

The Senate

Economics
References Committee

Augmented Tax Assessments

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Senate Economics References Committee

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Chapter 1

Introduction

Background

1.1 On 22 November 2010, the Senate referred the amendments to the Tax Laws Amendment (2010 Measures No. 4) Bill 2010 proposed by Senator Cormann on sheet 7010 to the Economics References Committee for inquiry and report by 31 March 2011.

1.2 The amendments would introduce a new section 174A of the *Income Tax Assessment Act 1936* which would require the Australian Taxation Office (ATO) to provide taxpayers with a tax receipt along with their notices of assessment. The tax receipt would provide a breakdown of how the amount of the assessment was spent on different government functions in the financial year (calculated by applying the proportion of the Budget expenditure on each function to the amount of the assessment). The tax receipt would also provide information on the level of Australian government net debt.

1.3 On introducing the amendments in the Senate, Senator Cormann stated:

Taxpayers do not have a good appreciation of where the tax they pay is spent by the government. Yes, the information is publicly available in the budget papers but these are not easily accessed or easily understood for that matter. Taxpayers also have a right to know how much the government spends in excess of funds collected from taxes and other sources...The difficulty in obtaining and understanding this sort of information leads to a situation where government spending is not subject to as much scrutiny by taxpayers as it should be.¹

Conduct of the inquiry

1.4 The committee advertised the inquiry in *The Australian* on 8 December 2010 and invited written submissions by 7 January 2011. The secretariat wrote to a number of academics, interest groups and other relevant stakeholders inviting submissions. The committee received one submission which is listed in Appendix 1.

1.5 A public hearing was held on 9 February 2011 in Canberra. The committee received evidence from Treasury officials and officers from the ATO. A list of those who gave evidence is presented in Appendix 2. An interim report was tabled on 31 March 2011 requesting an extension to 8 April 2011.

1.6 The committee thanks those who participated in the inquiry.

1 Senator Mathias Cormann, *Senate Hansard*, 22 November 2010, p. 1813.

Structure of the report

1.7 This report has five chapters:

- Chapter 2 examines the current ways that information on government debt and expenditure is made available to taxpayers, and the accessibility and utility of this information to taxpayers.
- Chapter 3 notes the varied sources of government revenue in addition to income tax, and considers any associated complications which are likely to arise when developing a tax receipt.
- The specific material which the amendments require be addressed in a tax receipt are examined in Chapter 4.
- Finally, Chapter 5 reviews the issues associated with introducing a tax receipt programme which are evident but not covered by the other chapters of this report. This chapter also examines any alternative proposals to a paper tax receipt programme that were put to the committee.

Chapter 2

Transparency of government debt and expenditure

2.1 This chapter examines how information related to government debt and expenditure is currently available to taxpayers, and the views on improving awareness and access to this type of information.

Information released during the Budget process

2.2 Figures associated with proposed government expenditure, and headline figures relating to the government's fiscal position, are widely reported in the media after the Budget is announced in May each year.

2.3 The documents associated with the Budget are also published online by the government, with the current practice being that they are published on a dedicated website (www.budget.gov.au). Links to alternative versions of this website, or mirrors, are also prominently published on other relevant government websites, particularly at Budget time.

2.4 Updated figures related to government expenditure by function and net debt are published in the *Mid-year Economic and Fiscal Outlook* (MYEFO) each year. In recent years this has been published in November.

2.5 The government's current approach to providing this information to the public was discussed when officials from Treasury gave evidence to the committee:

Senator PRATT—How do the government and the agencies currently provide publicly available information about expenditure? What might the tax office and the Treasury be doing to improve that?

Mr Parker—As I have said, there is a range of information published at almost any level of detail you could wish for about expenditure, including the portfolio budget statements of each portfolio. In terms of accessibility and digestibility, the so-called budget overview, the glossy, is now part of the lexicon. Most people will go to that before any other document. That provides a summary. In line with the general move into the electronic medium, all of that information is available online from Treasury and other websites.

Senator PRATT—As simple as you might like it, or to drill down—there are quite good pie charts that are pretty good representations, and then you can drill right down into as much complexity as you could possibly bear.

Mr Parker—Yes. It is all online, including the monthly Department of Finance financial flow statements.¹

1 Mr David Parker, Department of the Treasury, *Proof Committee Hansard*, 9 February 2011, p. 8.

2.6 However, the officials from Treasury acknowledged that it is likely that this information is accessed by very few taxpayers:

CHAIR—I have one follow-up question to that. Do you have any understanding or estimate of what percentage of Australian taxpayers would actually access that information?

Mr Parker—I expect it would be a small number.

CHAIR—Probably a small proportion of one per cent of taxpayers, I would venture to suggest.

Mr Parker—Possibly.²

2.7 The evidence given by the officials from Treasury also indicated that, although information providing an overview of government expenditure is available in a simple format, it may still be difficult to find easily:

We publish probably the most digestible and high-level cut at that every year in the ‘budget glossy’, so called. It is at page 38, I think—a couple of pie charts of revenue and expenditure.³

2.8 For the 2010–11 Budget, while information on net debt is discussed in the *Budget Overview* document in terms of GDP, a dollar figure is not given. The dollar figure is first reported in Budget Paper No. 1 on page 22 of Statement 3.

2.9 While this inquiry received relatively little interest from taxpayer associations or individuals involved in taxation issues, all of the evidence received by the committee acknowledged that taxpayers should be able to see how their tax payments are spent. Mr David Parker, the then Executive Director of the Revenue Group at Treasury, noted that the general principle ‘goes to the issue of democracy and consent, I think, to be governed’.⁴ In his submission to the committee, Professor John Quiggin of the University of Queensland stated that ‘[t]he general idea of informing members of the public how their tax dollars are spent is a good one’, although in order for tax assessments to remain as simple as possible he suggested a website may be a better means of achieving this.⁵ This proposal is discussed in more detail in Chapter 5.

Committee view

The committee acknowledges the efforts undertaken by Treasury to ensure the public can access information related to government expenditure and debt. However, the committee considers that certain measures, such as a tax receipt, could significantly

2 Mr David Parker, Department of the Treasury, *Proof Committee Hansard*, 9 February 2011, p. 8.

3 Mr David Parker, Department of the Treasury, *Proof Committee Hansard*, 9 February 2011, p. 4.

4 *Proof Committee Hansard*, 9 February 2011, p. 2.

5 Professor John Quiggin, *Submission 1*, p. 1.

improve taxpayers' ability to access this information, resulting in increased understanding of government functions and further transparency of government expenditure and debt.

Chapter 3

Allocation of government revenue

3.1 This chapter examines the alternative sources of revenue for the government that exist in addition to income tax revenue, and considers the implications for preparing a tax receipt of any ongoing pledges or understandings that revenue from certain taxes will be allocated to specific areas of government expenditure.

Background

3.2 The amendments would require any breakdown of how an income tax payment contributes to government expenditure be calculated by 'applying the proportion of the Budget expenditure on each function to the amount of the assessment'.¹

3.3 While revenue from taxation and other sources automatically contributes to the Consolidated Revenue Fund upon receipt (in accordance with section 81 of the Constitution), in practice, it is common that a number of indirect taxes are allocated by governments for specific functions or purposes.

3.4 Tax receipts which are calculated by using the overall allocations of expenditure reported in the Budget papers, as would be required by this tax receipt proposal, may not represent the degree to which *income* taxpayers are contributing to certain government functions. Although other areas may be affected, the health function and transfers to the States and Territories are particularly relevant when considering these types of issues.

Taxes related to specific government functions

3.5 In his submission, Professor John Quiggin noted the issues associated with accounting for hypothecated taxes, but suggested that revenue from these taxes be treated as general revenue.²

3.6 Treasury officials submitted that there are not many hypothecated taxes in Australia. However, issues associated with appropriately accounting for taxes that are allocated to certain areas of government expenditure were acknowledged. When discussing how the Medicare levy could be accurately reflected on a tax receipt, Treasury acknowledged that:

1 Subclause 174A(1)(a) of the amendments on sheet 7010 to the Tax Laws Amendment (2010 Measures No. 4) Bill 2010.

2 Professor John Quiggin, *Submission 1*, p. 1.

We are not sure. As Senator Bushby has said, all of these issues could be addressed but, on the basis of what is actually before the committee and what we have been asked to respond to, they still remain to be addressed.³

Medicare levy

3.7 The Medicare levy is used to fund Australia's national health programme. Most taxpayers pay this levy which is currently set at 1.5 per cent of an individual's taxable income. A Medicare levy surcharge is paid by taxpayers whose income is above a certain threshold and do not meet other requirements regarding their level of private patient hospital cover.

3.8 Whether an individual is liable to pay the levy, and the surcharge, is calculated when their income tax return is assessed. As it is based on tax assessable income, the Medicare levy payment for which an individual is liable is recorded on their income tax notice of assessment.

3.9 Officials from Treasury advised the committee that the Medicare levy is not hypothecated.⁴ Given this, upon receipt by the government, revenue associated with the Medicare levy would be treated conceptually in a similar way to the revenue raised from income tax.

3.10 However, under the new format of notices introduced by the ATO in 2010, an individual's Medicare levy liability is recorded as an additional liability, not as part of the total assessed tax payable. A question therefore arises as to whether Medicare levy payments should be accounted for on a tax receipt. Other payments are also recorded in this category, such as repayments under the Higher Education Loan Programme, which would not be considered by a tax receipt.

Goods and services tax

3.11 Total GST revenue raised in 2009–10 was approximately \$47 billion (equivalent to about 15.9 per cent of total revenue). Although more revenue is raised from income tax (about \$123 billion was raised in net individuals and other withholding taxation in 2009–10), the GST is clearly a significant source of funds.

3.12 Under the *Intergovernmental Agreement on Federal Financial Relations*, the Commonwealth is committed to making GST payments to the States and Territories which are equivalent to the revenue received from the GST. However, the GST revenue for a certain financial year may vary from the amount actually transferred to

3 Mr David Parker, Department of the Treasury, *Proof Committee Hansard*, 9 February 2011, p. 6.

4 Mr David Parker, Department of the Treasury, *Proof Committee Hansard*, 9 February 2011, p. 6.

the States and Territories for several reasons, such as a gap between when payments are recognised and received by the Commonwealth.⁵

3.13 The structure of financial relations between the Commonwealth and the States and Territories is summarised in the Budget papers as follows:

Commonwealth financial assistance to the States comprises all GST revenue, plus a small amount of other general revenue assistance, and payments for specific purposes.⁶

3.14 General revenue assistance from the Commonwealth to the States and Territories was approximately \$45 billion in 2009–10 (about 13.2 per cent of total government expenditure). This consists of the 'untied' payments, or payments which are provided without condition. The payments that are provided for specific purposes by the Commonwealth are reported in the Budget papers under their relevant functions (i.e. payments related to education are reported under the education function).⁷

Committee view

The committee notes that the amendments aim to provide a simple representation of an individual's contribution to government expenditure and their share of government debt. Although the government has many sources of revenue in addition to income tax, most of these would not complicate representations of government expenditure on a tax receipt as they are treated in the same way as income tax by the government's revenue framework. The committee considers that, for simplicity, all direct and indirect taxes should be assumed to apply equally and proportionally to all areas of government expenditure when calculating the tax receipt.

5 *Final Budget Outcome 2009–10*, p. 61.

6 *2010–11 Australian Government Budget – Budget Paper No. 3*, p. 6.

7 *Final Budget Outcome 2009–10*, p. 60.

Chapter 4

Information about the government's financial position and functions

4.1 This chapter considers some of the material which the amendment requires, at a minimum, be included in a tax receipt. Issues covered include government debt, welfare payments and the other areas of government expenditure specifically listed in the amendment.

Government debt

4.2 The amendments would require that a tax receipt provided with a notice of assessment detail the level of Australian Government net debt at the end of the financial year and at the end of the previous financial year.¹

Measuring the government's net financial position

4.3 Whether net debt is the most useful assessment of the government's net financial position for taxpayers was queried during the course of this inquiry. In his submission, Professor Quiggin argued that 'net worth is a more relevant measure of the position of the public sector than net debt'.²

4.4 Some of the different measures of the government's financial position, and the meaning and utility of each measure, have been discussed in government publications. Budget Paper No. 1 2010–11 includes a commentary on the uses of the terms net debt, net financial worth and net worth:

Net debt is a commonly quoted measure of a government's financial strength. Historically, this was the only available stock measure for governments that were recording financial information in a cash-based accounting system. Net debt provides a useful measure for international comparisons, given most OECD countries report on it.

Net financial worth is used by the Government as the primary indicator of balance sheet sustainability because it provides a more effective and intuitive indicator of the sustainability of the Government's finances. It is a broader measure than net debt as it includes government borrowing, superannuation and all financial assets, but is narrower than net worth since it excludes non-financial assets. There are advantages to excluding

1 See item 3 of the table included in subclause 174A(2) of the proposed amendments on sheet 7010 to the Tax Laws Amendment (2010 Measures No. 4) Bill 2010.

2 Professor John Quiggin, *Submission 1*, p. 1.

non-financial assets since they are often illiquid and cannot easily be drawn upon to meet the Government's financing needs.³

4.5 An issue which may arise with the use of net debt on a tax receipt is whether there is the likelihood of confusion during periods when the government is not in debt. During these periods, a double-negative would occur as the figure given under net debt would have to be preceded by a negative sign—at a quick glance this may be confusing as to whether the government was actually in debt.

4.6 However, net debt appears to remain the most commonly quoted measure of the government's financial position. It is also likely that net debt is a concept more widely and easily understood by taxpayers. At the time the 2010–11 Budget was announced, figures and forecasts associated with net debt were prominently reported and discussed in the Budget Overview, and used in the Treasurer's Budget speech. In contrast, information about the other measures of the government's financial position is confined to the Budget papers.

Calculating a taxpayer's share of net debt

4.7 The amendments also require that a taxpayer's share of the Australian Government net debt for the financial year be represented on a tax receipt. The amendments state that this figure is to be calculated by dividing the Australian Government net debt by the number of individual taxpayers.⁴

4.8 In addition to revenue from income tax, the government has a number of other sources of taxation and non-taxation revenue. In the 2010–11 Budget, total taxation and non-taxation revenue was estimated at about \$303 billion, of which just over \$140 billion was comprised of individuals' taxation revenue. In his submission to the committee, Professor Quiggin observed that a pro-rata calculation could be used to reflect this:

It would be desirable to present this information in a way that is comprehensible. One possibility would be to use a pro-rata measure, imputing to each taxpayer a share of net debt/net worth in proportion to their tax payments as a share of total revenue.⁵

4.9 As income tax is only one component of government revenue, a benefit of using a pro-rata calculation would be that it allows for the share of government debt that would be supported by other taxes, such as company tax, to be shown.

4.10 However, an individual's share of the net debt is not a function of the taxpayer's contribution to total revenue (which in any case will vary from year to

3 2010–11 Australian Government Budget – Budget Paper No. 1, Statement 7, p. 4.

4 See item 4 of the table included in subclause 174A(2).

5 Professor John Quiggin, *Submission 1*, p. 1.

year). Rather, any debt acquired by a government is on behalf of its taxpayers and is simply a function of their existence as an Australian taxpayer.

4.11 A practical issue requiring consideration is how to determine the number of taxpayers. In their evidence to the committee, officials from the ATO noted that there are a number of factors which create difficulties in this area:

It is some time after the current financial year when the actual number of taxpayers would be known. Taxpayers lodge over a long period of time and someone can be a taxpayer and not lodge but they are still a taxpayer. There are taxpayers who may lodge as non-taxable. We might assess them as owing a very large amount of money which they might never pay. If there were a proposal that was framed around the assessment amount raised rather than the amount paid, that would create a problem for us as to what information we provided.⁶

4.12 To address this issue, an option may be to use the most recently available figure for the number of taxpayers. However, it is not clear that such figures are available. In response to a question on notice received after 2006–07 Budget estimates, the ATO stated:

Taxation Statistics reveal that for the 2004 income year, 10,819,176 individuals lodged income tax returns. However, it is not known exactly how many individuals “pay” income tax in Australia. Generally, income tax is collected during the year from individuals via Pay As You Go (PAYG) withholding and instalments; but for various reasons, not everyone in the PAYG system during a year will lodge an income tax return at the end of that year.⁷

4.13 During the course of this inquiry, the ATO provided their most recent figures on the number of tax returns in a financial year, advising that 12.3 million returns related to the 2008–09 financial year were processed between 1 July 2009 and 31 October 2010.⁸

Committee view

4.14 To address issues about the total number of taxpayers being unknown during the assessment process, the committee considers that in determining the taxpayer's share of government debt, the most recently available figure for, or estimate of, the number of taxpayers should be used. This could be based on the number of tax returns lodged in a previous financial year, if a more accurate method is not available. The committee is of the view that variations in the total number of taxpayers between

6 Mr Michael Monaghan, Australian Tax Office, *Proof Committee Hansard*, 9 February 2011, p. 6.

7 Australian Taxation Office, *response to question on notice*, BET 144, 2006–07 Budget estimates, 30 May 2006.

8 Australian Taxation Office, *response to question on notice*, received 29 March 2011.

financial years would not substantially affect the outcome of representations of government debt represented on this basis.

Recommendation 1

4.15 The committee recommends that the proposal be amended to allow the most recently available figure or estimate of the total number of taxpayers to be used to calculate an individual taxpayer's share of government debt.

Relationship between taxpayers and the government

4.16 As a result of the various functions and services the government provides, it is clear that individuals have different financial relationships with the government. During their evidence to the committee, officials from Treasury noted that these varying relationships would not be captured by the tax receipt proposal:

Mr Parker—...If you just focus for example on someone who is paying \$1,000 tax but they are in receipt of \$10,000 of FTB and you say to them, ‘Your \$1,000 of tax was spent on the range of issues which is required to be said,’ is that actually an accurate reflection when they are in net receipt of money?

CHAIR—It probably is to the extent that they are paying tax. As recipients of the government benefit, they would be aware that they receive government benefits. The same argument that you use could be used for yourself. As a taxpayer, your salary is paid ultimately by taxes but you pay tax as well.

Mr Parker—Yes.

CHAIR—That said, a measure that is presented once a year to you—although I imagine you would probably have a pretty good grasp of it anyway—showing the way that the taxes you have paid have roughly been divided up by government spending and allowing you to compare how that looks from year to year and build up a picture over a number of years may well be quite useful for you if you did not have the inherent knowledge that you do. Even though it may not accurately reflect the transfer of payments between yourself as a taxpayer and the government in full, it gives you a picture and an understanding to some extent of how government is taking the taxes you pay and how they are applying them in the business they go about from day to day.

Mr Parker—Yes, sure; I am not dissenting from that at all. I am simply making the point that, if you choose to describe someone’s financial relationship with the government in one respect, it is essentially arbitrary when there are other financial relationships there.

4.17 In situations where an individual's income tax payment was less than what they received in government payments during the year, on a theoretical basis it may be reasonable to conclude that their income tax payment would not be allocated to a number of different areas of government expenditure, but instead would have been

returned to them. Given that all income taxation revenue automatically contributes to the Consolidated Revenue Fund, however, distinguishing between tax payments in this way is likely to be conceptually problematic in practice. Further, issues would arise regarding individuals who received government payments throughout the financial year that equalled a significant proportion of their tax payment, but less than the total amount paid in income tax. As a tax receipt would essentially act as a way for taxpayers to compare levels of government expenditure in different areas, if an individual's taxation payment was reported as directly contributing to the government payments the individual received, there is a risk that the proportion of the government's expenditure on items where it makes payments would be overstated on many tax receipts.

Tax expenditures

4.18 A tax expenditure is a concession, benefit, incentive or charge provided through the tax system to taxpayers by the government. Usually tax expenditures provide a benefit to a specified activity or class of taxpayer that is concessional compared to the tax treatment that would otherwise apply. A relevant example is the Education Tax Refund scheme, under which eligible taxpayers can claim a refundable tax offset for 50 per cent of eligible education expenses incurred as a result of a student undertaking primary or secondary school studies, up to a maximum amount.

4.19 Treasury reports that measured tax expenditures as a proportion of GDP peaked in 2007–08 at 10.6 per cent of GDP, and were 8.8 per cent in 2009–10. In dollar terms, total measured tax expenditures in 2009–10 are estimated at around \$113 billion (approximately \$47 billion if housing and superannuation tax expenditures are excluded).⁹

4.20 During their evidence to the committee, officials from Treasury queried whether tax expenditures should be included as expenditure on a tax receipt.¹⁰

4.21 A tax receipt will provide a means for taxpayers to compare a government's commitment to certain functions, however, as tax expenditures result in revenue forgone by the government it is unlikely that they would be accounted for on a tax receipt. This may understate the government's activities in certain areas. Tax receipts may also encourage governments to make use of tax expenditures to avoid scrutiny of certain expenditure items.

Committee view

4.22 The committee acknowledges that the amendments, as currently drafted, would not result in a tax receipt that completely demonstrates an individual's net

9 Department of the Treasury, *Tax Expenditures Statement 2010*, January 2011, pp. 3-4.

10 Mr David Parker, Department of the Treasury, *Proof Committee Hansard*, 9 February 2011, p. 3.

financial relationship with the government. However, the committee is of the view that it would likely be difficult to prepare a tax receipt that includes this information with complete accuracy, and which remains simple and meaningful to individual taxpayers. The committee considers that the benefits associated with providing taxpayers with an indication of how taxation revenue is spent, and the increased transparency that will result, outweigh concerns about capturing an individual taxpayer's entire financial relationship with the government.

Areas of government expenditure

4.23 The proposed tax receipts would be required to demonstrate an income taxpayer's contribution to a number of specified government functions and other areas of expenditure. The table below outlines these expenses using the labels expressed in the amendments.

Table 4.1: Government expenses by function (as described by the tax receipt proposal)

Function	2009–10 outcome (\$m)	Proportion of total expenditure
Welfare*	109 197	32.2%
Health	51 426	15.2%
Education	34 889	10.3%
Defence	20 150	5.9%
Foreign affairs and economic aid	4 869	1.4%
Recreation and culture	3 280	1.0%
Housing and community services*	9 029	2.7%
Industry assistance and fuel subsidies*	8 473	2.5%
Public order*	3 593	1.1%
Transport and communications	6 641	2.0%
Labour and industrial relations*	4 694	1.4%
Transfers to the states, territories and local government authorities	47 157	13.9%
Servicing public debt interest	6 303	1.9%
Other public services†	29 538	8.7%
Total expenses	339 239	100%

* The descriptions of these functions do not match with the titles used in the Budget papers. To prepare this table, the figures for the functions in the Budget papers which appear to most closely match the functions in the above table have been used. For example, figures for "industry assistance and fuel subsidies" have been taken from the "fuel and energy" function in the Budget papers. This issue is discussed in more detail on the following page of this report.

† This figure has been calculated by subtracting the figures for each individual function listed in the table from the total expenses.

Source: *Final Budget Outcome 2009-10*, p. 5.

4.24 In addition to the taxpayer's share of the total expended on the welfare function being shown, their contribution to a number of specific welfare entitlements—aged pensions, disability pensions, family benefits and unemployment and sickness benefit entitlements—is also required to be demonstrated.

4.25 The amendments allow for an "other welfare benefits category". A significant amount of welfare entitlements would fall into this vaguely defined category. These entitlements include benefits to veterans' and dependents (\$6.9 billion in 2009–10 according to the 2009–10 Final Budget Outcome) and Aboriginal advancement (\$1.3 billion in 2009–10).

4.26 If the total expended on the welfare function is included on a tax receipt, administration costs associated with welfare (\$3.2 billion in 2009–10) may be included in the total figure, but as the sub-categories refer explicitly to entitlements, they are unlikely to be broken down into each of the sub-categories. If this is the case, the sub-categories will not add up to the total amount expended on welfare. This will be a noticeable discrepancy—the reason for which may be unclear to the recipient of the tax receipt.

4.27 The remaining government functions which the amendment requires to be included cover most other areas of government expenditure. Some exceptions are readily apparent, such as costs associated with general government administration and costs related to immigration. These programs would need to be included in the "other public services" category.

4.28 There are also some slight differences apparent between the functions described in the amendments and the terminology used in the Budget papers. For example, "public order and safety" is the title of a function of general government sector expense in the Budget papers, however "public order" is used in the amendments.

4.29 It is possible that these differences may cause some difficulties for the ATO in determining which programmes should be included in each category. This may result in further programmes being included in the "other public services" function, resulting in the category appearing large on a taxpayer's tax receipt, without useful information being imparted to the taxpayer.

Committee view

4.30 The committee is aware that the proposal simplified some of the titles given to government functions and other areas of expenditure in order to clarify what each function is, as well as to ensure there is sufficient space on the tax receipt. However, to minimise uncertainty for the ATO in preparing these receipts, as well as the ability for government programmes to be buried in the "other" category, the committee considers that the titles of the categories that do not match with how the general government sector expenses are described in the Budget papers should be amended to reflect more closely the titles used in the Budget papers. If necessary, explanatory

notes could be used to describe what is included in a function if the title used in the Budget papers is not clear.

4.31 The committee also notes that the amendments prescribe a *minimum* list of functions for which details need to be provided. To help taxpayers further understand how their taxation payments are spent, the inclusion of further categories or detail could be considered during the development and design process, at the discretion of the ATO.

Recommendation 2

4.32 The committee recommends that consideration be given to modifying the amendments so that the names given to the functions of government expenditure correspond with those used in the documents published during the Budget process.

Chapter 5

Other issues

5.1 This chapter examines issues associated with the administration, implementation and cost of tax receipts. Evidence presented to the committee providing suggestions or alternative approaches to minimise these issues is also discussed.

Availability of final Budget figures

5.2 The amendments state that a notice of assessment should include 'a breakdown of how the amount of the assessment was spent on different functions in the financial year'. The amendments also require these calculations to be based on the proportion of Budget expenditure on each function.¹

5.3 Projections of government expenditure are released with the Budget, and are updated as necessary in the MYEFO and again at the next Budget. The final Budget figures are published in the Final Budget Outcome, which is usually released at the end of September each year (the *Charter of Budget Honesty Act 1998* requires that governments provide a final budget outcome report no later than three months after the end of the financial year).

5.4 The ATO gave evidence to the committee regarding their approach to providing notices of assessment to taxpayers, and submitted that the delay in the final Budget figures being available would have implications for their assessment process:

From our point of view, if we need to provide personalised information to taxpayers, that information has to be timely, accurate and final. So, to the extent that there is a lack of the data which we need to provide with an assessment, we would have to wait until we had that. If that was not final and accurate until September then we would not be able to provide that to taxpayers before then. Where the information to be provided is part of the assessment process, we would have to be extremely careful that the information we provided was timely, accurate and final. That would mean that we would not be able to issue assessments until we had that.²

5.5 However, many tax returns start to be assessed and finalised before the end of September. The ATO, under the Income Tax Assessment Act, has an obligation to serve notices of assessment 'as soon as conveniently may be after any assessment is

1 Subclause 174A(1)(a) of the proposed amendments on sheet 7010 to the Tax Laws Amendment (2010 Measures No. 4) Bill 2010.

2 Mr Michael Monaghan, Australian Taxation Office, *Proof Committee Hansard*, 9 February 2011, p. 5.

made'.³ This timing issue was discussed by officials from Treasury during their evidence to the committee:

Senator PRATT—How soon do people start getting tax returns lodged and looking for their money back? It seems to me that there is a direct link between you getting your tax assessment and any money back and at the same time the government being ready to give you this information. Is there a problem there?

Mr Parker—Yes, there is a problem in terms of the ability to administer these things. It goes, as I mentioned at the outset, to timeliness and accuracy. Every year we publish the Final Budget Outcome, which has detailed reporting on what actually happened for the financial year. It can be amended in the event of new information as you get it, if there are errors and so forth. That is required to be published by 30 September every year. When I sign off on the accounts for the Treasury, that is generally in August or something like that, once the whole thing has been audited properly.

Senator PRATT—Is it September because it takes time—

Mr Parker—It takes time, yes.

Senator PRATT—to pull that kind of information together?

Mr Parker—That is right. And someone could lodge their tax return straightaway, essentially.

5.6 The proposal, as currently drafted, refers to "Budget expenditure". It is not clear if it is intended for the final Budget figures to be used when considering Budget expenditure, or whether estimates may be used. Given this uncertainty, it is understandable that the ATO may be inclined to wait until the Final Budget Outcome is available. However this would likely interfere with their obligations to taxpayers who lodge their tax returns early in the assessment process. In cases where the ATO would return money to a taxpayer, it would effectively be holding that money for longer than what is otherwise necessary, to the detriment of the taxpayer.

5.7 If final Budget figures are not available at the same time as tax returns start to be assessed, estimates of expenditure from other Budget documents could be used. This would likely result in some minor inaccuracies in the assessments.

5.8 However, as noted earlier, the estimates released in the Budget are updated during the financial year to reflect policy decisions, variations in economic parameters and other developments. These updated figures are published in the MYEFO and when a new Budget is released. For instance, updated estimates figures associated with the 2009–10 Budget were published in November 2009 for the 2009–10 MYEFO, and again in May 2010 for the 2010–11 Budget. The following table illustrates the degree of variation in expenditure figures related to recent Budgets.

3 Section 174 of the *Income Tax Assessment Act 1936*.

Table 5.1: Estimates/outcome of general government sector expenses from recent Budgets

	Initial Budget estimates (\$b)	MYEFO estimates (\$b)	Revised estimates released at next Budget (\$b)	Final Budget Outcome figures (\$b)
2008–09	292.5	303.6	324.4	324.6
2009–10	338.2	340.2	343.1	339.2
2010–11	354.6	354.3	-	-

Sources: Budget Paper No. 1, MYEFO and Final Budget Outcome for the 2008–09, 2009–10 and 2010–11 financial years.

5.9 Therefore, while the figures would still not be final and other minor inaccuracies as a result of the figures remaining as estimates may still exist, there would be less than a two month period during which policy decisions or economic variations could vary these estimates.

5.10 During the public hearing conducted for this inquiry, the ATO acknowledged that any uncertainty in this area would ultimately depend on how the law was drafted.

CHAIR—If you put appropriate riders on the tax receipt then and say that, due to the fact that the final figures have not yet been released, this tax receipt has been calculated against the budget figures, or MYEFO or whatever it might have been, which were the most recently available figures, then that surely squares that away. It is as accurate as it could possibly be at that date.

Mr Monaghan—That, of course, always depends on what the law requires. The point I am making is that, for us to provide personalised information to taxpayers, we would need to have that in a timely, accurate and final way and, where there was uncertainty in any of those things, we would have to wait.⁴

Committee view

5.11 The intention behind the amendments is to provide taxpayers with indicative information about government expenditure and debt. The committee acknowledges the ATO's concerns about the income tax assessment process requiring accuracy and timeliness. The committee considers that the updated estimates released with the following financial year's Budget in May could be used to calculate the breakdown of government expenditure on a tax receipt. This would address concerns about the impact of the tax receipt proposal on the timeliness of the income tax assessment process.

4 Mr Michael Monaghan, Australian Taxation Office, *Proof Committee Hansard*, 9 February 2011, p. 6.

5.12 In response to concerns about accuracy, the committee is of the view that although these figures are estimates rather than final Budget numbers, this should not be a matter of significant concern given the rigour of the Budget process and the fact that the estimates are sufficient for governments to base their expenditure for the upcoming financial year when the Budget is released. This is provided that the tax receipt clearly indicates which figures have been used and details any further assumptions made.

Recommendation 3

5.13 The committee recommends that an explanatory note be inserted into the amendments to allow the most up-to-date publicly available government estimates of Budget expenditure available on 30 June (of the relevant financial year) to be used in any calculations to breakdown how the amount of an individual's assessment was spent on different government functions.

Alternative approaches

5.14 An alternative method to provide information on government expenditure and debt on an individual taxpayer basis was suggested by Professor Quiggin in his submission to the committee. Professor Quiggin noted that a website with a calculator that could be used to show income tax payments are spent could be more beneficial to taxpayers than a paper tax receipt, and could help ensure that tax assessments remain uncomplicated:

The general idea of informing members of the public how their tax dollars are spent is a good one. However, it is also highly desirable that tax assessments should be as simple as possible. A reasonable compromise might be to include a link or reference to a website where taxpayers could use a calculator to derive the relevant information. This approach would have the added merit of being expandable and customisable so that interested taxpayers (a minority, but one to be encouraged) could obtain more information regarding areas of specific interest.⁵

5.15 In addition to allowing for customisation and the ability for more detailed information to be provided to taxpayers who seek it, another likely advantage is that such a website would be available continuously and be easily accessible throughout the year. A website would also allow for easier feedback from taxpayers regarding the way the information is provided and the possibility of more frequent improvements in response.

5.16 Depending on the cost of sending additional documents to each taxpayer along with their notice of assessment, there may also be cost-savings (either immediately or in the long-term) in developing and maintaining a website. During their evidence to the committee, officers from the ATO suggested that paper tax receipt system would cost approximately \$10 million over four years, with the

5 Professor John Quiggin, *Submission 1*, p. 1.

majority of the outlay likely to occur in the 2011-12 financial year.⁶ The ATO later advised that they estimated the cost would decrease to \$2 million a year in 2012-13 and 2013-14.

5.17 The State of California currently operates a website which invites state taxpayers to enter the amount they paid in state income tax and then shows how the money would be distributed.⁷

Committee view

5.18 The committee accepts that the proposal for a tax calculator on a government website to be introduced may have merit, but does not believe it is a suitable alternative in itself.

5.19 A website would be subject to the same constraints regarding the availability of Budget information and the ability to provide a thoroughly accurate snapshot of how a taxpayer's income tax payment is spent by the government at any given point in time. To ensure accuracy, there may be a need to review the calculations used on the website as updated Budget figures, such as those released in the MYEFO, become available. Further, the cost-effectiveness and overall success of the website would be severely restricted by the degree to which taxpayers are aware of its existence and remember to access it.

5.20 Overall, once the methodology and processes associated with preparing paper tax receipts has been developed, the committee considers that the ongoing costs associated with them should not be significant compared to the benefits of information on government expenditure and debt becoming more easily available to taxpayers.

Recommendation 4

5.21 Subject to the committee's other recommendations being adopted, the committee recommends that the amendments to the Tax Laws Amendment (2010 Measures No. 4) Bill 2010 proposed by Senator Cormann on sheet 7010 be introduced as a Bill, and that the Bill be passed.

Senator Alan Eggleston
Chair

6 Mr Michael Monaghan, Australian Taxation Office, *Proof Committee Hansard*, 9 February 2011, pp. 7-8.

7 State of California Franchise Tax Board, *2010 Income Tax Receipt*, <http://www.ftb.ca.gov/individuals/taxReceipt/> (accessed 8 February 2011).

Minority report by Labor Senators

1.1 The terms of reference of this hearing were to inquire into Senator Cormann's amendment into the Tax Laws Amendment (2010 Measures No. 4) Bill 2010.

The amendments would require the Australian Taxation Office to provide taxpayers, along with their notices of assessment, with a break-down of how the amount of the assessment was spent on different functions in the financial year (calculated by applying the proportion of the Budget expenditure on each function to the amount of the assessment) and the level of Australian government net debt.¹

1.2 The Labor members of the Committee acknowledge that taxpayers are entitled to have information about government expenditure that is as full and accurate as possible. It seems clear, however, that the proposal considered by the Committee is about political posturing around the government's stimulus expenditure and the accompanying temporary budget deficit.

1.3 *The main report goes through a number of significant problems raised by the proposal and each time recommends a vague fix that involves many assumptions and simplifications.*

1.4 It is difficult to understand that other members of the Committee were able to conclude that the amendments to Tax Laws Amendment (2010 Measures No 4) Bill should be passed. The Labor members will address several specific issues.

Budget information

1.5 The difficulties in providing a true representation of expenditure to each individual, when such information is not finalised by the time lodgements are received and assessments returned.

1.6 This was discussed at length in the hearings between Senator Pratt and Mr Parker from Treasury:

Senator PRATT—I have a range of questions, but I might just pick up on some of what the chair has raised so that we can continue thematically. I would be concerned about whether what is listed here is a true representation of expenditure. For example, under item 7 it talks about taxation revenue going to the states, territories and local government, although much of that expenditure also relates to health, education and other types of activities that are listed at item 6. How accurate is the information listed before us as a true representation of government expenditure?

¹ Terms of Reference

http://www.aph.gov.au/Senate/committee/economics_ctte/tax_assessment_2010/AugmentedTaxAssessmentsTOR.pdf

Mr Parker—There are essentially two issues in that sense. One is a measurement issue. The government does publish breakdowns of total expenditure into the categories. We publish probably the most digestible and high-level cut at that every year in the ‘budget glossy’, so called. It is at page 38, I think—a couple of pie charts of revenue and expenditure. Eventually all of these things can get sorted out, but these things are not sorted out on 30 June every year.

Senator PRATT—How soon do people start getting tax returns lodged and looking for their money back? It seems to me that there is a direct link between you getting your tax assessment and any money back and at the same time the government being ready to give you this information. Is there a problem there?

Mr Parker—Yes, there is a problem in terms of the ability to administer these things. It goes, as I mentioned at the outset, to timeliness and accuracy. Every year we publish the Final Budget Outcome, which has detailed reporting on what actually happened for the financial year. It can be amended in the event of new information as you get it, if there are errors and so forth. That is required to be published by 30 September every year. When I sign off on the accounts for the Treasury, that is generally in August or something like that, once the whole thing has been audited properly.

Senator PRATT—Is it September because it takes time—

Mr Parker—It takes time, yes.

Senator PRATT—to pull that kind of information together?

Mr Parker—That is right. And someone could lodge their tax return straightaway, essentially.²

1.7 This is a considerable problem in the eyes of the Labor members, because as Mr Parker had stated even reports such as the Final Budget Outcome are amended when new information is received, this becomes a problem when a tax return is lodged immediately.

1.8 Mr Monaghan from the Australian Tax Office adds:

Mr Monaghan—From our point of view, if we need to provide personalised information to taxpayers, that information has to be timely, accurate and final. So, to the extent that there is a lack of the data which we need to provide with an assessment, we would have to wait until we had that. If that was not final and accurate until September then we would not be able to provide that to taxpayers before then. Where the information to be provided is part of the assessment process, we would have to be extremely careful that the information we provided was timely, accurate

² *Proof Committee Hansard*, 9 February 2011, p. 4.

and final. That would mean that we would not be able to issue assessments until we had that....³

Mr Monaghan supports Mr Parker's response for the need of the information to be timely, accurate and final.

Recommendation 2

1.9 The Government should not consider supporting such a measure because information on the breakdown of spending at the time of lodgement will not be timely. At the time taxpayers expect to receive their assessment, the breakdown may not be accurate or final, and will either delay assessments or provide poor information.

Taxpayer Calculations

1.10 During the hearing it was brought to the attention of the committee that the process of assessment could see some taxpayers challenge their assessment, if the information provided to the taxpayer was not accurate and final. This stresses the importance of Recommendation 1. Evidence from Mr Monahan addresses this issue:

Mr Monahan—...In speaking of the process of assessment, it is also important to note that taxpayers will challenge the validity of an assessment process, in particular the service of the assessment, where they feel there is an opportunity to succeed in a challenge. Some taxpayers will challenge the process where they feel that there is an inaccuracy in that process. So we would have to be very careful that what we provided to taxpayers was, as I said, accurate and final.

Senator PRATT—If you are creating a direct link between how much someone is getting back in their tax and a statement like this and if the information in the statement changes at some point in the future are you arguing that taxpayers will perceive that that is a reason to challenge their assessment, or can they just object to the information provided?

Mr Monaghan—It is highly likely that some taxpayers will challenge an assessment process where they can. Where we are providing information in addition to the normal assessment process it is inevitable that some taxpayers will challenge that, at least in the early days. We would then be in a position of having to decide what to do with all the assessment if there was a systemic issue. If there is a challenge to a tax technical point like whether you can deduct some particular expense or something we can corral those assessments, which we do, and we take no recovery action until a court case is resolved. We would be concerned where there could be a

³ *Proof Committee Hansard*, 9 February 2011, p. 5.

challenge to the actual process, a systemic challenge, that would create a lot of uncertainty as to the assessments issued to everyone else.

Senator PRATT—Why, because the bill outlines that this is your share of debt and because this is how much tax you pay? Is it those kinds of relationships?

Mr Monaghan—Where we need to provide precise information, as I have said, it would need to be accurate, final and ready in time. To the extent that there is any uncertainty in terms or uncertainty in whether the data is final or accurate that would bring serious disruption into the assessment processes and would also cause delay because we would need to wait until we were sure we had what we could reasonably argue was timely, accurate and final information.⁴

1.11 Timing and certainty are not ensured when an assessment is to be sent to a taxpayer. The evidence provided shows that if the assessments are to be returned in a reasonable time after lodgement, the break down information may not be accurate, and could lead to a challenge by the taxpayer.

Information on expenditure

1.12 Evidence was also provided in regard to the access of accurate information about expenditure. Labor Senators believe this is already widely accessible to the public, without the complications of providing such information of expenditure with the notice of assessment. Mr Parker from Treasury states:

As I have said, there is a range of information published at almost any level of detail you could wish for about expenditure, including the portfolio budget statements of each portfolio. In terms of accessibility and digestibility, the so-called budget overview, the glossy, is now part of the lexicon. Most people will go to that before any other document. That provides a summary. In line with the general move into the electronic medium, all of that information is available online from Treasury and other websites.⁵

Yes. It is all online, including the monthly department of finance financial flow statements.⁶

1.13 The evidence shows that the information published on the websites are timely, and accurate.

⁴ *Proof Committee Hansard*, 9 February 2011, p. 5.

⁵ *Proof Committee Hansard*, 9 February 2011, p. 8.

⁶ *Proof Committee Hansard*, 9 February 2011, p. 8.

Recommendation 3

1.14 The Government should continue to maintain at least the current standard of accessible and available Government information on expenditure to provide the necessary transparency to all Australians.

Conclusion

1.15 The Labor Senators do not believe this proposal is a viable one. It is difficult to discuss the merits of such an implementation when there are no certain answers to the concerns of Treasury and the ATO about the departments' ability to provide the information on a timely, accurate and final basis. This information is already accessible to the public. Consequently, creating a cost to government by providing detailed information within the taxpayer's individual assessment is not justified.

Senator Annette Hurley
Deputy Chair

Additional Comments by Senator Xenophon

1.1 I support the principle of greater transparency and information to taxpayers about how taxpayers' money is spent.

1.2 In addition to the Committee's Report, it is important, given the understandable limitations of the current proposal in terms of accuracy and relevance to individual taxpayers, that any augmented tax assessment is provided in conjunction with the provision of a user-friendly website that provides clear information around Government spending and budgetary measures.

1.3 The proposal by Professor John Quiggin of an online calculator is one that should be investigated.

1.4 Any website that is developed should also provide easy-to-understand information about the spending measures in practical terms for individual taxpayers.

1.5 The focus of any augmented tax assessment proposal must be to provide taxpayers with meaningful information in order to increase the fiscal literacy of taxpayers and to provide greater transparency around Government spending.

NICK XENOPHON

Independent Senator for South Australia

APPENDIX 1

Submissions Received

Submission Number	Submitter
1	Prof John Quiggin

Additional Information Received

- Received from the Treasury on 24 March 2011; answers to Questions on Notice taken at a public hearing in Canberra on 9 February 2011.
- Received from the ATO on 29 March 2011; answers to Questions on Notice taken at a public hearing in Canberra on 9 February 2011.

APPENDIX 2

Public Hearing and Witnesses

CANBERRA, 9 FEBRUARY 2011

BARRON, Ms Christine, General Manager, Tax System Division,
Treasury

KRIZMANITS, Mr Peter John, Manager, Tax Administration Policy Unit,
Tax System Division, Treasury

MONAGHAN, Mr Michael, First Assistant Commissioner, Corporate Relations,
Australian Taxation Office

PARKER, Mr David, Executive Director, Revenue Group,
Treasury

