



Compromise of Tax Debt

What it is, when it works, and what you're really agreeing to



11/06/2026

Prepared for: Company Directors & Business Owners
Prepared by: Resolve Business Solutions

Resolve Business Solutions Pty Ltd

What a compromise of tax debt is -- and isn't

Dear Director,

A compromise of tax debt is an agreement where the ATO accepts a smaller payment to satisfy an undisputed tax debt and agrees not to pursue the balance.

It sounds attractive on the surface. In practice, it's narrow, hard to qualify for, and the act of applying for one carries serious consequences most directors and business owners don't see coming.

Here's how it actually works, when the ATO will and won't consider one, and what we look at with you before recommending you go down this path.

What the ATO is actually offering

A compromise is an agreement between the ATO and the taxpayer to:

- Accept a lesser amount to satisfy an undisputed tax debt.
- Not pursue the balance of that debt.

Depending on your circumstances you'd pay the agreed amount as a lump sum or by instalments under a payment plan.

A few practical points the ATO doesn't put in big letters:

- You may have to give up rights under the tax laws -- including the right to carry forward revenue and capital losses.
- The ATO can agree not to pursue the remaining balance, but they can't legally write the debt off. The debt is owed to the Commonwealth, and only the ATO collects on its behalf.
- A compromise is not a settlement. A settlement is for disputed amounts. A compromise is for a debt you accept you owe but can't pay in full.

When the ATO will consider a compromise

Before considering a compromise, the ATO will first look at every other option to recover the debt, including:

- Remitting penalties and interest charges.
- Putting you on a payment arrangement.
- Deferring the time for payment.
- Releasing you from certain tax debts.
- Placing the debt on hold.
- Bankruptcy or liquidation.
- Issuing a director penalty notice.

A compromise will only be on the table if all of the following are true:

- The tax debt is undisputed.
- Your offer is for at least your total net assets -- not less.
- The compromise won't directly or indirectly impact other actions involving you or other parties.
- Hardship alone is not your only argument.
- No alternative collection action would give the ATO a better return.
- You don't have a poor compliance history.

In plain English: the ATO will only accept less than the full debt if they're satisfied they'd recover even less by chasing you any other way.

When the ATO will not consider a compromise

The ATO will refuse to even look at a compromise if:

- The tax debt is subject to dispute.
- An application to waive the debt has not been finalised.
- An application for release from an income tax or fringe benefits tax debt has not been finalised.
- You could lodge a debt agreement under Part IX of the Bankruptcy Act.
- Within the 5 years immediately before the proposal, you have been party to an earlier compromise agreement, been bankrupt, or been party to a Part IX or Part X arrangement.

The relevant ATO policy is PS LA 2011/3 -- Compromise of undisputed tax-related liabilities and other amounts payable to the Commissioner.

What you're really admitting when you apply

This is the part that catches most directors and business owners off guard.

When you lodge a compromise application, you are essentially admitting that:

- You are insolvent.
- You may have been insolvent for some time, with no realistic prospect of the situation improving.
- In some cases, you may have paid out other creditors to the ATO's detriment -- which can be an act of bankruptcy under the Bankruptcy Act 1966.

That admission is on the record. Once it's lodged, it doesn't unwind if the ATO refuses the compromise. It can shape what happens next -- including how the ATO, ASIC, or a future liquidator looks at trading conduct in the lead-up.

That's why a compromise application is rarely the first move. In most situations there is a cleaner path -- a payment plan, a Small Business Restructuring (SBR), a Creditors' Voluntary Liquidation, or in some cases bankruptcy or a Part IX or Part X arrangement -- that delivers a better outcome without that admission going on the record.

We look at all of those options with you before anything goes in writing to the ATO.

How an application is actually made

If a compromise is the right move after we've worked through your options, here's how it lands with the ATO:

- All requests must be made in writing to the Commissioner of Taxation.
- Application forms are available for individuals and businesses (we obtain the right form for your situation).
- Every question must be answered carefully, completely, and accurately.
- The application is lodged with: The Commissioner of Taxation, PO Box 1129, PENRITH NSW 2740.

We coordinate the preparation, the supporting financials, and the lodgement -- and bring in the right specialist (accountant, solicitor, registered practitioner) where the situation calls for it.

The Nature of Our Role

Resolve provides administrative support, coordination, and acts as your point of contact. We are not licensed to provide financial, legal, or investment advice -- where that's needed for your matter, we coordinate the right specialist practitioners (accountants, solicitors, registered liquidators, trustees) around you.

That way you get the experience and firepower of a full team -- with us holding the whole picture together so nothing falls through the cracks.

A compromise of tax debt isn't a hardship discount -- it's the ATO's last-resort option, and applying for one is effectively declaring insolvency. Before going there, the right move is to look at every other path on the table. That's the conversation we have with you up front.

— Resolve Business Solutions -- Over 35 Years Helping Australians Through Financial Distress

Next Steps

Director, if the ATO is closing in and you're trying to work out whether a compromise is the right play -- or whether one of the alternatives makes more sense -- the earlier we have the conversation, the more options stay open.

Whenever you're ready, you can:

- Reply to this email
- Call us directly on 0499 499 899
- Email us at advisor@resolve.net.au

We'd rather walk you through your options now than have you commit to a path that costs more than it solves.