



Fact sheet

Tax Audit Insurance

Tax Audit insurance explained

If your accounts are audited by the Australian Tax Office, you may need to hire external accountants to assist in the process. Tax Audit insurance covers a business for specified costs in responding to an official tax audit.

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.

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.

Tax Audit insurance, which is a cover option within a Business Insurance Package, is a cost-effective solution to manage the expenses incurred if your business is audited by the ATO. It reimburses you for fees paid to accountants or other specified professionals for their time and service helping you respond to the audit.

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Do I really need it?

With the ATO implementing sophisticated data matching techniques, it is easier for them to detect discrepancies between tax returns and the data they receive from government agencies, health funds, banks and other companies.

Random tax audits and investigations can be carried out not only by the ATO, but by several State and Federal Government agencies, leaving you responsible for the costs involved in presenting the required information.

Even a simple enquiry can take hours to respond to, potentially costing a small fortune.

Did you know?

Four of the most common mistakes the ATO receives from small business tax returns are¹:

- Errors from poor record keeping
- Failing to reconcile accounts
- Careless mistakes (e.g., transposition errors)
- Making mistakes because they don't understand their tax obligations

The ATO uses information available on social media platforms to monitor for displays of wealth from individuals that do not match up with what they report on income tax returns.²

1. ATO, [Small business random enquiry program findings](#), 1 Nov 2024

2. ABC News, [The Australian Taxation Office is looking for a weapon in its war against tax cheats and criminals](#), 18 Oct 2024



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What is typically covered?

- ✓ Accountants' fees
- ✓ Tax agent fees
- ✓ Other specified professional fees

What is typically not covered?

- ✗ Fines or taxes imposed
- ✗ Your time or salary or lost opportunities
- ✗ Your employee's time or wages

Always read the Policy Wording to understand the terms and conditions of Tax Audit insurance cover, including any applicable exclusions.

Claim Case Study[^]

Could this happen to your business?

A beautician received a letter from the ATO that they were to be audited for the 2023-24 period. They engaged their own accountant to assist with the audit and advised their insurer of the circumstances.

The ATO found that the beautician had made some incorrect declarations and identified a tax shortfall after revising the activity statement. They decided not to penalise the beautician, only requiring that the tax shortfall be paid.

The beautician's insurer reviewed the outcome of the audit and covered \$2,230 in accountant's fees related to it. However, the tax shortfall was not covered, as the amount would have been payable in the first instance had the tax return been lodged correctly.



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