GST - ATO considers a moratorium on GST business systems reviews

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The Integrity of Business Systems (IBS) has long been identified by the Australian Tax Office (ATO) as the major risk to Australia's GST revenues. The ATO announced in its roadshow for the 2014/15 GST Annual Compliance Programme, that IBS risk is still at the top of its GST compliance agenda.

For the last few years, the ATO has largely taken a 'stick' approach to the problem of IBS risk, through the conduct of numerous GST systems and process based reviews and audits. Such reviews were designed to detect GST errors caused not by a lack of understanding of taxation legislation, but by a failure of systems and processes within the wider business. These reviews are generally time consuming and costly.

Now, in a very welcome move, the ATO is considering a 'carrot' with its stick, and is exploring real incentives for businesses to take its IBS risk seriously.

In a move designed to recognise willing participation in the taxation system and reward businesses that make the necessary investment in confirming the integrity of their GST process and systems, the ATO is currently considering a moratorium on GST IBS reviews for taxpayers who adopt a self-review policy. In particular, taxpayers who use self-assurance software as part of their regular GST compliance may:

- be placed in a lower GST risk category;
- not be the subject of GST IBS compliance activity for an agreed period;
- avoid interest and penalties on GST errors discovered and disclosed using self-assurance software, and
- possibly extend or remove the 'correcting GST mistakes' limits altogether.

The concept of self-assurance is not new in Australia, but it is a relatively new step for the ATO to give it pride of place in its approach to the regulation of tax legislation.

Specifically, the ATO has stated that "self-assurance requires ongoing commitment by business(es) to use assurance methods and tools to validate their transactional systems, review the output of risk tests, rectify procedural weaknesses and address any issues that may affect the correct reporting of their GST obligations and entitlements".

In a nutshell, self-assurance tools should enable a taxpayer to automate processes for preparing the BAS and verifying the GST reporting information each tax period, with minimum human interaction. That could spell an end to days of complicated time consuming reports being run and manually transposed onto spreadsheets each tax period.

Automation should allow taxpayers to self-review and regulate in a manner similar to that adopted by the ATO when it performs a GST IBS review.

Self-assurance tools should also allow taxpayers to perform trending and variance analysis every tax period, divorce the preparer and reviewer's responsibilities, have a clear mechanism for making manual adjustments and have a checklist sign off each period.

Probably the most important, feature of such tools is to allow businesses to perform regular exception tests on data in order to isolate transactions which may have received an incorrect GST treatment as they pass through the accounting system. The ability to correct potential GST errors before they occur is the ultimate expectation of the ATO and the goal for taxpayers

What are the next steps?

The cost of an ATO systems and process review can vary dramatically depending on the depth and length of time taken. For a business classed as 'large' by the ATO, in our experience, it would be unusual for the cost of even a relatively light touch review be to much less than $40,000 (made up of staff cost and adviser cost) and often much more if underpayments of GST are identified or suspected.

With large businesses expecting an ATO review about once every 4 years, there is a strong business case for adopting a self-assurance model, even before considering the substantial benefits of having up to date systems and processes, associated time and cost savings, avoidance of interest and penalties, the identification of additional GST credits and ensuring credits are claimed in the correct tax period (resulting in a substantial cash flow benefits).

Although the ATO is looking to consult further and has yet to provide a detailed framework for the plan, taxpayers are encouraged to assess their current GST systems and processes and understand their transactional data to form a view on what they may need to do in order to fulfil the ATO's requirements for a self-assurance model.

In some cases, it may be that existing processes can be tailored and updated to meet the required standard. In other cases, the use of third party compliance software, such as PwC's Comply First Time can be a quick, cost effective and better solution.

One means of defraying the cost of self-assurance software (if not covering it entirely) can be the accurate use of GST accrual accounting – whereby input tax credits available on invoices that are posted late (usually taken into account in a subsequent period) are correctly taken into account in the tax period in which the invoice was issued.

Accurate GST accrual accounting can save businesses substantial amounts of money by potentially reducing its cost of capital. Accurate GST accrual accounting lends itself to automated software to remove any risk of over claimed input tax credits and to reduce GST compliance costs.

There has been a clear shift in the way the ATO is choosing to engage with businesses in relation to their GST compliance. Those taxpayers that take a proactive approach to self-assurance will gain the significant long-term financial benefits and improve their relationship with the ATO.

Let's talk

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

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