

Dealing with the ATO's focus on cash businesses

The ATO is continuing to focus on cash businesses and Jirsch Sutherland Partner Trent Devine says accountants with clients that largely operate as cash businesses need to be aware of the ATO's intentions.



Trent Devine

“The ATO is conducting an ongoing program of walk-ins to traditional cash businesses and it’s important that these businesses’ accounts are all in order,” he says. “While it’s not illegal to operate a cash business, traditionally the ATO tends to find these businesses under-report their income, which leads to the incorrect amount of income tax and GST being paid.”

The program is a continuous one. In 2017, for example the ATO found a number of businesses that:

- Don't have business bank accounts – it's important to separate business and personal income
- Don't record all sales or keep proper books
- Had friends, family and other employees working “off the books”
- Were happy to receive a visit from the ATO and take advantage of getting one-on-one advice

The ATO said that as a result of its visits to cash businesses in the hair and beauty industry, for example, there was an increase of about four per cent in timely lodgement of activity statements compared with the 2015 financial year. There was also an increase in GST registrations being corrected and more timely payments of income tax and activity statement liabilities.

The ATO said any businesses that caused it concern could expect a follow-up, initially by letter, which could include recommendations such as:

- Lodging a voluntary disclosure because the ATO considers it to be at risk of not reporting their income and they may be subject to an audit
- Investing in an electronic payment and record-keeping system to reduce the risk of

mistakes and to meet consumer preference

- Attending an ATO record-keeping information session
- Knowing their tax obligations if they have employees



To help, the ATO has released a Cash Flow Coaching kit designed to help newly established SMEs better understand what they need to do. Research from the ATO shows that 50 per cent of new small businesses report as being under financial pressure within the first 12 months. The kit identifies actions they can take to improve their cash flow and business performance.

Meanwhile, Trent says accountants may want to encourage their clients to move away from operating a purely cash business. “Consumers are moving away from cash and towards debit and credit cards so offering electronic payment facilities caters to this trend,” he says. “But while cash businesses are on the ATO’s radar if the accounts are in order and all payments can be substantiated then any queries from the ATO should be dealt with quickly.”