Tax Office warns on self-managed super fund penalties

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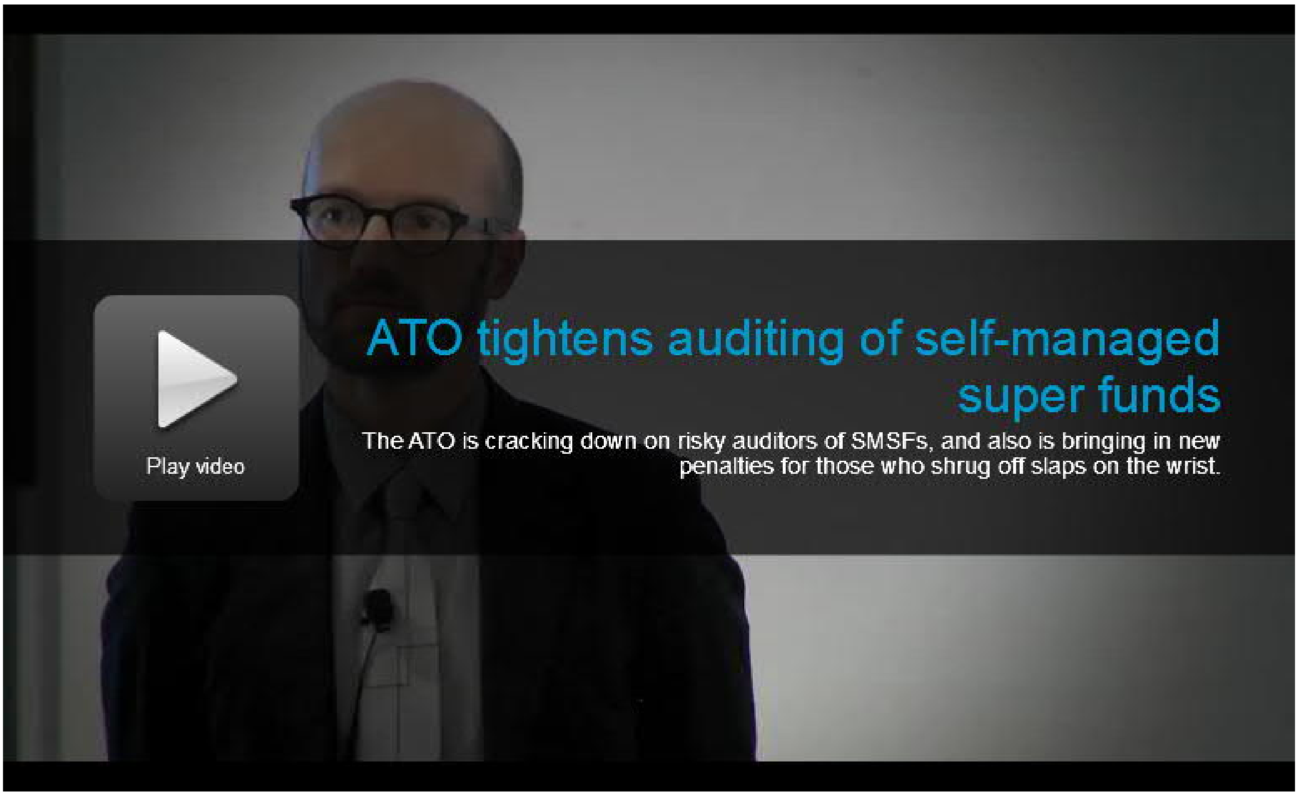

Shaun Drummond

The Tax Office has warned of increased scrutiny of self-managed super funds and their auditors as it gears up to impose penalties of up to $10,200 on funds found breaking the law from July.

Tax Office assistant commissioner for superannuation Matthew Bambrick said among the methods they will use to find “high-risk” funds to apply a range of new fines it can impose from July 1 will be detailed questioning over the phone of trustees identified as “medium risk” and trawling newspapers for auditors advertising low-cost services.

“For medium-risk [funds], we are going to call to them and talk to the trustee directly,” he said.

“We’re going to gauge from that conversation whether it sounds like they know what they are doing. On the basis of that phone call we will decide whether to say ‘thanks very much’ or we will bump them into the high risk category – which means we will be doing a comprehensive audit on them.”

He said one method for finding SMSFs that may be contravening the law is to look closely at their auditors. They look for auditor competence, independence, those that are doing only a few audits a year as well as low-cost audit firms.

“If it is very low-cost audits being offered, it does make you wonder how they can do it for that price – there might be good reasons, but there might not be,” he told auditors and tax experts at an Institute of Chartered Accountants conference in Sydney.

From July 1, the tax office will be able to impose a range of fines up to $10,200 that it hopes will provide better targeted deterrents.

“Until now, what we’ve been able to do is say ‘please don’t do it again’ or, ‘that’s a contravention, we’ll take away half your assets because your fund is non-compliant’. That doesn’t give us a lot of flexibility,” Mr Bambrick said.

One method of finding low cost auditors is just to look for newspaper ads.

“You’d be surprised what’s in ads in the press – someone saying ‘we will do super low audits for you’ – things that just look a lot lower than the market standard,” he said.

The tax office is also going to rely more on reports of SMSFs breaking the law lodged with the ATO by newly registered auditors.

Since July 2013, SMSF auditors have had to register with the Australian Securities and Investments - Commission. There are now about 7000 registered auditors – 3000, or 25 per cent, less than were auditing SMSFs before the requirement.

The ATO believes those that are now registered – which were already doing 90 per cent of the audits – will provide higher quality audits and be a more reliable source of contravention notifications. Mr Bambrick said they will be using the auditors themselves to tell them the funds they should be targeting. The tax office also wants auditors to tell them every fund they have audited to prevent SMSFs using the new list of registered auditors to lie about which firms have audited them.

“We have a pilot program running now with auditors that tell us every SMSF they have audited in a year,” he said. “We make a comparison with the tax returns we get just to see if there is a problem.”

The tax office is releasing close to 20 videos on YouTube to educate SMSF trustees about what they can and can’t do with investments.

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