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INSOLVENCY REFORMS TO SUPPORT SMALL BUSINESS

The Morrison Government has today introduced legislation into the Parliament to progress the most significant changes to Australia’s insolvency framework in 30 years as part of our economic recovery plan to keep businesses in business and Australians in jobs.

The reforms, which were announced by the Government on 24 September 2020, will reposition our insolvency system to help more small businesses restructure and survive the economic impact of COVID-19. As the economy continues to recover, it will be critical that distressed businesses have the necessary flexibility to either restructure or to wind down their operations in an orderly manner.

As part of these changes, a new debt restructuring process will be introduced for incorporated businesses with liabilities of less than \$1 million, drawing on some key features of the Chapter 11 bankruptcy model in the United States.

By moving from a rigid one-size-fits-all “creditor in possession” model to a more flexible “debtor in possession” model, it will allow eligible small businesses to restructure their existing debts while remaining in control of their business.

For those businesses that are unfortunately unable to survive the economic impacts of the Coronavirus outbreak, a new simplified liquidation pathway will be introduced for small businesses to allow faster and lower-cost liquidation.

Complementary measures will also be enacted to ensure the insolvency sector can respond effectively both in the short and long term to increased demand and to the needs of small business.

Following the passage of legislation through the Parliament, these new insolvency processes will be available for small businesses from 1 January 2021.

The reforms will cover around 76 per cent of businesses subject to insolvencies today, 98 per cent of whom who have less than 20 employees.

Together, these measures will reduce costs for small businesses, reduce the time they spend during the insolvency process, ensure greater economic dynamism, and ultimately help more small businesses through the recovery phase of the COVID-19 crisis.

Ends.