

# Practice Update

July 2022

## ATO's small business focus for 2022 income year

The ATO announced that it will be focussing on the following matters for small business tax returns for the 2021/22 year:

- ❑ **Deductions that are private in nature** and not related to business income, as well as overclaiming of business expenses (especially for taxpayers running a home-based business).
- ❑ **Omission of business income** (e.g., income from the sharing economy or new business ventures).
- ❑ **Record keeping** – including insufficient or non-existent records that are needed to substantiate claims.

The ATO acknowledges that it has been a tough couple of years for many small business owners and encourages taxpayers to act early to find a solution if they are getting behind in their tax obligations, either by contacting their tax agent or the ATO.

## ATO targeting SMSFs that fail to lodge annual returns

The ATO has observed an increase in the number of SMSFs that fail to lodge their first annual return and become what the ATO refers to as 'NEVER' lodgers. The ATO is particularly concerned where there has been a roll-over into these SMSFs, as this is a strong indicator illegal early release of superannuation benefits may have occurred.

A minority of SMSF trustees continue to ignore ATO reminders about lodging annual returns. This group is now being targeted with a compliance campaign the ATO calls '3 strikes and you're out'.

Under this campaign, the ATO will take the following action:

1. The ATO's compliance action starts with a **blue letter**, that encourages trustees to take immediate action and lodge their return and provides a pathway for those in need of support.
2. If the ATO does not receive a response to the blue letter, it will issue an **amber letter** warning the trustees of the consequences of failing to lodge their return.
3. If the ATO still does not receive a response, it will issue a final warning, a **red letter** advising the ATO is commencing the disqualification process and considering other enforcement action.

Last year the ATO issued red letters to trustees who had never lodged their first annual return and has now commenced disqualifying the 95 trustees that did not respond.