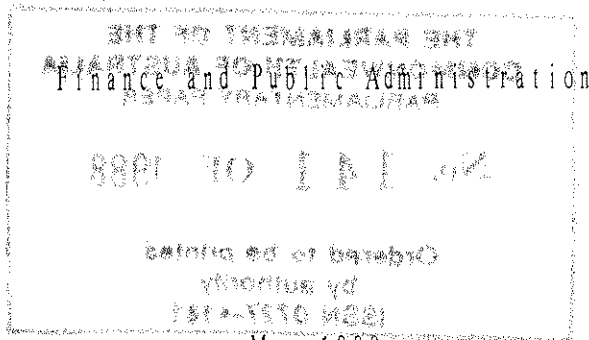


Parliament of the Commonwealth of Australia

A TAXING REVIEW

Review of Six Efficiency Audits of the
Australian Taxation Office

Report of the House of Representatives
Standing Committee on



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Canberra

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FOREWORD

This Report is a review of six efficiency audit reports of the Australian Taxation Office presented to the Parliament by the Australian Audit Office. It follows an earlier Report which reviewed five efficiency audit reports and was tabled in November 1986.

In that earlier Report - A Taxing Problem, the Expenditure Committee urged the Government to give prompt attention to the Report and to respond to the recommendations early in the 1987 Autumn sittings. I am pleased to note that the Government's response to the Report was tabled on 26 February 1987.

The Government accepted the Committee's recommendation for a Joint Management Review to investigate the overall performance and operation of the Australian Taxation Office. The Report of that Review - A Taxing Solution - was considered as part of this inquiry and the Committee has suggested that the ATO report on progress in relation to key outcomes of the Review.

This Report, together with two other inquiries underway, has established the Committee's credentials in monitoring the performance of the ATO. The Committee will continue to monitor the progress of the ATO towards a taxing solution.

I would like to thank members of the Sub-Committee and the Committee Secretariat for their contributions. My particular thanks go to the Hon. Ian Wilson, MP, Deputy Chairman, and Mr David Simmons, MP, for their interest in and enthusiasm for the inquiry in their capacity as members of both the Expenditure Committee and of this Committee. I would also like to record my appreciation for the efforts of the project officer, Ms Anne Hazelton. Her dedication has ensured that the Report was presented during this period of sittings.

I look forward to the Government's response to this Report.

STEPHEN MARTIN, MP
Chairman

TERMS OF REFERENCE OF THE COMMITTEE

The Standing Committee on Finance and Public Administration is empowered to inquire into and report on any matters referred to it by either the House or a Minister including any pre-legislation proposal, bill, motion, petition, vote or expenditure, other financial matter, report or paper.

TERMS OF REFERENCE OF THE SUB-COMMITTEE

The Sub-Committee resolved to review six efficiency audits by the Auditor-General on the Australian Taxation Office, namely:

- . Prescribed Payments System
- . Unpresented Group Certificates
- . External Sources of Information
- . Disclosure of Diesel Fuel Rebates
- . Partnership and Trust Distributions
- . Late Lodgement Penalties

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House of Representatives Standing Committee on Expenditure
34th Parliament (February 1985 - June 1987)

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Secretary: Mr P.F. Bergin (from 27.1.87)
Mr M.E. Aldons (until 27.1.87)

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Mr M.E. Aldons (until 27.1.87)

Inquiry Staff: Mr B. Telford
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Ms M. Barry

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LIST OF RECOMMENDATIONS

- RECOMMENDATION 1: The ATO to formulate a broad procedural strategy plan for use as a guide when implementing future legislative changes to the taxation system.
(Paragraph 2.5.18)
- RECOMMENDATION 2: The ATO to formulate strategic plans regarding improvements to the PPS and its extension to other industries.
(Paragraph 2.5.23)
- RECOMMENDATION 3: The AAO to acknowledge the environmental factors impinging on the auditee at the time of an audit, and to state explicitly that it has done so.
(Paragraph 2.5.24)
- RECOMMENDATION 4: The AAO to have regard to an auditee's strategic and corporate plans when formulating recommendations which will impinge on other areas of the auditee's operations, and which will have staff and other resource implications.
(Paragraph 2.5.25)
- RECOMMENDATION 5: The quotation of valid tax file numbers on group certificates and tax instalment declaration forms should become a mandatory requirement.
(Paragraph 3.4.9)
- RECOMMENDATION 6: The ATO to continue examining ways of streamlining the UGC sampling process so that the section of UGCs which would yield a high cost-benefit ratio is easily identified and pursued.
(Paragraph 3.4.9)
- RECOMMENDATION 7: The ATO to investigate greater itemisation of income and expenditure on taxation returns having regard to items that would most facilitate audit activities in the self-assessment environment.
(Paragraph 4.7.3)

RECOMMENDATION 8: The ATO to continue to monitor and evaluate its progress in relation to the key outcomes specified for July of 1987, 1988 and 1989. A status report on progress and results achieved for the outcomes specified by the target dates should be included in the Annual Report.

(Paragraph 5.3.5)

RECOMMENDATION 9: Having regard to the need to address the gap between the level of potential tax collections and actual revenue, the ATO devote small task forces in each Branch to test the levels of disclosure and compliance of taxpayers. The task forces should also attempt to identify methods by which the most revenue-productive cases can be identified.

(Paragraph 5.4.3)

RECOMMENDATION 10: The ATO to publicise its compliance strategy as widely as possible so that taxpayers are kept informed of developments and changes, and as an additional way of deterring some potential tax evaders.

(Paragraph 6.2.3)

RECOMMENDATION 11: The ATO to investigate possible changes to the legislative framework to overcome problems associated with the exchange of information.

(Paragraph 6.5.5)

RECOMMENDATION 12: The ATO to seek from reporting organisations only such information as it will use, in a form which will enable its efficient and effective use, having regard to the need to minimise costs to organisations which prepare and supply the information.

(Paragraph 6.5.5)

RECOMMENDATION 13: The ATO to take the necessary steps to establish a high integrity identification system which would ensure maximum taxpayer compliance.

(Paragraph 6.6.4)

RECOMMENDATION 14: The ATO to examine the options, feasibility and cost implications of extending the electronic lodgement facility to individual taxpayers as well as tax agents with a view to meeting the cost of required packages.

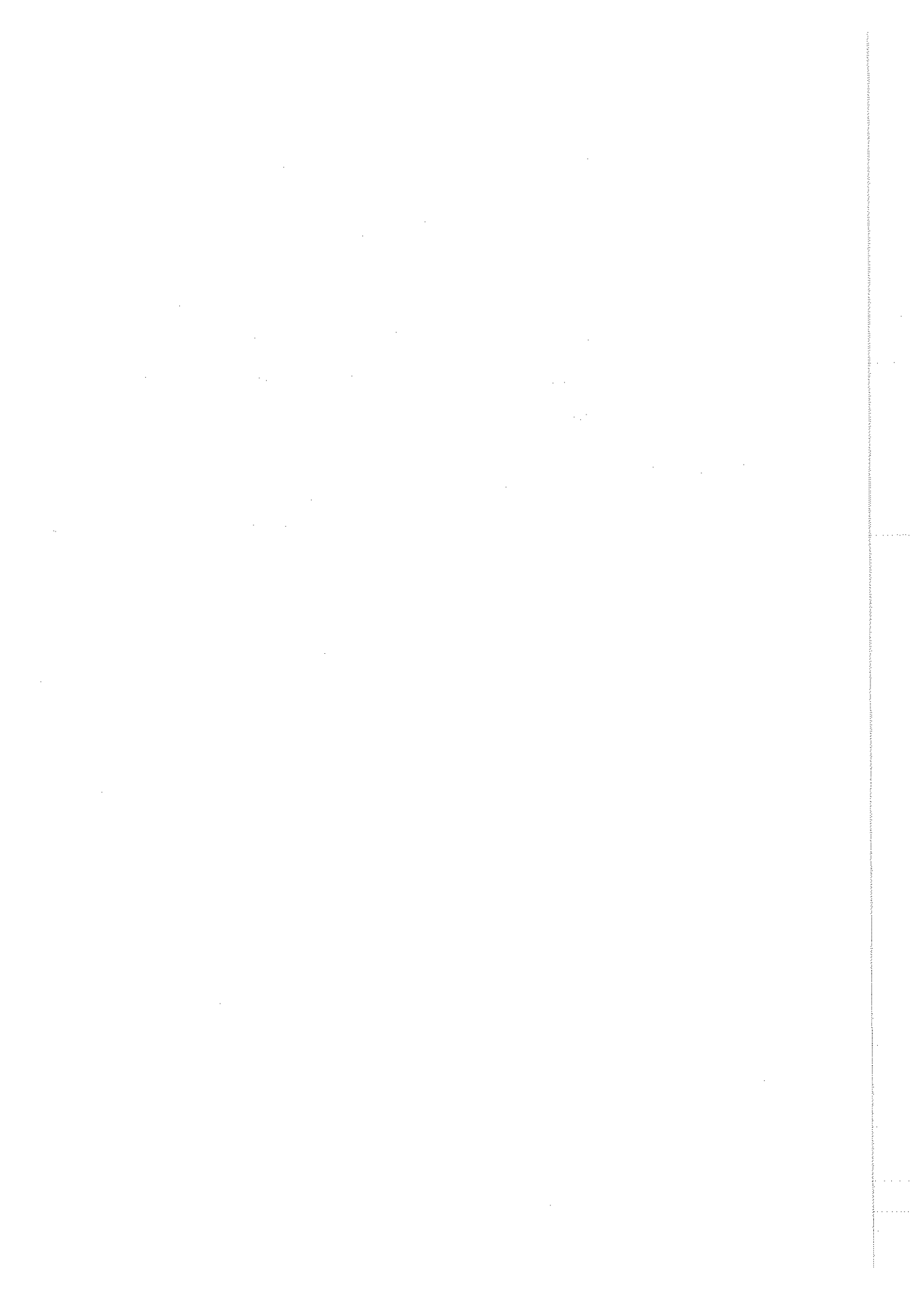
(Paragraph 6.7.4)

RECOMMENDATION 15: The ATO, recognising that its functions are carried out in a dynamic environment, take steps to ensure that the benefits of the change program are continued, and that its management structures and procedures are continually assessed and refined as appropriate.

(Paragraph 7.1.6)

RECOMMENDATION 16: Findings of major significance should be specified as such in the Auditor-General's Reports.

(Paragraph 7.1.7)



Chapter 1

INTRODUCTION

1.1 Background

1.1.1 This Report marks the completion of the first review of Efficiency Audit reports of the Auditor-General by the House of Representatives Standing Committee on Finance and Public Administration (F&PA). During the review, the Committee examined the six Efficiency Audits (EAs) of the Australian Taxation Office which had examined the following programs:

- . The Prescribed Payments System;
- . Unpresented Group Certificates;
- . External Sources of Information;
- . Disclosure of Diesel Fuel Rebates;
- . Partnership and Trust Distributions; and
- . Late Lodgement Penalties.

1.1.2 The Prescribed Payments System EA Report was presented to the Parliament in September 1986 and the Unpresented Group Certificates EA Report was presented in August 1986. The four remaining EAs were contained in an omnibus report of the Auditor-General which was presented to the Parliament in March 1986.

1.1.3 In October 1986, the then House of Representatives Expenditure Committee agreed to examine the August 1986 and September 1986 EAs. Subsequently, in February 1987, the Expenditure Committee agreed that it would be appropriate to review all six ATO EAs together.

1.1.4 The review of the six EAs had not been completed when the 34th Parliament was dissolved in June 1987. With the aim of finalising the review following the appointment of F&PA in the 35th Parliament, the six EAs were referred to the Committee by the Treasurer on 26 November 1987.

1.2 Aim of Report

1.2.1 As with earlier reviews of EAs by the Expenditure Committee, F&PA aimed to:

- . assess the substantive content of the audit exercises and the quality of the EA reports; and
- . examine the response of the ATO to the EAs.

1.2.2 F&PA also aimed to review the ATO's response to a Program Management Performance Review of the Tax Office which was completed in May 1987. This Review was undertaken in response to a recommendation of the Expenditure Committee in its September 1986 Report, A Taxing Problem. The Review was announced by the Treasurer in the House in February 1987.

1.3 Conduct of the Review

1.3.1 Following the Expenditure Committee's February 1987 decision to examine the six ATO EAs together, submissions were invited from specific organisations and individuals with a likely interest in the subject matter of the EAs.

Submissions were accordingly sought from the Australian Taxation Office (ATO), the Australian Audit Office (AAO), professional accountancy organisations, relevant staff unions, taxpayer associations, relevant Commonwealth Government departments, and bodies in the building and transport industries.

- 1.3.2 Evidence was taken by the Expenditure Committee in public hearings in Canberra on 1 and 30 April and 6 May 1987. An inspection of the Adelaide Branch of the ATO was also conducted in April 1987. F&PA had access to the evidence and records of the Expenditure Committee through the provisions of sessional order 28B.
- 1.3.3 Following referral of the six EAs to the F&PA Committee for review in November 1987, the Committee sought further submissions from the ATO and the AAO. Further evidence was taken at a public hearing in Melbourne on 12 February 1988 and inspections of the Victoria North and Melbourne Branches of the ATO were also conducted.
- 1.3.4 Details of witnesses who appeared at public hearings, and indexes of submissions and exhibits authorised for publication are included at Appendixes I, II and III respectively.
- 1.3.5 As is customary, the transcripts of the public hearings and other evidence authorised for publication have been incorporated in separate volumes and copies are available for inspection in the Committee Secretariat and the Parliamentary Library. References to evidence in the text of this Report relate to page numbers in those volumes.

1.4 Expenditure Committee Report - 1986

1.4.1 In 1985 and 1986, the Expenditure Committee undertook a review similar to the present exercise and examined five EAs of the ATO which had been presented to the Parliament in August 1984 and February 1985. The Committee's review Report, A Taxing Problem, was tabled in the House of Representatives on 11 November 1986. The Report contained twenty-one recommendations which addressed the form and content of the EA Reports as well as issues relating to aspects of management and administration in the ATO.

1.4.2 The Government's response to that Report was tabled in the House on 26 February 1987. As part of the response, a Program Management Performance Review (PMPR) of the ATO was announced. The Expenditure Committee had informal discussions with the PMPR team on 29 April 1987.

1.5 Program Management Performance Review Report

1.5.1 The PMPR was conducted by a team led by Dr Ron Cullen, a former chairman of the Victorian Public Service Board. The Review Report, A Taxing Solution, was presented to the Parliament on 23 September 1987.

1.5.2 The PMPR Report contains major findings regarding the overall performance and operation of the ATO. As indicated in paragraph 1.2.2, the ATO's response to the findings of the PMPR Report has been reviewed recently by F&PA.

1.5.3 The PMPR and EA Reports of the ATO are the first such reports to be reviewed by this Committee. F&PA appointed a Sub-Committee to conduct the inquiry: the majority of its members were members of the Expenditure Committee when the previous review of the EAs of the ATO was conducted. F&PA is also currently reviewing two other EAs of the ATO. The Committee therefore considers that it is developing valuable expertise in relation to reviews of the ATO.

1.6 Timeframe and Cost of EAs

1.6.1 The six EAs were conducted at various times between August 1984 and September 1985 at a total cost to the AAO of \$282 332. Details of the cost of each individual audit are included below in Table 1.

TABLE 1
COST OF EFFICIENCY AUDITS

Efficiency Audit	Cost
Prescribed Payments System	\$ 100 153
Unpresented Group Certificates	48 455
External Sources of Information	52 993
Diesel Fuel Rebates	36 762
Partnership and Trust Distributions	16 333
Late Lodgement Penalties	27 636
TOTAL	\$ 282 332

Source: Australian Audit Office.

1.6.2 The Committee is aware that many of the issues addressed in the EA Reports are no longer current because of both the passage of time since the audits were conducted and the recent management initiatives which have been introduced in the ATO.

However, the Committee has welcomed the review as an opportunity to gauge the progress that has been achieved in the audited areas. It has also been keen to identify general principles, where possible, as their application could be of benefit to the auditor and the auditee in the future.

1.7 Framework of Report

- 1.7.1 The Committee has taken the six EAs together for the purposes of review, and its views on them are contained in this Report.
- 1.7.2 The two most significant EAs, on the Prescribed Payments System and Unpresented Group Certificates, are detailed in Chapters 2 and 3 respectively. Each chapter describes the EA Report, the ATO's response and the Committee's views on the usefulness, substance and quality of the audit exercise. The four EAs included in the Auditor-General's March 1986 Report are similarly outlined in Chapter 4, with a separate section being devoted to each.
- 1.7.3 The PMPR Report and the ATO's response to it are outlined in Chapter 5. In Chapter 6, the Committee discusses a number of other issues which were raised during the review. In Chapter 7, the Committee briefly summarises its conclusions in relation to the six EAs and the PMPR Report and comments, briefly, on the future directions of the ATO.
- 1.7.4 The contents of Appendixes I, II and III have been detailed in paragraph 1.3.4. In Appendixes IV to IX, the Committee has set out details of the recommendations or major findings of the six EAs and a summary of the ATO's response. Appendix X summarises key outcomes of the ATO's Change Program and progress that has been achieved to date.

Chapter 2

THE PRESCRIBED PAYMENTS SYSTEM EFFICIENCY AUDIT

2.1 Background

2.1.1 The Prescribed Payments System (PPS) commenced operation in September 1983. It is a system by which income tax is deducted at source on some forms of income not subject to tax instalment deductions under the Pay-As-You-Earn (PAYE) system for salaries and wages. It is a form of withholding tax that was introduced to overcome the potential for tax evasion and avoidance in certain industries in which cash payments are prevalent.

2.1.2 PPS has the dual function of collecting taxes at the time of payment and reporting on payments for prescribed work. Since July 1986 the prescribed rate of tax has been 15% where the payee's tax file number is shown on a completed deduction form or 30% where the payee has not provided this information. In certain circumstances, payees can apply for a variation or exemption from the prescribed tax rate of 15% of the total gross payment.

2.1.3 The scheme covers individuals, partnerships, trusts and companies and currently applies in nine industries:

- . Motor Vehicle Repair Industry
- . Cleaning Industry
- . Joinery and Cabinet Making Services
- . Architectural Services
- . Engineering Services
- . Surveying Services
- . Other professional Building and Construction Services

- . Building and Construction Industry
- . Road Transport Industry.¹

2.1.4 PPS began at a time when the tax evasion and tax avoidance schemes of the late 1970s and early 1980s were being brought to an end, and legislation that addressed bottom-of-the-harbour matters had been formulated and introduced.² It was announced in August 1982 and there was a lead-time of approximately a year: a change of government in 1983 resulted in the deferral of its implementation date from July to September 1983.³

2.1.5 While developing the PPS program, many staff were required to respond to the very strong extended opposition which the scheme itself attracted.⁴ At the same time, resourcing problems were experienced within the ATO⁵ and there was considerable activity in other program areas: in particular there was the residue of work from avoidance schemes, as well as the routine tasks of collection, to be undertaken. All these factors impinged, to a greater or lesser extent, on the implementation of PPS and, in the view of the ATO, "(a)n objective review of our performance would require that all that be taken into account."⁶

2.2 The Efficiency Audit

2.2.1 Following a preliminary study of the PPS in Sydney in 1984, the PPS EA was conducted over the period March to September 1985. Manual procedures were examined in the Adelaide Branch Office, and ADP aspects were examined in National Headquarters. Some aspects of the system were also examined in the Canberra Branch Office.

1. ATO Annual Report, 1986-87, p.19.
2. Evidence, p.247.
3. EA Report, pp.7-8.
4. Evidence, p.247.
5. Evidence, p.43.
6. Evidence, p.247

- 2.2.2 The aim of the audit was to assess the extent to which PPS had met its objectives as well as to assess the efficiency of the implementation and operation of PPS.
- 2.2.3 The EA found that PPS was a useful compliance mechanism that had resulted in additional taxation revenue, and in the identification of many thousands of people who had not previously lodged taxation returns. However, the EA also found that PPS was unlikely to achieve its potential gain to revenue because of the prevailing administrative arrangements in the ATO. The AAO's major reservation in this regard was that the ATO was more concerned with recording tax deducted by payers for rebate purposes, rather than with checking that payments notified by payers are subsequently disclosed as income by payees.⁷
- 2.2.4 The EA contained thirty recommendations: seventeen were directed towards improvements in the operation of the PPS, twelve were directed towards ADP issues and one was concerned with general ATO management practices.
- 2.3 **The ATO Response**
- 2.3.1 The Commissioner of Taxation expressed his views on the draft EA Report to the Auditor-General in 1986. A substantial section of a letter from the Commissioner dated 10 January 1986 is included in the EA Report in Section 1.6. Another letter dated 1 July 1986 is incorporated in the EA Report at Appendix D.

7. EA Report, pp.1-2.

2.3.2 In both letters, the Commissioner questions the AAO's conclusions which, he contends, were reached "without objective examination of all relevant facts."⁸ The facts to which the Commissioner refers have been noted by the Committee in paragraphs 2.1.4 and 2.1.5 and encompass the environment in the ATO at the time of the introduction of PPS. Moreover, the Commissioner noted that "(m)ost, if not all of the difficulties that are the subject of your findings were known and were being addressed."⁹

2.3.3 In relation to the implementation of the PPS, the ATO further commented:

"We ourselves would not say that implementation of PPS was without difficulty. The audit was carried out at a time when things were difficult; they are better now. We do say that slippages that did occur were relatively minor. The system was implemented, it is working."¹⁰

2.3.4 The Commissioner argues that by appearing to ignore the circumstances in the ATO at the time of the introduction of PPS and by failing to give equal prominence to the many positive features of the scheme, the objectivity and balance of the EA Report can be called into question.¹¹

8. Evidence, p.246.

9. EA Report, p.62.

10. Evidence, p.248.

11. Evidence, p.249 and EA Report, p.62.

2.3.5 The ATO describes PPS as "a substantial success"¹² after "inevitable teething problems."¹³ In support of this assessment the ATO points to the extent of revenue collected under PPS, and receipts from the inception of the scheme until FY86/87 are shown below in Table 2. The ATO also argues that although receipts in the early years fell short of the original estimates, the shortfall can be attributed to a number of factors. The original estimates assumed that the system would extend to twenty-one industries when, in fact, it was introduced for only six industries; moreover, the average rate of tax payable was lower than original estimates.¹⁴ The ATO also bolsters its claim of success by noting that, by April 1987, more than 30 000 new taxpayers had been brought into the system.¹⁵

TABLE 2
PPS RECEIPTS: 1983-84 TO 1986-87

Year	Net Receipts of tax deducted \$M
1983-84 (a)	251
1984-85	412
1985-86	515
1986-87	765

(a) Collections for 8.5 months

Source: ATO Annual Report, 1986-87, p.19.

12. Evidence, p.249.

13. ATO Annual Report, 1985-86, p.3.

14. Exhibit 1, (Expenditure Committee), p.14.

15. Exhibit 1, (Expenditure Committee), p.4.

- 2.3.6 In addition to reservations about the objectivity and balance of the EA Report, it has also been criticised because it "has been very costly in terms of the Tax Office resources required..." and because it "has been unable to produce benefits to justify such a cost."¹⁶ Further, for the ATO, many of the comments of the AAO did not instill confidence in the Report and, equally, they were not considered constructive by the ATO.¹⁷
- 2.3.7 In his submission to the Expenditure Committee in December 1986, the Acting Commissioner of Taxation indicated that, of the thirty recommendations in the EA Report, the ATO agreed in full with twenty-three, agreed in part with four, and rejected three.¹⁸ Individual responses to the thirty recommendations are included in this Report at Appendix IV.
- 2.4 **Comments of Other Organisations on EA Report**
- 2.4.1 In addition to receiving submissions from the ATO and the AAO, submissions addressing specific aspects of PPS have been lodged with the Committee by the Housing Industry Association(HIA), the Administrative and Clerical Officers' Association(ACOA), Expert Decorative Services and the Taxation Officers Branch of the Federated Clerks Union of Australia(FCU).
- 2.4.2 HIA, in its overall assessment of PPS, argues that the system has helped to secure acceptance in the industry by enabling sub-contractors to meet their provisional tax payments more easily. The Association also advised the Committee that "at an early stage it was recognised

16. ATO Annual Report, 1985-86, p.25.

17. Evidence, p.S3.

18. Evidence, ppS2-S18.

that it would take some years before the effectiveness of the PPS could be measured adequately."¹⁹ In summary, HIA is supportive of PPS which, although not perfect, has had a substantial impact on the cash economy.²⁰

2.4.3 ACOA has provided evidence to the Committee of the circumstances in which PPS was introduced. The Association cites the lack of statutory rules during the early lead-up stages, the concomitant uncertainty, and the haste with which the scheme had to be implemented after gazettal of the regulations. Collectively, it argues, these factors "hampered effective resource utilisation, the development of appropriate systems and procedures, and ultimately, led to inefficiencies in the PPS and delays in collecting revenue."²¹ ACOA also argues that there was some merit in the ATO's decision to commence PPS without ADP support. There were unfortunate implications from this decision, however, as it "impacted heavily on the initial and later efficient administration of the PPS and exacerbated the difficult circumstances prevailing at the time of its introduction."²² Having regard to the dual functions of PPS, as outlined by the Committee in paragraph 2.1.2, ACOA considered that the system "still has some way to go before it realise(s) its full potential."²³

2.4.4 Expert Decorative Services commented that "(PPS) is a fine concept and, properly administered, will help to stabilise the industries that it is applied to...".²⁴ It noted, however, that "(w)hen a new system comes into operation, in order to be effective it must be perceived by those affected by it to be of high integrity and capable of achieving very high compliance rates."²⁵

19. Evidence, p.S57.
20. Evidence, p.S57.
21. Evidence, p.S65.
22. Evidence, p.S66.
23. Evidence, p.S68.
24. Evidence, p.S77.
25. Evidence, p.S79.

2.4.5 FCU argues that "...in defence of the ATO... there are several key policy decisions of government which have influenced the operation of the department."²⁶ The union notes that the boom in tax evasion in the late 1970s significantly affected ATO's operations and that more recent initiatives such as PPS and the Fringe Benefits Tax (FBT) also had a significant impact. These changes have been drawn to the Committee's attention because, despite their merit, "they have nevertheless created a continually changing working environment in the ATO."²⁷

2.5 Usefulness, Substance and Quality of EA Report

2.5.1 Two features of the PPS EA Report have been most striking to the Committee: first, the extent of the criticism of the ATO's procedures which the Report itself contains and, second, the nature and extent of the response which the ATO, in turn, has displayed. Judged by the tone of letters exchanged between the two organisations in this regard, the EA appears to mark the nadir in relations between the AAO and the ATO, and it has been left to the Committee to attempt to establish the reasons for such an apparent deterioration, and to draw conclusions from the situation. In so doing, the Committee will also assess the usefulness, substance and quality of the EA Report.

26. Evidence, p.S119.

27. Evidence, p.S119.

2.5.2 With regard to the AAO, the Committee has identified three sets of objectives by which the EA can be assessed:

- . the specific objectives of the PPS audit;
- . the overall objectives of the AAO's series of audits of the ATO; and
- . the broad objectives of efficiency audits.

2.5.3 In relation to the ATO, the Committee has identified the following key issues by which the EA can be assessed:

- . the circumstances in the ATO at the time of the introduction of PPS and the degree of importance that should be attached to them;
- . the management environment in the ATO at the time of the audit;
- . the weight that should be allotted to the many deficiencies noted in the EA Report;
- . the extent to which problems identified were known by the ATO and were or would have been addressed if the EA had not been conducted; and
- . the response of the ATO to the EA Report's recommendations.

Committee observations on these two groups of issues, taken together, follow.

- 2.5.4 The specific objectives of the PPS EA were identified by the AAO in the Audit Report. Briefly, the AAO aimed to determine the extent to which the system met its objectives, and it identified three sets of criteria by which its assessment could be carried out. These were, respectively, objectives defined by legislation, by the ATO, and by the AAO itself.²⁸ As a result of its assessment against all these criteria, the AAO concluded that significant weaknesses were evident in the system.²⁹
- 2.5.5 The Committee notes that these objectives were addressed extensively in the EA Report, and that the recommendations based on this analysis in the EA Report were not disputed by the ATO. It has been recorded in Section 2.3 above that the ATO argues that it knew of many of the problems and difficulties identified in the EA and was seeking to redress them, and that the system was implemented at a time when difficulties were being experienced. Even allowing for this, however, it is clear from the analysis in the EA Report, written submissions and oral evidence presented to the Committee, that there were weaknesses in particular aspects of PPS administration. From all available evidence therefore, it can be concluded that specific objectives were applied and that observations about strengths or weaknesses, on the basis of these criteria, were appropriately reached.
- 2.5.6 In addition to these specific objectives, however, the AAO has indicated that it had an overall objective in carrying out its series of audits of the ATO. This was "to highlight the broad nature of the management

28. EA Report, pp13-30.

29. EA Report, p.6.

problems in (the) ATO."³⁰ It needs to be stated here that the AAO has identified approximately eighty program areas³¹ in the ATO which could be examined. By inference therefore, to the Committee, audit exercises in any of these areas could have contributed to the AAO's overall objective in relation to management practices in the ATO.

2.5.7 The right of the AAO, under its charter, to undertake audits of programs of Commonwealth organisations at its own discretion is acknowledged. However, the Committee explored a proposition during this review that there could be undesirable consequences, in relation to audits of programs in their formative stages, which would not arise in relation to audits of more established programs.

2.5.8 Chief amongst these was the possibility that if there were "teething problems" with a relatively new program it was likely that a significant proportion would be recognised by the auditee itself, and that attempts would be made to rectify or overcome them. An EA in such circumstances could therefore run the risk of being unnecessary at that stage in the sense that outcomes would serve only to underline knowledge the auditee already had, and on which action was being taken. It would follow therefore that an audit of the program conducted at a later stage, after initial teething problems had been resolved, could be more beneficial, as it could identify less obvious and more deeply entrenched administrative weaknesses or problems. The corollary of this proposition, for the Committee, is that it is possible that moneys expended on EAs of relatively recently established programs could be expended to greater effect on EAs of more established programs.

30. Evidence, p.S126.

31. Evidence, p.173.

- 2.5.9 Having regard to these propositions, the Committee sought to establish the basis for the timing of the AAO's PPS audit. It suggested to the AAO that "its efficiency audit program should be directed at established programs, which would gain greatest benefit from such external constructive criticism."³² The AAO responded that, while it did seek to take account of the stage of implementation of a program, it could not state unequivocally that it would not look at changing programs.³³
- 2.5.10 While the Committee accepts this response, the question as to the efficiency of external review of programs in their formative stages remains unanswered. The Committee emphasises that, at the time of the audit, the PPS was not only changing: it had also, only recently, been established. The Committee is of the view that this issue requires further consideration by the AAO.
- 2.5.11 Further to the issue of the AAO's overall objectives of its series of audits of the ATO, the Committee has also formed the view that with such broad management problems in mind, it would have been appropriate for the AAO to have had greater regard to the reasons underlying such broad management problems and to the time frame over which these had occurred. It also considers that it would have been appropriate for some attention to have been given to the steps being taken to overcome these problems. The Committee makes these observations having regard to a comment of the AAO in relation to PPS: "... the general approach of (the Commissioner's) new strategy is on the right lines, but I would have to say that that approach is not evident in the PPS."³⁴

32. Evidence, p.122.

33. Evidence, p.122.

34. Evidence, p.122.

2.5.12 The ATO countered this argument by noting that, although there were specific difficulties with PPS, "the broader perspective" of problems experienced and changes under way were "a necessary backdrop to the study of the PPS and of ATO performance in implementing that system."³⁵ In relation to this broader perspective, the ATO has further advised that progress needed to be made on three broad fronts and that there was a need for an integrated approach, with issues being tackled in priority order.³⁶ It concluded that the end result was that desirable changes could not necessarily be made as soon as they would ideally be made.³⁷ The Committee is of the view that this scenario is particularly relevant to PPS and that modifications to some aspects of administration may have been deferred because of priorities in other areas.

2.5.13 Finally, the Committee has also had regard, during this review, to the broad objectives of efficiency audits. The efficiency or performance audit, in general terms is:

"...intended to be a broad, constructive examination and diagnosis of policies, organisation and operation of a government entity... The objective is to arrive at a dispassionate and verifiable basis for comparing what is being done (and how well it is being done) with the plans, policies and standards and, most important, to understand the reasons for positive or negative variances from those plans, policies and standards."³⁸

35. Exhibit 1, (Expenditure Committee), p.4.

36. Exhibit 1, (Expenditure Committee), p.3

37. Exhibit 1, (Expenditure Committee), p.3.

38. N Adams, 'Definitions, Objectives and Limitations of Performance Auditing - An AAO Perspective', Australian Accountant, August 1987, p.30.

2.5.14 In relation to the latter part of the quotation, the Committee has noted, in paragraph 2.5.12, that the ATO had identified a need to address change on a very broad front, and that there was a delaying effect arising from this need on specific improvements to particular programs. This factor, in the Committee's view, was important to an understanding of some of the 'negative variances' of PPS administration and should, therefore, have been taken into account. In relation to the former part of the quotation, the Committee is also of the view that the 'broad and constructive' aims of the EA would have been better served had higher regard been paid, in the EA analysis, to the environment in the ATO from the time of the introduction of PPS. The need for such an approach was clearly highlighted to the Committee in the following comments of the ATO Commissioner:

"I think it needs to be recognised that a more balanced Report is likely to elicit more co-operation from the auditee in rectifying deficiencies. The continued production of reports in the vein of this one could well be counter-productive...".³⁹

2.5.15 The final factor warranting consideration in this assessment is the ATO's response to the EAs thirty recommendations. The Committee notes that the ATO has wholly accepted twenty-three, and another four in part. Of the three rejected recommendations, numbers 27, 29 and 30, the ATO has either adopted alternative methods or pursued existing courses, and it has informed the Committee of its reasons for these actions. As noted earlier, fuller details are provided in Appendix IV.

39. EA Report, p.64.

2.5.16 The ATO itself regards its performance in the ADP systems area in the past as having been less than desirable. It is noted that changes made in relation to PPS processing are consistent with AAO recommendations, and that the ATO's computer system re-development and re-equipment proposals were presented to the Joint Parliamentary Committee of Public Accounts for consideration.⁴⁰ As a final note, in relation to all recommendations, the Committee records ATO advice that "all matters covered in recommendations have been acted upon".⁴¹

2.5.17 Having regard to all these issues and considerations, the task for the Committee has been to attempt to determine the usefulness and substance of the EA taking into account the length of time since the audit was conducted, the statement of the ATO that some of the deficiencies were relatively minor, and evidence that the deficiencies, in any case, had been recognised by ATO management and steps were being taken to overcome them.⁴² The Committee has also observed that, although other review reports have contained criticisms of the ATO, they have been received in a more receptive way, in stark contrast to the reception immediately accorded to the PPS EA Report.

2.5.18 The Committee has concluded that the value of the EA for the ATO lies in the fact that it highlighted the need for management strategies to be developed to address problems in the short and medium as well as longer terms: the audit clearly demonstrated a lack of

40. Exhibit 10, p.1, Evidence, p.47 and p.134 and Exhibit 1, (Expenditure Committee), p.10.

41. Exhibit 10, p.3.

42. EA Report, p.5 and p.62.

short-term remedial action in relation to aspects of PPS administration and more generally, the importance of planning on a variety of levels when introducing new programs. The Committee considers that the experience gained could be useful as a guide to implementation of programs in the future.

RECOMMENDATION 1: The ATO to formulate a broad procedural strategy plan for use as a guide when implementing future legislative changes to the taxation system.

2.5.19 The Committee also finds value in the fact that the EA highlighted the need for the ATO to conduct analysis which would provide information about the maximum possible gains from PPS, having regard to competing priorities, staffing and other resource limitations, and to the lack of ADP facilities.

2.5.20 The ATO has advised the Committee of many improvements to PPS since the audit was conducted. Those being implemented in the current year (1987/88) include new arrangements for processing deduction exemption and variation applications and the use of PPS income data to assist in refining computer-based income-matching processes. Most significantly of all, the ATO is beginning to issue personalised deduction forms to payees.⁴³

43. ATO Annual Report, 1986-87, p.20.

- 2.5.21 Initially, these forms will be issued only to taxpayers who fail to correctly provide their tax file number.⁴⁴ It is hoped in the longer term, however, that the issue of personalised deduction forms for PPS payees will become standard administrative practice.⁴⁵
- 2.5.22 The fact that PPS has developed a dual function (as opposed to the dual role identified in paragraph 2.1.2) for a considerable proportion of PPS payees has also become apparent to the Committee. In addition to enforcing compliance through its use of deduction variation and exemption certificates, the Committee has been advised that: "PPS... enables (people) to plan, much more carefully and efficiently, the payment of their tax liability."⁴⁶ In the ATO's opinion, "the majority of people in ...PPS find that it is a convenient way of paying their tax."⁴⁷ This development raises for the Committee the issue of the rates of the current tax collection system vis a vis the actual tax liability of taxpayers.⁴⁸
- 2.5.23 Having regard to the emerging function of PPS and its implications, and to the significant administrative improvements foreshadowed by the ATO, the Committee considers that forward plans identifying time-frames for the implementation of major steps/advances would be appropriate. Moreover, while it endorses the ATO's decision to postpone the extension of PPS to other industries in the short-term,⁴⁹ the Committee also considers that some forward planning regarding this extension would be appropriate.

44. Evidence, p.331.

45. Evidence, p.332.

46. Evidence, p.219.

47. Evidence, p.329.

48. Evidence, p.330.

49. Evidence, pp334-335.

RECOMMENDATION 2: The ATO to formulate strategic plans regarding improvements to the PPS and its extension to other industries.

2.5.24 The usefulness and substance of the AAO's Report could have been enhanced by taking account of the broader constraints which affected the implementation and administration of PPS in its formative stages, in the interests of both bolstering the objectivity of the Report to the auditee, and as a way of ensuring that the auditee's attention was directed exclusively to the intended outcomes of the audit process.

RECOMMENDATION 3: The AAO to acknowledge the environmental factors impinging on the auditee at the time of an audit, and to state explicitly that it has done so.

2.5.25 The Committee also considers that it is important for an auditee's corporate plans and strategic objectives to be taken into account by the auditor when framing recommendations. This is particularly important when the AAO's intention is to form an opinion about an auditee's broad management problems through the relatively 'narrow' window of one or a few program areas. The ATO Commissioner, for example, found this a particularly difficult issue and he commented to the Committee that "...there has not always been sufficient recognition of what is going on...(w)hat is needed from the Audit Office is not just an identification of problem areas," but an identification of "what we do about this."⁵⁰

50. Evidence, p.312.

RECOMMENDATION 4: The AAO to have regard to an auditee's strategic and corporate plans when formulating recommendations which will impinge on other areas of the auditee's operations, and which will have staff and other resource implications.

2.5.26 The Committee, finally, wishes to congratulate the AAO on the improvements made in the presentation of the EA Report. The PPS Report represents a major advance in this regard.

2.6 Summary

2.6.1 The debate about this report stems not from the individual findings of the PPS audit, about which both the auditor and auditee were in basic agreement, but from the extent to which broader issues, first, had a detrimental effect on the implementation of PPS, and second, should have been taken into account by the AAO. The audit exercise clearly identified deficiencies in performance and administration on the part of the ATO. The Committee has also detected, however, that there were deficiencies of approach with this Report on the part of the AAO.

2.6.2 The Committee notes advances made by the ATO in relation to income matching and personalised deduction forms for some PPS payees. It commends these initiatives but suggests that further planning is crucial if the momentum already achieved is to be maintained and

accelerated. The Committee also notes for the record that the ATO has found that audit activity of PPS is relatively less revenue-productive than other areas, and that consequently, although this was a specific AAO recommendation, the ATO will not maintain the current level of PPS audits in the coming year.⁵¹

2.6.3 Notwithstanding the criticisms that the Committee has made regarding aspects of the AAO's approach to this audit, the Committee feels that its overall benefit lies in the fact that, along with other EAs, it provided a focus for and helped to accelerate the change process in the ATO. This issue is explored further in Chapter 7 of this Report.

51. ATO Annual Report, 1986-87, p.20.

Chapter 3

UNPRESENTED GROUP CERTIFICATES EFFICIENCY AUDIT

3.1 Background

3.1.1 Each year, employers issue each of their employees with a group certificate, which is a statement showing the amount of salary or wages paid and tax instalments deducted. The employer is required to lodge a copy of each group certificate with the ATO at the time of issue and the employee is required to present the original of the group certificate when income tax returns are lodged with the ATO.

3.1.2 In the financial year succeeding their issue, group certificates accounting for more than 90% of the instalments deducted are presented. In succeeding years, small percentages of group certificates are presented so that, after three years, group certificates equating to approximately 3% of the instalments deducted remain unrepresented. The question to be addressed, therefore, is the significance of the pool of unrepresented group certificates (UGC's).

3.1.3 It is recognised that some proportion of the UGC's would represent low income earners who, because of the tax threshold, are not required to submit a tax return. Another segment would represent earners who may be unaware that they may be entitled to a refund. The key

issue to be addressed by the ATO, therefore, is the extent to which the pool of UGCs represents those employees who because, for example, of second jobs or other forms of income, should be taxed at a higher income tax level and who, consequently, are evading payment of the appropriate amount of taxation.

3.1.4 It must be emphasised that the ATO is already in receipt of the tax deductions shown on the UGCs.

3.1.5 In order to assess the significance of the pool of UGCs, the ATO conducted projects in the 1970s and early 1980s. The most important project, involving the pursuit of 535 UGCs from various income ranges for 1977-78, was conducted in Melbourne in 1983. The result of the project was that more refunds were made than debit assessments issued and the Melbourne Branch concluded that "...from a revenue raising point of view, the exercise produced a very unsatisfactory result...".¹ The Head Office commented:

"(t)he Melbourne project has proved conclusively that it is not cost effective to follow up all unrepresented group certificates on a regular basis or even only concentrating on those that fall in certain income ranges."²

3.1.6 Despite these conclusions, both the Melbourne Branch and Head Office had reservations about the project, largely on the ground that insufficient effort had been directed towards the "hard" cases that, ultimately, are often the most revenue-productive.³

1. EA Report, p.8.
2. EA Report, p.8.
3. EA Report, p.8.

3.1.7 In 1985, the AAO visited the Melbourne Branch of the ATO in order to examine the records of the Melbourne project. It concluded that the project was inconclusive because:

- . a firm basis for deciding not to take regular action to clear UGCs had not been established; and
- . the processing of returns lodged during the project had been, in its opinion, unsatisfactory.⁴

Accordingly, the AAO sought to test the validity of the ATO's findings regarding clearance of UGCs by taking and pursuing a fresh sample.

3.1.8 In order to gain an appreciation of the size of the pool of UGCs, statistics relating to 1984-85 group certificates are reproduced in Tables 3a and 3b. The Committee notes that approximately 11 million group certificates were issued to employees for 1984-85 and that, according to ATO estimates, 1.2 million or approximately 11% of total group certificates will not have been presented by 30 June 1988. It also notes, however, that while these figures are large in absolute terms they equate, in monetary terms, to an estimated \$743M - or approximately 3% - of the total tax instalments deducted and forwarded by employers to the ATO.

3.2 The Efficiency Audit

3.2.1 An audit was conducted between March and September 1985 at the Brisbane Branch of the ATO. The aim of the audit was to assess the significance of UGCs and the effectiveness of the ATO's operations in this regard.

4. EA Report, pp.8-9.

TABLE 3a
 VALUE AND PATTERN OF PRESENTATIONS OF
 GROUP CERTIFICATES FOR 1984-85

Group Certificates	Financial Year	Value \$M	Value %
Total tax instalments deducted by employers	1984-85	25 650 ^(a)	100.0
Estimated presentations by employees ^(b)	1985-86	23 906	93.2
	1986-87	667	2.6
	1987-88	334	1.3
Estimate outstanding ^(c)		743	2.9

TABLE 3b
 QUANTITY AND PATTERN OF PRESENTATIONS OF
 GROUP CERTIFICATES FOR 1984-85

Group Certificates	Financial Year	Quantity M	Quantity %
Number issued by employers	1984-85	11.0	100.0
Estimated presentations by employees	1985-86 to 1987-88	9.8	89.0
Estimate outstanding ^(c)		1.2	11.0

- (a) Includes amounts in respect of tax stamps which account for about 1.5% of total tax instalment deductions.
- (b) Claims for credit in tax returns in respect of tax instalments deducted in 1984-85.
- (c) Further presentations in 1988-89 and later years are likely but the amounts cannot be estimated reliably.

Source for Tables : ATO, quoted in EA Report, p.5
 (NB: Table 3b was compiled from information in EA Report.)

- 3.2.2 Two samples of UGCs were taken by the AAO. In the first, 56 UGCs, showing earnings which exceeded \$20 000, were taken. In the second, AAO selected a sample of 125 taxpayers from a sample of 1700 UGCs for the period 1980/81 to 1982/83 prepared by employers in industries such as contract cleaning, clubs, restaurants and nursing homes which are known to employ part-time or casual staff.⁵
- 3.2.3 The first sample of UGCs led to the issue of 41 assessments. These resulted in a net gain to revenue of \$200 985.⁶ Audit also noted that several other taxpayers in its sample were already under examination by the ATO in other contexts. AAO argued that, if these taxpayers had not previously been identified by the ATO, and its (AAO's) investigations had been pursued in relation to them, the yield of \$1.3M would have resulted from its investigation. AAO concluded, therefore, that its sample, in these circumstances, would have resulted in a total gain to revenue of \$1.5M.⁷
- 3.2.4 The findings of the second sample confirmed AAO's view that many UGCs were in respect of second jobs. Cases were also identified of false claiming of the spouse rebate, non-disclosure of assessable payments from the Department of Social Security, and non-disclosure of income from dividends and interest.⁸
- 3.2.5 The AAO concluded that, on the basis of these outcomes, the ATO's estimate of tax evaded on undisclosed salary or wages income (\$100M per annum) should be reviewed. The AAO also concluded that a program to clear selected categories of UGCs should be implemented immediately.⁹

5. EA Report, pp.9-12.

6. EA Report, p.10.

7. Evidence, pp.144-145 and EA Report, p.10.

8. EA Report, p.12.

9. EA Report, p.20.

3.3 The ATO Response

- 3.3.1 The ATO has acknowledged that a certain proportion of UGCs would reflect efforts by taxpayers to avoid payment of tax over and above that already deducted.¹⁰ It notes, however, that 84% of UGCs show income below the tax threshold. It concedes that some of the 84% would be associated with tax evasion but notes that, having regard to its estimate of tax evaded annually on undisclosed salary and wages income of \$100M, it is a relatively insignificant amount. Net PAYE collections for 1984, for example, were \$19 940M.¹¹
- 3.3.2 The ATO has also refuted AAO's finding that the ATO had concluded that it was not cost effective to take regular action in relation to UGCs. ATO argues that its decision was motivated by resource considerations, and because it was considered that other compliance activities were more revenue-productive.¹²
- 3.3.3 The Committee was advised that, since the audit, there had been an increase in the level of resources devoted to compliance activities and that a national compliance project, designed to test further the usefulness of UGCs as the source of cases for audit, had been implemented. The ATO considered that the project should also provide information on the extent of tax evasion associated with non-disclosure of salary and wage income.¹³
- 3.3.4 The national compliance project is based on a sample of 524 UGCs for the 1984 income year.¹⁴ Although it had

10. Evidence, p.S20.

11. Exhibit 1, (Expenditure Committee), p.20.

12. Evidence, pp.S20-S21.

13. Evidence, p.S21.

14. Evidence, p.264.

not been completed by February 1988, when the final hearing associated with this review was conducted, preliminary results indicate that approximately 25-30% of 1984 UGCs appear to be associated with some tax evasion activity.¹⁵ The most productive cases, however, were those where additional non-salary and wage income (chiefly interest and dividend income) was also included in the returns.¹⁶

3.3.5 On the basis of the preliminary findings, the Taxation Commissioner advised that the ATO's previous estimate of tax evaded as a result of non-disclosure of salary and wages income, of \$100M per annum, did not require revision. However, it was emphasised that this figure did not include an estimate of the "potential tax and penalty that could flow from using UGC information as a source of audit case selection."¹⁷

3.3.6 In relation to the issue of tax evasion, having regard to the preliminary outcomes of the national compliance project, the ATO has advised that other projects based on UGC information have been initiated in ATO Branch Offices.

The ATO has commented:

"...there is a hard core of evasion and the difficulty is that, within our present administrative systems, we have complications in identifying that hard core. It is a matter of developing processes..."¹⁸

15. Evidence, p.265 and p.337.

16. Evidence, p.265.

17. Evidence, p.265.

18. Evidence, p.337.

3.3.7 Of the six recommendations in the EA Report, the ATO has given qualified agreement to five and rejected one. The recommendations and the ATO response are included at Appendix V.

3.4 **Usefulness, Substance and Quality of the EA Report**

3.4.1 In assessing this EA, the Committee has had regard to the following considerations:

- . the sampling methods used by AAO;
- . the validity of the AAO samples and the conclusions reached;
- . recent ATO initiatives in relation to UGCs;
- . ATO's response to AAO's recommendations and findings; and
- . factors in the ATO which have hampered the detection of tax evasion in UGCs.

Comment on each of these issues follows.

3.4.2 The Committee recognises that the procedures used in the audit sampling process were labour-intensive¹⁹ and that they could not be conducted easily on a regular basis by the ATO. The Committee is also mindful of the "bottomless pool of taxation work"²⁰ that confronts the ATO and it acknowledges that, given limited staff resources, priority must be given to the most

19. Evidence, p.142.

20. ATO Annual Report, 1983-84, p.6.

cost-beneficial compliance activities. It therefore considers that, from the perspective of the sampling process itself, the value of the EA derives from the observations that arose out of the audit process, rather than from the specific administrative technique that was applied. The most important observations to the Committee were that there is a considerable degree of tax evasion associated with UGCs and that certain segments of UGCs, if pursued, could yield highly cost-beneficial results.

3.4.3 The ATO has challenged some of the conclusions of the EA on the ground that the AAO's examination was not based on a statistically random sample of UGCs.²¹ However, the Committee considers that, despite the absence of a statistically valid sample, the underlying arguments regarding the extent of tax evasion associated with UGCs, and the need to find ways of identifying the highly cost-beneficial stratum of UGCs, remain cogent.

3.4.4 The Committee questioned the AAO regarding its sampling methods and the apparent lack of statistical validity. The AAO advised that, in its first sampling project, it was attempting to replicate the ATO's Melbourne project. It was not possible to take a statistically random sample, however, because the magnetic tapes which contained the relevant information were no longer available. Of necessity, therefore, the samples were selected manually.²²

3.4.5 Recent initiatives in the ATO also tend to support the Committee's view that it is the underlying issues of the audit, rather than the validity of the sampling process,

21. Evidence, p.S21.

22. Evidence, p.142.

which warrant emphasis. As noted in paragraphs 3.3.3, 3.3.4 and 3.3.6, a national compliance project, and several other projects based on UGC information flowing from the project, have been initiated. At the very least, these initiatives are considered to be an indicator of the potential for significant cost-beneficial yields from the rigorous examination of certain UGCs. The Committee, while commending the ATO for its actions in this regard, believes that some credit for the initiative should also be directed towards the AAO because of the investigations and findings regarding UGCs in this EA Report.

3.4.6 The Committee accepts the ATO's advice, based on the preliminary findings of the national compliance project, that the estimate of tax evasion associated with the non-disclosure of salary and wages is \$100M per annum. It notes, however, that the ATO has emphasised a distinction between 'non-disclosure of salary and wages' and non-disclosure of 'non-salary and wage income'.²³ The conclusion drawn by the Committee is that if the latter factor - which would encompass interest and dividend income - were to be included in the estimate of tax evasion, the estimate would be a much higher figure. The Committee considered that this conclusion is also implicit in the ATO's advice.

3.4.7 In relation to the ATO response to the EA recommendations, the Committee has already noted, in paragraph 3.3.7, that five of the six recommendations have received qualified agreement.

23. Evidence, pp.264 - 266.

3.4.8 It is worth recording that the five agreed recommendations have attracted a qualified response by the ATO because of either the need to have regard to priorities and the relative cost-benefit ratios of undertaking particular projects, or because they involve the ATO's tax file numbering system. Recommendation 6 was rejected by the ATO as it considers that little could be gained from denying refunds to taxpayers who lodge their returns more than four years late.²⁴ The Committee notes that this attitude is consistent with the ATO's mission to ensure that taxpayers pay the correct amount, not more or less, of taxation.²⁵

3.4.9 The Committee commends and supports the decision of the ATO to proceed with several projects based on UGC information. It notes that its efforts to identify the 'hard core' of high-revenue yielding UGCs have been hampered by out-dated computer systems, and by difficulties with taxpayer identification and the concomitant difficulty of matching UGCs with other information.²⁶ In this regard, the Committee finds that, notwithstanding that the ATO is currently formulating proposals for Government regarding an upgraded taxpayer identification system (noted by the Committee in Chapter 6 of this Report), interim improvements in the application of the ATO's current tax file numbering system would have beneficial results. The Committee therefore recommends the mandatory inclusion of tax file numbers on instalment declaration forms by taxpayers, in order to claim the general and other exemptions (such as

24. Evidence, p.S26.

25. Evidence, p.85.

26. Evidence, p.22.

the zone rebate and the dependant spouse rebate). Similarly, the Committee recommends the mandatory inclusion of tax file numbers on group certificates.

RECOMMENDATION 5: The quotation of valid tax file numbers on group certificates and tax instalment declaration forms should become a mandatory requirement.

The Committee also recommends continuing attention to UGCs.

RECOMMENDATION 6: The ATO to continue examining ways of streamlining the UGC sampling process so that the section of UGCs which would yield a high cost-benefit ratio is easily identified and pursued.

3.5 Summary

3.5.1 The Committee considers this EA to have been a valuable exercise which highlighted the fact that there is a 'hard core' of tax evasion and avoidance in the PAYE area. It has also highlighted the need for improved taxpayer identification. In addition, the EA Report highlighted the need for short and medium term strategies which, in the absence of an upgraded system, still need to be addressed.

Chapter 4

EXTERNAL SOURCES OF INFORMATION, DISCLOSURE OF DIESEL FUEL REBATES, PARTNERSHIP AND TRUST DISTRIBUTIONS, AND LATE LODGEMENT PENALTIES EFFICIENCY AUDITS

4.1 Background

4.1.1 As noted in Chapter 1, the four EAs addressed in this Chapter were published in an AAO omnibus Report dated March 1986. A section in the Chapter is devoted to each EA and the relevant ATO response. In a later section of the Chapter, the Committee sets out its assessment of the four EAs together.

4.2 External Sources of Information Efficiency Audit

4.2.1 An efficiency audit regarding external sources of information was carried out in two Branch Offices of the ATO in 1984 and 1985. The audit at the Perth Branch was conducted from September to December 1984; the Melbourne audit was conducted from September 1984 to April 1985.

4.2.2 The objective of the EA was to examine the ATO's use of information from external sources to check income disclosed in business returns including those in the farming and professional occupational categories.¹

1. AAO omnibus Report, March 1986, p.144.

- 4.2.3 The Report contains a wide-ranging list of external sources of information which, in the AAO's view, could be used as a source of evidence of tax evasion and avoidance by the ATO. The list, though lengthy, is not exhaustive.
- 4.2.4 The major conclusion of the audit was that these sources could be pursued with greater vigour by the ATO.
- 4.2.5 In its response, the ATO commented that, while it made use of some external sources of information, there was scope to improve planning and co-ordination in the area.² It drew attention to the "bottomless pool" of taxation work and observed that it was not convinced that the use of information from the sources suggested would be either more revenue-productive in the short term or more beneficial by promoting a higher degree of taxpayer compliance.³ The EA findings and a summary of the ATO's response are included at Appendix VI.
- 4.2.6 The Committee was advised in April 1987 that the assessing systems and procedures observed in the EA were no longer in use:

"(They have) been replaced by a system of self-assessment coupled with a significantly expanded auditing program, and a computer-based system for ranking returns for audit (SCORE system). The Office has adopted an audit strategy which provides for the source and application of information."⁴

2. Evidence, p.S40.

3. Evidence, pp.S39 - S40.

4. Exhibit 1, (Expenditure Committee), p.23.

4.2.7 The AAO, at a subsequent hearing, commented on the lapse of time since the EA was conducted and on the different approach which is now displayed by the ATO to external sources of information. The Committee was advised that there is now little difference between the AAO and the ATO in this regard.⁵

4.3 Disclosure of Diesel Fuel Rebates Efficiency Audit

4.3.1 This EA was conducted in the Perth Branch of the ATO and was completed in August 1985.

4.3.2 Its purpose was to review ATO's operations when assessing the income tax returns of recipients of the diesel fuel rebate which is paid by the Australian Customs Service. The EA, in effect, examined a specific aspect of the AAO's more general review of external sources of information,⁶ discussed in Section 4.2.

4.3.3 The AAO found that there was no system in the ATO for checking that the rebates were disclosed in income tax returns. It also found that the degree of disclosure of the rebate had not been surveyed by the ATO.⁷

4.3.4 In its response to the audit, the ATO noted that its policy was to dedicate its resources to the most revenue-productive cases.⁸ Its follow-up activities on a fair proportion (39 out of 67) of the cases identified by the AAO had resulted in only one productive case.⁹ It concluded therefore that, in the absence of conclusive evidence, a diesel fuel rebate checking system could not

5. Evidence, p.160.

6. Evidence, p.S43

7. AAO omnibus Report, March 1986, p.154.

8. Evidence, p.S43.

9. Evidence, p.99 and p.S43.

be justified on cost-benefit grounds.¹⁰ Appendix VII contains a list of the AAO's more general findings and a summary of the ATO's response to each.

4.3.5 At the Committee's February 1988 hearing, the ATO advised that a further project to test the level of disclosure in the area was being proposed. As a first step, the Australian Customs Service had been approached regarding a sample of information that could be used in the compliance checking project.¹¹

4.4 Partnership and Trust Distributions Efficiency Audit

4.4.1 The EA was conducted at the Sydney Branch of the ATO from August to October 1984. Its aim was to check that partners and trust beneficiaries were assessed, for taxation purposes, on the correct distribution of income from partnerships and trusts.

4.4.2 The AAO found that the system of checking the distribution of income from partnerships and trusts to individual recipients contained significant deficiencies. In particular, it found there were significant delays and other weaknesses at various stages of the validation process.

4.4.3 In its response, the ATO noted that the processing of these returns had had a relatively low priority as they were not particularly cost-beneficial. It agreed, however, that action regarding processing had not always been prompt.¹² The system and procedures, accordingly, have been substantially replaced and the computer-based

10. Exhibit 1, (Expenditure Committee) p.23.

11. Evidence, p.352.

12. Evidence, p.S47.

matching system has been improved.¹³ The improvements would be of great assistance to the ATO in identifying cases of non-disclosure and under-disclosure of partnership and trust distributions.¹⁴ Appendix VIII contains a summary of the AAO findings and the ATO response.

4.5 Late Lodgement Penalties Efficiency Audit

4.5.1 The AAO conducted this EA at the Sydney and Hobart Branches of the ATO from August 1984 to July 1985. Its aim was to assess the ATO's operations in relation to the imposition of penalties for late lodgement of income tax returns.

4.5.2 The AAO concluded that procedures in this regard were generally satisfactory.¹⁵ However, it drew attention to the ATO's policy of remitting the penalty for late lodgement to a rate of 20% per annum. It was noted that, in December 1984, the Parliament had increased the maximum penalty from 100% to 200%.¹⁶

4.5.3 The ATO's response mainly addresses this latter point. The ATO commented that:

"(The) legislation was never intended to cause the effective rate for mere late lodgement to be increased above its former level, 20% per annum. The increase in the statutory amount was designed instead for cases of non-lodgement."¹⁷

A summary of the AAO's more general findings and the ATO response is provided at Appendix IX.

13. Exhibit 1, (Expenditure Committee), p.23.

14. Evidence, p.548.

15. AAO omnibus Report, March 1986, p.161.

16. AAO omnibus Report, March 1986 p.161 and Evidence, p.106.

17. Exhibit 1, (Expenditure Committee), p.23.

4.5.4 In 1987, the ATO conducted an internal review to assess the ways and extent to which culpability factors should be introduced in the penalty policy. As a result of the review, a decision has been made, in principle, to include culpability factors. An effect will be that, in the most serious cases, there will be significant increases in penalty. The ruling, which is likely to encompass aspects on both late lodgement and non-lodgement, is expected to be issued in time for the filing of tax returns in 1988/89.¹⁸

4.6 Comments of Other Organisations on Aspects of EA Reports

4.6.1 Submissions on one or more aspects of the four EAs addressed in this Chapter have been received from the Australian Customs Service(ACS), the Health Insurance Commission(HIC), the Australian Bankers Association(ABA), the Australian Wheat Board(AWB), and the Department of Social Security(DSS).

4.6.2 ACS advised the Committee that it was very willing to co-operate with the ATO in its pursuit of tax evasion and avoidance. Discussions between officers of both organisations regarding exchange of information occurred regularly, and formal mechanisms were in place to facilitate arrangements.¹⁹ Similarly, under the provisions of the Income Tax Assessment Act, the AWB has and will continue to provide the ATO with information, as requested, on growers' payment records.²⁰ The HIC advised, on the other hand, that under current legislation, benefit payment information cannot be released to the ATO.²¹

18. Evidence, pp.355-356.

19. Evidence, pp.S104-S105.

20. Evidence, p.S122.

21. Evidence, p.S111.

4.6.3 The ABA raised concerns about exchange of information on the grounds of administrative workload, and the element of doubt regarding the extent of the powers of the ATO Commissioner.²² It also commented:

"The collation of information by outside bodies for the ATO is very costly and time consuming, and any streamlining and withdrawal of information not used by the ATO would assist (the) efficiency and productivity of all concerned."²³

4.6.4 DSS confirmed information contained in the EA Report that it provides the ATO with records of the unemployment and sickness benefits paid each year. It also advised the Committee of a pilot project by which details of the benefit payments were provided on magnetic tape for information matching purposes.²⁴ The ATO subsequently advised that the pilot project had been successful and that, as a result, information on unemployment and sickness benefit payments was now being fed into the ATO's national income-matching computer system.²⁵ The Committee explores the issue further in Chapter 6.

4.6.5 In relation to the Late Lodgement Penalties EA, the ABA suggested that there was a need to improve procedures and policies in order to overcome certain procedural inefficiencies.²⁶ Regarding the Partnership and Trust Distributions EA, the ABA noted the ATO's new procedures, outlined by the Committee in paragraph

22. Evidence, p.S116.

23. Evidence, p.S118.

24. Evidence, p.S124.

25. Evidence, p.343.

26. Evidence, p.S118.

4.4.3. It also indicated its willingness to assist the ATO in relation to its lodgement and assessing procedures with a view to further streamlining these areas.²⁷

4.7 Usefulness, Substance and Quality of EA Reports

4.7.1 In assessing the EAs the Committee has had regard to the fact that the collection and assessment of information was undertaken in 1984 and 1985. Consistent with this, the ATO, while agreeing at the time that many of the findings were valid, has pointed to the fact that many of them have been overtaken in the context of current programs and processes. The usefulness of the EAs, therefore, stems from their general application, in that they have demonstrated the benefits of regularly conducting studies and probes in order to test the degree of taxpayer compliance in selected areas.

4.7.2 The Committee notes that the ATO has recognised this benefit and that it has developed an audit strategy, endorsed by the AAO, by which project studies will be conducted for this purpose.²⁸

4.7.3 The Committee wishes to draw attention to the difficulty experienced by the AAO in the Diesel Fuel Rebates EA because of the lack of detail regarding income and expenditure in taxation returns.²⁹ This difficulty raises the issue of the need to assess the extent of detail that should be included in taxation returns, and the degree of use to which it could and would be put by

27. Evidence, p.S117.

28. Evidence, p.352.

29. AAO omnibus Report, March 1986, pp.153 - 154.

the ATO. The Committee is of the view that, in the self-assessment environment, there is a need for sufficient information on tax returns to permit and facilitate the selection of cases for audit.

RECOMMENDATION 7: The ATO to investigate greater itemisation of income and expenditure on taxation returns having regard to items that would most facilitate audit activities in the self-assessment environment.

4.7.4 In relation to the presentation of the four Reports, the Committee noted the absence of paragraph numbering, and of specified findings and recommendations. These matters would have been cause for criticism had the EAs been reviewed soon after tabling. The Committee recognises, however, that in the intervening period, the Auditor-General has agreed with the recommendations made by the Expenditure Committee in its September 1986 Report, A Taxing Problem, and that subsequent EA Reports have been presented in a style and format which more readily meet the Parliament's requirements. The Committee wishes to emphasise the importance of presentation in EA Reports, having particular regard to the fact that Parliamentary scrutiny is an automatic part of the efficiency audit process.³⁰

30. Evidence, p.189.

4.8 Summary

- 4.8.1 In relation to the four EAs, the Committee has concluded that they were useful exercises which, ultimately, provided an impetus to the ATO in initiating a more pro-active approach to the issue of taxpayer compliance. Moreover, the EAs brought to light issues which would not otherwise have received public attention and scrutiny. The Committee regrets the lack of formal, specified findings and recommendations in the EA Reports: their absence lessened the effectiveness of the EAs and, hence, reduced their value to the auditee.

Chapter 5

PROGRAM MANAGEMENT PERFORMANCE REVIEW OF THE ATO

5.1 Background

5.1.1 In 1985 and 1986, the House of Representatives Standing Committee on Expenditure undertook a review of five EAs of the ATO which had been presented to the Parliament in Reports tabled in August 1984 and February 1985.

5.1.2 That Committee's review Report, A Taxing Problem, was tabled in the House of Representatives on 11 November 1986. The Report contained twenty-one recommendations, including one which recommended an investigation of the overall performance and operation of the ATO.

5.1.3 In response, on 26 February 1987, the Government announced that a broad review of the ATO would be carried out. The Review was welcomed by both the Government and the ATO Commissioner as a means of assessing the change process underway in the ATO.¹

5.2 The Review Report

5.2.1 The Program Management Performance Review (PMPR) was conducted by a team of three led by Dr Ron Cullen, a Management Consultant and a former Chairman of the

1. Statement by the Treasurer, the Hon P.J.Keating, MP, made in the House of Representatives on 26 February 1987, p.6.

Victorian Public Service Board. The Auditor-General attended the Steering Committee meetings of the Review as an observer.²

5.2.2 The primary aim of the Review was to examine and evaluate the strategies and initiatives which had been introduced to improve the operation and performance of the ATO, to determine their probable success or failure, and to propose appropriate modifications and/or changes.³

5.2.3 The Review Report, A Taxing Solution, was tabled in the Parliament on 23 September 1987. In general, it supported the initiatives being introduced in the ATO. The Review team concluded that, while it would take several years to overcome the legacy of problems that had developed over the last decade, substantial progress had been made. Nevertheless, a great deal remained to be done.⁴

5.2.4 In relation to the latter point, the Report contained a series of findings and recommendations which were aimed at overcoming weaknesses in some aspects of implementation, and identified changes that needed to be made in the ATO by June 1989.⁵ It was the Review team's view that, in effecting these changes, the ATO would be completely different in four basic aspects by the end of the 1980s. It would be:

" . an organisation more focused on a few key outcomes and which had deferred less critical tasks;

2. Exhibit 1, (F&PA Committee), pp.3 - 4.

3. Exhibit 1, (F&PA Committee), p.3.

4. Exhibit 1, (F&PA Committee), p.iii.

5. Exhibit 1, (F&PA Committee), pp.iii - iv.

- . an organisation better able to plan, allocate and control resources to achieve key results and assess key outcomes across its entire range of activities, including ongoing operations and change projects;
- . an organisation more directly managing the external impacts of its actions, evaluating results, and adjusting both plans and management initiatives to ensure planned external impacts occur; and
- . an organisation engaged extensively in improving job design, increasing the application of technology in the work of the Office and making training more effective, in order to enhance job satisfaction and career paths of staff and to make the Office a better environment in which to work."⁶

5.2.5 In framing its findings, the Review team cautioned against a tendency to "underestimate the seriousness of the problems facing tax administration and the depth of the effort which has been put into recovering the situation over the last few years."⁷ It emphasised therefore that, while the team had focused on remedial action and/or future strategies, it "(did) not wish to be interpreted in any way as depreciating the considerable accomplishments of the ATO in recent times."⁸ In concluding its Report, the Review team identified key outcomes to be achieved by the month of July in the years 1987, 1988 and 1989. These outcomes would assist the ATO to monitor and evaluate progress.⁹

6. Exhibit 1, (F&PA Committee), p.iv.
7. Exhibit 1, (F&PA Committee), p.41.
8. Exhibit 1, (F&PA Committee), p.41.
9. Exhibit 1, (F&PA Committee), pp70-71.

5.3 The ATO Response

- 5.3.1 The ATO welcomed the Review Report and its findings. Following a meeting of all Deputy Commissioners, the Report was officially adopted by the ATO and steps were taken to ensure that recommendations were successfully implemented.¹⁰ Subsequently, the ATO designed a Corporate Plan for 1987/88 which would focus on the key issues identified in the PMPR Report. The Plan encompassed performance improvement plans, and progress and achievement are being monitored by the ATO Management Board.¹¹
- 5.3.2 A major weakness identified in a number of the Review findings was the lack of strategic management perspectives in the ATO: the Review team argued that the key to maintaining the momentum for change in the ATO was the development of these perspectives.¹² Its findings therefore focused on their development and were directed towards eleven key themes.
- 5.3.3 In relation to these themes, the ATO has advised the Committee of significant progress on a number of fronts. This includes:
- . major changes to income tax returns processing, taxpayer services, objection and appeal processes, taxpayer auditing, debt collection, and information processing systems. There is also major computer re-equipment and re-development;
 - . studies of the ATO environment, including studies of taxpayer attitudes and needs;

10. Evidence, p.282.

11. Evidence, p.282.

12. Exhibit 1 (F&PA Committee), p.41.

- . the development of projections of longer term costs and revenues for some major change projects, and strengthening of resource management activities;
- . the training and development of staff; and
- . technological improvements.¹³

5.3.4 The ATO has provided the Committee with a summary status report of its response to the key outcomes identified in the PMPR Report for 1987, 1988 and 1989. The outcomes and the ATO response are included in this Report at Appendix X.

5.3.5 It is evident to the Committee from this information that commendable results were attained in relation to the July 1987 outcomes and that considerable progress has also been achieved in relation to the outcomes for July 1988 and July 1989. In the view of the ATO, most of the outcomes are likely to be met.¹⁴ However, having regard to the crucial importance of the key outcomes, and in the event that some may not have been completely achieved by the target dates, the Committee would be keen to see not only internal monitoring and evaluation, but also external reporting of the progress and results achieved.

RECOMMENDATION 8: The ATO to continue to monitor and evaluate its progress in relation to the key outcomes specified for July of 1987, 1988 and 1989. A status report on progress and results achieved for the outcomes specified by the target dates should be included in the Annual Report.

13. Evidence, pp.277-280.

14. Evidence, p.307.

5.4 Summary

- 5.4.1 The PMPR Report has identified three key objectives whose achievement is vital to the success of the ATO's change program: strategic management, personnel management, and planning and resource management.¹⁵ The Report notes that, in the past, the ATO tended to be a reactive organisation in which there was a "relatively slow identification of needs for change,"¹⁶ and focuses on the ways by which the ATO can develop a more pro-active approach, with major consideration being given to outcomes.
- 5.4.2 The Committee welcomes this Report as a valuable assessment of the change program in the ATO. It highlights the view that the ATO's new directions are a sound response to major changes which had occurred in its external environment,¹⁷ and identifies ways by which the ATO response can be translated into an effective strategic management approach. At the same time, the Report reflects a lack of focus by the ATO, in the past, on the critical issue of "the impact of initiatives on revenue, and on the overall impact of the cost of collecting revenue."¹⁸ The Review Team identified the likely effect of ATO initiatives on revenue over the next five years and this effect is shown diagrammatically in Figure 1. The Figure demonstrates that the new initiatives are expected to close 80% of the gap by 1992.

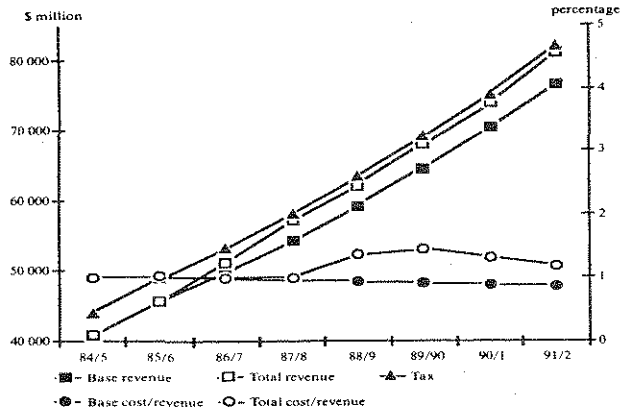
15. Exhibit 1, (F&PA Committee), p.69.

16. Exhibit 1, (F&PA Committee) pp.42 - 43.

17. Exhibit 1, (F&PA Committee), p.42.

18. Exhibit 1, (F&PA Committee), p.20.

FIGURE 1
REVENUE AND RESOURCE IMPLICATIONS



Source: Exhibit 1, (F&PA Committee), p. 26

Notes

1. Projections in figure do not seek to actually forecast actual tax revenue.
2. Projections are presented to demonstrate the impact on the revenue gap, and the costs of collection of the management initiatives, and place various incremental impacts and costs into an overall context.
3. The Figure presumes no changes in taxation rates.
4. Revenue and Tax calculations are shown in \$millions.
5. Tax(▲) is calculated as: Base Revenue plus an estimate of total evasion.
6. Total Revenue (◻) is calculated as: Base Revenue plus an estimate of additional income from new ATO initiatives.
7. It has been estimated that between 1984/85 and 1991/92 the new ATO initiatives will reduce the gap between the Base Revenue and the possible tax collectable by 80%.
8. The ratio of cost of collection to revenue collected is shown in percentage terms.
9. Additional funds are required to implement the new initiatives. The cost to revenue ratio has been estimated to increase from 1% to 1.2% between 1984/85 and 1991/92.

Source: Exhibit 1, (F&PA Committee), p.20 & p.98.

5.4.3 More specifically, the Report identifies "the gap between the level of potential tax collections and actual revenue"¹⁹ as a major external development requiring a response by the ATO. Having regard to the need for such a response, and to the ATO's decision to adopt a more pro-active management style, the Committee is of the view that some of the initiatives and approaches highlighted in the EA Reports could be beneficially directed towards addressing this gap, particularly as it is "both substantial and growing."²⁰

RECOMMENDATION 9: Having regard to the need to address the gap between the level of potential tax collections and actual revenue, the ATO devote small task forces in each Branch to test the levels of disclosure and compliance of taxpayers. The task forces should also attempt to identify methods by which the most revenue-productive cases can be identified.

19. Exhibit 1, (F&PA Committee), p.20.

20. Exhibit 1, (F&PA Committee), p.20.

Chapter 6

OTHER ISSUES ASSOCIATED WITH THE REVIEW OF THE EAs

6.1 Future Inquiries into the ATO

6.1.1 The ATO has advised the Committee that there are eighty ATO programs which are considered suitable for efficiency auditing.¹ With the tabling of the PPS Report in September 1986, the AAO had completed eleven EAs of the ATO. Since this review began, two other EAs of the ATO have been completed and tabled in the Parliament. This brings the total of EAs of the ATO conducted and completed since January 1982 to thirteen.

6.1.2 Over the same period the ATO has also been the subject of a Joint Parliamentary Committee of Public Accounts inquiry, internal and external scrutinies that the ATO itself has generated and, as noted in Chapter 5, a Program Management Performance Review which was conducted in 1987. Collectively, these reviews have resulted in significant and positive changes in the ATO.

1. Evidence, p.173.

6.1.3 Throughout its many external reviews, the ATO has argued that many of the changes were generated internally² and the PMPR Report, as noted in Chapter 5, confirms this argument.³ The PMPR Report goes on to note, however, that:

"...the solutions under way will take time to produce results. The ATO needs to be given that time."⁴

In this context, the Committee gave consideration to the nature and extent of future AAO reviews of ATO programs.

6.1.4 The AAO has advised the Committee that, as a result of the many significant initiatives which have been undertaken in relation to and by the ATO, it has decided to change the emphasis of its future audit program of the Tax Office.⁵ In the immediate future, the AAO will focus on the PMPR Report recommendations and the ATO's Information Technology Strategy (ITS). This information was conveyed to the ATO Commissioner by the Auditor-General in a letter dated 12 March 1987;⁶ the Commissioner, in a letter of 17 March 1987, indicated that he welcomed this change of emphasis.⁷

6.1.5 The Committee considers the changed approach to audit scrutiny of the ATO to be very appropriate and it commends the AAO for this initiative. In this regard, the Committee endorses the conclusion contained in the PMPR Report, noted in paragraph 6.1.3, that the ATO needs time to manage and implement the new

2. Evidence, pp308-309, p.314.

3. Exhibit 1, (F&PA Committee), pp.iii, 41,44.

4. Exhibit,p.iii.

5. Evidence, p.130.

6. Evidence, p.253.

7. Evidence, p.255.

directions which it has developed. Accordingly, while the Committee does not wish to pre-empt the AAO regarding the timing of the review of the PMPR and ITS initiatives, it suggests that such a review should be conducted later, rather than earlier, in the period covered by the ATO's current five-year strategic plan.

6.1.6 This change in emphasis, however, should not be taken to imply that no liaison or dialogue should occur between the two organisations in the interim. In his letter of 17 March 1987, the ATO Commissioner questioned the Auditor-General regarding the merit of discussing criteria by which progress with the various initiatives would be judged.⁸ While the specific question is one which can be answered only by the Auditor-General, it has led the Committee to the view that occasional meetings between the two organisations regarding the initiatives underway in the ATO could prove fruitful to both. They would be consistent with the AAO's goal of improving efficiency of administration in the Commonwealth sector, and would be of value to the ATO by enabling it to draw on the expertise of officers not directly involved with implementing the changes.

6.1.7 Progress in relation to key outcomes for 1987, 1988 and 1989 is envisaged as one possible area of discussion. The Committee is of the view that such meetings, properly managed, would foster the strategic management approach being implemented by the ATO and would enhance the better working relations⁹ which have developed between the AAO and the ATO in recent times.

8. Evidence, p.255.

9. Evidence, p.307.

6.1.8 Consistent with the change of emphasis of its future audit program of the ATO, the AAO has also indicated that it will undertake some smaller audits, known as "regularity" audits from time to time.¹⁰ Attention is drawn to these because, though only "ordinary, small project audits"¹¹ in intent, they will be designated efficiency audits if access to pre-assessment information is necessary.¹² This is because this type of information can only be obtained through the efficiency audit access powers which are contained in the Audit Act.¹³ The question as to whether this situation is suitable or, indeed, desirable, was raised between the AAO and the ATO in 1986 and 1987 but has not been explored further. In this regard, however, the Committee notes that efficiency audits are automatically subjected to parliamentary scrutiny whereas regularity audits receive scrutiny only at the discretion of the Joint Parliamentary Committee of Public Accounts.¹⁴

6.2 The ATO Compliance Strategy

6.2.1 The primary objective of the ATO is to achieve the highest possible level of taxpayer compliance.¹⁵ In order to foster this compliance, the ATO has recently introduced a number of initiatives. Chief amongst these are the move to self-assessment and the development of an overall audit strategy.¹⁶ Announced in March 1987, the audit strategy document listed initiatives in many areas that could be taken to detect and deter tax

10. Evidence, p.253.

11. Evidence, p.131.

12. Evidence, p.S130.

13. Evidence, p.S126.

14. Evidence, pp 188-189.

15. Exhibit 9, Foreword.

16. ATO Annual Report, 1986-87, p.2.

evasion or avoidance.¹⁷ These include desk audits, new auditing and inspection programs, and the introduction of a new computer-based system of ranking returns for audit known as the SCORE system.¹⁸

6.2.2 The Committee commends these initiatives of the ATO and notes that as a result, in 1986-87, the level of individual voluntary compliance had been increased, with an estimated "better" reporting of taxable income of \$700M; audit coverage was increased by 25%, and 20 000 taxpayer desk audits were carried out, resulting in additional revenue of \$19M.¹⁹ Moreover, as a consequence of the move to self-assessment, nine hundred staff members have been moved from non-revenue productive assessing duties and have largely been relocated in the audit area.²⁰

6.2.3 The ATO Commissioner noted, however, that some sections of the public have tended to over-react to these initiatives and he commented:

"It seems to me that there needs to be an acceptance on the part of the community that tax audits have become a significant part of the tax scene."²¹

The Committee supports this view but suggests that the acceptance could be more actively fostered by the ATO itself.²² This could be achieved by a wider dissemination of the common 'threads', or factors,

17. ATO Annual Report, 1986-87, p.46.

18. ATO Annual Report, 1986-87, p.46.

19. Evidence, p.275.

20. Evidence, p.290.

21. ATO Annual Report, 1986-87, p.3.

22. Evidence, p.299.

standards or rules identified in desk audits. Such a step would have the twin benefits of increasing taxpayer compliance (as a result of being better informed about legitimate claims), and releasing some audit staff to more difficult areas.

RECOMMENDATION 10: The ATO to publicise its compliance strategy as widely as possible so that taxpayers are kept informed of developments and changes, and as an additional way of deterring some potential tax evaders.

6.3 Key Issues raised in A Taxing Problem

6.3.1 The Expenditure Committee in its Report, A Taxing Problem, tabled in September 1986, identified three key issues which needed to be addressed. These were the lack of computerised data processing, a continuing dependence on labour-intensive work methods, and the ATO's past management practices.²³ These issues have also been the subject of the AAO's audit program of the ATO. Accordingly, the Committee considers it appropriate to briefly record progress that has been made in relation to each.

6.3.2 In February 1987, the Government made an in-principle decision to support the ATO's proposals regarding re-development, re-equipment and conversion of its major systems, known collectively as the Information

23. A Taxing Problem Report, Expenditure Committee, September 1986, p.26.

Technology (IT) strategy.²⁴ Major expenditure on computer re-equipment, expected to cost \$693M over ten years, is expected to commence in 1988/89.²⁵

6.3.3 These proposals, designed to boost the ATO's information processing capability,²⁶ were referred to the Joint Parliamentary Committee on Public Accounts (JPCPA) for its consideration. The JPCPA in its Report, No. 287, expressed support for the ATO's endeavours to make better use of information technology. The Committee is of the view that the proposals, when implemented, will overcome the deficiencies noted by the Expenditure Committee in its Report. It needs also to be recorded that, in the the AAO's view, the ATO's system proposals put forward to the JPCPA largely address the ADP criticisms made in the PPS EA Report.²⁷

6.3.4 Labour-intensive work methods paralleled the lack of adequate ADP systems in the past and are expected to be progressively overcome with the implementation of new systems and technologies in the ATO.²⁸ In addition, staff and unions are being involved in major change projects, a People and Structures Branch has been created, and major job re-design, associated largely with multi-skilling is under way.²⁹ In the longer term, it is expected that the ATO will have a staff requirement which could be 3 000 less than would have been required without major technological improvements.³⁰

24. Statement by the Treasurer, the Hon P J Keating, MP, tabled in the House of Representatives on 26 February 1987, pp.4-5, and Evidence, p.S128.

25. Statement by the Treasurer, 26 February 1987, p.4.

26. Exhibit 6, p.2.

27. Evidence, p.134.

28. Evidence, p.290.

29. Evidence, p.280.

30. Evidence, p.290.

6.3.5 In relation to the ATO's past management practices, the Committee notes that the role of National Headquarters and the Branch Offices has been clarified,³¹ a Management Board has been established³² and a Corporate Plan has been developed. As is noted in the PMPR Report, substantial progress has been made in the area of management practices; it also cautions, however, that it would be easy to underestimate "the depth of the effort which has been put into recovering the situation over the last few years".³³

6.3.6 The major overall change for the Committee is that the ATO has become pro-active rather than reactive in approach. It considers that significant advances have been made since the Expenditure Committee's Report was tabled in 1986.

6.4 Morale in the ATO

6.4.1 In evidence to the Expenditure Committee in April 1987, the AAO mentioned that it had formed an impression that there were morale problems in the ATO.³⁴ It was emphasised that the six EAs had not specifically addressed the question of morale: rather the impression had developed in an incidental way.³⁵ Indicators of morale problems were suggested. These included: "sensitivity and resistance to change" and "reluctance to look at things in an objective way."³⁶ In the main, morale problems were noted in areas where old-fashioned or outdated work methods were still in use and, as a result, job-satisfaction was low.³⁷

31. Evidence, p.301.

32. Evidence, p.303.

33. Exhibit 1, (F&PA Committee), p.41.

34. Evidence, p.125.

35. Evidence, p.126.

36. Evidence, p.127.

37. Evidence, p.127.

6.4.2 The Committee raised these AAO impressions with the ATO Commissioner and sought his response. Apart from his reservation about the comments on the ground that they were impressionistic and that there was no supporting basis for them, the Commissioner responded that the criticisms in the EAs themselves could have had an adverse effect on staff morale. He did not believe however that there was a bad morale problem in the ATO now or in recent times.³⁸ While staff may have felt a little uneasy, in the early days of change, about adopting different roles, it was his view that staff, now, "are enthusiastic about the opportunity to stretch themselves and do a range of things."³⁹

6.4.3 It is very difficult for the Committee, from the perspective of today, to form an opinion on such an issue. It notes, however, that the Federated Clerks Union(FCU) addresses the issue of staff morale in its submission, noting that there are "large numbers of lowly paid (circa \$13 000 - \$14 000) boring, repetitive positions."⁴⁰ FCU emphasises that staff morale of officers at these levels is an important issue which it believes can be redressed, to some extent, in conjunction with the computer re-equipment program. The ATO working environment is another factor, in the FCU's view, that could contribute to a decline in morale.⁴¹

6.4.4 In this regard, the PMPR also comments that the larger ATO Branch Offices are being broken down into smaller

38. Evidence, p.317.

39. Evidence, p.318.

40. Evidence, p.S120.

41. Evidence, pp S120-S121.

units with the effect amongst other things, of "increased productivity and staff satisfaction."⁴² The ATO Commissioner confirmed this assessment to the Committee in noting that staff would now be aware of greater Branch Office participation in planning and development of the ATO, increased communication and a sense of progress.⁴³

6.4.5 The Committee wishes to record that, as with the AAO experience, it has not been able to measure in any objective way the level of staff morale. However, it was most impressed by the sense of team spirit and enthusiasm that it detected in the course of inspections in the Victoria North and Melbourne Branches of the ATO.

6.5 Exchange of Information with Other Organisations

6.5.1 In paragraph 4.6.4, the Committee noted that the Department of Social Security (DSS) had conducted a pilot project by which details of benefit payments were provided on magnetic tape for information matching purposes. The pilot project was successful and resulted in incorporation of the information into ATO's national income-matching computer system.

6.5.2 The views of several other organisations in relation to exchange of information with the ATO have been recorded in paragraph 4.6.2. They indicate that, where enabling legislation exists, a useful exchange of information occurs.

6.5.3 An associated issue which arose in this context was the form in which bank information is provided to the ATO.

42. Exhibit 1, (F&PA Committee), p.77.

43. Evidence, p.293.

The Committee detected that there were several deficiencies of presentation in information received. These centred, in the main, on statements which included computer-generated and hand-written entries, although the format of some organisations also prevented the ATO from systematically identifying taxpayers.⁴⁴ The Committee was advised that, at present, "there is no legislative requirement for organisations to comply or supply information"⁴⁵ in the format required, and that information is currently supplied - by the organisations which supply it - in a co-operative way.⁴⁶

6.5.4 The Committee also has had regard in this context to the comments, outlined in paragraph 4.6.3, of the Australian Bankers Association which had concerns about the cost and time implications of compiling information, and reservations about the current usefulness of all information supplied.

6.5.5 The basis on which information is currently provided to the ATO is considered to be inadequate by the Committee in the current technological environment. Moreover, it sees little practical value in information being provided to the ATO by organisations, however co-operatively, if the format in which it is presented prevents its effective use by the ATO, or if greater detail than is necessary is supplied. Some rationalising and streamlining of the present system is therefore recommended.

RECOMMENDATION 11: The ATO to investigate possible changes to the legislative framework to overcome problems associated with the exchange of information.

44. Evidence, pp.347-350.

45. Evidence, p.349.

46. Evidence, p.349.

RECOMMENDATION 12: The ATO to seek from reporting organisations only such information as it will use, in a form which will enable its efficient and effective use, having regard to the need to minimise costs to organisations which prepare and supply the information.

6.6 Identification of Taxpayers

6.6.1 In its Report, A Taxing Problem, the Expenditure Committee recommended that the ATO "take the necessary steps to establish a high integrity identification system which would ensure maximum taxpayer compliance."⁴⁷ The unreliable nature of the present taxpayer identification system - the tax file number - was clearly evidenced in the PPS and UGCs EA Reports and it was demonstrated to the Committee throughout this review that taxpayers can have either one, none or many tax file numbers.

6.6.2 The ATO has commented that it is currently hampered in its efforts to effectively cross-match information because of the lack of integrity in the current tax file numbering system. It has observed that the need for a high integrity numbering system has been seen for some time.⁴⁸ The ATO advised this Committee that "the key to efficient matching is to have reporting according to a particular identifier - say a tax file number."⁴⁹

47. A Taxing Problem, Expenditure Committee, September 1986, p.42.

48. Evidence, pp13 - 14.

49. Evidence, p.338.

6.6.3 The AAO, from its observations in the EAs, also supports improvements: "...any high integrity number would be more effective than the tax file number at present...".⁵⁰ The AAO has expressed support for the concept of identifying taxpayers and of matching information from a variety of sources.⁵¹

6.6.4 The ATO has advised that proposals are currently being prepared in relation to the use of tax file numbers for information reporting systems and that they will be put to Government in the near future.⁵² In view of this development, the Committee does not propose to dwell on particular aspects of this issue. By way of a general observation, however, it notes that some improvement to the current system is essential as a way of overcoming tax evasion and avoidance, as a way of assuring that honest taxpayers are not unduly burdened by the need to raise taxation revenue, and as a way of overcoming the gap between the level of potential tax collections and actual revenue. Accordingly, the Committee re-iterates the recommendation of the Expenditure Committee in this regard.

RECOMMENDATION 13: The ATO to take the necessary steps to establish a high integrity identification system which would ensure maximum taxpayer compliance.

50. Evidence, p.154.

51. Evidence, p.193.

52. Evidence, p.337.

6.7 Electronic Lodgement

6.7.1 In the course of the review, the Committee was briefed on the topic of electronic lodgement of tax returns. A pilot project was conducted in Adelaide in 1987. During this period, agents were required to lodge paper returns along with the electronic data. In addition agents were required to use approved software packages. The Adelaide Branch intends to extend the pilot study within its region in 1988/89.

6.7.2 The ATO has advised that more than 2.7 million individual income tax returns are prepared by tax agents using computers.⁵³ It is expected that, eventually, the electronic lodgement system will accept returns as electronic data only, thus reducing the amount of paper processed, as well as doing away with a number of mundane, labour-intensive tasks.

6.7.3 The Taxation Commissioner has referred to electronic lodgement as "a very exciting idea... (and) the way of the future." In addition, he has commented:

"In the future, when our systems redevelopment and re-equipment program is complete, we see the possibility of the vast bulk of returns and communications being made electronically - the long term and wider advantages of such a system are boundless."⁵⁴

6.7.4 The Committee shares this enthusiasm and commends the ATO for its initiative. It notes that a major advantage

53. Electronic Lodgement, ATO, Adelaide, February 1988, p.(2).

54. Address by the Commissioner of Taxation, Adelaide, 22 March 1988 p.8.

of participation is that client refunds will be issued more promptly (within 14 days). At the same time, the Committee is concerned to ensure that participants in the pilot scheme are not financially disadvantaged. It suggests that, in order to encourage participation, the ATO should investigate whether part or all of the costs of the required software packages should be borne by the ATO or alternatively, whether it can provide the packages to agents at no cost. Further, it suggests that the ATO should distribute the specifications for successful electronic lodgement widely, as a further encouragement to participation in the pilot program and with a view to testing their suitability for use by individual tax-payers.

RECOMMENDATION 14: The ATO to examine the options, feasibility and cost implications of extending the electronic lodgement facility to individual taxpayers as well as tax agents with a view to meeting the cost of required packages.

Chapter 7

CONCLUSION

7.1 Overall value of the EAs

7.1.1 The PMPR Report has emphasised that the taxation system, and the traditional administrative methods in the ATO, have undergone dramatic changes in the last decade.¹ The Report goes on to note that the ATO's traditional methods were based on the presumption that taxpayers would be adaptable to the needs of the system. Moreover, "(the) system presumed a static tax regime, substantial disclosure from taxpayers, acceptance by taxpayers of ATO rulings and the payment by taxpayers of taxation debts."² It then observes: "(t)rends over the last decade have challenged each of these assumptions."³

7.1.2 Having regard to these trends and to the series of EAs conducted by the AAO, the PMPR made the observation that "...the shortcomings identified by previous reports of the Auditor-General ... are largely a consequence of past system breakdowns and support the need for the new directions and changes developed by the ATO."⁴ The Committee thoroughly endorses this finding.

1. Exhibit 1, (F&PA Committee), p.16.
2. Exhibit 1, (F&PA Committee), p.17.
3. Exhibit 1, (F&PA Committee), p.17.
4. Exhibit 1, (F&PA Committee), p.44.

- 7.1.3 The Committee is highly supportive of the efficiency audit process. It considers EAs to be not only useful management tools, but also a valuable means by which issues not usually raised for discussion are opened to public debate.
- 7.1.4 The Committee has found, in relation to the PPS Report in particular, that there are grounds for criticising the AAO for not having had sufficient regard to the change process already under way in the ATO, or to the implications of this process on individual programs. Equally, the Committee has found that there are grounds for criticising the ATO for not implementing some possible, interim program improvements which would have had beneficial results in the shorter term. Moreover, there is some evidence that, in the early stages of PPS, the ATO tended to display a reactive rather than a pro-active approach on occasions.⁵
- 7.1.5 On a more general level, the Committee notes that the six EAs reviewed in this Report have been conducted at a time when new directions were being shaped by the ATO. In many ways, they paralleled the changes already under way;⁶ in others, however, they pointed the way⁷ and acted 'as a spur' of change.⁸ For the Committee, the greatest value of the EAs derives from the role they played in accelerating the change process in the ATO.

5. Evidence, p.S66.

6. Evidence, p.362.

7. Evidence, p.61.

8. Evidence, p.362.

7.1.6 The Committee has been advised, in relation to these changes, that "(w)ith little sense of self-satisfaction, and no sense of complacency, the ATO believes that it has turned the corner and is producing positive results."⁹ From its own observations, also, the Committee considers that an excellent start has been made. The Committee is therefore keen to see the ATO's responsive, pro-active approach continue.

RECOMMENDATION 15: The ATO, recognising that its functions are carried out in a dynamic environment, take steps to ensure that the benefits of the change program are continued, and that its management structures and procedures are continually assessed and refined as appropriate.

7.1.7 In its review of the EA Reports, the Committee noted that in some, findings of a relatively minor nature were not identified as such. It is considered that the AAO should attempt to broadly identify the relative significance of findings, in the interests of enhancing the quality of the Reports.

RECOMMENDATION 16: Findings of major significance should be specified as such in the Auditor-General's Reports.

9. Exhibit 1, (Expenditure Committee), p.7

7.2 The PMPR Report

7.2.1 In Chapter 5 of this Report, the Committee has recorded the work undertaken in the PMPR Report. In brief, the Review team identified that the ATO was in the process of substantial change. However, while much had been achieved, much more remained to be done.

7.2.2 The Committee has previously commented that a major value of the PMPR Report derives from its emphasis on a strategic approach to management. It identified the three key characteristics of strategic management as being:

- . "the capacity to prioritise actions and to identify key issues, actions and outcomes, rather than all activities;
- . the capacity to operationalise strategies and plans and to translate them into identifiable scheduled actions and impacts; and
- . the capacity to evaluate the effectiveness of change directly by monitoring outcomes against the fundamental strategies and objectives of the change."¹⁰

The Review team emphasised that the development of these values was the key to maintaining the momentum of change in the ATO.¹¹

10. Exhibit 1, (F&PA Committee), p.41.

11. Exhibit 1, (F&PA Committee), p.41.

7.2.3 The Committee considers the PMPR Report to have been an extremely valuable review which has complemented the work undertaken by the Expenditure Committee in its Report, A Taxing Problem, by the AAO in its EAs and in other reviews generated by the ATO itself. This assessment has been confirmed by the ATO Commissioner who commented:

"...one area that came out of... (the reports) was the need for the Tax Office to be more forward thinking, more strategic in its approaches; to get beyond the tomorrow, the next week and even the next year; to look for longer-term goals...".¹²

7.3 Future Directions of the ATO

7.3.1 Throughout this Report, the Committee has observed past system breakdowns and steps taken towards improvement in the ATO. It now remains for the Committee to record the future broad directions of the ATO.

7.3.2 The Committee has previously noted a comment of the PMPR, that a considerable part of the ATO's future effort must be directed towards narrowing the gap between potential revenue and actual collections. Consistent with this finding, the Committee considers that different approaches are desirable and should be adopted towards compliant and non-compliant taxpayers.

7.3.3 The Committee has already observed the pro-active approach the ATO is adopting towards the non-compliant element in the community that seeks to evade or to avoid

12. Evidence, p.314.

paying its fair share of tax. The Committee also supports, however, an increasingly pro-active approach towards the compliant taxpayers - those who pay their fair share of taxes. This dual approach was recently highlighted by the ATO Commissioner:

"The available means are direct and indirect including, most significantly, making it as easy as possible for people to comply by providing them with the best possible service. That is an indispensable companion to the process of detecting those who do not comply and 'persuading' them to conform."¹³

7.3.4 The Commissioner went on to note that, as a way of improving taxpayer services, groups dealing solely with this area were established in National Headquarters and Branch Offices in 1987.¹⁴ He also indicated to the Committee that "(c)ommunications are an important aspect"¹⁵ and that the ATO is using a number of means "to convey (a message) to the public that there is another side to tax collection - the ... community responsibility and community benefit angle."¹⁶

7.3.5 The Committee would be keen to see further evidence of effort-reward initiatives being taken in relation to honest taxpayers. The Commissioner has noted that increasing levels of service and improvements in forms have been two initiatives directed towards the benefit of honest taxpayers.¹⁷ Return-free filing is a longer term possibility.¹⁸ The Committee supports these initiatives and recommends their further extension.

13. Address by Commissioner of Taxation, Adelaide, 22 March 1988, p

14. Address by Commissioner of Taxation, Adelaide, 22 March 1988, p

15. Evidence, p.299.

16. Evidence, p.299.

17. Evidence, p.293.

18. Evidence, p.334.

- 7.3.6 It is believed that, in conjunction with these initiatives, taxpayer services will also be enhanced both directly and indirectly through the ATO's Information Technology strategy.
- 7.3.7 The Committee concurs that "(e)ven in tax administration, good service makes good business sense."¹⁹ It will continue to monitor the overall directions of the ATO with great interest.

STEPHEN MARTIN, MP
CHAIRMAN

May 1988

19. Address by Commissioner of Taxation, Adelaide, 22 March 1988, p.2
78.

Appendix I

List of Witnesses

Witnesses	Date(s) of Appearance Before Committee at Public Hearings
Mr Trevor Percy Winston Boucher, Commissioner of Taxation, Australian Taxation Office, Canberra, Australian Capital Territory	1.4.87 12.2.88
Mr Richard Francis Highfield, Senior Assistant Commissioner, Audit Group, Australian Taxation Office, Canberra, Australian Capital Territory	1.4.87 12.2.88
Mr Ronald William Kelton, Deputy Commissioner of Taxation, Australian Taxation Office, Canberra, Australian Capital Territory	1.4.87
Mr Geoffrey Robert Seymour, Senior Assistant Commissioner, Systems Group, Australian Taxation Office, Canberra, Australian Capital Territory	1.4.87
Mr Bruce Sherman Jones, Assistant Commissioner, Systems Applications No. 1, Australian Taxation Office, Canberra, Australian Capital Territory	1.4.87
Mr John Vincent Monaghan, Auditor-General, Australian Audit Office, Canberra, Australian Capital Territory	30.4.87
Mr Cyril Thomas Monaghan, First Assistant Auditor-General, Australian Audit Office, Canberra, Australian Capital Territory	30.4.87
Mr Peter James Inglis, Acting Assistant Auditor-General, Australian Audit Office, Canberra, Australian Capital Territory	30.4.87
Mr Joergen Viggo Pedersen, Acting Director, Taxation and Special Projects, Australian Audit Office, Canberra, Australian Capital Territory	30.4.87
Mr Tony Glambedakis, 189 Homer Street, Earlwood, New South Wales	6.5.87

Dr Ronald Silberberg, National Executive Director, Housing Industry Association, 79 Constitution Avenue, Canberra, Australian Capital Territory	6.5.87
Mr William James Kirkby-Jones, Executive Vice-President, Housing Industry Association, 79 Constitution Avenue, Canberra, Australian Capital Territory	6.5.87
Mr John Crotty, Senior Assistant Deputy Commissioner, Audit Group, Australian Taxation Office, 350 Collins Street, Melbourne, Victoria	12.2.88
Mr Leslie John Hutchinson, Senior Assistant Deputy Commissioner, Taxpayer Services, Australian Taxation Office, 350 Collins Street, Melbourne, Victoria	12.2.88
Mr William David Mulherin, Deputy Commissioner, Australian Taxation Office, Newcastle, New South Wales	12.2.88

Appendix II

Index of Submissions

Submission No.	Organisation/Date	Page No.
1.	Australian Taxation Office, Canberra, ACT dated 12 December 1986	S2
	Supplementary submission, dated 16 December 1986	S19
	Supplementary submission, dated 24 March 1987	S39
2.	Housing Industry Association, Canberra, ACT dated 23 October 1986	S56
3.	Administrative and Clerical Officers' Association, Industrial Offices, Carlton, Victoria, dated 5 March 1987	S58
4.	Expert Decorative Services, Dulwich Hill, New South Wales, dated 30 March 1987	S75
5.	Australian Customs Service, Canberra, ACT dated 31 March 1987	S104
6.	Health Insurance Commission, Woden, ACT dated 31 March 1987	S108
7.	Australian Bankers' Association, Melbourne, Victoria, dated 1 April 1987	S116
8.	Federated Clerks Union of Australia, Taxation Officers Branch, Melbourne, Victoria, dated 3 April 1987	S119
9.	Australian Wheat Board, Melbourne, Victoria, dated 8 April 1987	S122
10.	Department of Social Security, Woden, ACT, dated 22 April 1987	S123
11.	Australian Audit Office, Canberra, ACT, dated 27 April 1987	S125

Appendix III

Index of Exhibits

34TH PARLIAMENT

Exhibit No.	Description
1.	Overview Submission by Australian Taxation Office
2.	The Australian Taxation office - An Organisation in Process of Substantial Change
3.	1986-87 Corporate Plan
4.	Future Directions for the Taxation Office
5.	Top Structure Reorganisation July 1986
6.	Submission to Joint Parliamentary Committee of Public Accounts on Computer System Re-development and Re-equipment Proposal
7.	ATO Information Systems Plan
8.	National Office Circular No. 1987/18 - Project Management Guidelines
9.	Audit Strategy: 1986/87 and Beyond - March 1987
10.	PPS Status Report
11.	Operational Performance Standards for PPS Processing
12.	Letter of 10 January 1986 from the Commissioner of Taxation to the Auditor-General
13.	Letter of 8 December 1986 from the Auditor-General to the Commissioner of Taxation
14.	Letter of 12 March 1987 from the Auditor-General to the Commissioner of Taxation
15.	Letter of 17 March 1987 from the Commissioner of Taxation to the Auditor-General

16. Taxation Ruling No. 2372
17. Taxation Ruling No. 2371
18. Taxation Ruling No. 2312
19. Taxation Ruling No. 2311
20. Taxation Ruling No. 2206
21. Taxation Ruling No. 2043
22. Taxation Ruling No. 2012
23. Letter of 7 April 1987 from the Auditor-General to the Expenditure Committee Chairman, forwarding a copy of a letter dated 6 April 1987 from the Auditor-General to the Commissioner of Taxation

35TH PARLIAMENT

1. Report of the Program Management Performance Review of the Australian Taxation Office, A Taxing Solution, May 1987

Appendix IV

The Prescribed Payments System Efficiency Audit: AAO Recommendations and Summary of the ATO Response.

Recommendation 1:- Implement an ADP facility to check that tax deducted is correct.

Response:- Agreed. ATO recognised the potential benefit of this but, until a decision was made to capture appropriate gross payment details, a check was not possible. ADP facilities to enable this were to be introduced in December 1986 and finalised by February 1987.

Recommendation 2:- Review the tolerances for payer-month reconciliations to establish whether increases could be applied to effect staff savings on the resolution of discrepancies without foregoing significant revenue.

Response:- Agreed. ATO undertook a survey to determine appropriate tolerance levels in order to enable system changes to be in place by June 1987.

Recommendation 3:- Formalise procedures for the examination of 1983-84 credit mismatches.

Response:- Agreed. In April 1985 a decision was taken to relax computer tests, introduced in January 1985, in order to reduce the number of returns requiring credit validation prior to assessment, and to enable the clearance of a large number of unprocessed returns. A program, conducted on a sampling basis, was put in place in February 1986 to follow-up unclaimed credit/credit mismatches for 1983-84. The program was later intensified and its scope was widened.

Recommendation 4:- Implement procedures for the follow-up of unclaimed credit.

Response:- Agreed. Under new returns processing procedures introduced in December 1986, some follow-up activity in respect of 1986 credit mismatch/unclaimed credit was proposed to be instituted prior to 30 June 1987.

Recommendation 5:- Examine carefully all applications for deduction variation certificates.

and

Recommendation 6:- Examine carefully all applications for deduction exemption certificates.

Response:- Agreed in part. To determine whether such an increase would be cost effective, ATO implemented a program of audits on holders of exemption and variation certificates. On the basis of the results of the program, the ATO would implement desirable changes.

Recommendation 7:- Give consideration as soon as possible to implementing an ADP system to check that payments reported by payers have been disclosed as income by payees.

Response:- Agreed. 1986-87 gross payment details were being entered into the computer by the ATO with a view to developing a system along the lines suggested by the AAO.

Recommendation 8:- Implement stronger inspection activity to enforce PPS requirements.

Response:- Agreed. Inspection activities have been substantially increased. In 1984-85, 141 payers were penalised (\$193 171 in penalties) and in 1985-86, 1 692 were penalised (\$1 900 000 in penalties) for failure to deduct tax. In the same period inspection of payers' books and records increased by 45%. ATO now has a policy of 10% inspection coverage.

Recommendation 9:- Develop and enforce procedures for the referral of material from PPS sections to areas such as Inspections.

Response:- Agreed. Procedures were developed and implemented in January 1986 and are being enhanced progressively.

Recommendation 10:- Implement ADP facilities to support enforcement activities to
· provide automatic selection of cases indicating that action is required, and
· record ensuing activities, resolution details and any revenue generated or credits issued.

Response:- Agreed. At the time of the AAO audit the full range of ADP facilities to support PPS had not been developed and greater priority to PPS enforcement would have meant that other aspects of the PPS systems development would have suffered. Computer system enhancements to support enforcement were introduced in the period December 1986 to February 1987.

Recommendation 11:- Implement a centralised ADP system to support penalty processing, including the calculation of penalties, the recording of penalty details and the separation of penalty payments from tax withheld.

Response:- Agreed. A computer system, incorporating all of the features of the recommendation for imposition of penalties for failure to remit PPS deductions, was implemented in October 1986.

Recommendation 12:- Using information now available from the PPS, prepare estimates of the increase in the tax yield above the 55% level brought about by the PPS in each prescribed industry and the amount of tax being evaded in each prescribed industry.

Response:- Agreed. ATO recognised the need for research in this area and some preliminary work was undertaken. Work to develop a co-ordinated approach to the task commenced in 1987 as part of a wider compliance strategy.

Recommendation 13:- Returns lodged for the first time as a result of the PPS should be examined carefully for indications of omitted income.

Response:- Agreed. There is now a requirement to fully audit returns received from previous non-lodgers and to systematically check information sources available within the ATO - eg unemployment benefits, and interest and dividends.

Recommendation 14:- Inform the Government of the details of the British scheme when next reporting on the PPS.

Response:- Agreed. Up to date details of the UK system were being obtained with a view to advising the Government, having regard to other matters relevant to the issue.

Recommendation 15:- Implement a management information system for the PPS with regular reporting on critical performance statistics...

Response:- Agreed. The current management information system provides (inter alia)
- transaction volumes by transaction type
- numbers of unreconciled payers by month, size of discrepancy and file number ranges, and
- value of remittances on a financial year basis.

Recommendation 16:- Issue guidelines for the resolution of payer-month discrepancies.

Response:- Agreed. A review of the approach to the resolution of payer-month discrepancies was undertaken. Revised arrangements were planned to be in place before the start of FY 1987-88.

Recommendation 17:- In consultation with users within the ATO, improve the quality of PPS documentation, with particular emphasis on the procedural component previously lacking.

Response:- Agreed. Known procedural documentation deficiencies were identified and steps were taken to overcome these by direct user involvement.

Recommendation 18:- Consider the adoption of a formal project management system for major system development, including further development of the PPS. Such a system should include the appointment of a project committee to plan, implement, control and review development.

Response:- Agreed. The AAO is aware that the ATO has devoted significant attention to formal project management. Several advisory committees and steering committees already exist and further implementation of the PPS has been controlled by a Steering Committee since 1985.

Recommendation 19:- Establish comprehensive procedures for the selection of ADP processing strategies and accompanying hardware and software acquisitions.

Response:- Agreed. The ATO states that it already has detailed procedures which address all facets of the Systems Development Life Cycle. The selection of processing alternatives, cost/benefit analysis, evaluation of application software packages, selection and acquisition of hardware, coupled with standard estimating guidelines for each phase segments and work step are all integral parts of the Method/1 System Development Programme.

Recommendation 20:- Strengthen arrangements for the co-ordination, development and maintenance of a plan for its information technology strategy.

Response:- Agreed. As a result of a review of the ADP Strategic Plan and the Information Systems Plan a total systems redevelopment has been designed. A strategic planning group has been established to provide the necessary co-ordination, development and maintenance of the Information Technology strategy.

Recommendation 21:- Establish an integrated ADP environment encompassing all applications.

Response:- Agreed. As a result of a review of the ADP Strategic Plan and the Information Systems Plan a total systems redevelopment has been designed. This proposal was expected to go to Government early in 1987 seeking approval to a phased approach to Systems redevelopment. Agreement would result in greatly enhanced computing facilities being available in 1988-89.

Recommendation 22:- Establish a formal, automated fault reporting system to provide accurate fault information on all hardware.

Response:- Agreed in part. A formal, automated fault reporting system to monitor and control maintenance service performance and hardware down time, has been introduced for distributed computing equipment. An automated fault reporting system for the central (mainframe) equipment is currently unavailable. The current hardware and software prohibit the introduction of this facility. A formal manually maintained fault reporting system is in place and the possibility of automating this is currently being investigated.

Recommendation 23:- Conclude maintenance agreements for equipment currently not so covered, notably all TOC hardware, numbering more than 1000 systems.

Response:- Agreed. All equipment is now covered by maintenance contracts with the exception of Prime. The Control Data Australia (CDA) contract is being reviewed with the intention of introducing a common APS-wide contract with CDA.

Recommendation 24:- Maintain current information about the ADP market place to be aware of ADP developments, particularly in relation to the ATO's hardware and software acquisition policy.

Response:- Agreed. Hardware and software acquisition policy was defined in the November 1985 ADP Strategic Plan and Information Systems Plan.
To ensure that ADP information remains current

- a reequipment branch was established to achieve a modern processing environment;
- extensive briefings on current and future capabilities were obtained from major suppliers of hardware and software products during the period mid-April 1986 to August 1986;
- subscriptions are held to the relevant trade publications; and
- the ATO is on the mailing lists of most hardware and software vendors.

Recommendation 25:- Acquire hardware and software by formal contracts only and with maintenance agreements.

Response:- Agreed. A full-time contracts officer has been appointed to provide liaison between ATO and DAS on the development of all ADP acquisition contracts.

Recommendation 26:- Upgrade the role of the ADP quality assurance function.

Response:- Agreed. A Quality Assurance team has been re-established and additional staff appointed.

Recommendation 27:- Extend the ADP Capabilities Register to record all automated data processing hardware and software including information on hardware and software acquired by ATO areas external to the ADP Branch.

Response:- Not agreed. The ADP Capabilities Register has been effectively split into several discrete registers. The ATO considers this a better way to record all ADP hardware and software than an extension of the Capabilities Register as suggested by the AAO.

Recommendation 28:- Enforce a system to distribute and control software running on all ATO computers including the central installations, all network hardware, Wang word processing equipment and stand alone microcomputers.

Response:- Agreed in part. The distribution of all equipment within the ATO is controlled centrally already.

Recommendation 29:- In conjunction with the sign-off provisions described above, provide a formal integrated testing environment for adequate system testing of all pre-production systems and applications software.

Response:- Not agreed. While the ATO agrees that the achievement of this objective is desirable it has found through experience that such ideals are difficult to achieve, mainly because:

- the ATO system is large and contains a great variety of possible situations to be tested;
- frequent testing of each function is not practical nor cost effective; and
- the system undergoes regular fundamental changes which require changing of the test environment adding to the overall cost of system maintenance.

Recommendation 30:-

Improve the distribution of microfiche to provide better service for name and address searches pending the introduction of an automated taxpayer index facility.

Response:-

Not agreed. ATO considers that the current arrangements for distribution of microfiche are adequate and updates are dispatched without delay.

Source: Evidence, pp.S5 - S18

Appendix V

Efficiency Audit of Unpresented Group Certificates: AAO Recommendations and Summary of the ATO Response.

Recommendation 1:- The ATO should institute a program to clear selected categories of unpresented group certificates.

ATO's Response:- Agreed in part. Notwithstanding its lack of success in this area in the past, in order to test some of Audit's conclusions and to gather more data on the level of evasion associated with unpresented group certificates, the ATO recently established a national project to clear a selected sample of unpresented group certificates.

Recommendation 2:- Group employers should be required to enter the employee's full name and residential address on group certificates.

ATO's Response:- Agreed in part. There is currently provision on a group certificate for an employee's full name and address to be inserted. The addition of a full name and address on group certificates and tax stamp sheets should not be an onerous burden on small employers. However, the proposals may require some larger employers to alter their computerised payroll systems.

In the ATO's view, a high integrity identification number would be a more useful aid to matching efficiently large volumes of unpresented group certificates with taxpayers' records.

Recommendation 3:- The ATO should seek amendment of the Income Tax Legislation to require employees to provide their tax file number on group certificates.

ATO's Response:- Agreed in part... ATO considers that a study of the costs and benefits of the short term use of tax file numbers should be conducted before any decision is made to implement such a proposal.

Recommendation 4:- The ATO should seek amendment of the Income Tax Legislation to require employers to deduct tax at standard rates where employees fail to provide their tax file number.

ATO's Response:- Agreed in part. The aim of this recommendation would be best achieved by enforcing the provision of valid tax file numbers on Income Tax Instalment Declarations forms. Tax deduction at standard rates applies when a valid Income Tax Instalment Declaration form cannot be provided. While those forms contain provision for the supply of tax file numbers, it is not an offence under the existing law to fail to supply that information. An amendment of the Income Tax Regulations would be required to make it mandatory that tax file numbers be included on Income Tax Declaration forms.

Recommendation 5:-

ATO Instalment Inspectors should inspect unrepresented group certificates for cases of insufficient tax instalments and query them with the employers concerned.

ATO's Response:-

Agreed in part. Following the recommendations of an Efficiency Review conducted by the ATO in November 1985 national inspection coverage programmes were set. These programmes are designed to ensure that the whole spectrum of the employer population receives as wide a coverage of inspections as practicable. During these inspections priority is given to the detection of non or under-deduction of tax instalments and other related evasion practices.

Recommendation 6:-

The ATO should consider recommending legislative changes to disqualify a taxpayer from receiving a refund if the taxpayer lodged the return or presented the group certificate more than four years late.

ATO's Response:-

Not agreed. The ATO does not consider that the denial of a refund to a taxpayer who lodges his or her return more than 4 years late would be effective in reducing the numbers of unapplied credit cases. A policy of denial of refunds would only complicate the processing of the group certificates as the amount of credit that was to be applied or denied could only be determined at the time the assessment was prepared.

Source: Evidence, pp.S20 - S27

Appendix VI

External Sources of Information Efficiency Audit: AAO Findings and Summary of the ATO Response.

Finding 1:- Business and professional income disclosed in returns was subject to very little checking in ATO, either before or after returns were assessed.

ATO's Response:- The Australian taxation system is based largely on concepts of voluntary compliance with the taxation laws. Audit activities conducted by the ATO are designed to encourage this and to detect those taxpayers who do not comply voluntarily. Audit coverage is being increased.

Finding 2:- There was no formal statement of policy by Taxation Head Office to require systematic collection and use of external information to check returns.

ATO's Response:- ATO recognises that use of external information is an integral part of the fight against tax evasion and developments are in course to improve the planning and co-ordination of this activity. It needs to be recognised that use of various external information sources can in the circumstances presently prevailing often be considerably labour intensive to the point where the revenue/cost effectiveness of a particular project may ultimately fall well short of what is being achieved from other case selection sources.

The development of improved information processing system facilities, as proposed by the ATO, and the use of a high integrity identification system should make considerable inroads into the difficulties with using many external sources of information.

Finding 3:- The Branch Offices of ATO did not have a planned approach for the collection of information to assist in identifying suitable projects for the detection of undisclosed income.

ATO's Response:- The ATO acknowledges that there is scope to improve the planning and co-ordination of the use of external information and action is being taken accordingly.

Finding 4:- There were no guidelines or procedures covering such matters as the types of external information required or desirable, the format in which it could be collected or methods of collection, storage, maintenance and access.

ATO's Response:- The ATO acknowledges that there is scope to improve the planning and co-ordination in this area. Its recently developed audit strategy reflects several initiatives designed to achieve this.

Finding 5:- There were no formal techniques to identify from external information particular business and professional areas where income was likely to be understated. Tax auditing and investigation work was selected mainly from internal information based on lodged returns (e.g. the Field Audit Selection Print, a computer analysis of business taxpayers' trading turnover and net income).

ATO's Response:- With the introduction of self-assessment and the consequential move to post-assessment audit as the primary compliance enforcement tool, the Taxation Office is developing revised case selection techniques for its audit and income matching programs.

A computer based system to identify and rank returns for audit action - the SCORE system, is scheduled to become operational in the first week of April 1987.

The ATO is also planning to make a number of significant enhancements to its computer based Income Matching Systems (IMS) - to be run in October 1987, to increase its effectiveness.

The use of external information both as an aid to case selection and for use during audits is also being examined as part of the wider process of developing improved case selection techniques.

Finding 6:-

The ATO had been refused access to information held by some government departments and authorities but seemed reluctant to exercise its formal power pursuant to section 264 of the Income Tax Assessment Act to obtain the information.

ATO's Response:-

Policy and Legislation Group are currently undertaking a review of the Commissioner's information gathering powers. The Attorney-General's Department is reviewing the secrecy provisions of Commonwealth legislation. The outcome of this review may also assist the ATO in obtaining access to information held by government agencies which presently have overriding secrecy provisions.

Source: Evidence, pp. S39 - S42

Appendix VII

Disclosure of Diesel Fuel Rebates Efficiency Audit: AAO's more general Findings and Summary of the ATO Response.

Finding :- The ATO did not have a system for checking that the rebates were disclosed in returns and had not made any survey of the degree of disclosure of the rebates.

ATO's Response:- Having regard to AAO's findings, inquiries were made to ascertain whether diesel fuel rebates had, in fact, been omitted from the income tax returns of recipients. In brief, the inquiries made did not provide any evidence to support Audit's contention that a diesel fuel rebate checking system could be justified on revenue/cost grounds.

Finding :- Of the 67 returns examined, AAO found varying levels of disclosure of diesel fuel rebates.

ATO's Response:- ATO selected 39 of the returns that had made partial or no disclosure of rebates and made telephone inquiries of the tax agents who had prepared the returns.

The tax agents informed ATO that the full amount of rebate had been included in the gross income or offset against the expenditure on diesel fuel in the 39 cases. The ATO regarded this as a high level of voluntary compliance and did not propose to conduct any further inquiries into the rebates.

Finding :-

Audit noted several instances where the ATO had failed to ensure that taxpayers complied with instructions regarding returns or had failed to apply required office procedures or to query certain deductions... It seemed to Audit that the absence of required lists and other details would make it difficult or impossible to carry out any checks to confirm the accuracy of the taxpayers' return, should the ATO decide to make such checks.

ATO's Response:-

It is not cost effective to devote the limited resources available to obtaining lists which do no more than confirm the details of an otherwise correct amount returned. While agreeing that it would be desirable to obtain the required details in all cases, assessors were required to exercise discretion and to issue queries where a gain to revenue was probable.

Source: Evidence, pp. S43 - S46

Appendix VIII

Partnership and Trust Distributions Efficiency Audit: AAO Findings and Summary of the ATO Response.

Finding 1:- There was no requirement or concern that distributions requiring validation be validated within a reasonable period of time. The process of locating subsidiary returns for validating distributions in response to Distribution Advices prepared by main return assessors appeared to have only a low priority.

ATO's Response:- The processing of distribution advices has not been allocated a high priority in past years in view of its highly labour-intensive nature, the relatively low revenue yield of these cases in past years, but more importantly, because significant volumes of other higher yielding work (e.g. dividend and interest income checking) are available.

Findings 2 & 3:- There were significant delays in the various stages of the validation process, and several processing weaknesses...

ATO's Response:- The previous computer based distribution matching process had not been found to be particularly revenue productive in the past because of system deficiencies. Accordingly, processing using the system as examined by the auditors was not given a high priority.

Finding 4:-

Would it be possible to encourage or require a greater number of partnership and trust returns to be lodged together with the relevant subsidiary returns to facilitate validation by the ATO of the distribution of income.

ATO's Response:-

Tax agents are regularly encouraged to lodge partnership and trust returns in sets wherever possible. The ATO recognises that such a desirable situation is not able to be achieved in all cases and that it would be impracticable to attempt to enforce lodgement of all such returns in sets by legislative change. Inducements such as further extensions of time to lodge returns were unlikely to result in any noticeable improvement in the pattern of lodgement.

Finding 5:-

What is ATO's attitude towards a recommendation made some years ago by the ATO Productivity Review Committee that lodgement of main returns for the ATO validation of distributions be replaced by a system of field audits of selected partnerships and trusts.

ATO's Response:-

This particular recommendation has been examined further as part of the Self-assessment project. While the suggestion to dispense with the lodgement of some or all partnership and trust returns has appeal at a conceptual level its adoption has numerous implications (e.g. revising alternative procedures for gathering statistical data). Further consideration of the matter has been held in abeyance pending the introduction of all of the new processing arrangements associated with Self-assessment.

Source: Evidence, pp. S47 - S51

Appendix IX

Late Lodgement Penalties Efficiency Audit: AAO's more general Findings and Summary of the ATO Response.

Finding :- ATO procedures in carrying out ATO policy were generally satisfactory. There was a small number of cases in the samples where the ATO had failed to impose late lodgement penalties or had miscalculated the period of lateness.

ATO's Response:- The errors were due to human oversight or computer system failure. Staff have been instructed to adhere to the correct procedures...

Finding :- Audit found that, although the legislation had been amended to raise the additional tax payable on late returns from 100% to 200% of the tax payable, the ATO had continued to apply its former policy of imposing additional tax at a maximum of 20% per annum. It appeared to Audit that on average the additional tax being imposed was less than 6% of the tax payable...

ATO's Response:- The ATO has viewed late lodgement of a return in the same light as late payment of tax which attracts additional tax of 20% per annum. The rate of 20% per annum was considered sufficient to provide for payment of interest as a result of the default and to incorporate an element of penalty to act as a deterrent.

A policy for increasing the culpability factor in determining the rate of penalty is currently being considered for all taxes.

Finding :- Review the presentation of the Commissioner's Annual Report to include the amount of additional tax remitted.

ATO's Response:- It is not practicable to provide in the annual report details of every aspect of tax administration. The presentation of additional tax remitted was improved in the Commissioner's 1985/86 Annual Report.

Finding :- Audit noted cases in which the fine imposed by a court under the taxation legislation was less than the additional tax that would otherwise have been payable under ATO administrative arrangements.

ATO's Response:- The ATO advised that, where a person has failed to respond to a final notice demanding lodgement of a return, the main enforcement tool is to proceed to prosecution and to secure an order from the court for lodgement of the return. The court will usually impose a fine for non-lodgement, but the ATO has no control over the amount of the fine. Any determination of this type can only be calculated on receipt of the taxpayer's return and the prosecution action is necessary in order to obtain the return.

Source: Evidence, pp. S52 - S55

Appendix X

**PMPR Report - A Taxing Solution:
Summary of Key Outcomes from the Change Program and Progress
Achieved to date by ATO.**

BY JULY 1987

Outcome 1:- Adopt Performance Plans for 87/88.
Schedule key actions and outcomes.

Achievement:- Completed.

Outcome 2:- Produce simple five-year projection of
revenue and costs and discuss with
Department of Finance in order to develop
a basis for ongoing resource management.

Achievement:- Work commenced and is continuing on
projecting costs for major change
projects. The task of completing revenue
projections for the ATO is also underway,
such information forming the basis of
recent submissions to Government for the
expansion of Taxpayer Audit.

Outcome 3:- List major change programs in critical
order of importance and decide if any may
be deferred.

Achievement:- Management change programs have been
listed and priorities assigned. No new
major change programs are commenced
without Management Board consideration of
existing change programs and relevant
priorities. Progress of all major change
programs is considered by Management
Board on a regular basis.

Outcome 4:- Introduce simple resource management reporting from 1 July (consultancy study recommended).

Achievement:- A consultant-led review of management systems was finalised in November 1987. A series of workshops directed towards developing simple resource management reporting is currently being organised.

Outcome 5:- Identify target areas for job design and associated training (Audit, Recovery and Returns Examination).

Achievement:- Audit, Revenue Collection (including Recovery and Returns Examination), Taxpayer Service and Corporate Services Groups are seen as requiring the most significant focus for initial job design and associated training of staff. Examination of the latter three Groups has been initiated as part of the Public Service wide Office Structure Review. The process for job design is being developed, for implementation from early 1988. Job design and training aspects for Recovery will be completed by the end of February 1988. Major job design changes resulting from a consultant led review of the Taxpayer Audit Group are in course of implementation following endorsement by Government in the 1987 budget.

BY JULY 1988

Outcome 1:- Successful development of the Audit program to meet 1987/88 targets and build the basis for further development in 88/89.

Achievement:- Results year to date are on course to meet 1987/88 targets. The program is being further developed to improve target setting and monitoring.

Outcome 2:- Successful reduction in outstanding tax through improved recovery initiatives and appeals and objections initiatives.

Achievement:- The level of outstanding tax at 1 July 1987 has been reduced by 26.2%, compared to 21.8% for the same period in the previous year. (Section 260 "Bottom of the Harbour" assessments excluded). This reduction is due to an increase in collections of \$116 million resulting, in part, from a number of initiatives including the increased use of computer support in the Debt Management areas. The implementation of this mini computer based support is progressing ahead of schedule.

Outcome 3:- Have addressed key issues raised in Audit Organisation project, including professional structures, extended use of teams, improved balance of activities across segments.

Achievements:- Implementation of recommendations proceeding. New structure will be substantially in place by July with an enhanced team approach, working to redeveloped procedures.

Outcome 4:- Develop and meet milestones for longer terms systems program.

Achievement:- The annual revision to the Information Systems Plan has been completed, including planned resource allocations and milestones. Work in progress is in accordance with the plan.

Outcome 5:- Have implemented, in consultation with staff, a number of system enhancements of immediate benefit to staff engaged in day to day operations.

Achievement:- 1987/88 Information Systems Plan incorporates such systems enhancements for major systems. Decisions were made by user areas as to which enhancements are to be implemented.

Outcome 6:- Extensive implementation of job redesign in target areas.

Achievement:- In consultation with the unions, a process for participatory implementation of job redesign and restructuring across the ATO is being developed. Significant progress is expected to have been made by July 1988.

Outcome 7:- Concentration of senior managers on accountability for key outcomes and priorities. Performance against PIP's evaluated and managers held responsible for results achieved.

Achievement:- Each Group Head reports to the Management Board every six weeks on key performance indicators for their Group.

Outcome 8:- Planning strengthened and simplified, some current developments deferred, planning and resource management more key issue drive.

Achievement:- The ATO Management Board has developed its own plan for 1987/88, concentrating on a few key issues. A program for the development of the 1988/89 plan was approved by the Board after consultation with Branch Offices.

Outcome 9:- Additional areas where compliance can be cost effectively improved in the short term identified and scheduled for action.

Achievement:- Evaluation of income matching and Desk Audit activities will be complete. Substantial progress in intelligence/information processing to identify and collect taxes evaded through non-lodgement, failure to declare income, and international operation will be made. Initial large case audits will be launched with a strong emphasis on early evaluation to apply lessons learned in the field.

BY JULY 1989

Outcome 1:- Have developed higher level audit skills and recruited/developed key staff to expand this activity.

Achievement:- Initial action has focused on improving graduate recruitment, training and development at all levels (particularly in audit management skills). Enhancement of internal centres of expertise is a project for development in late 1987/88.

Outcome 2:- Have implemented Taxpayer Service initiatives and achieved the planned external impacts from this program.

Achievement:- A future vision for greatly increased levels of taxpayer service has been established and Program Improvement Plans are being used to closely monitor progress towards achievement of that vision. Major initiatives taken to date include an upgrading of our taxpayer enquiry service at a cost of \$2.4M (which has necessitated a reallocation of internal resources) together with a considerable expansion of the range of publications available to assist taxpayers in complying with their responsibilities.

Outcome 3:- Have developed clear user capacity to drive new systems developments. Clear evidence of user priorities in plans and schedules for this program.

Achievement:- User input for the Redevelopment Project will be at the highest level. Overall project management has been assigned to Second Commissioner Carmody and specialist consultant has been engaged to assist. A Steering Committee chaired by the Commissioner with membership comprised of Group Heads, Branch Office and Union representatives is operating.

Outcome 4:-

Have established an effective focus for both Personnel and Resources Management, and a clear understanding across the organisation of the roles and contribution required of both these functions.

Achievement:-

Work has commenced on the development of a resource management strategy with the objective of creating a management style or culture that will establish consistent and integrated policies and practices in all relevant areas; these include management reporting, participatory management, recruitment, performance measurement.

Outcome 5:-

Planning and resource management have improved to support the adoption of a strategic focus by the ATO.

Achievement:-

Each Group Head reports to the Management Board on a few key verifiable outcomes from the 1987/88 Corporate Plan, thereby linking strategic planning and resource management.

Source: Evidence, pp. 284. - 287