



## Tax Insights

# ATO changing the way it obtains GST assurance for Top 1000 taxpayers

### Snapshot

The Australian Taxation Office (ATO) is changing its approach to obtaining GST assurance for Top 1000 GST taxpayers.

Under the new approach, the GST part of a combined assurance review (CAR) is shifting from a risk-based review to an assurance review.

In addition, the ATO is increasing its GST assurance activity in the financial services and insurance (FSI) sector, with a number of new CARs commenced across April/May 2022 for taxpayers in this sector.

### Key GST assurance changes from May 2022

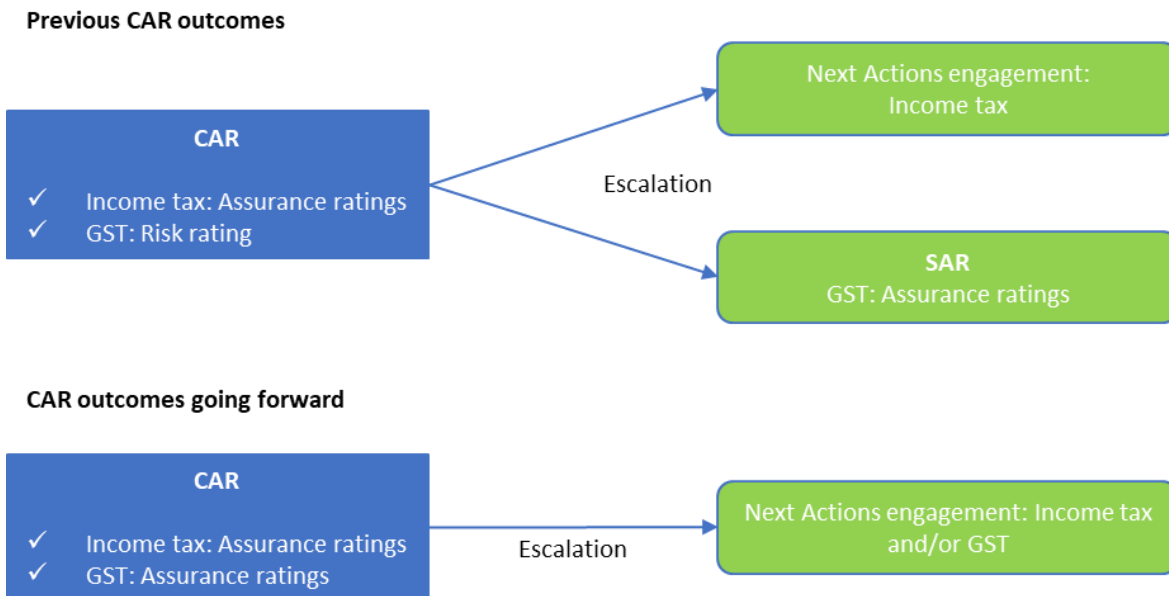
Key changes to GST assurance activity include the following:

- The GST part of a CAR is shifting from a risk-based review to an assurance review. Upon completion of a CAR, the ATO will give the taxpayer a GST assurance rating for each of the four focus areas (i.e., governance, tax risks flagged to market, significant and new transactions, and alignment between accounting and tax figures), as already happens for income tax.
- The ATO will no longer be undertaking new GST streamlined assurance reviews (SARs) with Top 1000 taxpayers following the identification of GST risks during a CAR. Instead, if a CAR reveals GST issues of concern, the ATO will escalate its engagement with the taxpayer through a 'Next Actions' engagement process (Next Actions).
- Taxpayers will be required to complete the GST analytical tool (GAT) as part of their CAR (unless they are in an industry sector deemed unsuitable for use of the GAT such as the FSI sector or on a case-by-case basis).

We understand that the ATO has changed its approach in order to address GST taxpayer concerns about two main issues:

- Not obtaining a GST 'outcome' from the considerable investment most make in responding to the GST part of a CAR; and
- That where GST SARs have been done following a CAR, the SARs being done in the same, in-depth way for all taxpayers, without appropriate tailoring for individual taxpayer circumstances.

The changes provide alignment between how the ATO deals with the income tax and GST results of a CAR: providing taxpayers with assurance ratings for both taxes, and the adoption of a more targeted escalation approach to investigate identified GST problem areas.



## CARs for more FSI sector taxpayers ahead

Up to the end of March 2022, the ATO had only started or completed circa 12 CARs with taxpayers in the FSI sector (while only undertaking two GST SARs).

We are aware that the ATO has commenced circa 20 new CARs across the FSI sector during April/May 2022.

These new CARs cover all FSI sub-sectors, including retail banks, foreign banks, general insurers, reinsurers, life insurers, as well as superannuation and investment management industry taxpayers. CAR requests for information (RFIs) in this sector will be tailored to address industry specific GST issues.

Importantly, the ATO has indicated that taxpayers who have previously been subject to an income tax streamlined assurance review or similar review process won't be exempted from this new round of CARs. They may, however, be subject to a lighter touch from the ATO in relation to income tax and/or transfer pricing aspects, with the intensity of review being determined on a case-by-case basis.

## Further details about CAR changes

From May 2022 onwards, the GST part of a CAR involves the following changes:

### Request for information

- The former CAR initial request for information (RFI-1) has been reworked and falls in the middle ground between the former CAR version and the GST SAR RFI-1.
- The new CAR RFI-1 will be a standard document and won't be tailored by ATO case officers to individual taxpayers, though there will be sections tailored to certain industries.
- RFI-1s that are more targeted will be used for taxpayers in certain industry sectors, such as FSI, real property, food (and industries commonly subject to product misclassification), and potentially also for taxpayers operating internationally.
- The ATO's expected response timeframe for RFI-1 is 56 - 84 days (7 - 12 weeks), dependent on any tranching responses. Until now, CAR RFI-1 responses have been required within 28 days.

### GST analytical tool (GAT)

- Completing the GAT will be mandatory, unless the taxpayer falls into a sector unsuited to the use of the GAT or is determined itself to be unsuitable for the GAT based on its individual GST profile. It is anticipated that the ATO will engage upfront with taxpayers in circumstances where the GAT may be deemed to be unsuitable.
- The GAT results (i.e., a reconciliation between activity statement (BAS) figures and financial statement disclosures) are required to be submitted as part of RFI-1, and within the above response timeframe.
- Where the GAT is unable to be completed, the ATO will undertake an e-audit of the taxpayer in relation to specific industry risks/issues.
- E-audits may also be done for particular issues identified, for taxpayers who have completed the GAT.

## **GST data testing**

- Although not a mandatory requirement for taxpayers who have completed the GAT, if a taxpayer has undertaken GST data testing before the CAR started, the ATO will review and take into account the data testing results.
- The ATO does not propose to direct/agree with such taxpayers about the scope of such preparatory testing, the period of review (e.g., financial year) or the length of the data testing period (e.g., three months). That said, taxpayers who decide to do GST data testing in anticipation of being selected for a CAR should have regard to the ATO's [GST governance, data testing and transaction testing guide](#), which the ATO regards as the 'gold standard'.
- GST data testing will be mandatory for FSI taxpayers and for other taxpayers for whom the use of the GAT is unsuitable. We anticipate that where a taxpayer selected for a CAR has not recently done any anticipatory GST data testing, the ATO will look to agree with the taxpayer the scope of testing to be done, the period of review and the length of the data testing period.
- In all cases, the ATO's expectation is that data testing as part of a CAR will be done by either the ATO itself or by a third-party advisor that satisfies the requirements set out in the ATO's [guidance](#) about independent data testing. Preparatory data testing may be performed by the taxpayer itself or a third-party advisor, again subject to the requirements set out in the ATO guidance.

## **ATO action after receipt of information from taxpayer**

- Following receipt of the taxpayer's GST information a 'triage panel' will review the RFI-1 responses/documentation within five weeks. This is intended to determine the intensity of the ATO's review (i.e., light, medium, high or high complexity), with the ATO planning to communicate this review intensity rating to the taxpayer in the same way the ATO has done for income tax to date.
- Soon after, the ATO will conduct a one-day workshop with the taxpayer covering GST governance, BAS preparation, accounts payable/accounts receivable processes, and any additional questions. This workshop is aimed at limiting the need for further formal RFIs.

## **Conduct of CAR and GST Next Actions**

- The ATO's target timeframe for completing a CAR is not changing, remaining at four to six months. This differs to the 12-month timeframe for the review product in the Top 100 program.
- Once a taxpayer's CAR is completed, the ATO will determine whether GST Next Actions engagement is required and notify the taxpayer.
- Next Actions may be taxpayer-focussed (e.g., taxpayer to update governance documentation and procedures) or ATO-focussed (i.e., ATO to escalate to a targeted GST risk review or audit of the taxpayer).

It is also worth noting that the ATO is planning to release further practical guidance about GST governance, similar to the income tax focused governance guidance it [published](#) on 1 February 2022, which we would welcome.

## Observations

The ATO's GST assurance program is continuing to evolve. The ATO's decision to overhaul the GST part of its CAR product is a positive move. It reflects the ATO's learnings from conducting GST assurance activities to date, and a willingness to respond to the feedback/concerns from Top 1000 taxpayers who have already been reviewed.

In that regard, Deloitte welcomed the opportunity to provide input to the ATO during February/March 2022 when the ATO was refining planned changes to its GST assurance approach.

Going forward, we anticipate that Top 1000 taxpayers who undergo a CAR (and importantly, their Boards/Audit & Risk Committees) will welcome obtaining a tangible outcome from the investment they make in the CAR process: in the form of GST assurance ratings across four areas, without the need to have also undergone a GST SAR.

Our understanding is that the ATO will complete the Top 1000 GST SARs and CARs that were already underway as at the end of April 2022.

Top 1000 taxpayers who have yet to have a GST assurance engagement with the ATO should consider their readiness for a CAR in the event of being selected, and their level of confidence about obtaining an outcome that would not involve ATO-focused Next Actions. This is a timely point for those taxpayers to be giving consideration to identifying what pre-CAR preparatory work would be appropriate in their circumstances.

For example, we recommend that taxpayers give specific attention to completion of the GAT ahead of being notified of commencement of a CAR given the time intensive nature of the process and its inherent complexities. It is expected that at this stage, only the FSI industry will be exempt from the GAT, with any further exemptions being determined on a case-by-case basis depending on the taxpayer's GST profile. This indicates that the ATO's strong preference is for the GAT to be undertaken to the extent possible.

Tax governance and the GST control framework and related documentation, including testing of controls, should also be a focus with any readiness activity. This will form a significant component of responding to RFI-1. It is never too soon to start preparing.

Finally, whilst GST data testing or e-audit activity will not form part of every GST assurance review in the Top 1000 space, it remains a critical component of demonstrating the operational effectiveness of GST data controls as well as evidencing good governance for taxpayers. This can ultimately assist in obtaining a higher level of assurance.

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