



Ever Wondered How The ATO Audits Individuals?

Tax audits prompt fear and loathing the world over. Wrong data on your tax return can mean a delay with your refund. At worst, the ATO will order an audit on your tax affairs - not just for the current year, but up to five years.

Filling out a tax return might seem simple, but one wrong figure could alert the ATO that things are not as they seem. The ATO assess tax returns using hi-tech cross-checking systems that weed out inaccurate and fraudulent deductions. The system picks up questionable claims from over-calculating deductions, mis-calculating assessable income and claiming entirely false deductions.

A series of 20 computer checks are run on every tax return and flags are raised on numbers that don't add up. The system is smart and can analyse inaccurate data that will notify an auditor there is something to be reviewed.

In fact, it's never been easier for the ATO to pick up discrepancies.

What Does The ATO Look For When Deciding Who To Audit?

Tax return fraud is claiming a tax or superannuation refund by providing false information to the ATO, from creating fictitious expenses to false documents in a deliberate manner.

Refund fraud includes:

- Providing fictitious payment summary or income statement details
- Providing fictitious claims or offsets
- Providing false information in statements to the ATO
- Lodging fraudulent tax return using a false or stolen identity
- Claiming GST through fraudulent business activities
- Accessing Super Fund through the use of fraudulent documents.

What Happens In An Audit?

Audits range from quick examinations of source documents to more extensive analysis of complex transactions and deductions. The ATO will initiate a phone call and make a time for a visit. The ATO will provide written confirmation including their meeting agenda outlining key issues and a draft audit management plan.

Most audits are escalated from the review process, but they might also proceed straight to an audit in cases of less complex issues or where they suspect fraud or evasion, or high risk. The ATO will want to see your documents to verify the accuracy of your claims and will judge the integrity of your systems.

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Are You Sure You Are Filling Out Your Tax Return Properly?

For some people, this is simply a case of putting in a wrong figure in the wrong allocation. With the introduction of D-I-Y based tax returns, unless you know what you're doing, it's easy to make a mistake. Once on the ATO's radar, they could ask to view all of your records to justify your claims.

Tax returns, Business Activity Statements (BAS) and other information must be lodged with the ATO by certain dates. If you've made a mistake on your tax return that's already been lodged, you can request an amendment and use the amendment process to correct a mistake or omission. If your amendment reduces the tax you owe, the ATO will give you a tax refund. If it increases the tax you owe, the ATO will treat it as a voluntary disclosure, meaning you'll still have to pay the tax, but you'll likely receive concessions for penalties and interest charges.

What Are The Common Mistakes People Make On Their Tax Return?

Tax requires a certain level of maths, calculating numbers, and reading and understanding tax laws. Getting the numbers right and input into the right categories takes work, even for the experts.

- Incorrect calculations – it is easy to miscarry a number or miss a calculation out entirely when you're adding up rows of figures. It might pay to double check your calculations using a software program that logs and calculates expenses as you go.
- Forgetting about a claimable deduction – there are many deductions that can be made to minimise your tax. The ATO isn't obligated to find all your claimable deductions. It's a good idea to use a tax agent to work them all out before you lodge your tax return. You could be missing out on hundreds, if not thousands of legal claims every year.
- Not reporting your full income – the ATO looks at your full income, which may include bank interest, dividends, trust distributions. You'll need to account for all of your income on your tax return, not just your salary or wage.
- Lying on your taxes – claiming more deductions or hiding income will be traced. That is illegal behaviour which will result in consequences. You could be tried criminally if you've evaded your taxes by lying on your tax return.

Proof

Even with the receipts, the ATO might want to see documentation to prove you're the individual who incurred the cost during an audit. They might ask for bank statements and written confirmation from employers to back up your claims. The ATO has been known to call previous employers for information relating to claims made. Having a good filing system and backing up all of your records electronically to stay organised will help you prove your claims. You must keep your records for five years.

What Are Legitimate Work-Related Expenses?

Your claims must satisfy three criteria:

1. The claims must be directly related to earning your income and not be private at all in nature
2. You must have already incurred the expense and not have been reimbursed for it
3. You must be able to prove your claims

You could merely make an honest mistake on your tax return, but the key is to be organised and truthful. By keeping up with your finances throughout the year, tracking your receipts, payments and income forms as you go, using a professional software program and waiting to file when you have all of your income and expenses information finalised for the year will result in a smooth tax return.

If you're unsure about any aspect of your tax return, you can ask a tax accountant to review the information for you and re-lodge your tax return on your behalf. Most people prefer to employ the help of a professional and save themselves the headache of lodging their tax return. An ITP Tax Accountant will minimise your tax and maximise your tax refund – legally. The fees are 100% tax deductible on your next year's tax return, giving you peace of mind.

ITP The Income Tax Professionals have been helping Australian individual and businesses with their tax for 50 years. Call an ITP Tax Accountant on 1800 367 487 today.