Tax Audits:
What Your Business Needs To Know

Business tax audits are at a record high, with the Australian Tax Office (ATO) keen to crack down on businesses not paying their fair share of tax. And as any business that's undergone a tax audit would tell you, it's a stressful and time-consuming process that's best avoided.

Here we look at the red flags that can trigger an audit and how you can audit-proof your business.

What is a tax audit?

A tax audit happens when the ATO decides to review an individual's or business's tax affairs to verify the information they provided on their tax return. This includes checking whether all income was declared, deductions were accurate, and tax-related obligations were calculated and reported correctly.

What could trigger an audit?

Several factors may trigger a tax audit, including:

Financial performance above or below industry benchmarks

The ATO creates benchmarks for businesses by industry. If your business income and expenses are outside the benchmark, the ATO will take a closer look.

Running a cash business

If you run a cash business such as a restaurant or takeaway store, you're a prime target for an audit if your expenses are disproportionately high compared to your declared income.

Not paying your staff enough superannuation

If your staff make a complaint to the ATO that you haven't paid them the right amount of super, or you haven't paid it on time, this is a surefire way to trigger a tax audit or review.

Income inconsistent with assets

The ATO can look at your assets such as cars and properties then work out the estimated income you'd need for these. If the income on your tax return is significantly less than this, the ATO will likely investigate further.

International transactions

International transactions have become a key area of interest. Transactions with tax havens and material funds transfers are two examples of things that the ATO will pay close attention to.

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Discrepancies between your tax return and business activity statements

Large variances between the information you report on your tax return and the statements you lodge to the ATO for the corresponding year is one of the most common triggers for a tax audit.

Other red flags

- A poor record of lodging your tax return.
- Owning a motor vehicle but not lodging a fringe benefits tax return.
- Showing big fluctuations in income and expenses between years.
- Consistently reporting operating losses.

How can you audit-proof your business?

The best way to audit-proof your business is to do the right thing in the first place.

Include your entire taxable income on your tax return. This includes declaring:

- All your business takings.
- Capital gains on assets such as property and shares.
- Any foreign income from property, shares or employment.
- Any bank interest you earned.
- Only claim deductions you're entitled to. To claim a deduction, you must be able to prove that:
- The expense relates directly to earning your assessable business income.
- You have a receipt or other documentation to prove you paid for it.
- You paid for it in the year for which you're claiming the deduction.

Need more expert tax advice for your business?

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