

Audit Insurance

The following pages are a brief summary of the ATO's latest Compliance Report.

I'm sure you'll be convinced as to the value of having audit protection in place when you study the numbers.

Several other points to factor in:

1. This is purely the ATO's report. What about all the other State & Commonwealth Government Agencies that also undertake reviews and audits i.e., payroll tax; stamp duty; wholesales tax; withholding tax; workers compensation; APRA re super funds; ASIC company returns; customs; office of charities and gaming; sales tax; trust accounts; fuel rebate; prescribed payments; reportable payments etc.
2. The majority of reviews or audits result in extra tax or duty payable; most of these incur interest penalties; a number incur fines for lack of care taken; a small number are prosecuted. A lucky few actually get a refund.
3. Few appreciate the amount of activity required to actually prepare for and manage through the review or audit. Yes, whilst some audits can be handled quickly by phone or correspondence, many are more complex; involve a field audit; and further action by the accountant (or legal advice etc.) to respond to the audit findings. Professional fees paid have ranged between \$500 to \$75,000; the majority between \$5,000 to \$15,000; and the average being \$7,650.
4. Not many businesses, especially Self Employed and SME, have surplus cash flow to cover these levels of professional fees, especially if additional payments also sought as per 2. above. It's impossible to budget for an audit.

The reality is that audit protection is a nominal investment to have financial comfort knowing that one can access paid professional assistance to respond to any review or audit events, including being better placed to also argue any review or audit findings. Government agencies are not always right in their interpretation of the various Acts they oversee.

Talk to us or your insurance broker ASAP and organise audit protection.

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Taxes collected and from which categories

Overall taxes: Income tax 73%; GST 15%; Excise 9%; and Other 3%.

Category	Number in each category	% of tax paid
Individuals	11 million (74% of returns prepared by tax agents)	44% (79% receive a refund)
Micro business (< \$2m turnover) (60% operate as sole traders & partnerships & employs 4 million people)	2.4 million (300k small superfunds & 200k trusts) (most prepare own BAS – 95% use tax agents for income tax returns)	11%
SME business (\$2-100m turnover; 85% <\$10m turnover; 92% privately owned; employs 3 million people)	95,000 (82,400 single entities, 12,100 groups, 8,200 self managed Superfunds & 900 high wealth individuals with net worth >\$30m)	11%
Large business (> \$100M turnover) (66% are Australian owned & employ 3 million people)	1,900	30%
Non profit organizations (employs 1 million people)	700 (22% use tax agents for income tax returns)	1%
Government agencies		3%

Review/audit targets & additional tax collected

INDIVIDUALS

High income earners
Work related
Rental property income
Capital gains tax
Outstanding returns
Dividends
Tax planning
Cash economy
Income and benefits matching
Interest
DIY superfunds
Identity theft
Child rebate
Welfare benefits
Specific occupations
Aggressive tax planning

Returns checked – 10,000,000
Amended returns – 587,000
Investigations, reviews or audits undertaken – 360,100

Additional tax & penalties collected - \$299,500,000

Review/audit targets & additional tax collected (cont'd)

MICRO BUSINESS
(<\$2 million turnover/revenue)

Record keeping
Cash economy
Capital gains tax
Goods & services tax
Aggressive tax planning
Personal services alienation
Employer contributions
Operating losses
Superfunds

Reviews or audits undertaken – 296,800

Additional tax & penalties collected \$1,155,900,000

Review/audit targets & additional tax collected (cont'd)

SME BUSINESS
(\$2-\$100 million turnover/revenue)

Income tax
Capital management
Service trusts
Cash economy
Capital gains tax
Goods & services tax
Phoenix arrangements
Building, property & construction
International tax
Employer obligations
Aggressive tax planning
Personal services alienation
Operating losses
Superfunds
Excises

Reviews or audits undertaken – 15,625

Additional tax & penalties collected \$767,290,000

Review/audit targets & additional tax collected (cont'd)

LARGE BUSINESS
(>\$100 million turnover/revenue)

Reporting
Acquisitions & divestures
Restructures
Income tax
Capital management
Income & distribution
Foreign exchange
Bribes & facilitation payments
Capital gains tax
Goods & services tax
Phoenix arrangements
Building, property & construction
International tax
Employer obligations
Aggressive tax planning
Operating losses
Superfunds
Excises

Reviews or audits undertaken – 16,360

Additional tax & penalties collected \$4,346,000,000

Review/audit targets & additional tax collected (cont'd)

NON PROFIT

Income tax
Capital gains tax
Goods & services tax
Employer obligations
Aggressive tax planning
Operating losses
Superfunds

Reviews or audits undertaken – 15,197

Additional tax & penalties collected \$55,800,000

TAX AGENTS

26,000 registered tax agents who lodge 74% of income tax returns for individuals
& 95% for businesses.

120,000 in bookkeeping industry – 10-15% prepare and lodge BAS.

Latest Industry or Groups to be targeted:

- Adult industry; Aggressive tax planning; Alcohol industry; Alienation of personal services income – use of structures to avoid or defer income tax; Banking and financial supplies; Bartering; Building, property and construction; Capital gains tax; Cash economy; Choice of superannuation funds; Clubs and pubs; Consolidation; Contract cleaning services; Customs; Disposal of assets; Duty-free shops; Eligible termination payments; Employer obligations; Excise; Financial planners; Fishing; Foreign source income; Fringe benefits tax; Fuel schemes; Gaming – mainly poker machines; Gold bullion, antiques and art dealing; Gold mining; Government organisations; GST refunds; High wealth individuals; Home loan unit trusts; Horse racing industry; Income tax refunds; Information matching; Interest and dividend deductions; International tax; Legal profession; Linked bonds; Lodgement compliance; Low doc loans; Motor vehicle industry; Non-commercial losses; Non-profit organisations; Payment compliance; Payroll tax; Petroleum; Phoenix projects; Record keeping; Registration integrity; Rental properties; Research & development; Restaurants, cafes and takeaways; Retail industry; Revenue losses; Scrap metal; Self managed superannuation funds; Service trusts; Shareholder loans; Stamp duty; Superannuation guarantee levy; Superannuation lodgements; Tax havens; Taxi industry; Tobacco; Tourism and hospitality; Transfer pricing; Wine equalisation tax; Work-related expenses; Workers compensation.

ATO priorities:

Strengthen income tax compliance.

Monitor compliance with recent legislation including income tax consolidation and demergers.

Improve compliance with international tax obligations such as global profit shifting, non-resident withholding tax and the use of tax havens.

Increased focus on the use of shareholder loans.

Work with agents to understand the issues affecting clients' income tax performance and attempt to resolve common concerns without individually reviewing and/or auditing all of a tax agent's clients.

Undertake compliance activities earlier by, for example monitoring PAYG instalments.

Ensure employers comply with their obligations for choice of superannuation fund and other superannuation obligations.

Continue to consult with publicly listed small to medium businesses on tax risk management and corporate governance processes.