How to Protect Your Home From Creditors If You're a Sole Trader With Tax Debt

A guide for Australian sole traders

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A plain-English guide for Australian sole traders

3 paths to help protect your family home and work towards reducing your ATO debt, with a plan you can start in the next 45 days.

If the ATO letters are stacking up and you lie awake wondering whether they can take the house. Stop. Take a breath.

You're not the first sole trader to face this. It is more common than you think, and there is a clear, legal path through it. This guide walks you through exactly what to do first, what to avoid, and how to get moving in the next 45 days.

START HERE

Before you read another word

If a debt letter from the Australian Taxation Office has landed on your kitchen table, there's a good chance your stomach dropped when you saw it. Maybe you've stopped opening the envelopes. Maybe you haven't told your partner the full picture yet. Maybe the number has grown so large that it doesn't feel real anymore.

Here's the first thing we want you to know: you are not a bad person, and you are not alone. Tens of thousands of hard-working sole traders, tradies, consultants, café owners, bookkeepers, carers and creatives, all paid a heavy financial price because of government-mandated lockdowns. Those lockdowns created tax problems. Falling behind on tax usually isn't about recklessness; it's a slow year, a big client lost, an illness, GST compounding while you keep the doors open. The shame you may be feeling is understandable, but it is not deserved, and it is not helping you think clearly.

The second thing: this is fixable, and the home is very often saveable, provided you act early and act properly. The people who lose the most are almost never the ones who face it head-on. They're the ones who freeze, hope it goes away, or make a panicked move at the last minute that makes everything worse. This guide is here to make sure that isn't you.

Who this guide is for

This is written for **sole traders**.

People who run their business as an individual (in their own name or under an ABN), without a company structure. If that's you, your situation is different from a company director's in one crucial way, and understanding that difference is the whole game. We'll explain it on the next page.

If you trade through a company, a lot of this still helps, but some of the tools are different (companies have their own restructuring options and Director Penalty Notices). If you're not sure which you are, a quick check of whether you have an ACN as well as an ABN usually answers it, and we're happy to confirm it with you.

THE HONEST PICTURE

The hard truth no one tells sole traders

When you trade as a sole trader, there is no legal wall between you and your business. The business isn't a separate legal "person" the way a company is. So the business's tax debt isn't really the business's debt: it's your debt, personally. The same is true of your business's suppliers, your equipment finance, and your bank overdraft.

That matters because it changes what a creditor, including the ATO, can eventually reach. A company director is usually shielded by the "corporate veil."

A sole trader has no veil. In practical terms, if the debt is left to escalate all the way to bankruptcy, the assets in your personal name, including your share of the family home, can be drawn in to pay creditors.

Why waiting is the costly choice

Two facts worth sitting with for a moment:

1

Australia has no automatic "homestead" protection. Unlike some countries, there is no rule that says the family home is off-limits. In bankruptcy, a trustee can sell the home to realise a bankrupt's share of the equity.

2

The debt is quietly getting bigger. The ATO's General Interest Charge runs at roughly 11% per year*, compounding daily, and since 1 July 2025 it is no longer tax-deductible. Doing nothing is the single most expensive option on the table.

None of this is meant to frighten you. It's meant to do the opposite: once you understand exactly how the risk actually works, you can see that it is manageable and, in most cases, avoidable, because bankruptcy is the last stop on a long road, and there are several places to get off before you reach it. The three paths in this guide are those exits.

*The rate is reset quarterly; check the current figure.

The good news, in one sentence

The ATO would almost always rather be paid over time than push a sole trader into bankruptcy, so the earlier you engage, the more control you keep and the more likely your home stays exactly where it is.

TIMING

Why 45 days matters (and why it isn't a sales gimmick)

You may have seen "act now!" messaging so many times that it washes over you. So let's be straight about why 45 days is a real, useful window, not manufactured pressure.

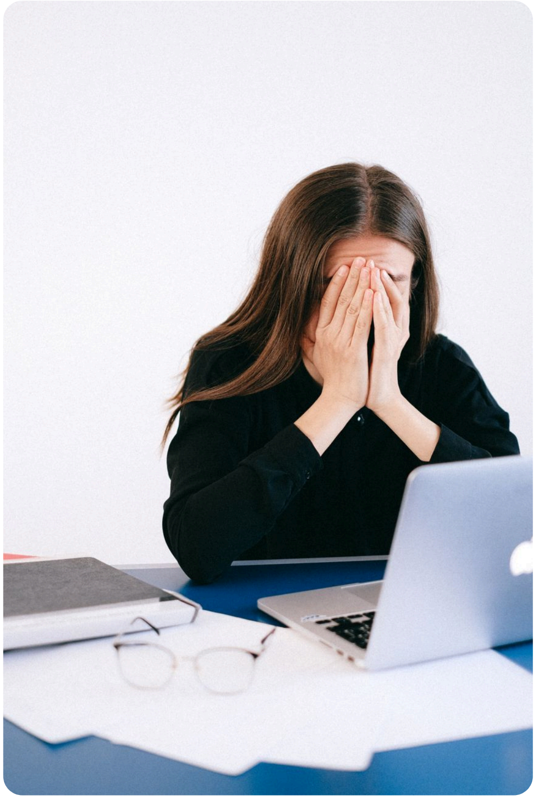
The risk to your home doesn't arrive all at once. It escalates in stages, and each stage has its own clock. Roughly, the ATO's collection path moves from reminder letters, to firmer demands, to legal enforcement (such as a garnishee notice that redirects money owed to you, or that pulls funds from your bank account), and eventually, only if everything else is ignored, to a bankruptcy notice and a creditor's petition. Each of those steps has a deadline attached, often 21 days.

The single biggest factor in how this ends is where you step in. Engage while you're still at the letter stage and you have the widest set of options and the most negotiating room. Wait until a bankruptcy notice arrives and your choices narrow sharply, fast.

The 45-day window

What "45 days" realistically buys you.

Forty-five days is enough time to do the three things that actually protect a home: open a proper conversation with the ATO and pause the escalation, get your structure and asset position reviewed by a professional, and put a formal, creditor-binding plan in motion if you need one. It is not enough time to fix things if you start it the week a creditor's petition lands. That's the whole point of starting now.



If you have a specific deadline on a letter in front of you right now, that date, not this guide, is your real clock. Whenever a genuine deadline is looming, treat it as the priority and get advice immediately.

THE CORE OF THIS GUIDE

3 paths that may help protect your home and reduce your ATO debt

Everything below is used by skilled professionals every day. There are no loopholes and no tricks here. It's more about getting the sequencing right, because timing matters. These approaches, used in combination, are what keep a sole trader in their home.

1

Take control of the ATO clock

Negotiate a payment arrangement and ask for interest and penalties to be reduced, so the debt stops growing and enforcement pauses.

2

Get your structure right

Legitimately separate your home and your future income from your business risk, the right way and at the right time.

3

Put a formal, creditor-binding plan in place

Use a legal debt solution that can settle the ATO debt for less and lock the home out of reach.

You don't have to work through this on your own. A skilled professional can walk you through each step, or take it off your hands entirely.

1 2 3

Path #1 Take control of the ATO clock

This is almost always the first move, because it does two things at once: it stops the debt from growing and it takes the pressure off the home by showing the ATO you're engaged and acting in good faith. The ATO has broad powers, but it uses its heaviest ones on people who ignore it, not on people who are visibly trying to fix things.

Step one: get on a payment arrangement

A payment arrangement (payment plan) lets you clear the debt in instalments you can actually afford, over months rather than all at once. While a genuine arrangement is in place and you're keeping to it, the ATO generally holds off on enforcement action. That alone can take the immediate fear of losing the home off the table while you sort out the bigger picture.

The key is that the arrangement has to be realistic. A plan you can't keep is worse than no plan, because defaulting can restart enforcement. This is where getting help pays for itself: a well-prepared proposal, backed by a simple cash-flow picture, is far more likely to be accepted and far more likely to survive.

Step two: ask the ATO to reduce the debt itself

Most people don't realise the tax debt number isn't always fixed. A meaningful slice of it is often interest and penalties, and the ATO has the power to remit (reduce or cancel) those in the right circumstances: for example, where the shortfall arose from genuine hardship, circumstances outside your control, or an honest mistake you've moved to correct.

Most underused tool for reducing ATO debt

On an aged debt, the General Interest Charge and penalties can add up to a large share of the balance. A successful remission request doesn't just lower what you owe: it can be the difference between a debt you can't service and one you can. This is one of the most under-used tools available to a sole trader, and it costs nothing to ask properly.

Remission isn't automatic and it isn't guaranteed. It has to be requested, with reasons and, ideally, evidence. But it is a real lever and pulling it early (before the interest compounds further) is far better than pulling it late.

Path #1 — your first fortnight

What you can start in the next fortnight:

Open the mail and list every ATO debt and deadline; pull together a simple month-by-month income and expenses picture; and get advice on a payment-arrangement proposal and a remission request before you pick up the phone. Preparation is what turns a nervous call into a strong one.

1 2 3

Path #2 Get your structure right

Path #1 buys you breathing room. Path #2 is about making sure the home is genuinely protected, both from the current debt and from whatever comes next — and doing it in a way that will actually hold up.

Separate the business risk from the home

Many sole traders keep trading in their own name simply because that's how they started, never realising every new dollar of business risk lands directly on their personal assets. Restructuring how you trade, for example, moving future work into a company or another appropriate structure, can put a wall between your business and your home for everything that happens from here on. It won't erase the debt you already have, but it stops you digging the hole deeper, and it protects the home from future creditors.

Alongside that, a professional will look at how the home itself is owned: whose name is on the title, how any equity is held, and whether legitimate, long-term planning options are available in your situation. The right answer is different for everyone, which is exactly why this needs real advice rather than a template.

The warning that saves homes

⚠️ Read this before you move a single asset

Do NOT transfer the house to your spouse, your kids, or a trust to "hide" it from the ATO. This is the single most damaging mistake a frightened sole trader can make, and it is the one people reach for first.

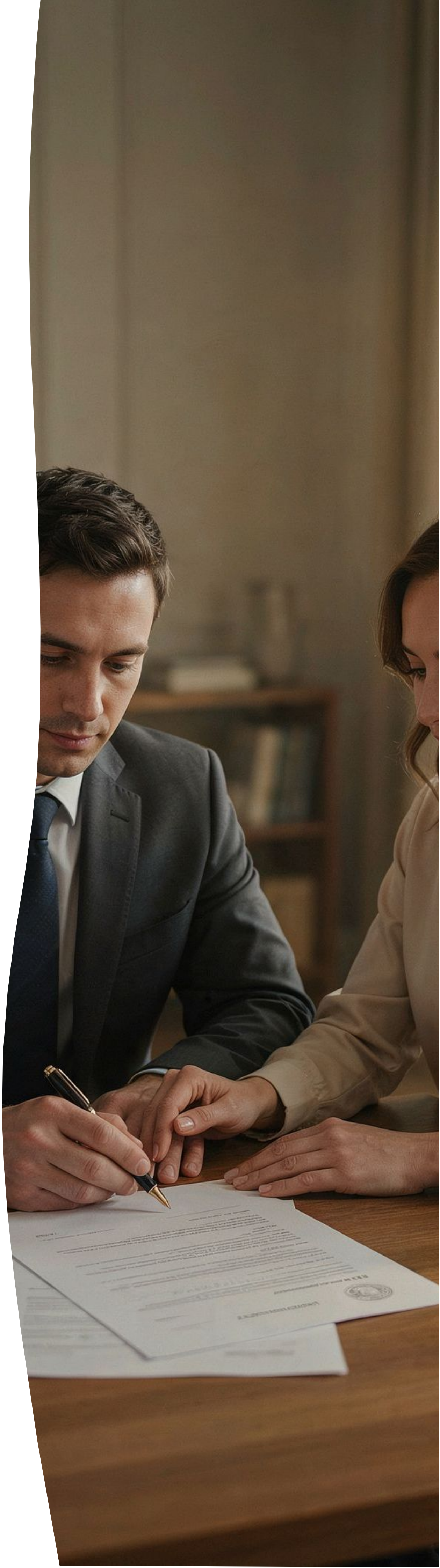
Australian law is built to defeat exactly this move. A bankruptcy trustee can claw back assets transferred at less than market value for up to five years beforehand. And a transfer whose main purpose was to defeat creditors can be unwound with no time limit at all. There is no "but it was years ago" defence.

A last-minute transfer doesn't protect the home. It can be reversed anyway, it can destroy your credibility with the ATO and a court, and it can turn a manageable debt problem into an allegation of wrongdoing.

The lesson isn't "never restructure." It's that structure is protection when it's done early and for genuine reasons, and a trap when it's done late and to dodge a creditor. Real asset protection is planning; a panicked transfer is a red flag. A good adviser will steer you firmly away from the second and toward the first, and that guidance alone can be what keeps you in your home.

Path #2 — your first fortnight

What you can start in the next fortnight: book a structure review, gather your title and ownership details, and be completely honest with your adviser about timing and intentions. The earlier and more openly you plan, the stronger your protection stands.



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Path #3 Put a formal, creditor-binding plan in place

If the debt is large relative to what you can pay, a payment arrangement alone may not be enough. The good news is that bankruptcy is not the only formal option. Skilled professionals can access legal solutions that bind your creditors (including the ATO) to a compromise, often letting you settle the debt for less than the full amount while keeping assets like the home.

Formal debt solutions, in plain English

Without drowning you in legislation, two of the main formal alternatives to bankruptcy for an individual are:

A Debt Agreement (Part IX).

A legally binding arrangement where creditors agree to accept a set sum, often paid over time, in full settlement. It's designed for people under certain debt, income, and asset thresholds, and it can let you keep the home while resolving the debt. It is an act of insolvency and has consequences worth understanding, but it can stop the slide toward losing everything.

A Personal Insolvency Agreement (Part X).

A more flexible, individually tailored arrangement for larger or more complex situations. A trustee is appointed and your creditors vote on a proposal you put forward: a lump sum from a third party, a payment over time, or a mix.
Done well, it can protect key assets and give creditors a better return than bankruptcy would, which is why they often accept it.

There is also, in some cases, the option of negotiating a direct settlement or compromise with the ATO, particularly where paying in full would tip you into bankruptcy and the ATO would recover less that way. The ATO is a commercial creditor at heart: if a sensible proposal leaves it better off than the alternative, it will listen.

Why Path #3 protects your home.

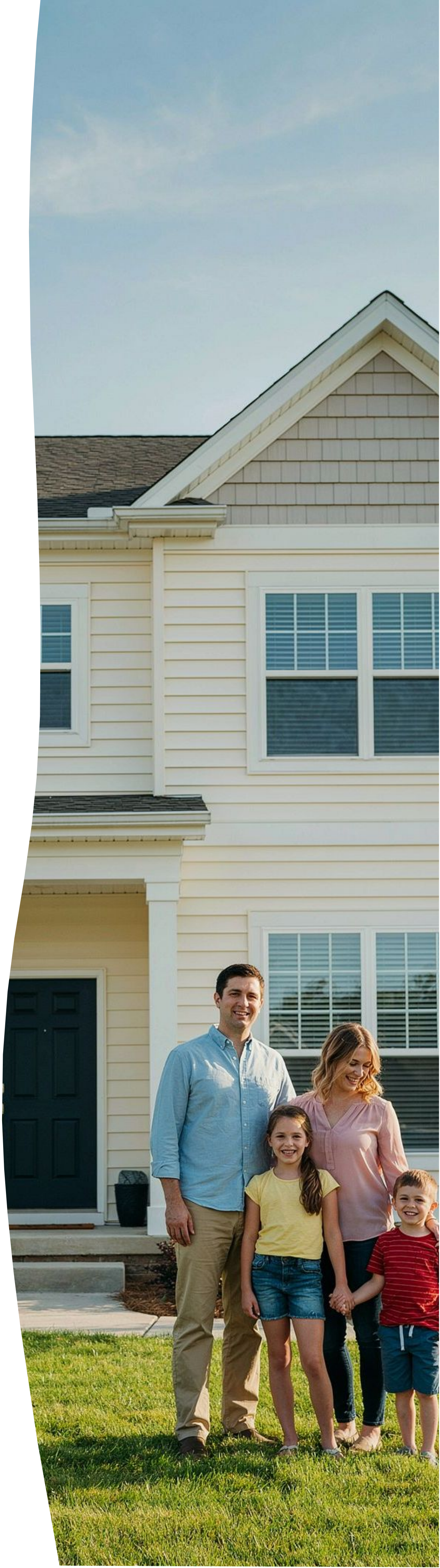
Bankruptcy is the outcome that most threatens the family home, because a trustee can sell your share of it. A formal agreement is, in large part, a way of giving your creditors a fair deal so that bankruptcy, and the forced sale that can come with it, never happens. That's the whole point of Path #3.

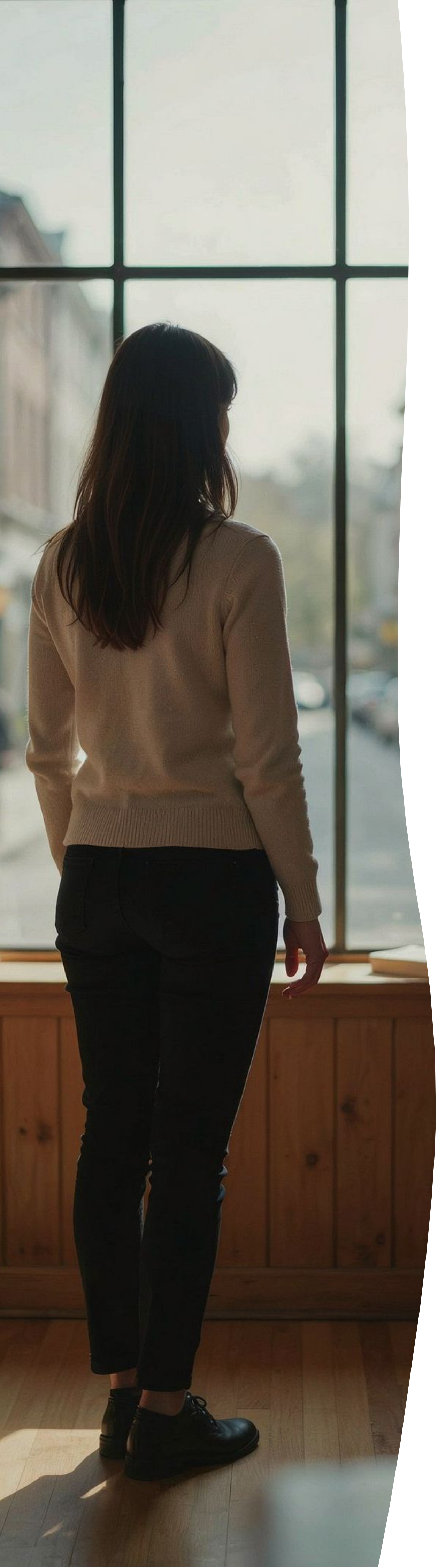
Each of these paths has real trade-offs, effects on credit, on future trading, and on what you're required to disclose, and none of them is right for everyone.

That's precisely why the move here isn't to pick one from a brochure; it's to have someone map your numbers against all of them and tell you which (if any) fits. Within 45 days, that assessment can be done and a plan can be lodged or underway.

Path #3 — your first fortnight

What you can start in the next fortnight: get a clear, written total of what you owe and to whom, an honest list of your assets and income, and a professional assessment of whether a formal solution beats a straight payment plan for your situation.





PROOF

What this looks like in real life

Belinda runs two small businesses in Victoria: an Immigration agency and a pet care. When the debt caught up with her, the calls from creditors became relentless. She was borrowing money from friends just to get by, and her stomach dropped every time her phone rang. Here's what changed once she reached out, in her own words.

I remember leaving the office and actually feeling lighter, because someone could finally help me. You didn't tell me to declare bankruptcy, you didn't tell me anything unreasonable. That felt like a relief.

Once I had you on board, you took everything off me. Before that, when the phone rang I knew exactly who it was. I couldn't even eat. I was borrowing money from friends; that's how broke I was.

To have those phone calls stop*, and to actually have some money to go and pay the bills, and for those people to not be able to contact me anymore, that was the best feeling.*

— Belinda, small-business owner (Immigration agency & pet care), Victoria

□ Watch Belinda tell her story in her own words

In situations like these, every good outcome is the same: the people who keep their homes are the ones who face it early and reach out for proper help, not the ones who try to avoid their debts.

YOUR PLAN

Your 45-day action plan

If you do nothing else with this guide, do this. It turns three big ideas into a simple sequence you can actually follow.

WHEN	WHAT TO DO
Days 1–5	Open every letter. Read every email. Write down each debt, who it's owed to, and every deadline. Stop any last-minute asset transfers. Engage a skilled professional to assist. **Book a free assessment** so you're not doing this alone.
Days 6–10	Pull together a simple income-and-expenses picture and a list of what you own. Get advice on a payment-arrangement proposal and a remission request.
Days 11–22	Put the payment arrangement to the ATO and lodge the remission request. This pauses escalation and starts shrinking the debt.
Days 15-30	Review your structure. Separate future business risk from your home the right way, and confirm the home's ownership position with a professional.
Days 22-45	If the debt is too big for a plain payment plan, assess a formal solution (Debt Agreement, Personal Insolvency Agreement, or an ATO settlement) and get it underway.
Throughout	The moment anything is unclear or a deadline looms, ask. A short conversation early beats an expensive scramble late.

AVOID THESE

Five mistakes that cost sole traders their home

1. **Ignoring the letters**
   The debt doesn't pause while you look away: it grows, and the ATO's options get sharper. Engagement is protection.

2. **Transferring the house at the last minute**
   As covered in Path #2, this can be reversed for years afterward, and it damages your credibility exactly when you need it most.

3. **Raiding super or the mortgage redraw to pay the ATO in full**
   Sometimes stripping your safety net to clear a debt that could have been reduced or restructured leaves you more exposed, not less. Get advice before you drain anything.

4. **Agreeing to a payment plan you can't keep**
   A defaulted arrangement can restart enforcement. A realistic plan beats an optimistic one every time.

5. **Waiting for a "better time" to deal with it**
   There isn't one. The best time was last year; the second-best time is today, while you still have the widest set of options.

And one thing we'd never tell you to do

We will never advise you to hide assets, mislead the ATO, or backdate a transfer. Not because we're being cautious for its own sake, but because those moves genuinely make things worse: they're reversible, they're provable, and they can turn a debt problem into something far more serious. In this world, honesty isn't just the right thing; it's the strategy that actually protects your home.

THE NEXT STEP

You don't have to work this out alone

If you've read this far, you already know more than most people in your position, and you've probably realised the hardest part isn't the strategy, it's knowing which of these three paths applies to your numbers, and in what order. That's exactly what a proper look at your situation is for.

Talk it through with someone who's seen it before

Book a free, no-obligation 15-minute assessment.

It's a calm, confidential conversation: no jargon, no pressure, no judgement.
We'll help you understand where you actually stand, what your real options are, and what the right first move is for your situation. You'll leave the call knowing more, whether or not you ever work with us.

If there's a deadline on a letter in front of you, mention it when you reach out so we can prioritise it.

Check Your Eligibility

There's no cost and no commitment to take that first step, just a clearer head and a plan. The sooner you start the 45-day clock in this guide, the more of it works in your favour.

SMALL BUSINESS REBOOT

Helping Australian small business owners find a way through, with clarity, not judgement.

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PLEASE READ

Important information about this guide

This white paper is general information only. It is not personal legal, financial, tax, or insolvency advice, and it doesn't take account of your specific circumstances, objectives, or needs. Laws, rates, thresholds, and ATO practices change over time and can differ depending on your situation.

Nothing here creates an adviser–client relationship, and you should not act, or refrain from acting, on the basis of this guide alone. Before making any decision about tax debts, restructuring, asset ownership, or any formal insolvency option, please obtain advice from a suitably qualified professional, such as a registered tax agent, a qualified accountant, a solicitor, or a registered trustee, who can consider your full circumstances.

The figures mentioned (including the general interest charge rate) are indicative, may not be current when you read this, and are included to illustrate the general point that tax debts grow over time. The case study is an illustrative composite and not a promise of any particular outcome.

If your situation is causing you significant stress or distress, please also consider reaching out to a support service such as your GP, Lifeline (13 11 14), or the free small-business focused counselling available through the New Access for Small Business Owners program. Looking after yourself is part of getting through this.