

Senate Economics Legislation Committee

Inquiry into Treasury Laws Amendment (Making Sure Multinationals Pay Their Fair Share of Tax in Australia and Other Measures) Bill 2018

ANSWERS TO QUESTIONS ON NOTICE

Australian Taxation Office

16 NOVEMBER 2018

Department/Agency: ATO

Question: 3

Topic: R&D tax incentive audits

Question:

1. How many R&D tax incentive audits did the ATO complete last financial year?
2. How many R&D tax incentive audits did the ATO complete 2016-17?
3. How many R&D tax incentive audits did the ATO complete 2015-16?
4. What factors determine whether there is an audit of an R&D tax incentive recipient?
5. Does the ATO have a risk matrix that is used to assess R&D tax incentive recipients and decide whether to conduct an audit?
6. How many R&D tax incentive audits did the ATO complete that involved one of the big four accounting firms? What is the percentage?
7. How many R&D tax incentive audits did the ATO complete that did not involve one of the big four accounting firms? What is the percentage?
8. How many R&D tax incentive audits did the ATO complete that involved an R&D tax incentive agent one of the big four accounting firms? What is the percentage?
9. How long does an audit take on average?
10. How much does an audit cost a R&D tax recipient to manage?
11. Have there been any complaints to the ATO regarding the impact of such audits on small businesses or start-ups, particularly those in fast moving markets?

Answer:

1. We are currently improving our ability to track and report compliance activities as R&D risk cases across the entire taxpayer population. At this point in time, we can only accurately provide the total number of high risk refund reviews across the entire population.

In relation to high-risk refund R&D claims we conducted 151 reviews, in the 2017-18 financial year, prior to issuing high-risk refunds.

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2. We are unable to determine the number of audits due to system constraints.
3. We are unable to determine the number of audits due to system constraints.
4. The ATO uses information from a range of sources including the tax return, R&D schedule and other data held by the ATO to identify those claims that warrant further review. The type of compliance activity we undertake will depend on the nature of the R&D risk, as well as other factors such as findings received from AusIndustry, the presence of phoenix activities and/or serious financial crime, and the behaviour of intermediaries. We conduct audits where we consider a more in-depth examination of the R&D issue is required.
5. Tax risks can be detected through our risk filters or during another review of a taxpayer. Where they are identified by our risk filters, we may commence a compliance activity if we consider the level of risk warrants further investigation. The ATO has several risk filters, such as those to detect high risk refunds, to flag potential R&D risks.
6. We are unable to determine the number of audits due to system constraints.
7. We are unable to determine the number of audits due to system constraints.
8. Refer to the answer in question 6.
9. We endeavour to complete most income tax audits within 18 months. The timeframe and scope of each audit is determined following discussions with the taxpayer at the beginning of the case. This depends on the number of specific issues, level of complexity and other circumstances we encounter. Complex cases may extend beyond the 18 month timeframe.
10. The ATO does not collect data on the cost for companies to manage audits of their R&D claims.
11. The following table summarises the number of complaints received from small business or start-ups.

Year	Number of complaints
2017–18	3
2016–17	2
2015-16	12

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The complaints from small business or start-ups usually relate to the retention of R&D tax incentive refund claims that were subject to verification. Delays arise due to the need to verify data to substantiate the R&D claims prior to the release of the refund.