

SAMPLE CLIENT ENGAGEMENT LETTER

1 January 2019

Ref: XXXX0000

Mr John Citizen
1 Client Street
SUBURBVILLE SA 5000

Dear John

Thank you for your instructions to attend to the accounting and taxation requirements for your business entities and for your family. A list of the entities and individuals for whom we are to act (**the Group**) is set out in the accompanying Schedule and our comments below are directed to all those persons.

This letter sets out our terms of engagement and the scope of the work to be performed by us within that engagement. Please read it carefully and if you have any queries or wish to discuss any aspect do not hesitate to contact us.

With effect from 1 March 2010, a new regime for the regulation of tax agents has taken effect under the *Tax Agent Services Act 2009* and accompanying legislation (**TASA**). The new regime has implications for registered tax agents and also for their clients.

An important feature of TASA is the provision of a “safe harbour” protection from penalties in certain circumstances for taxpayers who engage registered tax agents.

To obtain the benefits of “safe harbour” protection, the legislation requires the taxpayer to provide the registered tax agent with “all relevant taxation information” to enable accurate statements to be provided to the Australian Taxation Office. This requirement may be important to both parties in identifying and understanding the purpose and scope of the engagement as set out below and may also affect other matters discussed below.

You will find further discussion on the “safe harbour” protections in the accompanying document.

If the terms of our engagement are acceptable, we ask that all persons sign the enclosed copy of this engagement letter in the places indicated and return it to our office.

Purpose and scope of engagement

Our engagement is to attend to the following matters:

- prepare and lodge the BAS returns for your business entities;
- prepare the annual financial statements for your business entities;
- prepare and lodge the annual income tax returns for your business entities and your family;
- prepare and lodge the annual FBT returns for your business entities;
- prepare and lodge the superannuation returns for your superannuation fund.

Unless otherwise agreed, we will prepare the above returns and statements on an ongoing basis, in relation to the period following that for which the returns and statements have most recently been finalised, and for each subsequent period.

Each business entity and adult family member listed in the Schedule engages us on the terms set out in this letter and is bound by those terms. The business entities and adult family members listed are all jointly and severally liable to pay our accounts, regardless of which of the listed individuals or entities those accounts are addressed to and regardless of which of the listed individuals or entities received the benefit of the work performed.

Our services will be provided to you on a fee for service basis* based on hourly rates and charged as set out below.

This letter relates only to the abovementioned services and details the basis and terms of this engagement. Unless otherwise agreed, our engagement will be limited to the matters described in this letter. Work that is performed or disbursements that are incurred which are outside the scope of this letter will be the subject of additional charge.

Basis of engagement

Our engagement is to assist with the preparation of the financial accounts and the preparation and lodgment of the taxation returns of your business entities and of your family.

1. Accounting and record-keeping

In undertaking this engagement, it is understood that you will generally ensure that:

- The bookkeeping for all business entities is maintained on a regular basis. In fact, we recommend the bookkeeping and record-keeping tasks be attended to each week.
- Reconciliations for the bank accounts, debtors and creditors are performed at the end of each month for each of the business entities.
- A stocktake will be performed during the last weekend in June for each entity that deals in trading stock.

2. Taxation services

In engaging us to provide taxation services, it is important for you to understand that:

- You are responsible for the accuracy and completeness of the particulars and information provided to us by you.
- Any advice we provide is only an opinion based on our knowledge of your particular circumstances.
- You have obligations under the self-assessment regime to keep full and proper records in order to facilitate the preparation of accurate returns.
- We cannot provide taxation services if we find that information on which those services are to be based contain false or misleading information, or omit material information, and you are not prepared to appropriately amend that information.

3. Compilation of financial statements

By engaging us to compile financial statements, you acknowledge that:

- The reliability, accuracy and completeness of the accounting records are your responsibility; and
- That you have disclosed to us all material and relevant information.

4. No statutory financial audits are conducted

You and your employees are responsible for the maintenance of the accounting systems and internal controls for all the business entities. That includes the keeping and maintenance of all required books of account. Our firm cannot be relied upon to disclose irregularities, including fraud, other illegal acts and errors that may occur with regard to such matters.

Our firm is not being engaged to conduct a statutory audit of the financial records of any of your business entities and we will not express an auditor's opinion as to the truth and fairness of the financial statements.

5. Documentation

Before we lodge any returns on your behalf, we will forward the documents to you for approval. We will endeavour to ensure that the returns are lodged by the due dates and will advise you at the beginning of the financial year when documentation should be provided to us. If you are late in providing information, we will do our best to meet the time limits, but we will not be responsible for any late lodgment penalties or interest charges you may incur.

6. Ownership of documents

The financial statements, tax returns and any other documents which we are specifically engaged to prepare, together with any original documents given to us by you, shall be your property. Any other documents brought into existence by us, including general working papers, the general ledger and draft documents will remain our property at all times.

If our services are terminated (by either party), each client separately agrees that we shall be entitled to retain all documents owned by that client (including all tax refund cheques of that client which come into our possession) until payment in full of all outstanding fees outstanding from all members of the Group on any account. Where copies of any documents released to you are required for our records, you will be charged for the cost of photocopying at our normal rates.

7. Additional services

The scope of our engagement is the preparation and lodgment of the accounting and taxation matters detailed above. Any agreed fee applies only to services and advice provided within the scope of our engagement. This fee includes the checking and forwarding of original assessments and original payment notices that are received from the Australian Taxation Office and the Australian Securities & Investments Commission (ASIC).

However, any additional services or advice that you request are outside the scope of this letter and not included in this agreed fee. These services will be charged on the basis of the time and degree of skill and acumen required to complete the task undertaken by us, including any direct out of pocket expenses. Please note in particular that any correspondence from the Australian Taxation Office or ASIC that does not relate to initial assessments nor original payment notices, will be charged as additional services.

8. Fees and charges

Unless otherwise expressly agreed with you in writing, our professional fees are charged at hourly rates, using six minute increments. Those rates:

(a) are as follows:

Operator	Hourly rate (plus GST)
Principal	\$195
Accountant	\$160
Assistant Accountant	\$100
Admin	\$85

The above rates may vary from time to time.

Subject to any agency arrangements for GST discussed below under the heading “**GST – Disbursements**“, disbursements properly incurred from external suppliers (couriers, ASIC fees, other Government fees etc) will be charged to you at cost plus GST.

Unless otherwise stated in writing, any estimates which we provide to you of our anticipated fees, disbursements and charges for any work are only indicative of the amounts you can expect to be charged. Estimates are not quotes or caps and are not binding on us.

Where an estimate is given and the scope of the work changes, or if it becomes apparent that the work involves matters which were not taken into account in the estimate, we will endeavour to advise you and provide an amended estimate as soon as it is practicable to do so.

Each client in the Group is jointly and severally liable to pay our fees in respect of all work performed for all members of the Group.

9. Information relating to your affairs

Our firm may from time to time use the services of third party contractors to perform some of the services we are engaged to perform for you. Each client in the Group hereby authorises us to disclose information relating to that client's affairs to all such third party contractors as we may choose to engage to perform such work.

Where we use the services of third party contractors, we are nevertheless responsible for the conduct and activities of those contractors and for the delivery of the services we are engaged to perform for you.

From time to time our firm and our third party contractors may engage external IT service providers (including in relation to 'cloud computing' services) in the performance of services under this engagement. Each client in the Group hereby authorises us and our third party contractors to disclose information relating to those clients' affairs to all such external IT service providers as we or our third party contractors may choose to engage.

We may also need to disclose information relating to one client's affairs to other clients in the Group to assist in performing our work, to persons responsible for the governance of an entity to comply with accounting standards, or to a professional body of which we are a member in relation to a quality review program undertaken by that body. Each client in the Group hereby authorises us to do so when we consider it appropriate to further our performance of work for the Group, or when required by that professional body.

10. Limitation of liability

Our firm's liability may be limited by a scheme approved under Professional Standards Legislation.

We shall now outline the basis of our engagement in the context of the specific services to be provided.

It should be noted at the outset that as a general proposition we rely upon our clients to provide us with accurate and timely information to enable us to properly perform our engagement obligations. Consequently, any rectifying work performed by us on the basis of incorrect or late information will be work which is outside the scope of this letter and will be charged as additional services.

BAS returns

As the BAS returns are prepared quarterly and lodged during the financial year, it is not possible for this firm to review the correctness of the underlying financial information as part of the preparation of the quarterly BAS return. This is because we are engaged to prepare the annual accounts and these are prepared after the conclusion of the financial year.

Therefore, for the quarterly BAS returns, we will rely on and process the financial information provided to us without any review of the primary source documents. In doing that, we will make the following specific assumptions:

- The financial information provided to us is accurate.
- The financial information correctly states the GST position. For example, all input tax credits and GST payable amounts have been correctly recorded in the general ledger. If you are unsure of the correct position or require advice regarding this, we are able to provide this as work which is outside the scope of this letter and charged as additional services.
- You have the necessary supporting documentation to satisfy the Australian Taxation Office for GST purposes. Again, if you are unsure of the ATO requirements or require advice regarding these documents, we are able to provide this as work which is outside the scope of this letter and charged as additional services.
- You hold valid tax invoices and adjustment notes for all expenditure incurred by you in respect of which an input tax credit is being claimed. Substantial penalties apply for an incorrectly prepared BAS. If you have any queries in respect to this, please contact our office for assistance.

However, it is possible that, when the financial accounts are prepared, some discrepancies will exist between the information disclosed in the quarterly BAS returns and in the annual financial statements.

Should any discrepancies arise, we will discuss the need to correct either the BAS returns and/or financial accounts. Those services will involve work which is outside the scope of this letter and will be charged as additional services.

Financial accounts

This firm has been engaged to prepare the annual financial accounts of the business entities in your group. This service includes the preparation of:

- a profit and loss statement;
- a balance sheet; and
- notes for the above accounts.

This service includes maintenance of the chart of accounts for the general ledgers of your business entities. It also includes telephone support should you require any assistance as to how to record specific transactions in the general ledger.

The fee for this service also includes the preparation and lodgement of the standard reports to be furnished to ASIC.

This service does not include the preparation of one-off accounts for presentation to your financiers for additional finance and the like.

Income tax returns

This firm has been engaged to prepare and lodge income tax returns for the business entities in your group and for your family.

This firm will not be responsible for reviewing or verifying any financial records or statements provided to it either via manual cashbooks or prepared on accounting software such as MYOB or Quickbooks. Correct coding or classification of accounts is outside the scope of this engagement. If assistance is required in how to correctly code or to review how you currently do so please discuss this with us. This will entail work which is outside the scope of this engagement and will be charged as additional services.

Also please ensure that you have all source documentation available to allow this firm to analyse the income tax implications of any transaction, if we request to see it. Whilst we will not as a

matter of course be looking at these documents, the ATO will expect you (and you are required) to have them available before any claim is made in your income tax return. We may in some circumstances also request to see source documents if a tax issue is particularly contentious.

It is also expected that, in respect of individual income tax returns, each person will have the necessary documents so as to comply with the substantiation provisions of the *Income Tax Assessment Act*.

We will specifically advise as to the requirements of the substantiation provisions relating to your income tax return and of the necessity to obtain acceptable receipts as specifically required by the legislation. We will not, however, be checking that the requirements of the substantiation provisions have been satisfied.

This specifically means that we will not be reviewing your log book or any calculations or information you provide us, for example a rental property schedule either prepared by you on spreadsheet or by a property manager. If you require assistance in completing a log book or preparing any calculations or you would like us to review such work, please discuss this with us. This will entail work which is outside the scope of this letter and will be charged as additional services.

From time to time, this firm prepares templates and schedules to assist with the collation of information to complete income tax returns.

These will be provided free of charge.

The fee for this service does not cover any inquiries made to us or investigations involving us conducted by the Australian Taxation Office. Substantial penalties apply for an incorrectly prepared income tax return. If you have any queries in respect to this, please contact our office for assistance.

Each client in the Group agrees that we can bank into our trust account tax refund amounts received on behalf of that client and can deduct from those amounts any fees owed to us either by that client or by any other member of the Group.

Fringe benefits tax returns

This firm has also been engaged to prepare and lodge the FBT returns for your business entities. Please note, with the introduction of GST, it is no longer possible to prepare an FBT return from the information contained in the general ledger.

It is necessary to revert to the source documentation to allow our firm to analyse the FBT implications of any transaction.

Our fee for this service includes advice on how to collate the information necessary to prepare the annual FBT return. This fee also includes telephone advice on basic FBT issues. Our fee also includes an annual review of the methods available to reduce the FBT expense on the annual FBT return.

This fee also includes the calculation of Reportable Fringe Benefits Tax Amounts that may be required to be included on the annual payment summaries for your employees (including family members employed in your business).

GST – professional fees

Our professional fees are inclusive of Goods and Services Tax (“GST”). If the services we are providing are provided to your business then you may be able to claim a GST input tax credit for the GST you pay us. However, this will not be the case if the services we provide are used by you in creating an input taxed supply. In this situation you cannot claim the GST associated with our professional fees as an input tax credit.

If your matter involves a mixture of taxable, GST free and input taxed supplies we will not apportion our professional fees between these categories of supply unless you have expressly requested us to do so.

Please note that if you make such a request after the commencement of any particular matter it may not be possible for us to subsequently apportion professional fees that were incurred prior to receiving your request. If you need separate advice on whether you will receive the benefit of a GST input tax credit for the GST paid to us then please contact us.

GST – Disbursements

In addition to our professional fees, you will be responsible for payment of expenses which we incur on your behalf (together with the GST that we pay in relation to such expenses as set out below).

Certain government charges and fees included in some matters undertaken in the scope of our engagement are effectively “GST-free” to the applicant, but will attract the 10% GST if paid by this firm and then passed on to you as part of our services. Accordingly for certain disbursements in this category, namely:

- ASIC fees;
- new company and trust deed orders; and
- other specific disbursements notified from time to time,

we will act as your agents in incurring those disbursements. You will therefore technically be primarily liable to pay the account to the supplier. Under this agency relationship, you will receive the benefit of any concessional GST treatment of any part of the disbursement.

Where GST is payable on some or all of a supply acquired by us as your agent, we will forward you the Tax Invoice and you will be entitled to claim the input tax credits directly if you have an ABN and are entitled to claim input tax credits.

For disbursements incurred in this manner we may in some cases require that you provide us with separate cheques for the relevant amounts to be paid directly to the relevant government body or supplier.

For all other disbursements (couriers, searches, photocopying etc) the treatment will be the same as for professional fees - this firm will incur the costs at first instance and invoice them on to you after making allowance for any GST input tax credits received by us on the acquisition. These invoices will include GST for which you may be entitled to claim an input tax credit.

Superannuation

This firm has also been engaged to attend to the income tax compliance work for your superannuation fund. This assignment will involve:

- Preparation of the superannuation fund's accounts for the purposes of the *Superannuation Industry Supervision Act 1993* (the SIS Act).
- Preparation and lodgement of the SMSF annual return. It is important to note as part of the regulatory framework for SMSFs, an annual audit of the fund must be undertaken and provided to the trustees of the fund before the SMSF annual return is lodged.
- With respect to the annual audit of the SMSF referred to above, the audit will be undertaken by this office, and accordingly we will provide you with a separate letter of engagement covering matters more specific to the audit;

In addition to the basic financial information required to complete these requirements, it is expected that the source documentation will be available to allow this firm to analyse the implications of any superannuation related transaction.

You should also note that the deeds of the fund should be annually reviewed by a superannuation specialist to ensure they continue to comply with the requirements of the SIS Act. Our engagement does not extend to the provision of such legal advice and our fee does not include this service. We are happy to recommend the services of a superannuation specialist for this task.

Our fee does not include financial planning services for the investments of the superannuation fund or for any planning advice for your future retirement planning needs.

This service does not cover any inquiries made by or investigations conducted by the Australian Taxation Office.

Confirmation of engagement

Obviously, there are many issues to consider in this engagement and we ask that you consider all aspects of this letter to ensure that you are satisfied with the scope of our engagement.

Please contact us if you have any queries about this letter.

Once you are satisfied with the terms of this letter, would you please have all persons sign and date both copies of this letter in the places indicated.

One copy should be forwarded to us as evidence of your acceptance of the terms of our engagement. You should retain the other copy as your evidence of our engagement.

We thank you for the opportunity to provide accounting and taxation services to you and your business and we look forward to developing a close accounting relationship with you for many years to come.

Yours sincerely

Anthony Dutton
Principal

SAMPLE

**SCHEDULE
CLIENTS**

Acknowledgment of terms of engagement

We, the parties named in the Schedule, confirm that we understand and agree to your terms of engagement, and acknowledge our responsibilities as set out the terms of engagement.

Dated the _____ day of _____, 20_____.

Individuals:

Name	Signed
 (Individual signs)

Companies:

Name	Signed
 (Director signs)

Partnerships/Joint Ventures:

Names	Partnership/JV	Signed
	 (Individual partner/venturer or director of corporate partner/venturer signs)

Individuals who act as trustees or nominees:

Name	Trust or superannuation fund	Signed
	 (Individual signs)

Companies which act as trustees or nominees:

Name	Trust or superannuation fund	Signed
	 (Director signs)

Clients' rights and obligations under the taxation laws*

Dear Client,

As a client of this practice, we are obliged to advise you of your rights and obligations under the taxation laws in relation to the services we provide to you. Set out below is a brief explanation of the main areas of the taxation system you should be aware of. If you have any concerns or issues with any of matters discussed below please feel free to contact us.

The self-assessment system

The Australian tax system operates as a self-assessment system. This means that when your tax return, FBT return or BAS is lodged the ATO accepts the information in the return at face-value and issues you with an assessment notice based on that information. It is important to understand that this does not mean the assessment is final as the ATO can conduct a review or audit of the information provided in the return at a later time, subject to the time limits discussed in the topic below.

The Commissioner's ability to amend an assessment

As explained above, the ATO accepts the information lodged in your return at face value. However, the ATO also has the power to amend the assessment if they find it to be incorrect. The following rules generally apply:

Individuals

- For most individuals, the ATO can amend an assessment within two years after you receive your notice of assessment. If the individual carries on a business and is **not** a Small Business Entity, that period extends to four years.
- If the individual is a partner in a partnership or a beneficiary of a trust, the period is two years. If the partnership or trust carries on business and is **not** a Small Business Entity, the period extends to four years.

Companies

- The ATO can amend a company assessment within two years after the company receives a notice of assessment where the company **is** a Small business Entity. The same period applies where the company is a partner in a partnership or beneficiary of a trust that is a Small Business Entity.
- In any other case, the period is four years.

Trustees

- The ATO can amend an assessment within two years after the trustee receives the notice of assessment if the trust **is** a Small Business Entity.
- If the trustee is a partner in a partnership or a beneficiary of a trust that is **not** a Small Business Entity, that period extends to four years.
- In any other case, the period is four years.

If the ATO amend an assessment this will potentially involve, apart from increased taxes, penalties and interest. If you discover an error in the information declared in the return, lower penalties generally apply for making a voluntary disclosure.

Note: There are no time limits on the ATO amending an assessment where they believe there has been fraud or evasion.

Obligation to keep records

The tax laws specifically require taxpayers to keep records that properly explain the transaction they have entered into.

Individuals

Individuals claiming deductions for work-related expenses are subject to the Substantiation rules in the tax laws. This requires taxpayers to keep receipts, invoices etc, of the expenses they incur. Where the expenses relate to a taxpayer travelling interstate or overseas, a travel diary may also need to be kept. Where the expense relates to a motor vehicle, a record of the journeys taken such as a log book may need to be kept.

A failure to keep the appropriate records can lead to the ATO denying a particular deduction which may involve the imposition of penalties and interest. Substantiation records must be retained for five years.

Businesses

The tax laws specifically require a taxpayer that carries on business to keep records that record and explain all the transactions they have entered into. This includes all the documents that explain how the income and expenditure of the taxpayer was determined.

Where the tax laws allow or require a taxpayer to make a choice, election, estimate or calculation, documents containing particulars of these matters must be kept.

All these records must be retained for a period of five years. There are penalties for taxpayers who fail to do so.

Obligation to provide complete and accurate records

In order for our practice to be able to lodge returns on your behalf, it is your responsibility to provide us with complete and accurate records. Further, in order to lodge your return on time we will require you to provide us the relevant information as and when requested.

Where you are unable to provide us with complete and accurate records, we may be unable to prepare and lodge your return. Tax agents are subject to a Professional Code of Conduct which prevents them from acting for a client where insufficient records or information exists so as to be able determine the amount of the client's income or deductions.

Records for clients operating in the cash economy

Because of the ATO's concerns with dealings in the cash economy, there are particular recording imperatives for clients who operate in that sector. In particular, the ATO has a program of "benchmarking" standardised revenue returns for a wide range of cash businesses.

In circumstances where it is dissatisfied with a taxpayer's records or recording systems, the ATO will often assess income tax and/or GST on what it considers to be an appropriate "benchmark" amount (plus penalties and interest) and then put the taxpayer to the task of disproving that assessment.

Where that occurs, the taxpayer is at a serious disadvantage and can be put to a great deal of cost and effort in disputing the assessment.

Taxpayers who operate in the cash economy are therefore urged to have a robust and reliable system for recording and reporting all cash transactions and to ensure that the recorded figures are accurate.

If you need assistance in setting up or reviewing your recording and reporting systems, we will be happy to do so and will advise you of our rates for doing so on request.

Right to seek a Private Binding Ruling

When preparing your return we may identify one or more issues that are not clear under the tax laws. Where we have pointed out such issues to you, you have a right to request a Private Binding Ruling from the ATO. Upon providing the ATO with all the relevant facts, they will provide you with a ruling setting out their view on the proper tax treatment of the issue requested to be ruled upon.

Objecting to an assessment

If the ATO issues you with an assessment that you do not agree with, you have the right to lodge an objection to that assessment. The objection must be lodged with the ATO within either two or four years. As to which period applies, this is determined in the same way as the discussion above under the heading '*Commissioner's ability to amend an assessment*'.

Where the ATO issues an amended assessment, the period for objecting is the greater of:

- 60 days from the time the amended assessment is received; or
- two or four years (whichever is applicable) from the time the original assessment was received.

If you remain dissatisfied with the outcome of the objection, you have the right to have the matter reviewed by the Administrative Appeals Tribunal or to appeal the matter to the Federal Court.

Onus of proof falls on the taxpayer

It is important to be aware that in any disputed assessment before the court or the Administrative Appeals Tribunal, the onus of proof is placed on the *taxpayer*. In other words, if the Commissioner asserts that your income should include a certain amount or that a deduction claimed in a return is not allowed, it will be up to you to establish that the Commissioner's view is incorrect.

Your protections under TASA

The *Tax Agent Services Act 2009* (TASA) and complimentary amendments to the applicable taxation administration legislation provide statutory protections for taxpayers who engage registered tax agents.

In particular, as your tax agent we are bound by a statutory Code of Conduct which is administered by a new national Tax Practitioners Board. That Code requires us, amongst other things, to act lawfully in your best interests and with honesty and integrity in the performance of our duties.

In addition, as the client of a registered tax agent, you have statutory "safe harbour" exemptions from penalties in certain circumstances.

When did the new safe harbour provisions commence?

The 'safe harbour' can only apply for returns lodged on or after 1 March 2010.

How does the new safe harbour work?

In order to benefit from the 'safe harbour' should the need arise, it is a requirement for you to ensure that you provide us with all of the relevant tax information. This includes any records, or documents we request from you plus any other information relevant to the preparation of your tax return. The information provided must be complete and accurate.

It is equally important that you provide us with this information by the time it is requested so as to allow the return by its due date. The safe harbour from late lodgment penalties can also apply where a Business Activity Statement, Instalment Activity Statement, or Fringe Benefits Tax return is lodged late.

What does the new safe harbour apply to?

Whilst the safe harbour can apply to exempt the penalty for an error made in a tax return, it is important to note that the tax and interest will be still be payable.

What if the safe harbour does not apply?

Even if you are not eligible for the safe harbour, it is still possible to request the ATO remit or reduce the penalty.