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The Secretary  
House of Representatives Standing Committee on  
Economics, Finance and Public Administration  
Parliament House  
CANBERRA ACT 2600

Dear Sir or Madam

I am concerned about the loss of tax revenue that I believe may be occurring because of the differential tax rates between residents and non-residents and the simplicity of changing residency status under 'self-assessment'.

Under present arrangements it is extremely simple for a person holding an appropriate visa to correctly state their status as "non-resident" on their TFN Application and thereby obtain a TFN quite legitimately. They can then change that status to "resident" by simply ticking the appropriate box when they complete their Tax Return. This way such a person need never pay tax at non-resident rates.

As a Public Assistance Officer in the Australian Taxation Office, I find it very difficult to explain to a non-resident (who has been assessed correctly), why it is that he or she has to pay tax at 29c in every dollar earned, whilst his or her associate has received a refund - even though the circumstances of the two cases are identical. (The explanation lies in the fact that the associate has been assessed as a resident, but this explanation also divulges the information that the person enquiring need not pay tax at non-resident rates if they choose not to !)

I enclose a hypothetical scenario to illustrate the problem.

Yours sincerely

Nick Deane. 07/10/99.

### **A Hypothetical Question that Presents a Dilemma.**

Consider the following Scenario:-

A young, intelligent “back-packer” is on the phone. She is making enquiries of a general nature, regarding her obligations as a temporary visitor intending to work for a time to support herself while she travels the country. You (the PA Officer) explain the basics, stressing the importance of applying for a TFN and the obligation to lodge a tax return at the end of the financial year or when she leaves the country.

As it happens, this client has a copy of both the TFN Application and TaxPack to hand (supplied to her by some organisation that assists back-packers on their arrival). She has a look at the TFN Application and asks about the Residency question (Q 8). You explain, correctly, that, as it is only a visit and she always has the intention of returning to her home country, she will be non-resident for tax purposes. You explain the significance of this, especially the differential tax rates.

She then turns to the Return form and asks “How come I have to state my residency status on the Return, when you already know it from the TFN Application?”. “Well,” you say, “your status could change during the year...” To which she responds “So you mean to tell me that the way you treat my tax, as resident or non-resident, depends simply on which box I put the ‘x’ in?”

How do you answer this question? You can't say “No”, because that would be lying, and if you say “Yes”, you are revealing a very simple and effective way to cheat the system. You take a deep breath and say “Yes”.

“So,” she goes on (she's intelligent, remember), “hypothetically, if I were an unscrupulous person, I might tick “non-resident” on my TFN Application and then, when I was completing my tax return (immediately before leaving the country as you told me), I might put my ‘x’ in the ‘resident’ box. Now, if I did that, am I right in saying that you would tax me as a resident and send me a refund cheque at my address back in my Homeland?”

How do you answer this question?