

*All animals except man know
that the ultimate of life is to
enjoy it.*

----- Samuel Butler

Industry benchmarks and ATO audits

The Australian Taxation Office produces industry benchmarks and taxation statistics to help understand Australian businesses, the economy and ATO audits

Tradespeople can use the benchmarks to:

- Compare their performance against the rest of the industry;
- Check that their tax records accurately reflect their business practices;
- Make adjustments necessary to get back on the right track.

For more information on the industry benchmarks, please visit ATO website.

ATO AUDIT CASE STUDY 1 – Melbourne based concreter

A Melbourne based concreter received a tax bill for \$115,953 after an audit showed the omitted \$142,000 from his tax returns.

The taxpayer came to the ATO's attention because he had been reporting very low levels of income for a number of years.

During the audit, the taxpayer said his business was based on smaller suburban work, for which he received very little cash. He said he always issued tax invoices to his customers.

The concreting benchmark helped the ATO to understand the

taxpayer's business in the context of the industry.

The concreter had declared a taxable income of \$18,000 for the year. He recorded only four concrete purchases during one of the quarters.

Data ATO obtained from his suppliers for that quarter showed eighteen concrete purchases – some paid for in cash. Other third party information showed he performed many of his jobs for cash; these were not recorded in his records and his customers did not receive tax invoices.

Using information the ATO gathered from all sources, the ATO formed the view that he had a lot of unreported cash income and expenses.

As the taxpayer's record keeping was inadequate, the auditors worked out his income by applying his normal sale price square metre to his actual purchases of concrete.

The audit resulted in tax liabilities of close to \$67,000 and additional penalties of nearly \$50,000.

ATO AUDIT CASE STUDY 2 – plumber

The ATO selected a plumber for audit after he lodged income tax returns with net business losses of \$84,000 over a two-year period. He also declared net losses one two rental properties during this time.

Separated from his wife, the plumber remained in the family home while his wife and three of their five children moved into a second property that he also owned.

During an audit review, the plumber admitted to overstating expenses by including personal

amounts of \$245,000. We also found he was inflating purchases then claiming input tax credits and business deductions on the higher amount. Overstated expenses totaled \$284,000 over two years.

Further analysis showed the plumber had not recorded and reported all cash transactions, and was reporting income based only on his records of invoices paid. A review of his bank account revealed that deposits were \$71,500 more than the total income he reported in activity statements.

When we analyzed the plumber's private living expenses we found that his lifestyle could not be supported by his declared income. However, when the bank account deposits were added back as income and the inflated expenses were excluded, his net business income was sufficient to cover personal living expenses.

Auditors also discovered a number of invoices listed as unpaid. The ATO contacted several of his customers and found that income of these payments had been made in cash.

The plumber then admitted to another \$44,000 in unreported cash over the two-year period.

On completion of the audit we found that the plumber had understated his net business income by \$394,000 over two years. This led to:

- A GST adjustment of \$46,000
- An income tax adjustment of \$102,000, and
- A 75% administration penalty.

The ATO is currently considering the case for prosecution.