

Will you be stung in this year's ATO compliance drive?

This year, it has been estimated that one in 10 small businesses will be contacted by the ATO* with a heightened focus on SMEs with a turnover between \$50-100 million. That means it is vital that SMEs take the issue of compliance seriously, and prepare themselves for an audit.

The ATO now has 90 per cent of field staff involved in conducting and research for business audits. Self-managed superannuation funds are also under close scrutiny.

In the 2004-05 financial year, the ATO conducted 44,700 audits and reviews across the small business segment. This involved correspondence, telephone calls and field based activities. Legal and accounting fees incurred by SMEs (defined by the ATO as businesses having turnover of \$2-100 million) when responding to audits can run to tens of thousands of dollars.

In the micro-businesses segment, defined by the ATO as those with an annual turnover of less than \$2 million, 7,982 income tax reviews and 399 income tax audits were undertaken in the 2004-2005 financial year.

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

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

“With the ATO being more active than ever before, our Tax Probe Plus® product is compelling 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 these companies where the professional fees of their accountant to manage ATO audits can be both costly and unexpected,” Mr Walters said.

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 oversight. This provides an opportunity for companies to minimise any penalty rates that may be incurred once a tax audit is complete. The Tax Probe product does not cover 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.

The main issue is that many small businesses in Australia are unaware that tax audit insurance is available. Well over half of the small businesses surveyed in the 2006 ‘Insurance and the Small Business Market’ study had not even heard of tax audit insurance. Cameron Research: June 2006 also stated that 36 per cent of these had heard of tax audit insurance, but only 9 per cent had it.

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 leader, 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 that protects 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 18 months.)

*The Sun Herald, Investor, 28 May 2006.

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Editor's note

Vero Insurance Limited ("Vero") is a subsidiary of the Promina Group Limited, which is one of the top 50 companies listed on the Australian Stock Exchange. 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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