

Tax Audit Insurance fact sheet

June 2018



Tax Audit Insurance in a nutshell

If your business is subjected to an audit by the ATO or state tax authority, Tax Audit insurance will help cover the costs of professional fees and other expenses incurred so you can continue running your business without the hassle involved.

The low-down

Responding to a tax audit can be a very stressful, time consuming and costly experience, even if you haven't done anything wrong.

Tax Audit insurance is a cost-effective solution to manage the expenses incurred if your business is audited by the Australian Tax Office (ATO) or another government agency. It reimburses you for fees paid to professionals such as accountants, lawyers, bookkeepers and other consultants for their time and service that is required to prepare for an audit.

Depending on the size of your business and the state of your books, an investigation or audit could take anywhere from a few days to a few months.

Do I really need it?

Tax audits and investigations are on the rise, with small and medium sized businesses being a prime target. The ATO has implemented sophisticated data matching techniques to enable them to detect discrepancies between tax returns and the data they receive from government agencies, health funds, banks and other companies.

Random audits and investigations can be carried out, not only by the ATO, but by a number of State and Federal Government agencies, leaving you responsible for the costs involved in presenting the requested information. Depending on the length of time involved, the costs of being properly represented can run into the thousands. Even a simple enquiry can take up hours of time and effort; as well as costing a small fortune.

What is typically covered?

- ✓ Reimbursement of professional fees, including accountants, tax agents, lawyers, bookkeepers
- ✓ Other expenses incurred, such as actuaries and valuers

What isn't usually covered?

- ✗ Investigations that arise where the returns for the period in question were not prepared by or approved by an independent accountant or registered tax agent
- ✗ Fines and penalties imposed

Did you know?

- The ATO reviewed over 26,000 small businesses during the 2014/15 financial year, raising liabilities of \$910 million. (ATO, 2016)
- In 2015, there was approximately 22,000 penalties imposed on small businesses for false or misleading statements in income tax returns and activity statements. (ATO, 2016)
- The ATO uses information available on social media platforms to monitor for displays of wealth from individuals that does not match up with what they report on income tax returns.

Claim Case Study

A health food business was audited by the ATO requiring them to provide four years' worth of accounting records from July 2013 to June 2017. The business owner claimed that the business was not operational for a period of 12 months between April 2015 and March 2016, and was therefore asked to also provide evidence relating to how the owner was able to fund personal living expenses during this time.

In order to gather and present all of the required documentation the business owner engaged an accounting firm to assist, which resulted in fees totalling \$6,441. All of the fees, except for the \$100 excess, were covered by the business owner's Tax Audit policy.