ATO instead of you. They don't need a court order to do this. The impact on your cash flow can be immediate and devastating.



### **Credit reporting**

For tax debts over \$100,000 that are more than 90 days overdue, the ATO can report your debt to credit bureaus. This can affect your ability to get finance, win contracts, and even lease premises.

### **Wind-up applications**

The ATO is the most common applicant for company wind-ups in Australia. If your debt is large enough and you're not engaging, they will apply to have your company liquidated.

#### **Key insight**

The ATO would rather get paid slowly than not at all. If you engage early, you'll almost always get a better outcome than if you wait for enforcement. The businesses that get into real trouble are the ones that go silent.

## Chapter 04

# What's Changed in 2025–26

*The ATO has shifted from pandemic-era leniency to active debt recovery. Here's what's different now.*

## GIC is no longer tax-deductible

From 1 July 2025, the General Interest Charge (GIC) and Shortfall Interest Charge (SIC) are no longer tax-deductible. Previously, businesses could claim the interest on ATO debt as a tax deduction, which effectively reduced the real cost by around 25%. That buffer is now gone. For businesses that have been using ATO payment plans as a form of short-term finance, the economics have fundamentally changed. Carrying ATO debt is now significantly more expensive.

## Enforcement is ramping up

The ATO has moved well beyond the pandemic-era approach of pausing debt recovery. Automated systems now flag overdue accounts faster, escalation happens sooner, and the volume of enforcement action has increased dramatically. Director Penalty Notices are up 136% year-on-year. The Tax Ombudsman has launched a formal review into how the ATO uses DPNs, and a separate review into GIC remission decisions is already underway – both expected to report in 2026.

## Payment plans are harder to get

Tax agents are reporting that negotiating payment plans with the ATO has become more difficult. While debts under \$200,000 can still technically be set up via the ATO's online portal, agents are seeing inconsistency in what terms the ATO will accept. Having your lodgements up to date and a clear repayment proposal ready makes a significant difference.

## Payday Super is coming

From July 2026, superannuation will need to be paid at the same time as wages – not quarterly. This removes the cash flow buffer many businesses rely on and will require tighter payroll management. Businesses that are already struggling with super obligations need to prepare now.

### What this means for you

The days of 'parking' tax debt with the ATO are over. The cost of carrying debt is higher, the ATO is moving faster, and enforcement is more aggressive. The best time to sort your tax debt was yesterday. The second-best time is today.



## Chapter 05

# Your Options for Sorting It Out

*There are real, practical options available – and more than most business owners realise.*

## Option 1: Payment plans

This is the most common path. You negotiate with the ATO to pay your debt in regular instalments – weekly, fortnightly, or monthly – over an agreed period. The ATO generally prefers plans of 12–24 months, though shorter plans are sometimes required.

- You can set up a plan online via the ATO Business Portal if your debt is under \$200,000 and you don't already have an active plan.
- GIC continues to accrue during the payment plan, so the faster you pay, the less interest you'll owe.
- You must continue to meet all future lodgement and payment obligations on time, or the plan may default.
- Having a tax agent negotiate on your behalf can sometimes result in better terms.

## Option 2: Penalty and interest remission

If you've been charged penalties for late lodgement or late payment, or significant GIC has accrued, you can apply to have some or all of it remitted (reduced or removed). The ATO will consider remission where you can demonstrate 'reasonable cause' – for example, serious illness, natural disaster, reliance on a tax agent who failed to lodge on time, or other circumstances beyond your control.

This is one of the most underused options available. We've seen clients save tens of thousands of dollars through well-prepared remission applications. The key is documenting your circumstances clearly and submitting a proper request – not just hoping the ATO will be lenient.

## Option 3: Varying PAYG instalments

If your business income has dropped significantly, you may be able to vary your PAYG instalments to reduce the amount you're paying throughout the year. This won't resolve existing debt, but it can stop new debt from building up while you sort out what you already owe.

## Option 4: Release from ATO debt (hardship)

In genuine cases of serious financial hardship, individuals (not companies) can apply for release from certain tax debts. This is a high bar – you need to demonstrate that paying the debt would leave you unable to provide food, clothing, medical care, or education for yourself or your dependants. It's rare, but it exists.

## Option 5: Compromise or settlement

In limited circumstances, the ATO may agree to accept a lump sum that's less than the total amount owed. This typically only applies where the debt is genuinely unrecoverable in full and there are no other enforcement options available. Professional advice is essential here.

### Which option is right for you?

Most businesses will use a combination of payment plans and penalty remission. The right approach depends on how much you owe, how long it's been overdue, your current cash flow, and whether you're up to date on lodgements. A tax advisor can assess your situation and recommend the best path forward.



## Chapter 06

# The Real Cost of Doing Nothing

*The wait-and-hope strategy doesn't work with the ATO. Here's why.*

We get it. When you're running a business, tax debt can feel like one of those problems you'll deal with 'when things calm down.' But things rarely calm down – and every day you wait, the problem gets worse.

## The compounding cost

GIC at 10.65% compounds daily. On a \$100,000 debt, that's roughly \$29 per day – over \$10,000 a year – just in interest. And since July 2025, you can't deduct that interest from your tax anymore. The longer you wait, the bigger the hole gets.

## Fewer options over time

Early in the ATO's escalation process, you have the most options: payment plans, penalty remission, varied instalments. Once a Director Penalty Notice is issued, your options narrow. Once a lockdown DPN is in play (because lodgements are more than three months late), your only option is to pay in full. Time literally removes choices from the table.

## Personal liability

If you're a director of a company, unpaid PAYG, GST, and super obligations can become your personal debt through the DPN regime. This means your personal assets – including your home, savings, and investments – can be at risk. The corporate veil doesn't protect you from these liabilities.

## Credit and reputation damage

Once the ATO reports your debt to credit bureaus, it can affect your ability to get a business loan, a home loan, or even a lease on commercial premises. And in some industries, a poor credit report can cost you contracts and clients.

### The uncomfortable truth

Every week you wait costs you money (in compounding interest), options (as the ATO escalates), and sleep (because the stress doesn't go away on its own). The single best thing you can do is take one step forward today.



## Chapter 07

# Five Things to Do This Week

*A practical action plan you can start right now. No jargon, no overwhelm – just clear next steps.*

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### 1 Check your ATO balance

Log into your myGov account or the ATO Business Portal and look at your running balance account. Know the number. It's almost always less scary than the number in your head.

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### 2 Get your lodgements up to date

If you have outstanding BAS, tax returns, or super statements, get them lodged – even if you can't pay yet. Lodging on time is one of the things the ATO tracks, and it keeps your options open (especially for DPNs).

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### 3 Respond to any ATO correspondence

If you've received letters, phone calls, or portal messages from the ATO, respond. Even a brief acknowledgement shows engagement and can slow escalation. Don't let letters pile up unopened.

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### 4 Gather your financial documents

Get your last three months of bank statements, your most recent profit and loss statement, and your BAS history. If you need to negotiate a payment plan, you'll need up-to-date figures to demonstrate what you can afford.

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### 5 Talk to a tax advisor

You don't have to figure this out alone. A tax advisor who deals with ATO debt regularly can assess your situation, identify the best options, and negotiate on your behalf. Often a single conversation can give you a clear path forward.

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#### Quick wins matter

You don't have to solve everything this week. But doing even one thing on this list moves you from 'avoiding' to 'sorting' – and that shift changes everything.



## Chapter 08

# When to Get Help

*You don't need to figure this out on your own. Here's when professional help makes the biggest difference.*

This is the most common path. You negotiate with the ATO to pay your debt in regular instalments – weekly, fortnightly, or monthly – over an agreed period. The ATO generally prefers plans of 12–24 months, though shorter plans are sometimes required.

## Signs you need professional help

- Your ATO debt is growing or unknown
- You've received a Director Penalty Notice or garnishee notice
- Your lodgements are more than three months overdue
- You've been contacted by ATO debt collection or received a statutory demand
- You're unsure whether you're eligible for penalty remission
- You're struggling to negotiate a payment plan on your own
- You're losing sleep and don't know where to start

## What a tax advisor can do for you

A tax advisor who specialises in ATO debt can review your full position, identify which penalties and interest charges may be eligible for remission, prepare and negotiate a payment plan that the ATO is likely to accept, ensure your lodgements are up to date so you don't trigger lockdown DPNs, and communicate with the ATO on your behalf so you don't have to. The right advisor pays for themselves many times over.

## How Lawpath can help

At Lawpath, our tax advisors work with small business owners dealing with ATO debt every day. We'll tell you straight what your options are, help you put a plan together, and take the weight off your shoulders. No jargon, no judgement – just practical advice and a clear next step.





# Sort your ATO debt. Let's get you moving.

Our tax advisors help small business owners like you everyday.  
Get a clear picture of where you stand and a plan to move forward.

[Book for your free consultation and get your plan today](#)

#### No cost

Your first chat is free

#### No jargon

Plain English, practical advice

#### No judgement

We've seen it all before

This guide is intended as general information only and does not constitute legal, tax, or financial advice. You should seek professional advice specific to your circumstances before taking action.

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