
GST Cooperative Assurance: all systems go!

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In brief

- In response to systemic goods and services tax (GST) reporting errors across Australia's largest businesses, the Australian Taxation Office (ATO) has introduced a new 'GST Integrity of Business Systems Cooperative Assurance Agreement' (CAA).
- The CAA is designed to enable businesses to establish a cooperative and proactive approach to GST assurance by setting a clear standard for taxpayers to meet. The approach requires documented governance policies and data verification testing methods which meet ATO standards to be applied across the taxpayer's financial reporting systems.
- The CAA offers favourable treatment from the ATO in terms of the following:
 - a participant is not subject to a GST integrity of business systems (IBS) risk review or audit activity for a period of 3 years¹,
 - reductions in penalties and interest, and
 - the taxpayer is recognised as a low risk taxpayer, amongst other advantageous treatment.
- Initially, the CAA is open to publicly listed entities (in Australia or elsewhere) with a turnover in excess of \$250 million in Australia. Therefore, it would be prudent for the Chief Financial Officer (CFO) (Head of Finance or equivalent) of large publicly listed businesses to consider whether their governance policies and processes, including the indirect tax capabilities of current financial accounting systems meet the ATO's requirements under the CAA. More importantly, consideration should be given to the incorporation of a tax data analytics product to proactively interrogate financial transactional data and promote the early detection of tax errors within the financial reporting system.

In detail

Background to the CAA

The Australian GST system relies on a self-assessment approach where taxpayers are required to assess their liabilities under the law and pay the correct amount of tax due to the ATO. Since the inception of

1. Whilst the taxpayer will not be subject to a GST IBS risk review or audit activity for a period of three years, taxpayers may be subject to compliance activity identified through the ATO GST risk models or processes (e.g. technical issues identified by the Property or Financial Supplies risk models).

2. Public and Private Groups (Indirect Tax) Compliance risk manual - Chapter 2

GST back in July 2000, the first decade saw the ATO primarily focussed on educating taxpayers about the technicalities of the new tax system. However, over the past few years the ATO has switched its focus to the practical compliance of businesses with GST legislation. As a result, the ATO has invested heavily in developing its skills in auditing and assessing IBS risk. According to the ATO, IBS risk is when a business reports the incorrect amount of GST due to a failure in their processes and systems used for capturing and recording GST.²

Based on the type of GST reporting errors identified by the ATO during IBS risk reviews and supported by PwC's own findings, it is evident that many large businesses still retain the use of traditional manual processes and spreadsheets for preparing their Business Activity Statements (BAS). However, when such manual processes for capturing and recording GST information fail, those businesses often report incorrect amounts of GST and make potentially costly errors.

Main benefits of the CAA

The standard being set for entry into the CAA is not insignificant, so the reward for participants must match the efforts and investment involved. Some of the key benefits include:

- Participants are not subject to IBS risk reviews or audit activities related to business systems.
- Participating taxpayers are deemed 'low risk' in terms of the integrity of their business systems, potentially moving their rating down in the overall ATO Risk Differentiation Framework (RDF). The ATO uses the RDF to determine which taxpayers it believes are at higher risk of GST error and therefore which taxpayers they should more actively target for comprehensive risk reviews.
- Penalties will not be applied to any errors discovered and interest will not apply where the position is revenue neutral. In other cases, any interest charge will be reduced to a concessionary rate.

Overall, the CAA is designed to encourage more efficient and accurate internal processes and controls, reducing compliance costs by removing traditional manual processes and promoting a strong compliance culture within the business.

Why publicly listed entities?

In addition to the proposed CAA, the vast majority of publicly listed entities, with turnovers in excess of \$250 million, are required by other financial regulators to have adequate governance and risk management policies and procedures in place to verify the accuracy of their financial data. As a result, these businesses should have established processes to identify and correct errors that may impact their financial reports. This extends to processes that identify and correct errors that may be made from time to time when compiling their BAS.

How to enter the CAA and what must be in place

Taxpayers who are offered entry into the CAA will be required to provide sign-off by an appropriate authorised officer (i.e. Australian CFO, Head of Finance or equivalent) that they have met the ATO's GST governance and tax risk management requirement and relevant requirements of all other financial regulators they are subject to. The ATO would expect to see policies and procedures in alignment with those that are provided as an indicative guide in Appendix A of the CAA.

Similarly, for data integrity testing, Appendix B of the CAA sets out the requirements. Whilst it is not necessary to meet 100 per cent of these requirements, a taxpayer must demonstrate a fair and reasonable level of compliance.

The takeaway

The CAA is yet another step in the ATO's IBS risk journey, proactively engaging with taxpayers regarding GST compliance. Although restricted to entities with turnover above \$250 million at the moment, it is a clear indication of what the future may bring to the wider tax population.

IBS risk reviews can take months to complete and often involve many hours of preparation, meetings and delivering information to the ATO. Incorporating the guidelines outlined in the CAA to improve systems and processes, as well as proactively demonstrating these improvements to the ATO, can help dramatically reduce the cost to businesses of dealing with the regulator.

Even taxpayers rated as 'low risk' or 'key taxpayers' can benefit from participating in the CAA to show that they are continually improving their systems and processes to help maintain their current RDF status, minimising the risk of a lengthy and costly ATO review.

At PwC we believe that compliance with GST, as a transaction based tax, is an overall business responsibility, not just a tax function responsibility. Effective governance throughout the GST compliance cycle can significantly reduce the costs and risks associated with it. There are many tools available to businesses that allow them to realise productivity and revenue gains through improvements to their accounting processes. Often there are inexpensive quick wins that can bring immediate benefits through the use of technology and tightening the overall governance framework.

However, being able to make an informed choice in order to obtain these benefits first requires an assessment of the current GST compliance cycle and governance framework, from data capture to BAS lodgment. Taken together, the combination of cash savings and a reduction in compliance time and ATO IBS risk reviews, builds a compelling case for businesses to get their GST processes and systems assessed.

Let's talk

For a deeper discussion of how these issues might affect your business, please contact:

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