

CHAPTER 1

THE AUSTRALIA CARD PROPOSAL

Introduction

1.1 In June 1985 Government plans for a national system of identification were outlined in the draft White Paper 'Reform of the Australian Tax System'.¹ The paper estimated that additional taxation in the order of \$800 million might be collected from the system within three years of its operation. An interdepartmental committee (IDC) was established in May 1985 to report on the feasibility and benefits of the proposal and to provide a strategy for implementation. An outline of the proposal was presented in a brochure² to the Taxation Summit in July 1985. The brochure indicated that, in addition to reducing taxation evasion, the identification system would reduce health and welfare fraud and help to detect illegal immigrants, thereby opening up employment opportunities for legal residents.

1.2 In July 1985 a second IDC was established to undertake all detailed planning. Concurrently, the Health Insurance Commission was directed to undertake a separate interim planning report on the establishment and administration of what was now known as the Australia Card proposal. The reports of both of these inquiries were presented to the Government in August 1985 and kept confidential until presented to the Committee on 13 December 1985. The reports were immediately made publicly available by the Committee and incorporated into the transcript of evidence of the Committee's first public hearing on 17 December 1985.³

1.3 The initial decision to implement the Australia Card proposal was announced by the Treasurer on 19 September 1985 in the statement 'Reform of the Australian Taxation System'.⁴ The Treasurer proposed that use of the Australia Card would be confined to the primary functions proposed at the Taxation Summit. The Australia Card would utilise a unique number and the holder's signature but would not include a photograph. The proposed system would be administered by the Health Insurance Commission (HIC), making use of the network of Medicare offices. The HIC would also hold a central register of basic identification details for individuals, eg. full name, address, date of birth. The Treasurer also proposed that a companion system be introduced for the wide range of entities, such as corporations, trusts, etc., and other non-individuals liable to pay tax. It was envisaged that this system would prevent the leakage of revenue gains from individuals to entities and other non-individuals. The Treasurer estimated that taxation revenue gains would be \$105 million in the first year (1989-90) of full operation of the system, rising to around \$540 million per annum after the third year of operation. Total establishment costs for the system were expected to be \$127 million and annual operating costs were expected to average around \$86 million per annum for the seven years up to 1992-93 stabilising at around something under \$100 million per annum thereafter. The expected revenue gains were lower than the \$800 million originally envisaged as a result of the non-inclusion of a photograph on the Card and also because the estimated gains were based on the proposed new tax scales.

1.4 In September 1985 the Government introduced the Health Legislation Amendment Act (No. 2) 1985 which inter alia contained provisions enabling the HIC to undertake planning for the establishment for a national identification system. During the debate on this legislation various concerns were expressed in relation to the Australia Card proposal. Eventually the Government agreed to the establishment of a Joint Select

Committee of the Parliament which would investigate and report on the proposal. The Resolution by both Houses of Parliament establishing the Committee and its terms of reference is set out in the introduction to this Report. In the four months since its establishment the Committee has conducted a thorough investigation of all aspects of the proposal.

1.5 The Committee commenced its public hearings on 17 December 1985 although it was at a considerable disadvantage. The only details available concerning the proposal were contained in the Report by the IDC and the interim HIC Planning Report. Both the Committee and the witnesses that appeared before it had very little assistance as to the precise details of the proposal. Both Reports raised more questions than they answered causing the Committee considerable difficulty in assessing the proposal under its terms of reference. This difficulty was exacerbated by the short reporting deadline of the Committee - 31 March 1986 - and eventually the Committee was forced to extend its reporting date until 8 May 1986.

The Government submission

1.6 On 10 February 1986 the Government presented its submission entitled 'Towards Fairness and Equity: The Australia Card Program' to the Committee.⁵ The Government submission proposed that the Australia Card identity number be used by 13 different Government agencies. The intended uses comprised four main categories: legal identification, revenue raising, welfare/benefit protection, and epidemiological and statistical. All Australian citizens and all foreign nationals in various prescribed categories would be eligible to register for and obtain a Card. On registration each person would be allocated a unique identification number which would be displayed on the Card together with the person's name, signature and the period of the Card's validity. Cards for persons under the age of

eighteen years would be normally held by the parent or guardian. Cards issued to visitors and temporary residents of Australia would be readily distinguished from those of Australian citizens and permanent residents and would indicate whether the visitor or temporary resident was entitled to work and/or receive Medicare benefits.

1.7 The basic functions of the Australia Card Program are to provide a framework of identification within Australia which would aid in the positive identification of:

- (a) participants in specified financial transactions (for taxation purposes);
- (b) persons lawfully entitled to undertake work in Australia;
- (c) persons entitled to Commonwealth Government pensions, income support payments and assistance under other Government programs;
- (d) persons entitled to Medicare benefits;
- (e) persons entitled to an Australian passport; and
- (f) persons seeking to register for employment with the Commonwealth Employment Service.

Production of the Card would, of itself, verify identity.

1.8 While the Government submission provided far greater detail on the intended uses of the Australia Card it also contained a number of significant changes in relation to the program. The most significant policy change concerned registration and production of the Card for certain benefits.

The Government's original policy, as announced by the Treasurer, was that non-production of the Card or number for legislated purposes would not alter a person's rights or entitlements to Commonwealth benefits or payments, subject only to that person being able to demonstrate sufficient proof of identity as would confer eligibility for the issue of the Card. However, the Government submission argued that this policy was inconsistent with the objectives of the system and proposed a policy of mandatory registration. Registration for the Card, with the associated ability to present the Card or provide the number, would be a prerequisite for the payment for all health, welfare and other benefits for which the Card or number is required. These benefits and payments would include Medicare, social security, repatriation, student assistance, home ownership benefits, labour market training allowances, domiciliary nursing care benefits, subsidies in respect of private hospital patients (should existing subsidy arrangements continue), and nursing home benefits.

Taxation uses

1.9 The primary focus of the Australia Card proposal is the reduction of tax evasion. The proposal would ensure that a greater range of information is reported to the Australian Taxation Office (ATO) and the Australia Card number would be the key to a much more efficient matching of that information. The very existence of the number and public knowledge of the associated information reporting requirements would promote voluntary compliance through the deterrent effect. In addition, the increased capacity to use information from external sources would enable a better selection of tax audit cases.

1.10 The second IDC report proposed a wide range of uses for taxation purposes.⁶ A number of these uses were not included in the Government submission to the Committee. The final

proposed ten major uses for the ATO which would require production of and verification of identity by the Australia Card are:

1. Opening or continuing any account with a bank, building society, credit union or similar organisation after 1 March 1989. Sanctions proposed include prohibition on opening new accounts, prohibition on operating unverified existing accounts from 1 July 1990 and penalties against financial institutions opening and continuing to operate unverified accounts from 1 July 1990.
2. Investing with Government or semi-Government bodies, solicitors' trust accounts or other interest bearing investments. Sanctions similar to those proposed above would apply.
3. Investments in trusts, cash management or property trusts.
4. Derivation by individuals and entities of:
 - (a) primary production incomes through marketing authorities and produce agents;
 - (b) rental income through real estate agents in respect of rental properties; and
 - (c) non-salary or non-wage incomes through Government agencies by doctors, chemists and other professional persons or entities.

Sanctions would include withholding tax at the maximum marginal rate and statutory penalties against payer organisations.

5. Sending money overseas by either individuals or companies. Sanctions to include prohibiting the overseas remittance and penalties against foreign exchange dealers. After 1 March 1989 all remittances of more than \$50 000 would be reported to the ATO.
6. All real estate transactions by either individuals or entities. A fine would be imposed for failure by the purchaser or vendor to provide the correct Australia Card number and all State and Territory Registrars of Titles would be required to provide to the ATO details of purchases and sales.
7. Holding or using a safety deposit box after 1 March 1989. Sanctions would be similar to those proposed for the first use.
8. Buying shares or futures after 1 March 1989. Sanctions as for use 1.
9. Applying for work, including work done on a contract or similar basis. All such employment to be reported to the ATO. Sanctions to include a withholding tax at the maximum marginal rate from the gross amount of income, with penalties against employers.
10. The correct identification of a person seeking registration as a group employer or for sales tax purposes.⁷

1.11 The submission confirmed the Treasurer's announcement that a companion system of identification for a wide range of entities and other non-individuals including corporations, trusts, partnerships, various clubs, associations and so on was to be introduced. The submission proposed that the most

effective companion system would be to use the Australia Card number of a relevant person associated with an entity to validate the prescribed transaction of that entity. The purpose of this companion system for entities was to prevent the leakage of revenue gains from individuals to entities and other non-individuals.

Taxation benefits

1.12 The Australian Taxation Office's estimates of taxation revenue gains based on 1985/86 prices, for a Card without and with a photograph are shown in the Tables 1 and 2 for the years 1989/90 to 1993/94. These Tables indicate that revenue gains in the scheme's fourth year of full operation are estimated to be \$551 million (without a photograph) and \$724 million (with a photograph).

1.13 Voluntary compliance: The Government submission indicated that the ATO revenue gains include figures for the effect of voluntary compliance. It is estimated that an amount of \$117 million (Card without a photograph) and a \$153 million (Card with a photograph) would be derived from those taxpayers who are not at present lodging income tax returns or who do not show their income from all sources, but who would subsequently decide to voluntarily disclose income in their return because of the existence of an Australia Card. The balance of the revenue would be gained through enforcement activity involving audit, information reporting and income matching.

1.14 Companion system of entities: The Government submission made no attempt to isolate and quantify the revenue gains from a companion entity system. It is envisaged that the system would form an integral part of each of the other uses and is designed to prevent revenue leakage from the Australia Card system should

prescribed transactions be entered into by entities which are not natural persons. Thus, the profits of this system are incorporated into each of the ATO uses.

1.15 Staff: The ATO estimates that it would require the following additional staff to generate its revenue gains: 631 in 1990/91, 631 in 1991/92 and 308 in 1992/93.⁸ No additional staff would be required after that date under the Australia Card program. The ATO estimates that on average an additional 30 staff per annum is required for non-compliance duties from 1987/88.⁹ The ATO noted that the implementation of the Australia Card program would be synchronised as far as possible with the already improved increase in audit coverage to 2 per cent of the non-salary and non-wage taxpayers by 1992. The introduction of a system of self-assessment of tax returns would release most of the staff required by the increase in audit coverage.

AUSTRALIA CARD - ESTIMATED TAXATION REVENUE GAINS -- WITHOUT HOICORAH

BASIS: 85/6 BRICING (\$ millions)

	USE 1	USE 2	USE 3	USE 4	USE 5	USE 6	USE 7	USE 8	USE 9	TOTAL
	IDENTIFYING ACCOUNT-HOLDERS WITH BANKS & FINANCIAL INSTITUTIONS	IDENTIFYING INVESTORS WITH GOVT/SEMI-GOVT BODIES ETC.	IDENTIFYING INVESTORS WITH UNIT, CASH MANAGEMENT & HOBBY TRUSTS	IDENTIFYING 1) EP INCOME THROUGH MARKETING AUTHORITIES 11) RENTAL INCOME FROM REAL ESTATE AGENTS 111) PROFESSIONAL INCOME THROUGH GOVT. AGENCIES	OVERSEAS REMITTANCES	REAL ESTATE	SAFETY DEPOSIT BOXES	PUBLIC COMPANY SHARE - HOLDERS & DEALERS ON FUTURES EXCHANGES	EMPLOYMENT (INCLUDING PPS)	
89/90	28	16	1	11	1	1	-	1	58	117
90/91	87	57	9	44	4	10	1	16	94	322
91/92	136	95	19	68	5	18	3	27	101	472
92/93	150	105	28	88	6	26	4	38	106	551
93/94	150	105	28	88	6	26	4	38	106	551

Source: Department of Health, Towards Fairness and Equity: The Australia Card Program, Submission by the Government of Australia, 6 February, 1986, p. 111.

TABLE 2

AUSTRALIA CARD - ESTIMATED TAXATION REVENUE GAINS - WITH HOJIOGRAHI

BASIS: 65/6 PRICING (\$ millions)

	USE 1	USE 2	USE 3	USE 4	USE 5	USE 6	USE 7	USE 8	USE 9	TOTAL
	IDENTIFYING ACCOUNT-HOLDERS WITH BANKS & FINANCIAL INSTITUTIONS	IDENTIFYING INVESTORS WITH GOVT/SEMI-GOVT BODIES ETC.	IDENTIFYING INVESTORS WITH UNIT, CASH MANAGEMENT & PROPERTY TRUSTS	IDENTIFYING 1) PP INCOME THROUGH MARKETING AUTHORITIES 11) RENTAL INCOME FROM REAL ESTATE AGENTS 111) PROFESSIONAL INCOME THROUGH GOVT. AGENCIES	OVERSEAS REMITTANCES	REAL ESTATE	SAFETY DEPOSIT BOXES	PUBLIC COMPANY SHARE - HOLDERS & DEALERS ON FUTURES EXCHANGES	EMPLOYMENT (INCLUDING PPS)	
89/90	35	21	1	13	1	1	-	1	80	153
90/91	109	70	14	57	5	13	1	19	125	413
91/92	172	120	30	89	7	23	3	34	134	612
92/93	190	134	43	119	9	33	5	49	142	724
93/94	190	134	43	119	9	33	5	49	142	724

Source: Department of Health, Towards Fairness and Equity: The Australia Card Program, Submission by the Government of Australia, 6 February, 1986, p. 113.

Benefits and costs of the proposal

1.16 Benefits. The full revenue gains (benefits) obtained by the Australia Card program over a ten year period commencing in 1986/87 are set out in Table 3. A number of assumptions have been made with respect to this table and for that reason it is classified as analysis 1. The Table assumes that 1985/86 conditions apply throughout the full ten year period, in particular, the price basis is constant, and the national income and population remain at the 1985/86 level. This static analysis is known as the steady state approach. The Table contains two sets of estimates of benefits for a Card with and without a photograph, in relation to the ATO and the HIC. Estimates of benefits for other agencies were prepared on the basis of no photograph.

1.17 Table 3 shows that under the above assumptions the estimated financial benefits to the Commonwealth total almost \$4500 million over the ten year period. This estimate is based on a Card without a photograph. The Table also indicates that substantial revenue gains are first obtained in 1989/90 (\$215 million) and full benefits of \$757 million per annum are obtained in 1992/93.

TABLE 3

AUSTRALIA CARD - COST/BENEFIT SUMMARY - BENEFITS

(Analysis 1: steady state, 10% annual discount, in \$ millions)

	86/87	87/88	88/89	89/90	90/91	91/92	92/93	93/94	94/95	95/96	TOTALS
AUSTRALIAN TAXATION OFFICE - no photo	0.000	0.000	0.000	117.000	322.000	472.000	551.000	551.000	551.000	551.000	3115.000
- with photo	(0.000)	(0.000)	(0.000)	(153.000)	(413.000)	(612.000)	(724.000)	(724.000)	(724.000)	(724.000)	(4074.000)
HIC - Medicare	5.900	3.250	4.500	5.000	5.000	5.000	5.000	5.000	5.000	5.000	48.650
- no photo	(5.900)	(4.000)	(6.500)	(7.500)	(7.500)	(7.500)	(7.500)	(7.500)	(7.500)	(7.500)	(68.900)
- with photo	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Health - Private Hospital Subsidy	3.710	1.612	1.612	1.612	1.612	1.612	1.612	1.612	1.612	1.612	18.218
SOCIAL SECURITY	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
HOUSING AND CONSTRUCTION	0.000	0.000	0.000	0.100	0.200	0.200	0.200	0.200	0.200	0.200	1.300
EDUCATION	0.000	0.000	0.000	1.000	0.900	0.800	0.700	0.600	0.500	0.400	4.900
VETERANS' AFFAIRS	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
COMMUNITY SERVICES	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
EMPLOYMENT AND INDUSTRIAL RELATIONS	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
FOREIGN AFFAIRS	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
IMMIGRATION AND ETHNIC AFFAIRS	0.000	1.248	4.118	90.605	199.331	199.331	199.331	199.331	199.331	199.331	1291.957
AUST. INSTITUTE OF HEALTH	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
AUST. BUREAU OF STATISTICS	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
TOTAL BENEFITS	9.610	6.110	10.230	215.317	529.043	678.943	757.843	757.743	757.643	757.543	4480.025
CUMULATIVE BENEFITS	9.610	15.720	25.950	241.267	770.310	1449.253	2207.096	2964.839	3722.482	4480.025	
DISCOUNTED BENEFITS	9.610	5.555	8.455	161.771	361.343	421.570	427.783	388.842	353.446	321.272	
CUMULATIVE DISCOUNTED BENEFITS	9.610	15.165	23.619	185.390	546.733	968.304	1396.086	1784.928	2138.374	2459.646	

NOTE: For purposes of the analysis, Social Security benefits are assumed to equal costs for the period as a whole and in each year.

Source: Department of Health, Towards Fairness and Equity: The Australia Card Program, Submission by the Government of Australia, 6 February, 1986, p. 123.

1.18 The analysis in Table 3 also provides a means of assessing the present value of the benefits gained under the Australia Card program. To bring future benefits to current equivalents, they are discounted at an appropriate rate. The further into the future a benefit lies, the greater is the discounting effect and hence the smaller is the present value of that benefit. In Table 3 the discount rate has been set at 10 per cent and this rate applies for each year over the ten year period. The Department of Finance informed the Committee that a 10 per cent discount rate is orthodox amongst Finance and Treasury for assessing projects. The Table sets out the accumulated discounted benefits and shows that the present value of the project of the Australia Card proposal over the period of ten years is \$2459 million.

1.19 Costs: It is estimated that the full cost of the program over a ten year period would be \$733 million. The costs of the proposal at present values (using a cumulative discount of 10 per cent) is \$539 million. These new costings, which are significantly lower than earlier estimates, were provided by the HIC in its final planning report and the figures are set out in Table 4. These costs are also based on a steady state basis with a 10 per cent annual discount.¹⁰

TABLE 4

AUSTRALIA CARD - COST/BENEFIT SUMMARY - COSTS

(Analysis 1: steady state, 10% annual discount, in \$ millions)

	86/87	87/88	88/89	89/90	90/91	91/92	92/93	93/94	94/95	95/96	TOTALS
ADMINISTERING AGENCIES											
HIC - Estab. & Oper.: no photo (1)	104.037	100.743	68.081	18.697	18.494	42.184	42.184	42.184	42.184	42.184	520.972
- Estab. & Oper.: photo (1)	(111.392)	(106.591)	(71.854)	(19.420)	(19.217)	(45.316)	(45.316)	(45.316)	(45.316)	(45.316)	(555.054)
HEALTH - Aust. Card Secretariat (1)	24.800	0.500	0.500	0.500	0.000	0.000	0.000	0.000	0.000	0.000	26.300
DATA PROJECTION AGENCY	1.200	1.700	2.300	2.300	2.300	2.300	2.300	2.300	2.300	2.300	21.300
USER AGENCIES											
AUSTRALIAN TAXATION OFFICE (2)	0.336	1.393	10.272	3.400	28.340	28.340	15.097	2.469	2.469	2.469	94.585
HIC - Medicare	3.075	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	3.075
HEALTH - Private Hospital Subsidy	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
SOCIAL SECURITY	3.710	1.612	1.612	1.612	1.612	1.612	1.612	1.612	1.612	1.612	18.218
HOUSING AND CONSTRUCTION	0.000	0.087	0.138	0.127	0.127	0.127	0.127	0.127	0.127	0.127	1.114
EDUCATION	0.000	0.000	0.000	0.025	0.050	0.050	0.050	0.050	0.050	0.050	0.325
VETERANS' AFFAIRS	0.112	0.899	0.691	0.698	0.240	0.240	0.240	0.240	0.240	0.240	3.840
COMMUNITY SERVICES	0.000	0.000	0.150	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.150
EMPLOYMENT AND INDUSTRIAL RELATIONS	0.000	0.000	1.186	1.186	1.186	1.186	1.186	1.186	1.186	1.186	9.488
FOREIGN AFFAIRS	1.442	1.242	1.242	1.242	1.242	1.442	1.242	1.242	1.242	1.242	12.820
IMMIGRATION AND ETHNIC AFFAIRS	6.204	1.691	1.658	1.658	1.658	1.658	1.658	1.658	1.658	1.658	21.159
AUST. INSTITUTE OF HEALTH	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
AUST. BUREAU OF STATISTICS	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
TOTAL COSTS	144.916	109.867	87.830	31.445	55.249	79.139	65.696	53.068	53.068	53.068	733.346
CUMULATIVE COSTS	144.916	254.783	342.613	374.058	429.307	508.446	574.142	627.210	680.278	733.346	
DISCONTINUED COSTS	144.916	99.879	72.587	23.625	37.736	49.139	37.084	27.232	24.757	22.506	
CUMULATIVE DISCONTINUED COSTS	144.916	244.795	317.382	341.007	378.743	427.882	464.966	492.198	516.954	539.460	

NOTES 1. As indicated in paragraph VI.2, the HIC costs include an amount of \$25.7m (spread between 1986/87 and 1987/88) for computerisation of State and Territory Registries of births, deaths and marriages. The balance (\$24.3m) of the earlier notional amount of \$50m is included in the HEALTH costs in 1986/87.

2. For explanation of fall away in ATO costs after 1991-92, see paragraph 8.2.7 and Table 8.4 of Government submission to Joint Select Committee.

Source: Health Insurance Commission, Australia Card: Planning Report on the establishment and administration of a national identification system, February, 1986, p. 214.

1.20 Using the figures contained in Tables 3 and 4 the Health Insurance Commission prepared a cost/benefit summary of the Australia Card project. These figures are set out in Table 5. The Table is set out on the basis of the present value of the project and is the sum of the discounted benefits minus the sum of the discounted costs. The Table has been prepared on the basis of a Card with and without a photograph. Table 5 shows that the present value of the Australia Card program using the assumptions in analysis 1 over the ten year period is \$1920 million for a Card without a photograph and \$2424 million for a Card with a photograph.

1.21 The Department of Finance informed the Committee that the steady state assumption used in these tables is a very conservative assumption. While analysis 1 is the predominant analysis shown in the Government and the HIC submissions and underlies all the Tables herein, the HIC submission contained further tables where the assumptions in analysis 1 are changed. Table 6 contains figures showing the present value of the Australia Card project using four different analyses, each containing three different discount rates. For example, analysis 2 assumes that there has been a three per cent increase in economic growth which has an important effect on tax receipts. Under this assumption the Table assumes a three per cent compound growth rate for the full ten years. Analysis 2 also assumes a population growth of 1.29 per cent which has some effect on the costs involved in the proposals.

1.22 The Department of Finance indicated that analysis 2 was a much more realistic presentation of the costs and benefits under the Australia Card program. Using the assumptions contained in analysis 2, including a 10 per cent discount rate, the Table shows that the benefits of the proposal are \$2480 million for a Card without a photograph and \$3120 million for a Card with a photograph. The Department of Finance informed the

Committee that even the three per cent growth rate is a fairly conservative forward projection. It informed the Committee that over the last few years there has been a growth rate of four to five per cent. The population growth of 1.29 per cent is based on a recent projection from the Australian Bureau of Statistics and the Department noted it was a medium projection. The Department also indicated that the 10 per cent rate is a fairly high rate of discount although it is used traditionally in assessing public sector projects.

1.23 Table 6 indicates that the results of the analysis are sensitive to the amount of the discount rates. The higher the discount rate the lower the present value and the lower the discount rate the higher the present value. Thus, Table 6 shows that under analysis 2 the value of the proposal for a Card with a photograph under an eight per cent discount rate is \$3540 million and under a 12 per cent discount rate \$2750 million.

1.24 The benefit cost ratios (BCR) of the proposal are also set out in Table 6. The BCR is the ratio of aggregate discounted benefits to aggregated discounted costs over the period in question. The higher a project's present value (greater than zero) and its BCR (greater than one), clearly the more attractive the proposal is to undertake. Table 6 indicates that under analysis 2 and using a 10 per cent discount rate the BCR is 5.51 for a Card without a photograph and 6.46 for a Card with a photograph.

TABLE 5

AUSTRALIA CARD - COST/BENEFIT SUMMARY - PRESENT VALUE

(Analysis 1: steady state, 10% annual discount, in \$ millions)

	86/87	87/88	88/89	89/90	90/91	91/92	92/93	93/94	94/95	95/96
	WITHOUT PHOTOGRAPH									
CUMULATIVE DISCOUNTED BENEFITS	9.610	15.165	23.619	185.390	546.733	968.304	1396.086	1784.928	2138.374	2459.646
CUMULATIVE DISCOUNTED COSTS	144.916	244.795	317.382	341.007	378.743	427.882	464.966	492.198	516.954	539.460
PRESENT VALUE	-135.306	-229.630	-293.763	-155.617	167.990	540.422	931.120	1292.730	1621.420	1920.186
	WITH PHOTOGRAPH									
CUMULATIVE DISCOUNTED BENEFITS	9.610	15.846	25.954	216.650	641.856	1151.907	1678.755	2157.656	2592.974	2988.675
CUMULATIVE DISCOUNTED COSTS	152.271	257.466	333.171	357.340	395.569	446.653	485.505	514.344	540.562	564.396
PRESENT VALUE	-142.661	-241.620	-307.217	-140.690	246.287	705.254	1193.250	1643.312	2052.412	2424.279

NOTE: The program essentially becomes fully operational in 1989/90.

Source: Health Insurance Commission, Australia Card: Planning Report on the establishment and administration of a national identification system, February, 1986, p. 216.

TABLE 6

AUSTRALIA CARD - PRESENT VALUES AND BENEFIT/COST RATIOS (BCRs)

ANALYSIS 1: Assumes a 10 year time horizon and the maintenance of 1985/86 conditions (economic activity, population etc.)

Discount Rate	WITHOUT PHOTO		WITH PHOTO	
	Present Value \$M	BCR	Present Value \$M	BCR
8%	2180	4.84	2750	5.62
10%	1920	4.56	2420	5.29
12%	1690	4.29	2140	4.98

ANALYSIS 2: Assumes a 10 year time horizon and 3% per annum increase in the level of economic activity and revenue base. Population is assumed to grow by 1.29% per annum.

Discount Rate	WITHOUT PHOTO		WITH PHOTO	
	Present Value \$M	BCR	Present Value \$M	BCR
8%	2820	5.86	3540	6.87
10%	2480	5.51	3120	6.46
12%	2180	5.18	2750	6.07

ANALYSIS 3: The same assumptions as Analysis 1 but with a 20 year time horizon.

Discount Rate	WITHOUT PHOTO		WITH PHOTO	
	Present Value \$M	BCR	Present Value \$M	BCR
8%	4500	6.67	5650	7.77
10%	3720	6.18	4670	7.20
12%	3090	5.73	3890	6.67

ANALYSIS 4: The same assumptions as Analysis 2 but with a 20 year time horizon.

Discount Rate	WITHOUT PHOTO		WITH PHOTO	
	Present Value \$M	BCR	Present Value \$M	BCR
8%	6530	8.67	8170	10.17
10%	5350	8.01	6690	9.39
12%	4420	7.39	5530	8.67

Note: All present value figures are rounded to nearest \$10m.

Source: HIC, p. 218.

1.25 Table 6 shows that under the assumptions of analyses 2, 3 and 4 the program is successively more attractive. The assumptions of analysis 2, namely of introducing economic and population growth, raised the present value of the program to \$2480 million (without a photograph) and \$3120 million (with a photograph). However, the figures obtained under this analysis are substantially conservative because of the ten year cut off date. This figure was chosen because automatic data processing equipment can be expected to have an operational life of up to ten years. Further, assumptions concerning the economic and population growth, tax and welfare systems become increasingly tenuous beyond that period.

1.26 Because of this conservative bias, Table 6 also sets out the present value of the project over a twenty year period. The Table reveals that the present value of the project under the assumptions of analysis 3 (a twenty year period) is more than double that under analysis 1 (a ten year period) and similar results are apparent comparing the assumptions of analysis 4 with that of analysis 2. The Government submission noted that this reflected two effects. First, the benefits which the program would produce in the second decade are likely to exceed those of the first. The ATO benefits do not reach their full level until the seventh year whereas costs are concentrated in the early years of the program (except for some anticipated re-equipment costs early in the second decade). Second, to the extent that net benefits could be expected in the second decade of the program, these will translate into substantial additions to the program's present values. For example, at a 10 per cent annual discount rate a net benefit of one dollar in year 11 has a present value of \$0.39; one dollar in year 20 has a present value of \$0.15.

1.27 The HIC also provided a table setting out the cost benefit analysis of the individual agencies involved in the Australia Card program. These figures are set out in Table 7 and are based on analysis 1, ie. a steady state assumption over a ten year period with a 10 per cent annual discount.

1.28 As noted earlier the discounted costs of the HIC for the period 1986/87 to 1995/96 are nearly \$200 million less than those shown in the Government's submission. The significant reduction in the Commission's cost estimates has led to increases in both BCRs and present values of the program as a whole. Under analysis 1 the BCR for the overall program has increased to 4.56 without photograph and to 5.29 with photograph. Thus under this (the most conservative) analysis, around to \$4 to \$5 revenue would be generated for each \$1 outlay during the period 1986/87 to 1995/96. Using the more realistic approach in analysis 2 and based on a 10 per cent discount, around \$5.50 revenue for a Card without a photograph and nearly \$6.50 for a Card with a photograph would be generated for each one dollar outlaid during the period 1986/87 to 1995/96. Over a twenty year period the same assumptions yield \$8 for a Card without a photograph and \$9.39 for a Card with a photograph for each dollar outlaid during that period.

TABLE 7

AUSTRALIA CARD - COST/BENEFIT ANALYSIS

BENEFIT/COST RATIOS (BCRs) (Analysis 1: steady state, over 10 years, 10% annual discount)

DEPT./AUTHORITY	NO PHOTO		PHOTO	
	BCR	% OF PRESENT VALUE	BCR	% OF PRESENT VALUE
AUST. TAX. OFFICE				
USE 1	16.45	18.53%	21.16	19.71%
USE 2	28.70	13.16%	36.43	13.66%
USE 3	18.64	3.00%	28.69	3.97%
USE 4	23.77	10.42%	31.69	11.45%
USE 5	18.77	0.75%	26.76	0.88%
USE 6	24.61	2.88%	31.27	3.01%
USE 8	19.58	4.20%	24.89	4.40%
USE 9	81.46	16.06%	109.18	17.60%
OVERALL TAX USES	27.18	69.61%	35.51	74.80%
HIC (Medicare)	10.63	1.27%	14.66	1.47%
SOCIAL SECURITY	1.00	0.00%	-	0.00%
EDUCATION	4.00	0.02%	-	0.02%
VETERANS' AFFAIRS	1.06	0.01%	-	0.01%
DIEA	-	30.41%	45.93	24.78%
DEPTS./AGENCIES TOTAL	4.56	100.00%	5.29	100.00%

NOTES: (1) The BCR for each individual use is the benefit of the use divided by the cost directly related to that use (and excluding any share of HIC establishment or operating costs). The BCR for the project as a whole is the total benefits divided by total costs (including HIC costs).

(2) The percentage figures are the present values for each use divided by the sum of the present values of all uses. These figures do not sum to 100%. This is because they exclude agencies which have not quantified or identified costs (ATO Use 7) or benefits (Community Services, Housing and Construction, Foreign Affairs, Employment and Industrial Relations, ATO Use 10, Data Protection Agency and Health (Private Hospital Subsidy and Australia Card Secretariat)). In addition, Australian Bureau of Statistics and Australian Institute of Health quantify neither benefits nor costs.

Source: HIC, p. 217.

Aims of the proposal

1.29 The basic motivation behind the Australia Card proposal is to prevent losses to revenue through the tax system and through the payment of Commonwealth benefits. The four major areas targeted by the Government proposal are:

- (i) taxation evasion
- (ii) social security fraud
- (iii) illegal immigrants
- (iv) benefit protection and other areas of Commonwealth expenditure.

This Report briefly examines each of these areas.

(a) Taxation evasion

1.30 There are various estimates as to the losses to revenue caused by taxation evasion. The 1985 draft White Paper noted that accurate measurement of the amount of tax revenue foregone through evasion practices is not possible, especially in relation to the so called 'black' or 'underground' economy. ATO estimates for 1984/85 suggest that income tax evasion may involve a revenue loss of \$3 billion per annum.¹¹ Tax evasion refers to practices that are contrary to the law and may take the form of the failure to lodge an income tax return, the omission of assessable income or the overclaiming of deductions or rebates. The paper contained an approximate make-up of the \$3 billion estimate as follows:

	Revenue forgone (a)
	\$m
Understatement of business income (b)	
- unincorporated enterprises	1000
- companies	500
Non-declaration of fringe benefits received in kind	700
Overclaimed employee expenses	150
Unreported wage and salary income	100
Non-declaration of dividend and interest income	300-500
Non-declaration of rental income	300

(a) These amounts do not take into account tax recouped as a result of Tax Office enforcement activity. Exclusive of taxation penalties, this totalled around \$220 million in 1983-84. They also do not take account of reductions in tax evasion as a result of the introduction of the Prescribed Payments System.

(b) This can take the form of non-disclosure of assessable income or the overclaiming of expenses, eg. where expenditure of a capital nature is disguised as repairs in order to obtain an immediate deduction that would not otherwise be available.

Source: Draft White Paper at p. 37, Table 8.

1.31 In addition, a substantial amount of tax revenue is lost through tax avoidance which refers in a general sense to all of the tax minimisation practices which the law allows. Examples of tax avoidance include income-splitting practices, allowance of rental property losses against income from any source, allowance of primary production losses against income from any source, tax shelters, exemptions and various concessions which reduce or eliminate tax on income. The 1985 draft White Paper estimated the amount of tax revenue lost through tax avoidance at \$1.5 billion per annum.¹² Since then, legislation has been introduced limiting tax avoidance in certain areas.

1.32 The main legislative attack on tax evasion has been through the introduction in 1983 of the Prescribed Payments System (PPS), 'which provides for tax deductions at source from payments for work in certain industries where evasion of tax on such payments is known to be significant'.¹³ Direct collections under the PPS in 1984/85 were estimated at \$400 million of which around \$200 million represents tax which was previously evaded.

1.33 Despite the action taken by successive Governments over the last few years, the situation still remains serious. The draft White Paper states that :

... avoidance and evasion practices can be expected to grow rapidly in the future unless further major measures are taken to deal with them. For example, the increasing movement of average PAYE taxpayers into higher tax brackets is likely to stimulate growing resort to fringe benefits so that higher marginal tax rates will apply to a shrinking tax base and a vicious circle will be set in train. The loss of revenue through avoidance and evasion and other areas (including the business sector) is also likely to grow rapidly. In aggregate, revenue losses through the forms of avoidance and evasion which are discussed in this paper could increase from the estimated existing level of around \$4.5 billion to around \$7 billion (in 1984/85 prices) over the next three years unless a concerted attack is made on these areas.¹⁴

1.34 The estimates of losses to revenue differ widely within the community. Various estimates have been made of Australia's black economy which range between approximately 5 per cent and 15 per cent of recorded Gross Domestic Product¹⁵ which in 1984/85 was roughly estimated at \$207 billion¹⁶. These figures imply a black economy in Australia in 1984/85 of somewhere between \$10 billion and \$30 billion.

1.35 In evidence to the Committee, the ATO referred to the black economy as the aggregate of activity that escapes economic measurement and tax assessment. While the ATO admitted that - by its very definition - the black economy is immeasurable and that tax evasion itself is just as immeasurable, it indicated that its estimates of tax evasion (approximately \$3 billion dollars) were considered extremely low.¹⁷ In relation to the likely estimates of tax evasion, the Second Commissioner of Taxation, Mr John McDermott, stated:

I have seen figures reported from other authorities that suggest that tax evasion in Australia is running in the vicinity of \$6000m or \$7000m a year and I have seen other figures, provided by the banks, which vary from something like 5 per cent of gross domestic product to 10 per cent of gross domestic product in Australia. In other countries the estimates are even wider. In the United Kingdom I think they range from 3 per cent to 15 per cent and in the United States they range from 5 per cent to 27 per cent.¹⁸

1.36 The ATO also suggested that the proposed Australia Card system would have some effect upon the cash economy. Firstly, the system would bring to the attention of the ATO money 'hidden' in banks and other financial institutions. Secondly, even if financial institutions were not used, the ATO would be better able to identify tax evasion through selective audit programs. Mr McDermott also suggested that the Australia Card would help to detect non-lodgers and hence provide the ATO with an increased base for audit operations.

1.37 An essential element of the Government's submission was the extent of the revenue gains from ATO uses of the Australia Card. The Committee probed Departmental witnesses at length on this issue. From the outset the ATO indicated that the tax benefits from the Card were extremely conservative. Mr McDermott told the Committee:

I would say without fear of any sustainable argument to the contrary being advanced that the figures in the Government's submission relating to tax benefits are conservative in the extreme. Firstly, they do not take account of additional taxes and penalties that would ordinarily arise from amendments to returns where we have detected omissions of income, secondly, they do not take account of amendments of prior returns which could ordinarily be expected where we detect evasion and, thirdly, by many standards the estimates of evasion on which the estimates of benefits are based are extremely low.

If you take into account simply the first two factors that I mentioned, additional taxes and penalty taxes and amendments of prior-year returns, the aggregate benefits derived over the first four years of operation of a proposed high-integrity Australia Card system would be likely to yield in the vicinity of 75 per cent more than the aggregate benefits in the first four years that appear in the report.¹⁹

If the third factor is taken into account and tax evasion is therefore in the order of \$6-7 billion per annum, the possible benefits of the Australia Card program could be more than double the \$750 million estimates provided in the Government submission.

1.38 The ATO was of the view that no other single action could be taken that would produce revenue gains of the magnitude estimated as a result of the proposed Australia Card Program. It estimated that since action had been taken against unsubstantiated claims by employers for employment related expenses and fringe benefits the tax estimate of evasion was now in the order of \$2200 million. Mr McDermott claimed that the ATO would recover approximately one third of its estimated figure if an Australia Card with photograph were introduced.²⁰

1.39 One of the areas of concern to the Committee was the loss to revenue through dividends and interest. The ATO informed the Committee that, at the moment, only 18-20 per cent of the total interest paid in Australia is reported to them and they are only able to match about half of these transactions.²¹ A number of reasons were given in explanation. First, there has been a tremendous growth in more recent years in the number of agencies which pay interest, many of which were not aware of the requirement under the Income Tax law to provide the ATO with information about dividends and interest payments. Second, the ATO admitted that there was a problem with the present state of technology utilised both in the private sector and the ATO.

1.40 Although reporting interest and dividend information is a legislative requirement, the banks still have numerous old accounts which are completely manual and it has been impossible for them to fully comply with the law because of the resources required to do so. Of the information which is provided, only a certain amount can be readily matched by computer. Even the computer matching done, based on common name and address information, results in only a 50 per cent match because of the lack of integrity of the tax file number and the use of false names. While the ATO matches 50 per cent of the 20 per cent of the total value of interest paid, it is quite likely that it only detects less than 5 per cent of the total value of interest paid. This is possible because the unmatched transactions tend to account for a far greater proportion of the revenue than the matched ones. The ATO was very confident that the Australia Card number would provide a level of integrity which would enable them to match up to 75 per cent of all dividends and interest paid in Australia.²² However, during its evidence the ATO was unable to state exactly on what basis its estimates were made. In essence, the ATO stated that its estimates were made on a qualitative assessment of how tax evaders operate.

1.41 The issue of the cash economy was raised on a number of occasions during the inquiry. Mr Doug Meagher QC, a former Counsel to the Costigan Royal Commission, was of the opinion that an identification system would have no effect in this area. On his definition, all transactions within this economy are in cash and are applied towards paying of the week's groceries, mortgage, etc. He stated categorically that these moneys are not put in the bank and are never declared.²³ This was likely to cause a major problem for departments like Social Security, where substantial moneys are overpaid because beneficiaries understate income. He further noted that the cash economy occurs frequently in the areas of gardening and home duties and that there is no tax deduction allowable for these payments.²⁴ As there is no requirement or even benefit for the average householder to withhold tax on the amount they pay for these types of work, he was of the opinion that this tax could never be collected. Even legislation requiring individuals to withhold tax would be completely ineffective merely because of its inconvenience, let alone other considerations.

1.42 The Committee is unanimous in its view that tax evasion must be tackled as vigorously as possible. While it does have strong doubts that the so-called black economy, especially the cash economy, can be tackled by any one measure including the Australia Card proposal, it believes that every effort must be made to reduce tax evasion. Overall, the Committee accepts the estimates made by the Australian Taxation Office and notes that they may be a substantial underestimation of final benefits obtainable under the proposal. However, the Committee believes that the ATO has powers and information available to it which are not fully utilised and that there are other measures which can also make substantial inroads into tax evasion. These measures are discussed fully in Chapter 4 of the Report.

(b) Social Security fraud

1.43 Over the last few years there has been considerable concern within the community about the level of overpayments, including fraud, within the social security area. A recent survey conducted in February 1986 by ANOP²⁵ indicates that approximately 22 per cent of Australians see the main advantage of ID Cards as reducing social security cheating in relation to both unemployment benefits and pensions. In 1984/85 the Department of Social Security (DSS) estimated that approximately \$63 million was overpaid in social security benefits of which \$40m was recovered.²⁶ The Department indicated that the overwhelming majority of overpayments were due to the following factors:

- . the deliberate provision of false information by applicants concerning the level of additional income, marital status etc.;
- . clerical error; and
- . unintentional misunderstanding of the conditions and provisions of payments.

1.44 The Department of Social Security has consistently advocated that it is unable to estimate the revenue benefits from the introduction of the Australia Card proposal. In the second IDC Report the Department states:

407. The overall savings likely to accrue from the new system are impossible to estimate. Savings would occur in two main ways. Firstly, there will be some deterrence from claiming pensions and benefits in false names. Only a very small percentage of social security overpayments is due to this cause and estimated savings would be unlikely to exceed \$10m a year. Secondly, claimants for social security assistance and existing

beneficiaries would be less likely to misrepresent details of their income in the knowledge that there were linkages between income and identity. The savings from this source are however impossible to estimate. Some further savings will also arise because of the refusal by DSS to make pension or benefit payments to illegal immigrants and short-term visitors, but again no estimate can be made of such savings.²⁷

1.45 In evidence before the Committee, DSS suggested that false identities were not a major problem within its Benefits and Control section. The Department stated:

The fact is that in our experience the main problems within the departmental portfolio are not with identity as such, but a failure to notify change of circumstances. Mainly these are what lead to overpayments. There are circumstances which may be financial or there may be other changes, but by way of information the overpayments file for the Department shows that 0.6 per cent is attributable to identity and 61 per cent is due to income variations. Those are the issues which make us believe that it is of minimal relevance in the identity area which is of course the primary initiative that the card would help address.²⁸

However, DSS admitted that it was unable to estimate at all the level of fraud due to false identities within the social security system.

1.46 The Government submission reveals that DSS would have no net gain from the introduction of a national identification system. The cost benefit summary indicates that the costs of implementing the Australia Card program equalled the benefits received from the program, that is, \$18.2 million over a period of ten years. The Department stated that it 'found it difficult to make estimates of what the effect would be in dollar terms of the Australia Card'.²⁹ The Department further noted that in making certain that it gave effect to the Government decision that there should be a Card, it was prepared to say that 'the

benefits would exceed the costs'.³⁰ The Department explained that when the Australia Card Secretariat of the Department of Health prepared the Government submission, it merely made each of the Department's yearly benefits of the Australia Card proposal equal to the cost of the proposal. When questioned about its inability to quantify estimates of probable savings attributable to the introduction of the Australia Card, the DSS stated:

The fact is that the inability is not a suggestion of any sort about the card but rather it reflects the fact that our own work as a department, we believe, is effective and increasingly so in the area in which we believe the card itself would assist.³¹

1.47 The Department also commented on the fact that there is considerable folklore about the extent of social security fraud within the community. It stated that the Department receives many letters about overpayment in social security benefits which, upon investigation, are proved to be incorrect. In the area of unemployment benefits the Department found that 72 per cent of those investigated were already being paid the correct amount.

1.48 While the Committee accepts the Department's difficulty in establishing the amount of social security fraud due to false identities, it believes that there is still significant fraud within this area. The Committee is concerned about the cases involving individuals with large numbers of false identities which come to light from time to time. Although many of these cases are exposed as a result of DSS investigations, others have been discovered through pure chance. The Committee believes that most Departments are unlikely to admit that they are being defrauded or that there is something drastically wrong with their systems. Mr Meagher QC told the Committee that he had had a vigorous debate with the DSS officers about this tendency after they told him that fraud was not happening at all in their

Department. Only after he produced evidence of several cases which had led to prosecutions and convictions did the Departmental officers concede that fraud was occurring. Mr Meagher explained further:

The prime position that was taken by some officers in that Department was that it did not happen at all, that there was never any instance of it.

CHAIRMAN - Now they are forced to recognise that it does happen but the degree to which it happens is still ...

Mr Meagher - Ignorance is bliss. If you do not have a detection system that is going to uncover fraud then you do not know it is happening - you quite genuinely do not know it is happening. It is not a question of trying to conceal anything. If you are not looking for it you will not see it. It is not going to come out and brandish itself in front of your eyes.³²

1.49 During the inquiry the Committee became aware of a number of unsourced estimates of social security fraud ranging between \$200-\$500 million per annum. These figures gain further support from a recent internal paper prepared by the Department of the Special Minister of State (see paragraph 1.66) which was reported to indicate that fraud in the social security area alone could be in the order of \$300 million per annum. The Committee understands that this figure is only a very rough estimate and is not based on firm evidence. Nonetheless, it is many orders of magnitude greater than the figures provided by DSS to this Committee on the amount of social security fraud. Despite the evidence given by DSS, including the use of updated security measures dealing with proof of identity, the Committee is concerned that fraud can be committed against the Commonwealth in the area of social security with relative ease. Although DSS now requires social security beneficiaries to present documents from a number of sources including at least one 'sound' document for verification of identity, the Committee

is aware that even these sound documents, for example, birth and marriage certificates, can and have been forged without great difficulty. To overcome the inherent weaknesses of these identity procedures, the Committee is recommending the computerisation of state registries of births, deaths and marriages. When the task is complete DSS would have ready access to the original birth entry on the register which should drastically reduce the likelihood of false identities being created by Australian born citizens. The Committee also notes that the Department's estimate of fraud due to false identities which is 0.6 per cent of the total amount of overpayments presently outstanding, is not a reliable estimate. It only relates to fraud that is known and does not include the amount of fraud that exists but which has not been discovered by the Department.

1.50 The Committee believes that DSS must continue to tighten its security procedures at the time of application for benefits and it must also ensure that its guidelines are being followed in each of its 210 regional offices. The Committee makes a number of recommendations in the next chapter concerning DSS proof of identity procedures.

(c) Illegal immigrants

1.51 The Government's submission claims that one of the largest gains to revenue through the introduction of an Australia Card is in the area of the identification of illegal immigrants. The submission notes that over a ten year period the cost to the Department of Immigration and Ethnic Affairs (DIEA) of implementing an Australia Card Program would be \$21 million and that the revenue gains over the same period would be \$1292 million. The basis of the DIEA's estimates is that by requiring employers to sight the Card and quote the employee's Australia Card number when submitting taxation returns, the system, when

fully implemented, has the potential to make in-roads into an estimated 60 000 jobs currently being filled by illegal immigrants and visitors working without Departmental authority. The Department believes that as these jobs are vacated for Australian citizens and permanent residents, savings in unemployment benefit payments should result.

1.52 The Department estimates that the number of illegal immigrants presently in Australia is 50 000 and notes that 60 per cent of those apprehended by its enforcement staff have been working. In addition DIEA estimates that of the 1.2 million visitors to Australia each year, up to 2.5 per cent or 30 000 work illegally during their authorised stays. The Department then argues that from this pool of approximately 60 000 illegal workers some, say half, would be occupying jobs which would not be available to citizens and residents authorised to work while the rest would be employed within the cash economy. The estimated tangible benefits from the introduction of the Australia Card proposal were calculated as follows:

1. In 1987/88 when the cards are first distributed there would be a deterrent value resulting in the freeing up of some 300 jobs to persons in receipt of unemployment benefit payments.
2. In 1988/89 as more cards are distributed there will be an increased deterrent value resulting in approximately 1000 jobs being vacated by illegal workers.
3. In 1989/90 as the card is progressively distributed throughout the community it will have a continuing deterrent value of freeing up an estimated 22 000 positions for citizens and residents authorised to work.
4. In 1990/91 the full effect of the card will result in that an estimated 48 000 jobs will be vacated by illegal workers. An allowance of 20 per cent is made for those workers in positions within the

cash economy or in jobs that would not otherwise be available to citizens and residents authorised to work (eg. family business).

5. From 1991/92 onwards a continued savings in unemployment benefit payments at the rate of 48 000 jobs per year would continue together with an allowance of an 8 per cent increase in potential illegal workers as the number of visitors to Australia increases.³³

1.53 When DIEA came before the Committee to give evidence, the Department admitted that its figures were guesswork. The following extract from the transcript when the Committee was examining the Secretary of the Department, Mr McKinnon, indicates the extreme lack of certainty in the presumptions on which the figures were based.

Mr McKinnon - The first category we are talking about is prohibited non-citizens as defined. Our estimate is that there are 50 000 of these. We have applied to that the factor of the proportion of the people we pick up, whom we apprehend as illegal immigrants who have been working, which comes to a figure of 62 per cent. We have presumed that our apprehensions reflect the population of illegal immigrants. Therefore, if you work back from that, you end up with something like 33 000 illegal immigrants working. That is the figure which goes into the 60 000 jobs, if you like. The remainder comes from the number of visitors who are working without permission, and that is a very rough estimate. We have something like 1.2 million visitors a year. Some years ago somebody did an exercise, which I must say I would not dignify by describing as more than guesswork, which said that of those, something like 30 000 probably were working illegally. We have no real way of checking that, except that we do of course obviously pick up some people who are visitors with temporary visas who are working. We pick up enough to convince us that there is a sizable population of them and so we have taken the figure from that earlier work. But as I say,

we would describe it as only a guesstimate, which gives us a total of something like 60 000 jobs which are occupied by people illegally.

Senator PUBLICK - Is that a published study, Mr McKinnon, or just a departmental study?

Mr McKinnon - It is a departmental study. It was done about four or five years ago. If we did the same study now we probably could not find the same crystal ball that was used then, but it is very close to that standard of accuracy, let me say quite frankly to you.³⁴ (Committee's emphasis)

1.54 From the base figure of 60 000 people who are illegally working, the Department estimated that 'something like 20 per cent of those positions' would probably not be filled by individuals on benefits.³⁵ The discount figure was arrived at as follows:

So we have discounted that figure and said that of the 60 000 jobs, some 12 000 are jobs which would not exist if it were not for the fact that those illegal immigrants were prepared to fill them. I cannot defend that discount factor, except to say that obviously some discount factor must be applied. If you were to say to me that you would rather have a discount factor of 33 per cent, I could not argue.³⁶

1.55 Later during the hearing the Department was again questioned about the estimates previously quoted from 1987/88 to 1991/92:

Senator PUBLICK - You would say basically that it is still a crystal ball type of calculation?

Mr McKinnon - Yes. I do not think any of us are going to claim any great precision.³⁷

1.56 From the above exchanges it became clear that the estimates for illegal immigrants were based on guesswork, the percentage of illegal immigrants who worked was based on guesswork, the percentage of visitors who worked illegally came from a departmental study based on guesswork. The discount factor could not be defended and the overall benefits from 1987/88 to 1991/92 was the result of 'crystal ball gazing'. In the light of these statements, the Committee is unable to place any confidence in the proposed revenue gains under this use.

1.57 The Department was of the opinion that the greatest benefit of the Australia Card proposal in this area would be its deterrent effect. It argued that if illegal immigrants and visitors intending to work illegally could not get the appropriate Australia Card and were unable to obtain either jobs or any benefits, they would have great difficulty in surviving. Eventually such persons would leave and others would be deterred from ever coming. The Committee agrees that the Australia Card proposal would have a deterrent effect but it is unable to quantify the likely savings to Commonwealth revenues. However, the Committee has little difficulty in rejecting DIEA estimates as being grossly exaggerated. On the basis of the available data and methodology, no reliance can be placed on the Department's estimates and consequently the Committee rejects its evidence.

1.58 A further matter of concern to the Committee is the quality and accessibility of information held on DIEA's files. This matter had come to the attention of the Committee during the inquiry but was reinforced when the Department of Social Security objected to certain evidence given by DIEA. One of the benefits claimed for the introduction of Australia Card is that there are a large number of illegal residents or overstayers who are receiving social security and other benefits. During its evidence on 24 February 1986, DIEA stated that 12.4 per cent of

overstayers were receiving unemployment benefits. This figure was later challenged by DSS which stated that the figure was 0.4 per cent and not 12.4 per cent.

1.59 The Department of Social Security explained that DIEA provided a list of names totalling 57 059, which was the number of persons on its overstayers file. DSS matched this entire file with its unemployment benefit file. In one given State, there were approximately 5000 names on DIEA's overstayers file and DSS matched this file with its unemployment benefit file and produced 64 matches. These 64 cases were then sent back to DIEA and 22 were found to be illegal immigrants. Thus, explained DSS, only 22 illegal residents were receiving unemployment benefits, which is 0.4 per cent and not 12.4 per cent of all overstayers in that State. In addition DSS commented that a further 12 persons were identified as legal residents notwithstanding the fact that they were entered on DIEA's overstayers file and that the other 30 cases are still being investigated by DIEA. DSS stated that when it first attempted to match its file with that of the DIEA it found that the DIEA overstayers' file was of such low quality that it couldn't be matched. The Committee also received evidence from other departments indicating that they too had great difficulty in matching computer files with DIEA.

1.60 During the course of its evidence at the Committee's public hearing of 24 February 1986, the Department was requested and undertook to provide certain additional information. However, in the consequent letter from the Department dated 23 April 1986 - which was not received by the Committee until 29 April 1986 - the Committee found that much of the information requested had not been provided due to the inadequacy of the statistics recorded and the appalling state of the Department's files.

1.61 The Committee also wishes to record the fact that the letter sent to it by the Department was not received until 29 days after the Committee's initial reporting date of 31 March 1986, and only 1 day prior to its amended reporting date of 30 April 1986.³⁸ The Committee does not wish to infer malintent on the part of the Department, but does conclude that, at the very least, its procedures for handling queries are less than efficient. The Department's letter has been included in the Committee's evidence.

1.62 Recommendation: That the Department of Immigration and Ethnic Affairs upgrade the quality of its records including its movements database, citizenship index and overstayers file and transfer all records from the manual system to the computer database as a matter of urgency.

(d) Benefit protection and other areas of Commonwealth expenditure

1.63 The cost benefit summary contained in the Government submission indicated that a number of departments would provide revenue savings as a result of the introduction of the Australia Card proposal. However, over a ten year period the revenue savings are not much greater than the costs of implementing the system in the particular departments. The submission appeared to indicate that fraud in other areas of Commonwealth expenditure was very small. The only other area where major revenue gains were to be made was the Health Insurance Commission. The Government submission indicated that the Australia Card would eventually replace the Medicare Card. Savings to the HIC over a period of ten years for a Card without a photograph was \$48.6 million and with a photograph \$68.9 million. The Committee does not dispute these figures.

Organised crime

1.64 From the very outset, it was clear that the Australia Card proposal was not directed at organised crime. The Government submission noted that it is difficult to predict the effectiveness of such a proposal in combatting organised crime. The Government submission notes that the Australian Federal Police (AFP) considered that an Australia Card and registry system of sufficiently high integrity (including the provision of a photograph on the Card) 'would reduce the opportunities for tax evasion and other fraud against the Commonwealth'.³⁹ The submission stated:

The AFP adds, however, that there are no realistic grounds for anticipating any impact on the level of organised crime generally. The only relevant factor is that the ease with which organised crime has used the banking system in the past would be decreased by the proposed requirements in respect of certain banking transactions. Organised crime, particularly in the drug trafficking area, would be quick to identify possible methods of avoiding the inconvenience caused.⁴⁰

1.65 When the AFP appeared before the Committee it was able to clarify a number of matters concerning the use of the proposed Australia Card in criminal investigations. The AFP informed the Committee that, in the main, the greatest impact of the proposed Australia Card would be on the small-time offenders who commit single offences or minor multiple offences in the areas of social security, health and tax. The AFP noted that when one looks at those offences in isolation, they do not seem to be of any great concern, but when all these offences are added together it amounts to 'a massive amount of funds'.⁴¹ The AFP noted that the Australian Taxation Office and the Department of Social Security deal with many of those matters internally. The AFP informed the Committee that it does not have the resources to look at this massive small-time offender area

that client departments deal with themselves and that by arrangement it receives 'a certain level of matter to investigate which, generally speaking, is the more serious multiple-type offence, whether it be conspiracies or otherwise'.⁴²

1.66 The Committee is concerned about the extent of organised crime in the community which has been uncovered by a number of Royal Commissions in recent years. The Committee also notes that a recent internal paper prepared by the Department of the Special Minister of State, signed jointly by the Secretary to the Department and the Commissioner of the AFP, was reported to indicate that criminals are defrauding the Commonwealth of about \$4 billion a year in the areas of customs, company and personal income tax fraud, and social security fraud. The Special Minister of State, Mr Young, informed the Parliament that the report would not be made public but would form the basis of a much more comprehensive report into fraud on the Commonwealth.⁴³ The Committee notes that while this figure was not based on a detailed investigation of fraud and provides only a very rough estimate, it does indicate the magnitude of fraud against the Commonwealth by both the small-time offender and organised crime.

1.67 The Australian Federal Police indicated that the Australia Card proposal would be a tool in fighting organised crime. It believes that it is still very easy for criminals to assume fictitious identities, whether opening bank accounts or conducting other financial transactions. As one of the major difficulties in police investigation is the establishment of identity, the AFP considered that use of the Australia Card would prove very valuable in identifying criminals and tracing the money trail through banks and other financial institutions, especially in relation to insurance frauds. The AFP also indicated that the Australia Card would be very important for intelligence gathering when investigating organised crime. A

universal identifier would enable it to track the money trail and the identity trail through to people who are controlling the criminal organisations.

1.68 A number of these matters were summarised at the close of the evidence by the AFP in the following exchange:

CHAIRMAN - Just to summarise, you contend that the introduction of the card would have a greater effect on deterring those many one-off, small-time offenders than the organised criminals who, you say, have the ability to circumvent pretty well anything - not everything, but they have a much greater ability to circumvent the system. You also qualified that to say that the foot soldiers, the small-time people, are an essential part of the overall strategy and that the key to opening up some of those larger organisations may well be a universal identifier which enables us to track the money trail and the identity trail through to people who are much bigger in the scheme of things as far as criminal organisations are concerned. Is that a fair summary of what you were saying?

Chief Superintendent Brown - Yes, it is very accurate, but it is very much like a circumstantial case. One circumstance standing on its own means very little. As you combine the circumstances one by one, you form a picture which is invaluable intelligence and which is an essential ingredient of the investigation.⁴⁴

1.69 The question of false identities and its use by organised crime arose in both the Stewart and Costigan Royal Commissions. The Stewart Royal Commission was appointed by the Governments of the Commonwealth of Australia and the States of New South Wales, Victoria and Queensland to inquire into the illegal activities of the notorious heroin trafficker, Terence John Clark and his associates. During its wide ranging inquiry the Commission also tabled an Interim Report on Passports. This report was instrumental in tightening up legislation and administrative practices concerning the issue of Australian

passports. Some of the findings of this report are of particular interest to this Committee as it examines the difficulties in relying on birth certificates as proof of identity.

1.70 The Costigan Royal Commission commenced in October 1980 and was commissioned by both the Commonwealth and the Victorian Governments to inquire into the illegal activities of the Ship Painters and Dockers' Union. The scope of the inquiry broadened considerably and five Interim Reports and a sixth Final Report were presented to both Governments. There were eleven volumes in the Final Report, five of which have been tabled in Parliament and published while volumes 6-11 still remain confidential. The inquiry developed into a major investigation of organised crime in Australia and covered such areas as drug trafficking and SP bookmaking as well as the union's activities. The Commission also pioneered certain investigatory techniques, including the full computerisation, data linking and matching of all material received by the Commission. The Commission's comments about the use of false identities were of benefit to the Committee in drafting this Report.

1.71 When Mr Frank Costigan QC appeared before the Committee, he was asked whether a national identification system based on a Card would have inhibited the sorts of practices that gave rise to his inquiry. He replied:

It might have inhibited at a very low level some of the practices which I came across in the early part of the Commission. I do not believe it would have inhibited the more important matters that I was looking at in the last couple of years.⁴⁵

Again, later in evidence Mr Costigan indicated he had 'some trouble in understanding, except at a low level of crime, how an Australia Card would help in the fight against organised crime'.⁴⁶ Mr Costigan was also questioned about whether there

was a systematic production of false identities within the area of organised crime. Senator Puplick asked the following question:

Senator PUPPLICK - Can I take you to another aspect of this which we have raised with most of our witnesses; that is the extent to which your investigations uncovered evidence of systematic production of false identity papers and mechanisms for establishing false identities. Within the limits you feel unconstrained to speak, to what extent did your investigations reveal this to be an organised, systematic racket in which it would be just as easy to forge ID cards as to forge drivers' licences, birth certificates, passport forms or whatever?

Mr Costigan - We saw some evidence of that but it really was not a significant part of the investigation. We found with the Painters and Dockers Union a quite systematic change of names and change of identities for invariably illegitimate reasons. That union is a very small body and it did it fairly comfortably. It was in-house. They used to sell the facilities occasionally but it was basically an in-house facility, often to hide people on the run. ... There was certainly a facility in the community at that level to obtain false papers, false driving licences, false employment names, et cetera, but I do not think it is widespread in the community. What is undoubtedly true is that it was comparatively easy to do if you knew how to do it.⁴⁷

1.72 Mr Costigan had very strong objections to the Australia Card proposal on the basis that it was a 'significant intrusion into individual privacy'.⁴⁸ In his view, it was only possible to justify such an intrusion if, on balance, the evil that the community is attempting to correct and the cost of doing it are justified. These arguments are examined further in this Report. However, Mr Costigan did indicate that the Card would have been of some assistance to his Committee. He stated:

I do not think there is any doubt that if the full Australia Card system had been in operation at the time of my Commission, and all the databases which are contemplated as being accessible by the system - including births, deaths, marriages, et cetera - had all been available and accessible to me through a computer terminal, it would have accelerated some of the work I did in relation to the breaking of false identities. There is no doubt about that. ... It would have accelerated, to some extent, my ability to trace funds, but only to some extent.⁴⁹

1.73 A similar opinion about the use of the proposed Australia Card against organised crime was also held by Mr Meagher QC who was one of the Counsel assisting the Costigan Royal Commission. He stated:

I do not know that you should allow your deliberations to be too much affected by considerations of what you are going to do about organised crime. If you are going to deal with organised crime you have no prospect of dealing with it by systems of identification because that is a very small part of their operations that they would abandon without worrying too much. It would not cost them very much. I really do not think you should approach it on that basis; you certainly should not approach it on the basis that this is going to make the suppression of criminal organisations easier - it is not. It might limit their activities in some minor areas. What you are really talking about in justification of the system is stopping all the rest, whatever that might be.⁵⁰

While criminal organisations would not be deterred by the introduction of an Australia Card, Mr Meagher commented that there are many 'genuine' criminals who are not members of criminals organisations and that 'they would probably be deterred'.⁵¹

1.74 The issue of false identities within the community was also discussed in some detail by Mr Meagher. He noted that:

There really cannot be any argument that there is a great deal of abuse of fictional names by a number of people. I would not say that that was something which the majority of the community is engaged in, in fact, I am quite confident it is not. It is done by a small minority of people in the community. Those who do it are quite capable of running many different names. In cases that I have seen as many as 80 or 100 different names have been run by the same man, with bank accounts in each of those names. The reasons why that would be done are many and varied. In some cases it is so as to perpetrate compensation fraud, as I describe it, be it a fraud being perpetrated upon either the Commonwealth or State governments or upon insurance companies. That has a fairly high level of prevalence at the moment and afflicts third-party insurers greatly. ... It, of course, stretches over to unemployment relief, sickness benefits and so on. As to the multiple bank accounts, most of those who have been involved in that have been, in my experience, involved in either illegal gambling, which is probably the major area, or in the drug trade, which is the secondary area. Their objective is, of course, to conceal the proceeds of what they are achieving. It also occurs, of course, in taxation fraud, although there are more sophisticated ways of achieving taxation fraud than simply running a false name.⁵²

1.75 Mr Meagher also indicated that there is a third area of fraud which might be loosely described as insolvency fraud. He noted that these are the cases where people, having become bankrupt or having had their companies go into liquidation and thus having attracted an unsavoury or uncreditworthy reputation, re-establish themselves under other names. He then commented:

For all of those reasons a number of people in the community - not a very large number but sufficiently substantial to cause substantial losses to government and to private people - make use of fictional names. The fictional names of which they make use are not only names that relate to individuals, but also names that relate to companies and businesses. Indeed, in most of

those areas it does not matter very much whether the name is that of an individual or that of a company or a business.⁵³

Mr Meagher suggested that there are other means of tackling fraud based on false identities other than the Australia Card proposal. He stated that:

... my inclination would be to proceed with less draconian measures at this stage. The very first measure that I would regard as imperative would be the computerisation of information on births, deaths and marriages and making that freely available.⁵⁴

This matter together with other measures such as stricter banking controls are discussed in the next chapter.

Endnotes

1. Australian Parliament, Reform of the Australian Tax System, Draft White Paper, June 1985, AGPS, Canberra, 1985
2. Evidence, pp. 34-45.
3. Evidence, pp. 3-116.
4. Evidence, pp. 1769-1774.
5. Evidence, pp. 1580-1876.
6. See evidence pp. 88-89.
7. See evidence pp. 1617-1627.
8. Department of Health, Towards Fairness and Equity: The Australia Card Program, submission by the Government of Australia, 6 February 1986. The staff numbers required for each ATO use are set out in the Government submission at p. 117. Evidence, p. 1625.
9. Government submission, p. 119. Evidence, p. 1676.
10. Health Insurance Commission, Australia Card: Planning Report on the establishment and administration of a national identification system, Canberra, February, 1986, at p. 214, Table 8.6.
11. Draft White Paper, cited endnote 1, p. 36, paragraph 3.7.
12. *ibid*, p. 38, paragraph 3.12. Inferred when deducting amount for evasion estimated at \$3 billion at paragraph 3.7.
13. *ibid*, p. 38.
14. *ibid*, p. 38, paragraph 3.12.
15. D.J. Collins, Australian Tax Research Foundation, Tax Avoidance and the Economy, Papers presented at a conference organised by the New South Wales branch of the Economic Society of Australia, Friday, March 4th, 1983, ed. D.J. Collins, p. viii.
16. Budget Paper No. 10 1985/86, Table 1, p. 7.
17. Evidence, p. 1888.
18. Evidence, p. 1939.
19. Evidence, p. 1888-9.
20. The percentage can be calculated from the ATO evidence at pp. 1938-9.

21. Evidence, p. 1894.
22. Evidence, p. 1924.
23. Evidence, pp. 1186-7.
24. Evidence, p. 1194.
25. See Government Submission Appendix D13. Evidence, p. 1830.
26. Evidence, p. 1994.
27. Evidence, p. 92.
28. Evidence, p. 1985.
29. Evidence, p. 1986.
30. Evidence, p. 1987.
31. Evidence, p. 1984.
32. Evidence, p. 1188.
33. See Government submission Appendix E30. Evidence, p. 1875.
34. Evidence, p. 2105.
35. Evidence, p. 2106.
36. Evidence, p. 2106.
37. Evidence, p. 2106.
38. The Committee's reporting date was first extended to 30 April and then further extended to 8 May 1986.
39. Government submission, p. 109, paragraph 8.6.2. Evidence, p. 1670.
40. *ibid*
41. Evidence, p. 2766.
42. *ibid*
43. Australia, House of Representatives Hansard, 17 April 1986, p. 2507.
44. Evidence, pp. 2790-91.
45. Evidence, p. 1203.

46. Evidence, p. 1225.
47. Evidence, p. 1213.
48. Evidence, p. 1203.
49. Evidence, p. 1201.
50. Evidence, p. 1183.
51. Evidence, p. 1189.
52. Evidence, pp. 1158-60.
53. Evidence, p. 1160.
54. Evidence, p. 1171.