

Bankruptcy law reform could hurt SME

PROPOSED changes to the bankruptcy law could hurt small business and open up a raft of challenges for the body corporate industry.

Opposition spokesman for small business Steven Ciobo, is concerned about the change in the minimum debt threshold at which creditors can petition for bankruptcy from \$2000 to \$10,000.

The Federal Member for Moncrieff's chief concern is the message it would send to debtors. Ciobo says it sends a message to bad debtors knowing they can go out and run up a debt of \$10,000 with no worry about having a bankruptcy order made against them and could even encourage scoundrels.

The government proposes to raise the threshold at which creditors can file for bankruptcy against individuals. It believes that by raising the threshold from \$2000 to \$10,000, it will encourage people to use other methods to repay debts.

The majority of creditors in these cases are SMEs, not large corporations, and

bankruptcy, or threats thereof, often provide the only effective way to extract payment from the non-payers.

"Playing around with the debt threshold means the government is also fiddling with the potential impacts. It could also be a cause for real concern by bodies corporate," says Ciobo.

While the \$8000 difference might not be noticed by large scale multinationals, it's significant to smaller businesses that are dependent on weekly cashflow for survival.

Bankruptcy specialists are also concerned that the Federal Government's proposed changes to insolvency laws have missed the mark.

Quill Group managing director Kevin Nicol, says the government's rationale to reduce the number of bankruptcies is flawed. He says last financial year there were 28,156 bankruptcies in Australia and only 391 (1.4 per cent) were under \$10,000.

"The rationale is flawed and will only improve the backlog by 1 per cent," says Nicol.

"I believe the real issue for SME's to consider is how many people did pay their financial obligations last year, because of the threat of bankruptcy. I contend this number would be far greater than 391.

"I would also suggest that most SME's issue thousands and thousands of invoices to consumers every week. By increasing the threshold from \$2000 to \$10,000, Australian SME's will lose their major weapon to ensure they get paid.

"The next question to consider is the flow on effect on prices. If bad debts increase due to watered down legislation, the costs of business go up which therefore must be passed onto consumers and ironically to those people who do pay their debts."

Debt recovery outfit Prushka claims that 90 per cent of people who it takes action against have the capacity to repay the debt but simply refuse to.

Prushka's figures also show that of the 85 proceedings it took in the last year, two thirds were people aged over 45.