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The cash and hidden economy

Most people and businesses are honest and compete fairly.

There are however, some that deliberately hide income to avoid paying the right amount of tax or superannuation. One of the ways they do this is by not recording or reporting all their cash income or electronic transactions.

This is what we call the cash and hidden economy and it's not fair.

Those who participate in the cash and hidden economy are disadvantaging the community, honest taxpayers and honest businesses by not competing fairly.

Over 85% of Australians believe it's unfair to use cash to avoid paying their fair share of tax.

Find out about:

- [Combatting the cash and hidden economy](#)
- [Reviews and audits](#)
- [Stop the cash economy](#)

See also:

- [Other languages \(/General/Other-languages/\)](#)

Stop the cash economy

Most Australians believe it's unfair to use cash to avoid paying tax.

There are a number of ways you can help stop the cash and hidden economy. Your everyday choices and actions make a difference.

Get it in writing and get a receipt

Requesting a written contract or tax invoice and getting a receipt for payment may protect your rights and obligations relating to insurance, warranties, consumer rights and government regulations.

Consumers who support the cash economy by paying cash and not getting a receipt, risk having no evidence to:

- claim a refund if the goods or services purchased are faulty
- prove who was responsible in case of poor work quality.

See also:

- [Receiving cash for the work you do \(/individuals/working/working-as-an-employee/receiving-cash-for-work-you-do/\)](#)
- [Your workers \(/business/your-workers/\)](#)

Report tax evasion

We encourage you to tell us about suspected tax evasion.

Examples include:

- not paying their fair share of tax
- over-claiming deductions
- paying cash-in hand wages
- discounts for cash.

We review all reports and take action where appropriate. Your information helps to protect honest businesses from unfair competition.

Your information is treated confidentially and you don't have to give your name if you don't want to.

[\(/forms/tax-evasion-reporting-form/\)](#)

All Australians benefit from tax

Paying your fair share of tax helps all Australians. It benefits everyone by paying for essential services, including:

- health – including Medicare, and hospitals
- education – such as schools and teachers
- transport – like roads and railways
- community services – for example when natural disasters occur.

Combatting the cash economy

We use a range of tools to identify and take action against people and businesses that may not be correctly meeting their obligations.

Through data matching, we can identify businesses that don't have electronic payment facilities. These businesses often advertise as 'cash only' or mainly deal in cash transactions. When businesses do this, they are more likely to make mistakes or don't keep thorough records. Our Protecting honest business visits and contacts address this risk.

We are a member of the Black Economy Taskforce's Interdepartmental Committee (IDC) along with 18 other Commonwealth agencies.

The black economy includes people who operate entirely outside the tax and regulatory system or who are known to authorities and don't correctly report their tax obligations. The cash and hidden economy is part of the black economy.

Find out about:

- [How we use data matching](#)
- [Small business benchmarks](#)
- [Reviews and audits](#)
- [Stop the cash economy](#)

See also:

- [Black Economy Taskforce \(http://www.treasury.gov.au/blackeconomy/\)](http://www.treasury.gov.au/blackeconomy/)
- [Protecting honest business \(/General/Building-confidence/In-detail/Protecting-honest-business/\)](#)

How we use data matching

Our ability to match and use data is very sophisticated.

We collect information from a number of sources, including banks, other government agencies and industry suppliers. We also get information about purchases of major items, such as cars and real property.

We compare this information against income and expenditure that businesses and individuals have reported to us.

We identify businesses that:

- have told us they no longer operate when they still are
- we think are operating outside of the system
- are cash-only, or mainly deal in cash transactions
- under-report their real income.

Example: Unrealistic personal income leads to unreported millions

The income reported on their personal income tax returns indicated that a couple operating a property development company didn't seem to have sufficient income to cover their living expenses.

We found their company had failed to report millions of dollars from the sale of properties over a number of years. A large portion of unreported income had been lost through gambling and significant funds had been sent to an overseas bank account. The couple and their related companies had evaded paying tax of more than \$4.5 million.

They had to pay the correct amount of tax based on their income and all their related companies. They also incurred a variety of penalties, including:

- administrative penalties (from the tax assessed on the returns that hadn't been lodged – a minimum of 75% of the tax assessed)
- false and misleading statement penalties (because of their intentional disregard of their tax obligations and lack of cooperation during the audit – up to 75% of the shortfall of tax on the returns adjusted to their true income).

End of example

Example: Data matching uncovers hidden income

A Melbourne restaurant owner was found to have discrepancies between the business's reported income and the data we received from their bank.

The owner was given the opportunity to let us know if they had made any errors before we started an audit. They consulted their bank and tax agent and advised that the business had failed to report their entire turnover.

Following discussions, the business owner made a voluntary disclosure correcting the business's tax returns for three financial years, resulting in unpaid tax of over \$750,000. We accepted this as reasonable because, based on the small business benchmarks, it was equivalent to other businesses in the same industry with the same turnover range.

Example: Failing to report online sales

A Nowra court convicted the owner of a computer sales and repair business on eight charges of understating the business's GST and income tax liabilities.

We investigated discrepancies between income reported by the business and amounts deposited in the business owner's bank accounts. We found the business failed to report income from online sales.

The court ordered the business owner to pay over \$36,000 in unreported tax and more than \$18,400 in penalties. The owner was also fined \$4,000 and now has a criminal conviction.

End of example

See also:

- [Data matching \(/General/Building-confidence/In-detail/Data-matching/\)](/General/Building-confidence/In-detail/Data-matching/)

Small business benchmarks

The benchmarks are key financial ratios designed to help businesses compare their performance against similar businesses in their industry.

Benchmarks are one of the tools we use to help us detect businesses that may be avoiding their tax obligations, particularly cash transactions.

Example: Benchmarks used to calculate default assessments

A retail butcher shop was significantly outside the benchmark range for the industry.

When reviewing their records, it was clear the owners had failed to maintain the appropriate records as required by law. A number of errors were identified, including:

- not keeping cash register rolls or point-of-sale system printouts
- not showing evidence of regular till reconciliations to support daily sales records
- inaccurate and incomplete sales records for business income, such as missing sales records for significant trade periods.

The owners weren't able to explain how the income reported in their business tax returns was calculated. They didn't have the records to support their reported income.

We used the benchmarks to recalculate the business's income. We then adjusted its tax return and the owners' personal returns based on the recalculated income. We subsequently issued the business and both owners default tax assessments.

The business owners had to pay tax based on the more accurate income calculated in the default assessments. They also incurred penalties for failing to take reasonable care to meet their legal requirement to maintain accurate records.

End of example

See also:

- [Small business benchmarks \(/business/small-business-benchmarks/\)](/business/small-business-benchmarks/)

Reviews and audits

We use a variety of risk indicators to identify taxpayers who may be avoiding their obligations by hiding income and engaging in the cash and hidden economy for review or audit.

We do this using:

- data matching
- risk models
- behaviour monitoring of previously audited taxpayers
- reports of suspected tax evasion from the community.

When contacting you, we always take into account the individual circumstances of your business and provide an opportunity for you to explain your personal situation, but if people deliberately seek to abuse Australia's tax and super systems by engaging in the cash and hidden economy, we will apply the full force of the law.

Find out about:

- [Our processes](#)
- [Audit process](#)
- [Prosecutions](#)
- [Stop the cash economy](#)

See also:

- [Managing your small business records \(/Business/Managing-your-small-business-records/\)](#)

Our processes

A review or audit is about looking at your affairs to ensure the information given to us is accurate and you have complied with your obligations.

When we identify a business for review or audit, or if they show early signs of non-compliant behaviour (like not lodging or lodging late), we may:

- contact you because your business is outside the small business benchmarks. We will always take into account any individual circumstances of the business, based on the records you keep – if there's a good reason for the difference and your business records confirm this we will generally take no further action
- contact other parties (depending on the complexity) sometimes we need to contact banks, employees, customers and suppliers to get information.

How we do reviews

Reviews allow us to determine issues that require further investigation, so we can check for errors that we can help you to correct. We will do this over the phone with you.

What you can expect from a review

We will contact you by phone to discuss the information you have told us about. This is a short discussion with you or your tax or BAS agent (or both of you) that allows us to resolve any identified discrepancies

There may be no further action, or we may escalate your case for compliance action such as an audit. We will advise you of the outcome in writing within around 40 days.

How we do audits

We conduct an audit if we think you may not be complying with your obligations or when we think a review won't be able to look into the issues sufficiently. The level of intensity and the time taken for an audit depends on the risks we identify.

An audit can take between 120 and 250 days and is conducted in person or over the phone where we request that you send us documents.

When we do audits, there will be an education or adjustment outcome. We will also consider whether penalties should be imposed and if we need to prosecute.

Our audit activities have a strong focus on:

- reviewing the accuracy and completeness of taxpayer record keeping
- identifying businesses that are not registering
- identifying businesses that are lodging late or failing to lodge
- identifying unreported income.

Audit process

A typical audit comprises four stages.

- [Initial contact](#)
- [Meeting](#)
- [Interim report](#)
- [Finalising an audit](#)

1. Initial contact

When we select you for an audit, we will:

- phone you to arrange a suitable interview meeting date and time
- send written confirmation
- give reasons for selecting you for audit
- advise you to review previously lodged returns
- identify issues that you may want to voluntarily disclose at the audit meeting.
- write to, or phone you to obtain business details to help us to determine the accuracy and completeness of your record keeping

2. Meeting

At the meeting, we will:

- discuss how we will conduct the audit
- explain why you were selected and what you can expect from us
- explain what we will be looking into, the financial years under audit and the expected completion date
- advise you of any of our guidelines relevant to any issues and years being audited, including voluntary disclosure procedures
- explain your obligations under the Taxpayers' charter
- discuss a range of issues, including record keeping, super and practical assistance to help you to meet your tax obligations
- ask you to demonstrate how your records explain all your business transactions
- check that records are kept in a manner that enables us to readily ascertain the business's tax liability
- ask you to explain why your business performance varies from the industry averages as indicated by the relevant small business benchmark
- provide an opportunity to make a disclosure.

At the meeting, we will ask for further information and an explanation of your business processes.

If record-keeping requirements are not met

Where your records are readily available, properly kept and reliable, they will form the basis of our assessment.

You must make a genuine attempt to keep your records. If we find that you haven't met these requirements, we will ask for an explanation and the supporting evidence.

Evidence considered as valid includes:

- bank statements
- loan agreements
- actual cost of sales analysis
- purchase records from suppliers
- reconciliation of daily sales sheets
- reconstruction of records that have been destroyed, lost or stolen
- personal living expenses.

We may also contact third parties, including customers and suppliers, to gather information.

When we make an assessment, any records provided will be considered with anything else we may find during the audit.

Failure to keep accurate records to support reported income can result in administrative penalties, court-imposed fines, and default assessments being raised using a range of information available to us, such as the small business benchmarks.

3. Interim report

We will issue an interim report during an audit, which outlines:

- our analysis of the available facts
- our application of relevant law to the facts
- details of any proposed adjustments, penalties or recommendations we might make as a result of finalising the audit.

This report provides an opportunity to comment, which we will consider before we finalise the audit.

If we intend to issue amended assessments, we will advise you beforehand. We will consider any submissions for reducing or remitting penalties or interest charges.

ATO assessments of taxable income

We can make an assessment of your taxable income as long as the basis used is reasonable, credible, defensible and takes into account your circumstances.

An assessment may involve sampling, estimating or judgment. This can include:

- using our small business benchmarks
- using taxation statistics
- information in financial records provided during the audit
- statements or disclosures you provide
- information from third parties, such as banks and suppliers
- information from previously lodged returns.

See also:

- [PS LA 2007/7 \(/law/view/document?DocID=PSR/PS20077/NAT/ATO/00001&PiT=99991231235958\)](#) *Making default assessments of taxable income in respect of attributable income*

- [PS LA 2007/24 \(/law/view/document?DocID=PSR/PS200724/NAT/ATO/00001&PiT=99991231235958\)](#) *Making default assessments: section 167 of the Income Tax Assessment Act 1936 and other similar provisions*
- [PS LA 2011/25 \(/law/view/document?DocID=PSR/PS201125/NAT/ATO/00001&PiT=99991231235958\)](#) *Reconstructing records and making reasonable estimates for taxpayers affected by disasters*

4. Finalising an audit

After you have been given an opportunity to comment on the interim report, we will consider any concerns you may have prior to making our final decision. We will advise of our final position in writing, including any applicable penalties and interest charges.

We will then send an audit-finalisation letter within seven days of our final decision.

If you're not satisfied

We recognise that processes and interactions sometimes do not proceed as planned. If you are concerned about how a compliance activity is proceeding, we encourage you to discuss the issues with the case officer.

Alternatively, if your issue is not resolved you can refer the matter to your case officer's team leader who will work with you both to address your concerns.

Raising concerns with us will not adversely affect your case; we will continue to apply the law fairly in all circumstances. However, we expect you will not misuse these processes in an attempt to obtain a more favourable outcome.

Where your concerns cannot be resolved by the team leader, and the audit team does not meet the expectation required of them, you have the option to lodge a [complaint \(/about-ato/about-us/contact-us/complaints.-compliments-and-suggestions/complaints/\)](#).

See also:

- [Personal living expenses \(/general/building-confidence/in-detail/personal-living-expenses/\)](#)
- [Small business benchmarks \(/Business/Small-business-benchmarks/\)](#)
- [Managing your small business records \(/Business/Managing-your-small-business-records/\)](#)
- [Taxpayers' charter – what you need to know \(/About-ATO/About-us/In-detail/Taxpayers-charter/Taxpayers--charter---what-you-need-to-know/?default=&page=4\)](#)
- [Taxpayers' charter – if you're subject to review or audit \(/About-ATO/About-us/In-detail/Taxpayers-charter/Taxpayers--charter---if-you-re-subject-to-review-or-audit/\)](#)
- [Interest and penalties \(/General/Interest-and-penalties/\)](#)
- [Correct a mistake or amend a return \(/General/Correct-a-mistake-or-amend-a-return/\)](#)

Prosecutions

When we detect people engaging in fraudulent and evasive cash and hidden economy activities, we have the options of:

- prosecuting them under the *Taxation Administration Act 1953* (civil prosecutions)
- referring them to the Commonwealth Director of Public Prosecutions for prosecution under the *Criminal Code Act 1995* (criminal prosecutions).

Penalties can include fines and, in the case of criminal prosecutions, imprisonment.

See also:

- [Interest and penalties \(/general/interest-and-penalties/\)](#)

When people or businesses deliberately hide income to avoid paying tax it's called the cash and hidden economy and it's not fair. All Australians lose when there isn't enough money to fund important community services.

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Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

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