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Cash and hidden economy review and audits

- <http://www.ato.gov.au/General/How-we-check-compliance/In-detail/Cash-economy/Overview/Cash-and-hidden-economy-review-and-audits/>
- Last modified: 07 Jul 2014
- QC 38150

Cash and hidden economy reviews and audits

We use a variety of risk indicators to identify businesses for review or audit because of the possibility they may be engaging in the cash and hidden economy. These indicators include results from data matching, comparisons of business information against our small business benchmarks and reports from the community. Based on these indicators, we select businesses for review or audit.

When contacting you, we always take into account the individual circumstances of your business and provide an opportunity for you to explain your personal situation.

This document explains:

- [Review and audit processes](#)
- [Typical audit process](#)



Find out more

- [Data matching](#)
- [Small business benchmarks](#)
- [About the cash economy](#)
- [Record keeping for small business](#)
- [What we expect of you](#)
- ATO compliance approaches

End of find out more

Review and audit processes

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Reviews and audits usually involve looking at your affairs to ensure the information you have given us is accurate and you have complied with your obligations.

Reviews and audits are both considered 'tax audits' but there are differences between the two as they vary in their complexity.

Depending on the complexity, we sometimes need to contact other parties such as banks, employees, customers and suppliers to get information.

Reviews

Reviews allow us to determine whether there are issues that require deeper investigation. The process also allows us to check for any errors so that we can help you to correct these.

The type of review we use depends on our initial assessment. There are two types, a phone review and an office review.

	Phone review	Office review
How we contact you	By phone	By phone
How we conduct the review	A phone review is a short discussion we initiate with you or your tax or BAS agent (or both of you) about what you have reported. This allows us to resolve any discrepancies that we have identified.	An office review is a longer phone discussion we initiate with you or your tax or BAS agent (or both of you). We ask you to substantiate information on your tax returns or business activity statements, such as your main business activity and record-keeping procedures, practices and controls.
How we select taxpayers for review	We have identified discrepancies between what your business has reported to us and information we	We have identified your business through risk indicators, along with sitting outside the small business benchmarks.

have collected from a third party, such as a bank or an online auction house.

How long the initial contact takes	Usually less than 30 minutes, although we may need to follow up with additional questions	Usually less than one hour
Possible outcomes of the phone call	There may be no further action or we may escalate your case for appropriate compliance action such as an audit.	There may be no further action or we may escalate your case for appropriate compliance action such as an audit.
Advising you of the outcome	We will advise you in writing of the outcome.	We will advise you in writing of the outcome.
How long the review takes from initial contact	About 40 days	About 90 days

What you can expect from a phone or office review

Audits

We conduct an audit if we think you may not be complying with your obligations or do not believe a review can look into the issues sufficiently.

There are six types of audit:

- [Record-keeping audit](#)
- [Specific audit-data comparisons](#)
- [Specific audit amendment](#)
- [Correspondence audit](#)
- [Cash and hidden economy audit](#)
- [Complex audit](#)

Record-keeping audit

How we select you	We identified you as someone having a combination of risk indicators, for example, anomalous benchmark performance, low business income etc.
What happens	We evaluate your record-keeping systems. We will ask you a series of questions and provide you with

information on how to keep better records.

Where we meet you

We meet you at an agreed location convenient to you.

Possible outcomes

Depending on what we find, we will undertake any of the following:

- take no further action
- make recommendations on how you should improve your record keeping practices
- impose a record-keeping penalty for failure to keep proper records
- escalate your case for a more intensive audit.

How long it will take (including case preparation and completion)

About 90 days

Specific audit-data comparisons

How we select you

You were identified for a review, after which we decided that an audit was necessary.

OR

We identified a significant discrepancy between what you have reported and what we have identified through our third-party data-matching program.

What happens

We compare information we have received from third-party sources, such as banks and suppliers, against what you have reported.

Where we meet you

We meet you at an agreed location convenient to you.

Possible outcomes

Depending on what we find we will undertake any of the following:

- take no further action
- amend your tax return for the period examined
- impose a record-keeping or false and misleading statement penalty (or both)
- consider prosecution (if we find serious or blatant breaches of the law).

How long it will take (including case preparation and completion)

About 120 days

Specific audit amendment

How we select you	You were identified from other audit work we have undertaken.
What happens	We amend your directors' or partners' individual income tax returns.
Where we meet you	At an agreed location convenient to you
Possible outcomes	Depending on what we find we will undertake any of the following: <ul style="list-style-type: none">• amend the directors' or partners' individual tax returns for the period examined• impose a record-keeping or false and misleading statement penalty, or both• consider prosecution (if we find serious or blatant breaches of the law).
How long it will take (including case preparation and completion)	About 120 days

Correspondence audit

How we select you	We identified you as someone having a combination of risk indicators, for example, anomalous benchmark performance, low business income etc. OR You were identified for a review, after which we decided that an audit was necessary.
What happens	We review information you have reported against the small business benchmarks.
Where we meet you	We usually carry these audits out over the phone.
Possible outcomes	Depending on what we find we will undertake any of the following: <ul style="list-style-type: none">• amend your return based on information you provide• issue a default assessment based on the small business benchmark for your industry (if you are unable to provide evidence to support your income and expenses)• impose a record-keeping or false and misleading statement penalty, or both• take no further action.
How long it will take	About 120 days

(including case preparation and completion)

Cash and hidden economy audit

How we select you	<p>During the review process your business was identified as being a high risk for not complying with your tax obligations and we decided that escalation to an audit was necessary.</p> <p>OR</p> <p>We identified you as someone having a combination of risk indicators, for example, anomalous benchmark performance, low business income etc.</p>
What happens	<p>We review information you have reported.</p>
Where we meet you	<p>At an agreed location convenient to you</p>
Possible outcomes	<p>Depending on what we find we will undertake any of the following:</p> <ul style="list-style-type: none">• amend your business's returns• amend director or partner returns (if applicable)• impose a record-keeping or false and misleading statement penalty, or both• consider prosecution (if we find serious or blatant breaches of the law)• take no further action.

How long it will take (including case preparation and completion) About 175 days

Complex audit

How we select you	<p>During the review process your business was identified as having complex tax affairs and being at risk of not complying with your tax obligations and we decided that escalation to an audit was necessary</p> <p>OR</p>
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You have been identified as a high risk due to your complex business affairs.

What happens We review information you have reported.

Where we meet you At an agreed location convenient to you

Possible outcomes Depending on what we find we will undertake any of the following:

- amend your business's returns
- amend director or partner returns
- impose a record-keeping or false and misleading statement penalty, or both
- consider prosecution (if we find serious or blatant breaches of the law)
- take no further action.

How long it will take About 250 days
(including case preparation and completion)

Typical audit process

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A typical audit comprises four stages:

- [selection you for audit](#)
- [meeting](#)
- [interim report](#)
- [audit finalisation](#).

Selecting you for an audit

Where we select you for an audit, we will:

- phone you to arrange a suitable interview meeting date and time
- send written confirmation of the meeting details
- give reasons for selecting you for audit, where possible
- advise you to take the opportunity to review previously lodged returns and identify issues that you may want to make a voluntary disclosure about at the audit meeting.

Meeting

At the meeting, we will:

- discuss how we will conduct the audit and why you were selected
- explain the audit scope, the financial years under audit and the expected completion date
- advise you of any of our guidelines relevant to the issues and years to be audited, including procedures in relation to voluntary disclosures
- explain your obligations under the Taxpayers' Charter
- explain what you can expect from us
- provide you with an opportunity to make a disclosure.

For a correspondence audit we will inform you of the business records we require you to provide before the meeting. At the meeting we will ask for further information or explanation of the business performance that led to an audit.

Where your records are readily available, properly kept and reliable, they will form the basis on which an assessment is made. If you are relying on material of a lesser standard you will need to demonstrate why that material is the best evidence available.

If record-keeping requirements are not met

You must make a genuine attempt to keep or retain your records. If we find that you haven't met your requirements, we will allow you to provide an explanation, supported by appropriate evidence.

Evidence that may be considered as valid would include:

- bank statements
- loan agreements
- actual cost of sales analysis
- purchase records from suppliers
- reconstruction of records that have been destroyed, lost or stolen
- personal living expenses.

When we make an assessment, any records you provide will be considered in line with other material we may find during the audit.

Failure to keep accurate records to support reported income can result in administrative penalties being imposed by auditors, court-imposed fines, and default assessments being raised using a range of information available to us, such as our small business benchmarks.

Generally, we will not reduce record-keeping penalties where an entity has made little or no attempt to keep or retain the required records. The maximum record-keeping penalty is \$3,400 (20 penalty units of \$170).



Find out more

- [Personal living expenses](#)
- [Small business benchmarks](#)

- [Minimum record-keeping requirements for small business](#)
- [Record keeping and cash transactions](#)
- [Record keeping for small business](#)
- Small business, tax and the cash economy
- PS LA 2005/2 *Penalty for failure to keep or retain records*

End of find out more

Interim report

We will issue an interim report during an audit. This outlines our position on the issues and provides you with an opportunity to comment before we finalise the audit.

An interim report sets out:

- our analysis of the available facts
- our application of relevant law to the facts
- details of any proposed adjustments, penalties or recommendations we might make as a result of finalising the audit.

Generally, we issue an interim report in the latter stages of an audit. You are then provided with an opportunity to comment and we will consider your comments when making our final decision.

Assessments are made on the best evidence available – where your records are readily available, properly kept and reliable, they will be the primary source of information on which the assessment is based.

If we rely on evidence of a lesser standard, you need to demonstrate why that evidence is the best evidence available.

If we intend to issue amended assessments, we will advise you beforehand. We will consider any submissions you make for reduction or remission of penalties or interest charges.

ATO assessments of taxable income

We can make an assessment of your taxable income so long as the basis used is reasonable, credible and defensible – the basis must, as much as practical, take into account your circumstances.

The assessment may involve a certain amount of sampling, estimating or judgment. This may include (but would not be restricted to):

- use of our small business benchmarks
- use of taxation statistics
- information in financial records provided during the audit
- statements or disclosures you provide

- information from third parties, such as banks and suppliers
- information from previously lodged returns.



Find out more

- [PS LA 2007/7External Link](#) *The use of the Commissioners power to make default assessments*
- [PS LA 2007/24External Link](#) *Making default assessments: section 167 of the Income Tax Assessment Act 1936 and other similar provisions*
- [PS LA 2011/25External Link](#) *Reconstructing records and making reasonable estimates for taxpayers affected by disasters*

End of find out more

Finalising an audit

After you have been given an opportunity to comment on the interim report, we will consider your contentions prior to making our final decision. We will advise of our final position in writing, including any applicable penalties and interest charges.

We send an audit-finalisation letter within seven days of reaching our final decision. The letter includes a questionnaire seeking your feedback on how we conducted the audit and any suggestions you may have for how we could improve the process.

If you are not satisfied

We recognise that processes and interactions sometimes do not proceed as planned. If you are concerned about how a compliance activity is proceeding, we encourage you to discuss the issues with your nominated case officer.

If that discussion does not resolve the issue, you can refer the matter to the case officer's team leader. You would have been given the team leader's name on the correspondence we sent you at the start or completion (or both) of our compliance activity.

The team leader will work with you and your case officer to address your legitimate concerns.

You can be assured that raising legitimate concerns with us will not adversely affect your case, as we will continue to apply the law fairly in all circumstances. However, we expect you to use these processes responsibly and not misuse them in an attempt to obtain a more favourable outcome. This process is only available if our audit team officers fail to meet expectations.

Where your concerns cannot be resolved by the team leader, and the audit team

does not meet the expectation required of them, there are other options to resolve your issues.



Find out more

- [Taxpayers' charter – what you need to know](#)
- [Taxpayers' charter – if you're subject to review or audit](#)
- [Assessment and amendment periods](#)
- [Penalties and interest](#)
- [Correct a mistake or amend a return](#)

End of find out more

Abstract: Information for tax agents and small business on cash and hidden economy review and audit processes.

Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

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