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FINANCIAL REVIEW

Red tape change to make credit crunch worse

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A federal government plan to raise the threshold at which private companies are required to lodge accounts with the corporate regulator will only further crimp the availability of credit to small business, industry experts warn.

The plan doubles the thresholds used to determine if a private company has to lodge public accounts with the corporate regulator from July 1, to those with revenue over $50 million.

Treasury says the change will save 2220 companies from having to prepare and lodge audited financial statements, collectively saving small businesses $81.3 million a year.

But financiers and insolvency professionals warned the government's bid to cut red tape was "potentially putting at risk access to affordable credit by small and medium-sized business owners".

"Reducing the information available to trade creditors and other lenders will mean it is harder for businesses to get credit," said Australian Institute of Credit Management chief executive Nick Pilavidis.

Credit extended in trade, such as purchases made on credit or supply chain finance, relied on the financial data from companies, and not having public accounts will slow approvals and increase the cost of capital, says a joint industry submission.

"This is because the information contained in financial reports is key data that underpins current credit decisions. The ease of access of financial reports impacts the ability of a financier or trade-creditor to be able to make automated or real-time finance decisions."

Growth in lending to small business has dived and a recent analysis shows growth in bank loans of between $100,000 and $500,000 has been negative for the past three quarters. Growth in that loan segment was down 0.5 per cent in the December quarter, the worst rate of annual growth for seven years.

Thresholds outdated

Under existing regulations, a private company must generally lodge accounts if it meets or exceeds two out of three thresholds: revenue of $25 million; assets of $12.5 million; or 50 employees. Under Treasury's changes, these will values will be increased to $50 million, $25 million and 100 employees respectively.

The justification for the change is to reduce the financial reporting burden placed on small to medium-sized businesses. The thresholds have not been updated for more than a decade. The numbers were last increased in 2007, when they were raised by 150 per cent.

But Mr Pilavidis argues Treasury's count of companies that will benefit was understated. He said Treasury had not separated the companys within consolidated groups, which meant the numbers were lower than in reality.

Accounting bodies CPA Australia and Chartered Accountants Australia & New Zealand support the change, saying it would will reduce burdens on small businesses.

CPA's head of external affairs Paul Drum said financiers will have access to the information from companies that look for credit anyway.

"If you're a smaller company and you're looking for external finance, for example, and you're going to a large financial institution, they will ask for whatever financial information they want anyway," Mr Drum said.

"The whole reporting framework is about confidence in capital markets and information that's of use to people to make economic decisions."

The accounting standards board noted the changes were "integrally linked" with an ongoing project to develop with other regulators a "simple, proportionate, consistent and transparent" financial reporting framework for private companies.

The Tax Justice Network, which researches tax avoidance, opposed the changes, saying they would reduce disclosure of the tax paid by private companies.

"Australian proprietary companies already have significantly reduced financial reporting requirements compared to other jurisdictions around the world."

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