

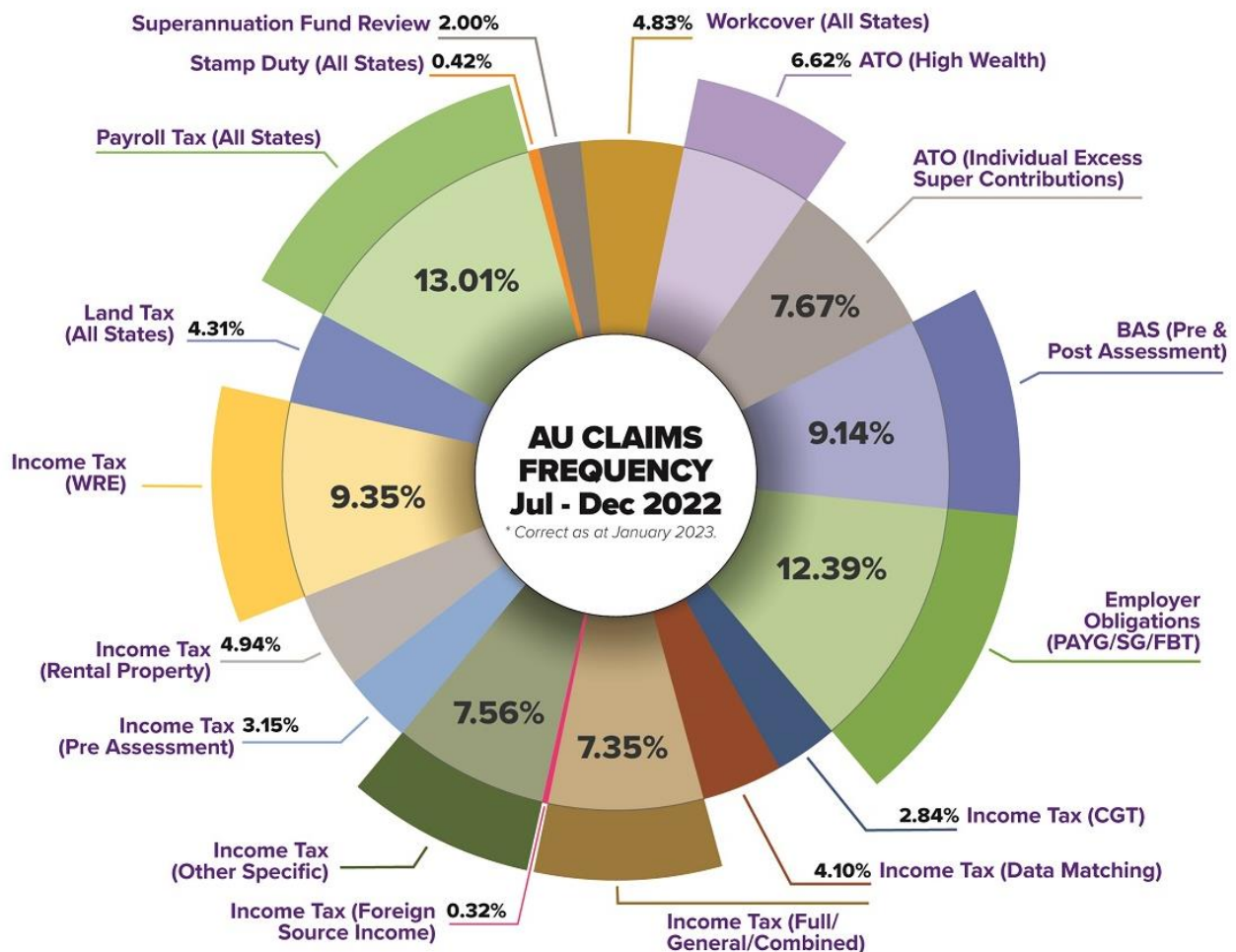
Audit Shield claims activity across Australia Jul – Dec 2022

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The Accountancy Insurance Claims Department continues to be busy processing claims from client accounting firms across Australia. The five most common audit activity areas 1 July 2022 – 31 December 2022 were:

- Payroll Tax (All States)
- Employer Obligations (PAYG/SG/FBT)
- Income Tax (WRE)
- BAS (Pre & Post Assessment)
- ATO (Individual Excess Super Contributions)

The below pie chart shows the distribution of Audit Shield claims activity in Australia*.



* Correct as at January 2023.

Official reviews or audits of your client's lodged tax returns, or financial compliance obligations can sometimes be unavoidable and can occur without warning. When an audit hits, it is rarely a reflection of the work put into preparing the return by the accountant but is more often due to a specific crackdown by the Australian Taxation Office (ATO) or other government revenue authorities.

These are the highlights from the five most common audit activity areas amongst accounting firms offering Audit Shield in Australia between 1 July 2022 – 31 December 2022:

1. Payroll Tax Investigations (All States):

Payroll Tax Investigations (All States) continues to be a major focus area by all State Revenue Offices around Australia. The Accountancy Insurance Claims team noted an increase of almost 3% in Payroll Tax Investigations over the second half of 2022 when compared to the 2021 - 2022 financial year to 30 June. This has pushed Payroll Tax Investigations into the number one position of all audit categories.

Issues identified in Payroll Tax Investigations include:

- Grouping of related employer entities
- Contractors
- Employees based in other states (requiring registration in other states)
- Employers not being registered when data (e.g., STP) shows they are over the Payroll Tax registration threshold
- Data sharing with other government authorities (ATO, WorkSafe, icare, etc.) is also a key contributing factor in identifying employers to target for Payroll Tax Investigation activity

Claim proportion (frequency) 1 July 2022 - 31 December 2022: Payroll Tax Investigations (All States) accounted for **13.01%** of all Accountancy Insurance claims.

2. Employer Obligations (PAYG/SG/FBT) Audits and Reviews:

Accounting professionals are seldom involved with their client's payroll preparation. This means that accountants are often finding out about any compliance issues for the first time when their client is selected for an audit or review.

Throughout 2022, many Australian businesses of all sizes struggled with maintaining a steady cashflow. As a result, some will not have kept up to date with their superannuation guarantee (SG) obligations. With Single Touch Payroll (STP), the ATO can easily identify and flag under payments of SG and we continue to see STP reporting as a big driver of ATO SG audit activity.

Claim proportion (frequency) 1 July 2022 - 31 December 2022: Employer Obligations Audits and Reviews (PAYG/SG/FBT) accounted for **12.39%** of all Accountancy Insurance claims.

3. Income Tax (WRE) Audits and Reviews:

Income Tax (WRE) Audits and Reviews increased by almost 5% over the second half of 2022 when compared to the 2021 - 2022 financial year to 30 June. The ATO highlighted ahead of the 2022 tax season that they will be focussing on work related expenses claims.

With so many people still working from home, the ATO has a special focus on deductions for home offices, mobile phone and internet costs, but they have also indicated that they are [targeting](#):

- Claims for work-related clothing, dry cleaning, and laundry expenses
- Covid-related tax deductions, including quarantine expenses and protective equipment
- Overtime meal claims
- Union fees and subscriptions
- Motor vehicle claims

The ATO reinforced this at a conference in October 2022, saying that [work related expenses](#) remains as one of the key ATO audit focus areas in a bid to help narrow the estimated \$8.7 billion tax gap.

Claim proportion (frequency) 1 July 2022 - 31 December 2022: Income Tax (WRE) Audits and Reviews accounted for **9.35%** of all Accountancy Insurance claims.

4. BAS Audits and Reviews (Pre & Post Assessment):

BAS Audits and Reviews (Pre & Post Assessment) remained steady over the second half of 2022 when compared to the 2021 - 2022 financial year to 30 June, with a less than half a percent increase in activity.

This steadying of the claim frequency is reminiscent of what the Accountancy Insurance Claims team saw in activity prior to the commencement of cash flow boost payment activity statement audits and reviews that were rampant in 2020 and 2021.

Claim proportion (frequency) 1 July 2022 - 31 December 2022: BAS Audits and Reviews (Pre & Post Assessment) accounted for **9.14%** of all Accountancy Insurance claims.

5. ATO (Individual Excess Super Contributions) Audits and Reviews:

Much like Employer Obligations (PAYG/SG/FBT) audits and reviews, Individual Excess Super Contributions is generally not something that an accountant becomes involved with until there is a notice from the ATO that their client is being charged additional tax for excess superannuation contributions.

Claim proportion (frequency) 1 July 2022 - 31 December 2022: ATO (Individual Excess Super Contributions) Audits and Reviews accounted for **7.67%** of all Accountancy Insurance claims.

Audit activity outside of the accountant's control:

There are many ATO, State and Federal government revenue authority audits and reviews (including four of the five highest claim types noted) where quite often the accountant only becomes involved after the government revenue authority initiated audit activity has started.

To put that into some perspective, over 50% of the audit activity the Accountancy Insurance Claims team recorded between 1 July 2022 - 31 December 2022 were for claim types where the taxpayer (your client) and/or a bookkeeper may have prepared the lodged returns or managed the employer obligations compliance that were subject to audit activity.

Here is a breakdown of those figures:

Employer Obligation Audits and Reviews – 12.39% BAS Audits and Reviews – 9.14% Payroll Tax Investigations – 13.01% WorkCover – 4.83% ATO Excess Super Contributions – 7.67% Land Tax – 4.31% Stamp Duty – 0.42%	Total: 51.77%
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About Accountancy Insurance:

The team at Accountancy Insurance have been perfecting tax audit insurance for almost 20 years. In that time, we have learned a thing or two about what accounting professionals are looking for to protect their firm and save their clients' money.

One thing is clear, merely directing your clients to a broker's website is not sophisticated, clever, or innovative.

Besides offering broad policy coverage, our more than 3,700 partnering accounting firms also experience the latest technological smarts and secure processes in the delivery and maintenance of their Audit Shield program.

We continue to develop and evolve our practice management integrations that will make our renewal processes even more efficient while never standing still in seeking out the best solutions available for business intelligence, security, compliance, tools, and more.

Being serious about technology is one thing but we also know the importance of genuine, hands-on assistance and probably the most important thing for us, is our focus on hands-on delivery. We still front our service offering with the simplicity of people who make it happen for you. All while you stay in control.

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