

## **Will your small business be targeted in this year's ATO compliance program?**

With an increasing focus on the Australian small business sector, it's vital that SMEs take the issue of compliance seriously and prepare themselves for an ATO audit.

In the 2005-2006 financial year the ATO conducted 1,200 income tax reviews and 1,000 audits across the small to medium business segment and as a result they raised \$356 million in tax and penalties. These extensive reviews involve correspondence, telephone calls and field based activities. Legal and accounting fees can run to tens of thousands of dollars when SMEs (defined by the ATO as business with a turnover of \$2-100 million) respond to an audit.

In the micro-businesses segment (defined as those with an annual turnover of less than \$2 million) 130 income tax reviews and 2,900 income tax audits were undertaken in the 2005-2006 financial year. In regards to employer obligations, 1,600 reviews were undertaken and 2,300 businesses were audited for compliance with PAYG withholding, superannuation guarantee and fringe benefits tax obligations.

While SMEs and micro-businesses generally comply with their tax obligations, the ATO has reported that non-compliance in both sectors typically occurs when businesses do not register for all taxes, keep proper records, lodge forms on time and report correct information.<sup>1</sup>

To help SMEs, Vero Insurance Limited (Vero) offers Tax Probe Plus®, a tax audit insurance cover for professional fees associated with tax audits.

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<sup>1</sup> Compliance Program 2006-2007, ATO website

Vero's General Manager of SME Products, Rob Walters said the likelihood of SMEs and micro-businesses being subjected to an audit and incurring heavy professional fees as a consequence has never been higher.

"The ATO is becoming more active in the compliance area. Tax Probe Plus® is of increasing importance to SME customers in the face of increasing tax audits across the small business segment.

"Many businesses assume that because they handle their business tax affairs in an honest and fully disclosed manner that they will not come under the attention of the ATO. Our policy is designed specifically for companies where the professional fees of their accountant to manage ATO audits can be costly," Mr Walters said.

It's important for businesses to consider the 'investigations' option when choosing the cover available, as this option includes ATO reviews in the coverage. Reviews are conducted by the ATO to understand business operations and practices across target segments, and require the business to submit information.

Interestingly, the ATO offer an 80% Voluntary Disclosure reduction in penalties if taxpayers 'come clean' at the beginning of a tax audit for more deliberate mistakes or oversights. This provides an opportunity for companies to minimise any penalty rates that may be incurred once a tax audit is complete. Things the Tax Probe product does not cover are deliberate acts or fraudulent omissions, or where a return has not been lodged properly or at all. It only covers returns that are done by an accountant for the business.

Many small businesses in Australia are unaware that tax audit insurance is available. In the 'Insurance and the Small Business Market' study (2006),

well over half of the small businesses surveyed had not even heard of tax audit insurance.

Despite a low level of awareness for tax audit insurance, Vero has handled various claims for audits in the last 12 months. These include Income Tax Audits, Business Activity Statement (BAS) Audits, GST and Fringe Benefit Tax Audits, Superannuation Guarantee audits and Workers Compensation Audits.

A typical claim can involve an audit of three years of BAS statements, general ledger, debtors, income tax, depreciation and car log books. As a market leading product, Vero's Tax Probe Plus® can be stand-alone or taken as an extension to an existing Vero Enterprise package policy.

In 1991, Vero was the first insurance company in Australia to launch this type of product to protect businesses against costs associated with tax audits. Vero's record of claims made by Tax Probe Plus® customers show a diverse range of audit costs incurred from several thousand dollars to more than \$100,000.

(See attachment for examples of Tax Probe Plus® claims in the last 12 months.)

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**Editor's note**

Vero Insurance Limited ("Vero") is a subsidiary of the Suncorp-Metway Limited ("Suncorp"). Vero, formerly Royal & Sun Alliance Insurance Australia Limited, has for many years been offering highly specialised solutions to its large range of customers.

Vero is one of Australia's largest intermediated general insurance companies and has 19 branches across Australia, providing a suite of quality specialised risk management products and services through brokers, corporate partners and risk managers.

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