


Tips for Avoiding and Successfully Passing Audits by the ATO and Other Government Organizations

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Avoiding and Successfully Passing Audits: In the ever-evolving landscape of taxation, it is crucial for taxpayers to stay informed about the Australian Taxation Office's (ATO) audit focus and understand how to prevent and handle potential audits. As revealed in the 2023 Budget, the ATO has been allocated a substantial budget of \$89.6 million, while the Treasury receives \$1.2 million over two years.

This funding aims to extend the personal income tax compliance program and expand its scope to address emerging issues, including deductions related to short-term rental properties. The objective is to ensure the genuine availability of these properties for rent.

In this article, we will delve into ATO's audit focus and explore strategies to prevent audits proactively. Additionally, we will provide insights on effectively managing and navigating an ATO audit, should one arise. Understanding the ATO's compliance program and emerging issues can help individuals and businesses safeguard themselves, maintain tax compliance, and mitigate potential risks. So, let's delve into the world of ATO audits and equip ourselves with the knowledge and strategies to navigate them successfully.

ATO Focus for Audit:

Investment Property Claims: The ATO has ramped up its enforcement measures this year to address commonly made mistakes in tax returns. This initiative is expected to lead to fewer refunds and potentially leave taxpayers with increased debt. Rental property deductions, work-related expenses, and Capital Gains Tax (CGT) have emerged as the primary targets of the ATO's crackdown. Landlords, individuals working from home, and investors should be prepared for heightened scrutiny in these areas.



A significant number of rental property owners are currently making errors in their returns

According to Mr. Loh from the ATO, a significant number of rental property owners are currently making errors in their returns. These errors include omitting rental income, overclaiming expenses, or wrongly claiming deductions for improvements made to private properties. It is worth noting that approximately 87% of landlords rely on tax agents to handle their tax returns.

However, the ATO's advanced analytics systems now enable them to identify residential property loans and other rental data more effectively.

In light of these findings, the ATO encourages rental property owners and their tax agents to exercise extra caution this tax season. It is crucial to review records meticulously before filing returns to ensure accuracy and compliance with tax regulations. One specific concern

highlighted by the ATO is the correct apportionment of loan interest expenses for rental properties.

Taxpayers should only claim interest on loans used to acquire rental properties and generate rental income. If a loan includes private expenses, such as a car purchase or a vacation, the interest deduction should only be claimed for the portion related to rental income production.

Work from Home – The Australian Taxation Office (ATO) has made significant changes to work-from-home expense claims, eliminating the shortcut method and introducing a fixed-rate deduction of 67 cents per hour. These changes, which require daily logs of hours worked from home starting in March, came as a surprise for many who had previously claimed during the pandemic. Taxpayers must now comply with stricter record-keeping requirements and ensure their claims accurately reflect their current working arrangements.



Significant changes were made to work-from-home expense claims

To navigate the revised regime, taxpayers should avoid copying claims from previous years and carefully consider their eligibility and record-keeping obligations. With the shift towards more people working in office settings compared to last year, it is crucial to keep accurate records to choose the most suitable deduction method. By maintaining comprehensive records, individuals can meet the ATO's requirements and maximize their deductions effectively while adapting to the evolving nature of work arrangements.

Crackdown on Crypto Currency – Following last year’s crackdown on cryptocurrency taxation, the Australian Taxation Office (ATO) has extended its focus to encompass a broader concern over Capital Gains Tax (CGT) events involving a wide range of assets.



Cryptocurrency had a major crackdown in 2022

The ATO has clarified that CGT obligations apply to the disposal of not only crypto but also shares, managed investments, and properties. It emphasizes the importance of calculating the capital gain or loss for each asset unless an exemption is applicable to ensure compliance with tax obligations and accurate payment of taxes.

To meet their tax responsibilities and avoid penalties, taxpayers must carefully assess and calculate the CGT implications associated with the disposal of their assets. Whether it involves shares, managed investments, properties, or cryptocurrencies, understanding the capital gains or losses incurred is essential. The ATO’s reminder serves as a crucial prompt for individuals to fulfill their obligations and ensure accurate tax payments based on their asset disposals, unless they qualify for any exemptions.

How to Avoid and Passing Audits by ATO and Other Government Organizations

Tax Reports Should Always Be Turned in on Time.

This one is easy. If you keep up with your tax forms and give yourself enough time to put them together and send them in, you are less likely to make mistakes. It also means that you're less likely to be looked at closely when you send in your taxes later.

Look Over Your Calculations and Deductions More Than Once.

Even though it's not the most fun thing to do, double-checking your numbers is a good way to ensure everything is right before sending your tax return. Working with a tax agent is a good way to make sure you tick all the right boxes because a good accountant will catch any mistakes and bring them to your attention.

Declare Expenses, but Only the Ones You Can Get.

When you do your tax return, you can claim a lot of different benefits, but what you can claim depends a lot on what you do for a living.



We've made a helpful list of tasks broken down by profession to help you figure out what you can claim, and if you work with a tax agent, they'll point out anything you might have missed so you can get the biggest refund possible.

But you can only claim legal deductions, and you need papers or other proof to support your claims. Getting clever with your deductions is a bad idea. If you get caught, you'll not only have to pay it all back, but you'll also have to pay a big fine.

Keep Very Detailed Records.



Yes, we already said this, but it's SO important that we're saying it again. Keep the papers for everything you claim. It's fine for these to be digital records as long as the date, Vendor's ABN, cost, and details are all clear.

When Taking Cash, Be Especially Careful to Keep Records.

Some jobs and businesses, like taxi driving, making repairs, and running a store, depend more on cash payments, which is fine as long as you keep careful records of all transactions. The ATO and other Government organizations like to look at cash-based businesses more closely, so if you mostly work with cash, be aware that you might be on their radar. But you can avoid problems by keeping good records to show that you aren't understating your income.

Clarity Rules.

Ensure that every tax claim you make is clear and easy to understand. That will help you avoid an audit in a big way. If the ATO can easily understand what you're saying and why, they are less likely to need to check up on you. But if your tax return has a lot of unclear or strange claims, they will likely send you a letter asking for more information and maybe even written proof of your claims.

What Can Be Audited by the ATO and Other Government Organizations?

The ATO can check several things on your tax return, including:

1. BAS and GST claims
2. Employer obligations such as tax withholding and Superannuation
3. Work-related tax deductions
4. Declared income.
5. Motor vehicle tax deductions
6. Cashflow Boost
7. Self-education expenses
8. Land Tax
9. Payroll Tax
10. Workers Comp Insurance

How the ATO and Other Government Organizations' Audit Process Works and What to Expect.

If you get a letter from the ATO or any other Government organization saying you will be audited, you can expect to follow the steps below.

- They will call to set up a good time for the first meeting.
- Details about the meeting, its schedule, and a draft audit management plan will be sent to you in writing.

At the Audit Meeting:

- The periods that will be checked will be listed in an audit scope.
- What they think is a risk, or what they have reason to suspect, and the information they need to test their theory.
- Figure out how you want to talk to people during this process.
- How the ATO audit will be done, as well as the schedule and rules.

What Should You Do if You're Being Audited by the ATO?

Talk to an accountant to help you get through this. This process can be quite stressful and hard to handle on your own, and if not done right, it can be very expensive. During the initial call, it's important to remember that you should ask the ATO officer as many questions as you can about the scope of the audit process. We suggest you don't say anything else during this phone call besides directly answering the questions asked, as it could be used against you. Also, don't offer any extra details.



Talk to an accountant to help you get through this

Telling them that you will check with your accountant and your records before getting back to them is a good answer. The Taxation Administration Act of 1953, Section 353-10, Schedule 1, says that the ATO can officially ask for information, but there needs to be a good reason for this. Holding the ATO accountable by ensuring they stick to the subject of the ATO audit and putting this request in writing will ensure that you are protected properly.

Another important thing to remember is that the ATO is an outside auditor and will not know as much about your business as you do. They don't always get things right because tax rules and tax systems are complicated. So, don't be scared by their position; if you think you haven't tried to avoid paying taxes on purpose, the outcome is usually very good.

How to Successfully Pass the Audit

Organize Everything.

After the first touch, you should take care of your taxes and be ready to answer questions from the ATO.

- Check your tax situation and make sure you're happy with how your taxes are set up.
- Ensure you have all the proof you need, like papers, bills, etc., that the law requires.
- After you've done all of these things, answer the ATO's questions with facts and no feelings.
- Answer the things they have asked you directly.
- Don't tell them more than they ask for. Just answer the things they've asked honestly.

If you don't understand these steps or want a second opinion, you should talk to a lawyer or tax expert. They have years of knowledge that can make the process much easier for you.

Choose What You Want to Say.

The taxes of most people are not perfect. Even if you made some small mistakes, the ATO might not notice or think they are important. Unless you make a big deal out of it, that is. The ATO is not as familiar with your business as you are. You know everything about it. You know how you'd like things to be different, but the ATO doesn't. They might not even care.

But if you bring them up, the ATO may have to look into them more closely. After all, they are trying to keep the tax system fair and honest. If you tell them they did something wrong, it's hard for them to ignore you or act like they didn't hear.

Disputing the ATO's Position on Your Taxes.

During the audit process, you have a lot of time to dispute a tax decision you don't agree with. Here are some things you can do to settle a tax dispute:

ATO Audit Position Paper.

The ATO will give you a paper about your audit. It says what they think you owe and why they think you do. Pay close attention. Do you agree with what they've found? If not, tell them and tell them why. They will take that into account. When the audit team reads your case, they may sometimes change their minds. But if they don't, don't make too much of it. Most likely, the ATO inspector won't change their mind unless you show them something new or if they made a huge technical mistake.

Facilitation On Site.

The ATO can now choose to do assistance in-house. You can use this choice to meet with the auditors and discuss what they found to see if you can find an answer. It's like therapy but with a third party present. It's worth a try because the audit team will have to explain why they think the way they do to a third party. During this process, there is always a chance that you can find flaws in their case and change the ATO's mind about your taxes.

Formally Object.

Objection is the next step if you are still unhappy. Most of the time, this will be the end of your tax problems with the ATO. At the objection stage, it's not uncommon for audit results to be changed. Both sides will look at the facts of the case at this point. You'll have the chance to say why you think you did your taxes right. The ATO objections team is made up of different people than the audit team, and they are usually better at the technical side of taxes than inspectors. Auditors tend to be more interested in getting knowledge.

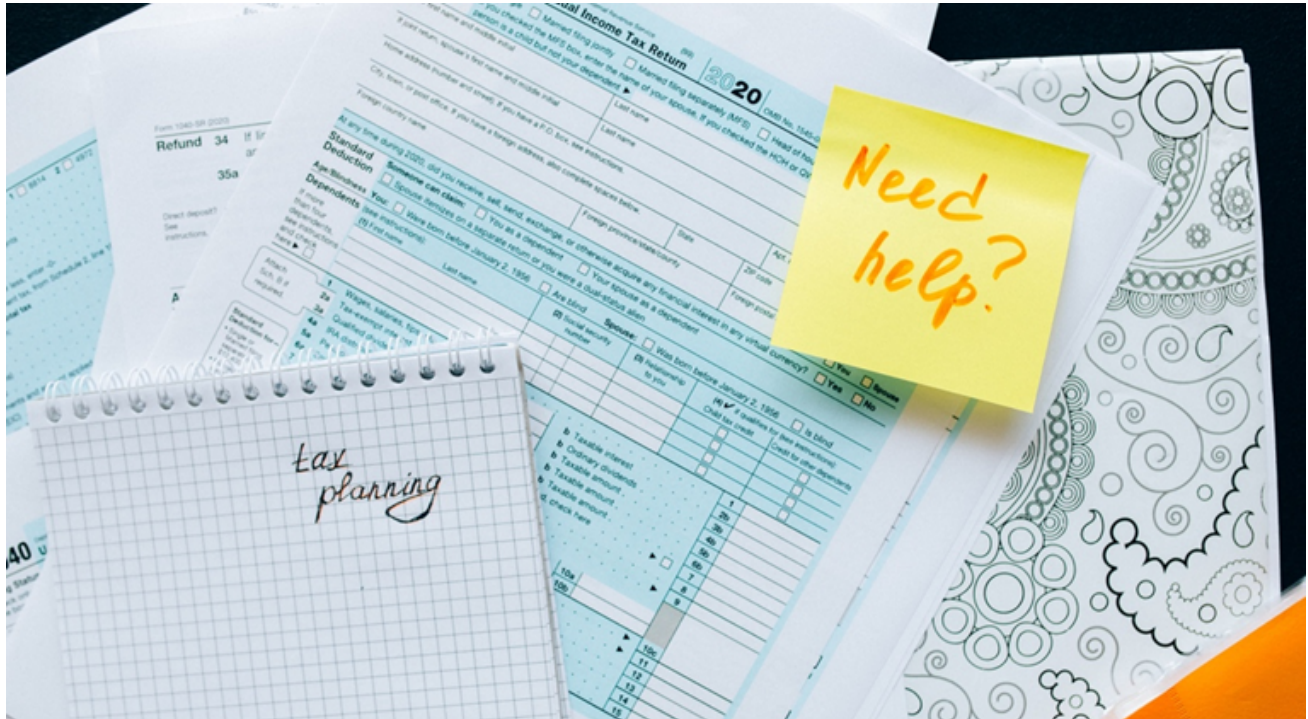
You may be told by a lawyer to get to the complaints stage as soon as possible. Some lawyers think you are more likely to deal with a fair person at this point. This is not a good plan, though. You can't make a complaint until the inspector makes a "decision" about your taxes. Giving the reviewer terrible or false information on purpose to get to the objections stage is more likely to lead to a bad result or, at the very least, a longer process than it needs to be.

Taking It Higher – Administrative Appeals Tribunal (AAT) Or Federal Court.

You can go to Court or the AAT if the objections team doesn't reply quickly or doesn't agree with you. The AAT is a good choice for most taxpayers because it is a 'no-costs' authority. You don't have to pay the ATO's court fees if you lose. This means that if the ATO wants to fight you, they need to be pretty sure of themselves. They might try to reach a deal with you so they don't have to spend money going to court. Note, though, that the ATO will usually only settle on technical principles instead of coming up with a compromise amount of tax.

Find an Accountant Who Fits the Needs of Your Business.

Many individuals attempt to handle their own tax and audit processes, but often encounter mistakes due to the lack of specialized knowledge in these areas. Accountants are experts in dealing with the ATO (Australian Taxation Office) and are well-equipped to lodge accurate tax returns. It may seem obvious, but the first crucial step in preparing for an audit by the ATO or any other government organization is to find an accountant or financial advisor who possesses the necessary skills and knowledge tailored to your business's specific needs.



You must take assistance from an experienced accountant if you want to pass or avoid the audit.

In order to ensure thorough preparedness, it is always advisable to engage the services of an accountant to handle your tax return. Accountants possess the necessary expertise and knowledge to navigate complex situations, making them well-equipped to handle any challenges that may arise. As the saying goes, “prevention is always better than cure,” and enlisting the assistance of an accountant can help prevent potential issues before they occur.



We offer a 15-minute free consultation to discuss your tax, property investment and business needs. Book your complimentary consultation now.

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