

# FACTS SHEET – January 2003

## TAX AUDITS

There are three traditional reasons why a business will come under scrutiny from the Australian Taxation Office:

- Your lottery number has just come up. The ATO reviews specific industries over the years and randomly selects taxpayers for review.
- Your tax returns or statements are red flagged because of inconsistencies with various benchmarks or prior years and/or the information provided does not appear to be reasonable.
- Anonymous public tip-offs.

### Random Audits

The ATO during the course of the year will target specific industries for the purposes of information gathering and statistically sampling purposes. If those targeted yield a higher return, then they will sample more in the same industry.

Currently, the ATO is targeting the cash economy. The Commissioner of Taxation has said recently that around 85,000 businesses will be contacted by the cash economy task force this year. Pubs, clubs, clothing, textiles and security industries are being particularly hit.

Besides targeting specific industries, the ATO still randomly selects individuals 'out of the hat' - just to keep everyone on their toes.

### Red Flag Audits

Next time you have five minutes, look at the last income tax return of your business. It requires a lot of disclosure from you that has nothing to do with the calculation of income tax. The ATO specifically requires certain disclosures in the income tax returns for statistical information gathering.

If your business is declaring that it only keeps \$5,000 of stock, and all your competitors are on average keeping \$80,000 then expect an audit. It is that simple.

Furthermore, the ATO will 'match' information from other sources to the information disclosed in your return. A simple example is interest income. The banks, by law, are required to send details of interest earned by their clients and their tax file numbers every year to the ATO. The ATO matches this to your tax return.

The ATO is also increasing the level of co-operation with other tax offices throughout the world. Accordingly other countries are now providing the ATO with information concerning Australian resident income held within those countries. Greater technological improvements will only increase this activity.

Currently, the ATO is matching the information provided on the BAS statements to the income tax returns of the business. If these don't match, well....

## **Public Tip-Offs**

Last year, more than 40,000 calls were made to the ATO's tax evasion hotline, over half of which resulted in further investigation. The result was a further \$44 million of tax raised.

The tip-offs are often from disgruntled employees, disgruntled suppliers/customers, and ex-spouses.

## **Business Audits**

Typically the income tax areas subject to close scrutiny by the ATO include:

- PAYG payments
- Record keeping
- Sales and Purchases
- Stock
- Large and unusual expenditures
- Debtors & Creditors
- Substantiation
- Shareholder loans

The ATO is also gunning for GST for a good return on its GST Audit Program. In this respect, the States are giving up/gambling \$45 million that the ATO will collect more, indeed the States expect a return of many times that amount - we have seen numbers in excess of \$800 million being bandied about.

## **Other Types of Audits**

In brief, the ATO can also conduct specific audits of FBT, CGT, PAYG and a host of other taxes. However, the ATO is not the only authority to have audit capability.

Recently, our firm has assisted three clients with respect to Workers Compensation audits (and these typically cover a period of 5 years) and two clients with respect of the Superannuation Guarantee Charge and one client with respect to the Diesel Fuel Rebate Scheme.

## **What can you do?**

Firstly, the ethical argument - pay your taxes. Think of it as, if you rent a shop or factory you have to pay your rent. If you hire staff you have to pay your wages. If you make a profit you have to pay your tax. No more, no less than you legally have to. Tax advisors are there to minimise your tax expenditure - they are not there for you to evade the tax.

Secondly, you should regularly review your business with regard to its tax commitments. Can you account for ALL the disclosures in the various income tax returns, BAS statements and other documents that you regularly provide to the ATO? Do you have supporting information? If you are unclear in anyway whatsoever, then contact us.

Currently, we are also reviewing the costs and availability of Audit Insurance for clients. This type of insurance covers the cost of professional fees (eg, ours) incurred in responding to an audit of any legally required statutory return by State or Commonwealth authorities.

Should you wish to know more concerning your rights and responsibilities or any other issue concerning tax audits, please do not hesitate to contact us.

***Important:*** *The information contained in this Facts Sheet is not advice. Many of the comments in this Facts Sheet are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances. Also please note that changes to legislation may occur quickly.*

**For more information**, or if you would like assistance, please contact Farmilo & Co.

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