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MEDIA RELEASE

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TAX ACCOUNTANTS

H&R Block Predicts ATO Compliance Hot Spots for 2016

By Mark Chapman, Director of Tax Communications, H&R Block

As we enter 2016, H&R Block, Australia's largest firm of tax accountants, has done some crystal ballgazing to ascertain the areas that we believe the ATO's auditors will be focussing on in the year ahead. Here's our list:

Rental Property Income and Deductions

The ATO made various announcements last year about its compliance focus on rental properties. They targeted 500 postcodes late last year with letters warning holiday home owners to check their property deductions to ensure that claims weren't being made for periods the property wasn't available for let. With property rental (both for permanent lets and holiday lets) a valuable source of extra income for millions of taxpayers, it can be expected that the ATO will follow-up on its letter campaign with some targeted reviews and audits this year.

Undeclared Foreign Income

The ATO ran an amnesty for taxpayers with undeclared foreign income through 2014 and even extended the deadline into 2015 for those who failed to disclose before the scheme's original close date in December 2014. Despite the generosity of the terms on offer (the ATO wouldn't look back more than 4 years and would impose a penalty of just 10% on unreported income), we reckon the ATO would have been disappointed with their haul and will now be looking to come down hard on those who failed to voluntarily come forward. A taste of what might be to come surfaced in December last year when the ATO targeted the parents of 100 children whose school fees were paid from undisclosed foreign bank accounts (the data was obtained direct from the schools). Armed with that sort of information, plus a wealth of additional data from banks, foreign tax jurisdictions and informants, this could provide rich pickings for the ATO's auditors.

The Sharing Economy

The ATO made a big deal in mid-2015 of giving detailed guidance to those operating in the sharing economy about what they need to do to comply with their income tax and GST obligations, driven in part by the high levels of non-compliance amongst those driving for Uber or renting rooms through Airbnb. Later in the year, the ATO went to Uber to obtain details of drivers currently operating through the ride-sourcing app. Whether its Uber, Airbnb or any of the other sharing economy services, we reckon the ATO will be looking closely at those who participate to make sure that the guidance they issued last year is being followed. The ATO was caught unawares by the growth of the sharing economy and has had to play catch-up to avoid being left behind in terms of tax collections and voluntary participation. They'll now want to make up for lost time and make their presence felt.

Undeclared Capital Gains

As part of the ATO's data-matching program, they have recently received millions of items of data in relation to share and property transactions stretching as far back as 1985, when capital gains tax was first introduced. The ATO will have been scrutinising that data and matching it with the information contained on tax returns. We think the results of that exercise are likely to lead to a spike in audits of capital gains that have either been reported incorrectly or not reported at all.

Small Business Asset Write-offs

The small business community widely welcomed the introduction of the $20,000 instant asset writeoff for small businesses in the last federal budget but the ATO was quick to spot the potential for abuse of these generous new rules, putting out warnings to businesses not to stretch the rules by claiming deductions for assets used privately, such as works of art, or using creative financing to claim deductions for assets which cost over $20,000. As taxpayers start to submit tax returns including claims under the instant asset write-off rules, we reckon these deductions will be closely scrutinised by the ATO and there is likely to be high-profile audit action against those who are stretching or breaking the rules.

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