

# ATO's director ID system deadline looms, with more than 1 million people facing \$13,000 fines

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The ATO says it has advertised widely about the need for company directors to get an ID by November 30. *(Supplied: ATO)*

There are concerns that up to 1 million Australians are in the dark about a looming tax office requirement — or know about it and are putting off an administrative headache — with just a week until it becomes law.

The Australian Tax Office (ATO) is making so-called director IDs mandatory for every person covered by the corporations act by November 30.

This covers people running major entities, many small businesses, and even charities and not-for-profit organisations, such as sports clubs and community groups.

## Key points:

- It will be mandatory for all company directors covered by the Corporations Act to have a unique ID number by end of November
- The director IDs will allow authorities to track activities through various government databases

People who do not sign up by the deadline could face fines of up to \$13,000 each, as well as be deemed ineligible to run a company.

- Those IDs are being introduced in a bid to crack down on so-called "dummy directors" and company "phoenixing"

The IDs are being implemented to crack down on so-called "dummy directors" and company phoenixing, where an entity collapses without paying creditors and rises from the ashes as another entity.

Until the scheme was introduced into law under the corporations act, people could sign up as a director with little proof of their identity.

The ABC revealed in early November that half of Australia's estimated 2.5 million directors had not been issued a director ID yet.

Perth-based photography business owner Steven Secker was not aware of the requirement to register for a director ID until he read about it in an ABC News story.

He has been a company director since 1982.

"Where's the publicity to company directors supposed to have been?" he said.

Mr Secker said after reading the ABC News article, he was also prompted into getting a director ID while visiting the website of the corporate regulator ASIC to pay for his annual company fees.

"There was a message: Have you registered for your director ID?" he said.

He is worried many others may not be aware of the requirement.

"There is often an assumption that you are looking at certain information in certain places. I don't watch the TV. I don't listen to radio," he said.

He is urging ASIC and the ATO to communicate more widely.

## **ATO defends its communication strategy**

The ATO is defending its messaging around the director ID system.

The scheme is being implemented by the Australian Business Registry Services (ABRS), which is a unit within the ATO.

ABRS deputy registrar Karen Foat said it had done "heaps" to inform company directors about the new requirement.

That included through information in annual electronic reminders, by going through accountants who work with company directors, and with a wider advertising campaign this month, she said.



The ABRS says it has done "heaps" to inform company directors about the new requirement. *(Supplied: ATO)*

Ms Foat believes the issue is many people know about the requirement but are putting off the administrative task of applying for it.

Applications can be made online, through the post, or on the phone. It requires somebody to show proof of their identity and fill out forms.

"We know that people just love to leave things to the last minute. We're all human," Ms Foat said.

"This is really quite different to cleaning out your garage (or something else) that you can just put off. It is actually something that people need to do. It's not optional."

The ATO has seen a rise in the number of people applying for their IDs.

On Monday, a record 28,426 people applied for one in a day.

"That's a pretty big step up, all the way from 3,000 a day just a few months ago," Ms Foat said.

Despite the surge, fewer than 1.5 million of the estimated 2.5 million Australian company directors eligible had signed up as of Monday.

The deadline is now just a week away.

Ms Foat said the ATO "never expected" all 2.5 million directors to apply by deadline, and said even reaching 2 million by November 30 "would be fantastic".

She said the ATO would take a "reasonable" approach about fining people who had not signed up by the deadline.

*Karen Foat says company directors appear to be putting off applying for an ID. (ABC News: Tamara Penniket)*

"There's not a hard and fast date after which we will be applying penalties, if people are trying to do the right thing," she said.

"However, if we are reaching out to people and trying to support people to apply, and we find that people are deliberately not meeting those obligations, then that's when penalties can apply."

The people intentionally avoiding signing up could be those the ATO and ASIC are trying to flush out.

As previously reported by ABC News, there is an underground corporate culture of people signing up so-called "dummy directors".

Some people who deal with company collapses say it is not unusual to see the names of dead movie stars or cartoon characters lodged as running entities.

There have also been stories of real people with little-to-zero connection to the everyday running of a company officially appointed as its director, including backpackers, distant relatives and even the homeless.

This opens these real people up to legal ramifications, including fines and bankruptcy, if the company collapses and is found to have acted against the law.

Dummy directors can also allow "phoenixing" — when a new company rises from the ashes of another — costing the nation's economy between \$2.9 billion and \$5.1 billion annually, according to the ATO.

Often the loser is the tax office itself, when a company liquidates having avoided paying taxes for itself or its workers.

However, the practice can also leave sub-contractors, employees, customers and suppliers owed money and entitlements.

The ATO and ASIC are seeking to make the system less volatile through the new ID system, however Ms Foat said it would take "some time" for the systems to line up.

For instance, currently you do not have to lodge your director ID when creating a new company with ASIC, but eventually that is the goal.

"That's a pretty big and complex program of work," Ms Foat said.

Despite his frustration about not knowing about the director ID program until recently, long-time company director Steven Secker supports the move.

"I think having some form of identity check is important," he said.

"You could check when somebody is registering as a director of a company. That's not a problem. This is one way of doing it.

"But there are other ways that could easily have been done and should have been done years ago."

### **What is phoenixing?**

- When a director strips cash and assets before hiding them and liquidating the company, then restarting
- Usually restarted under a different name, "like a phoenix from the flames"
- Done to deny creditors and ATO the money owed to them