



# Changes to insolvency and bankruptcy law

On 22 March 2020, in acknowledgement of and response to the economic impacts of the Coronavirus, the Morrison Government introduced temporary relief measures for financially distressed businesses.

Although these measures are yet to become laws, we expect that legislation will soon be passed to reflect the changes proposed by the government.

## **What you need to know:**

- When a company is owed debts, it can issue a statutory demand to force the debtor company into liquidation. The government will temporarily increase the minimum threshold for creditors to issue a statutory demand from the current level of \$2,000 to \$20,000.
- Not responding to a demand within a specified time creates a presumption that the company is insolvent. The statutory time frame for a company to respond to a statutory demand will be extended temporarily from 21 days to 6 months.
- The threshold for the minimum amount of debt required for a creditor to initiate bankruptcy proceedings against a debtor will temporarily increase from \$5,000 to \$20,000.
- Failure to respond to a bankruptcy notice is the most common act of bankruptcy. A time for a debtor to respond to a bankruptcy notice will be temporarily increased from 21 days to 6 months.

- When a debtor declares an intention to enter voluntary bankruptcy by making a declaration of intention to present a debtor's petition, there is a period of protection when unsecured creditors cannot take further action to recover debts. This period will be temporarily extended from 21 days to 6 months.
- Under current laws, directors are held personally liable if a company trades while insolvent. The government will introduce temporary relief for directors from personal liability for insolvent trading will apply with respect to debts incurred in the ordinary course of the company's business.
- All of these measures will apply for 6 months.

Do you have any questions about these changes? [Contact Andersons Solicitors today.](#)

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