

What to do if you're audited

Small business

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The ATO has its sights set on smaller businesses and sole traders. Follow these steps to ensure you're prepared if the tax man comes knocking.

Don't go for the panic button when the tax office sends you an audit notice.

There are some simple steps to be prepared for that fine-tooth financial comb.

1. Collect as much information as possible.

Some in the finance industry say the Australian Tax Office is more targeted and aggressive than ever, which means there has never been a better time to make sure the books are in order.

Tax partner at law firm Finlaysons Andrea Melillo says the first step is to get every scrap of evidence together to support your tax case.

"Start gathering the information ASAP," says Melillo.

"Then work out how to fill in the gaps. Banks, suppliers, major customers might be able to help."

2. Call for back up.

Audits are familiar territory for financial professionals. Better still, they are one step removed from the stress, says Brad Callaghan, director of accountants Callaghan Partners.

"By having your accountant handle your audit, you can emotionally detach yourself from the process," he says.

"You don't even have to attend the meeting if you don't like."

"Hold the audit at your accountants practice as well. I would not suggest anyone try dealing with the ATO by themselves."

3. Don't panic!

An audit may raise your stress levels, but you still have a business to run so the trick is to keep a cool head says Michael Garrone, businessDEPOT director and head of tax.

"On the day of the audit just be calm, don't take it personally – it really is just about the books and it will come down to receipts and numbers," he says.

"Deep breaths – resist the temptation to get riled up about any questions."

4. Good record keeping.

Either way, good record keeping is essential. If you aren't disciplined with your daily records, now is a good time to start, says Callaghan.

"I would suggest that the best way to plan for an audit is to keep great records from the start," he says.

"If you have kept your records and only claimed what you are entitled to then you have no issues.

"It is however, time consuming and there will be hard questions where the auditor will still probe you for more information."

5. Own up to any mistakes.

Save yourself hardship in the long run and be honest about errors, says Melillo.

"If you figure out something in your return was not quite right, own up early," she says.

"It may help to reduce penalties."

6. Know your audit.

The ATO orders audits based on suspicion of incorrect or fraudulent tax returns. Audits involve varying degrees of analysis – some may require a phone call or a letter asking for further information, while others will entail a visit from a tax officer.

Don Doolan from bookkeepers First Class Accounts says it pays to know what you're up against.

"Some Audits are as simple as show us a few invoices and explain how you keep your records," he says.

"Then there is the full blown audit that will take a lot of time and documentation.

"If you are not organised or cannot produce the required documentation then the audit process will become very difficult for you."

7. Be co-operative.

Avoid making a stressful situation worse by being unco-operative with the ATO, says Garrone.

"Make it easy for the ATO and be proactive in addressing their questions in a clear and easy to follow manner," he says.

"Maintain a good relationship. Don't let the ATO come to their own conclusions by you not answering the questions or providing the evidence."

8. Prepare an audit strategy.

Be proactive and review your position before replying to the ATO, says Garrone.

"This can include putting forward a voluntary disclosure to have penalties reduced through to outright disputing the ATO claim," he says.

"In other words have a clear strategy with the end in mind."

9. Be patient.

Jasmine Kidd, accountant from Online Tax Solutions, says a thorough audit can take months. Expect follow-up interviews with ATO representatives, who may also contact your suppliers, customers and financial institutions to verify your figures.

"The audit will last anywhere from six to 12 months and depending on how messy your records are, it can cause considerable disruption to your business," she says.

10. Consider audit insurance.

An audit can leave you with a large bill from your accountant. Audit insurance eases the hassle, says Doolan.

"With audit insurance the financial impact of being audited is negated," he says.

"This will give you peace of mind that you can afford to get the professionals involved."