

WHAT ITEMS ARE COVERED IN A DESK AUDIT ?

- Possible undisclosed income such as dividends or interest.
- Unexplained period(s) of unemployment.
- Calculation of assessable lump sum and eligible termination payments.
- Car Expenses .
- Life Assurance Bonuses.
- Living away from home deductions.
- Deductions for work expenses.
- Travel Expenses.
- Non employer sponsored superannuation deductions.
- Gifts.
- Rebates

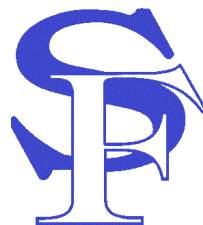
WHAT IS SUBSTANTIATION ?

- Desk audits usually involve proving the claims in your return. Unless you have receipts or other documents as proof, these deductions may not be allowed.
- Under the substantiation rules, employees must keep all the records relating to deductions for 3½ years after lodging the return, or until any dispute about the assessment is resolved. For self employed people and business, the period is 5 years after the records were prepared or the transaction to which they relate was completed, whichever is the later.
- Special requirements exist for car and travel expenses.

WHAT ARE THE PENALTIES ?

There are substantial penalties for false or misleading statements made in an audit interview or tax return.

- Penalties are based on the difference between the correct amount of tax and the amount calculated on the basis of the tax return lodged. In extreme cases, the penalty can be as much as 200%.
- The Tax Commissioner has a discretionary power to remit either part or all of this amount.



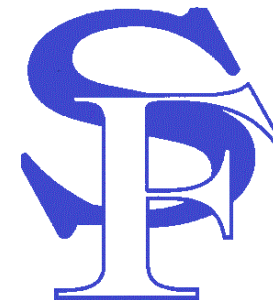
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**TAXATION
AUDITS**



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TAXATION

AUDITS



Tax Audits have become increasingly common since the introduction of self assessment, and all taxpayers need to be prepared for this. I can advise you on your rights and the information you will require if the Tax Office comes calling.

WHAT IS THE PURPOSE OF A TAX AUDIT

Audits are designed to ensure taxpayers have disclosed all income, including taxable capital gains, subject to tax, and that excessive deduction and rebate claims have not been made.

WHAT ARE THE MAIN TYPES OF AUDITS

- **General Inspections** - employer and Prescribed Payments System (PPS) records are inspected to ensure the taxpayer has met the requirements of the Pay-As-You-Earn (PAYE) and PPS provisions of the Act.
- **Desk Audits** - these are usually directed towards salary and wage earners and small business owners. Desk Audits require the substantiation of expenses claimed in tax returns, and usually taxpayers are given a minimum of 28 days to do so. Normally desk audits only relate to the most recent return, but if the claims are found incorrect, the Tax Office may require substantiation for claims made in prior years.

- **Business Audits** - these are generally targeted at small companies, trusts and partnerships, and require the substantiation of both income and expenses. All the activities of a business are examined to establish the nature of each transaction.
- **Complex Audits** - these are normally directed at very large companies or enterprises operation in particular industries or with international affiliations. This type of audit can take up to three years to complete.
- **Record Keeping Audits** - these are designed to ensure that all taxpayers are maintaining adequate and accurate records as required by the various revenue laws.
- **Sales Tax Audits** - these are directed at manufacturers, wholesalers and importers to establish if the correct rate of sales tax is being deducted.
- **Fringe Benefits Tax Audits** - these normally involve inspection of the records to ensure that all fringe benefits are disclosed, correctly calculated and the required documentary evidence is available.

WHAT ARE THE POWERS OF TAX AUDITORS?

- Legislation gives auditors extensive powers, including the right to full and free access to all buildings, places, books, documents and other papers, and the right to take copies of or extracts from any of these.

WHO IS SELECTED FOR AN AUDIT?

Tax Returns are selected for audit for several reasons including :-

- Apparently large or unusual claims
- Above or below average income or deduction levels for specific occupations or industries
- Computer comparisons of the dividend and interest payments provided by financial institutions and those given in tax returns.
- Information from other sources indicating undisclosed income.

WHAT HAPPENS AT AN AUDIT INTERVIEW

- Most audits are conducted through an interview at a taxpayer's business premises which allows you to personally explain your reasons for claims, omitted income or excessive deductions.
- The presence of a professional adviser such as your member of the National Institute of Accountants is permitted at the interview.
- During the interview, you may be asked to produce receipts or other documentation to support your claims. The auditors will examine these records to determine whether your income, deduction and rebates have been calculated correctly.

WHAT IS A DESK AUDIT ?

There are two main types of desk audit :

- **Substantiation only** - you are required to prove expenses relating to work, car and travel expenses under the substantiation rules.
- Substantiation and other income, deduction or rebate items - you are required to substantiate work, car and travel expenses, as well as checking of other expenses, income or rebate items on the return.

**Talk with our office today
and see what we can do for you**