

PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

2016 Annual Report of the Australian Taxation Office

Performance Review 2015–16

House of Representatives Standing Committee on Tax and Revenue

March 2017
CANBERRA

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Chair's forward

The 2016 Annual Report of the Australian Taxation Office covers a period of consolidation under the ATO's Reinvention Program, a whole of agency reform to improve taxpayer engagement with Australia's tax and superannuation systems.

In its federal Budget for 2015–16, the Government funded the ATO to 'reduce red tape' and simplify compliance by making digital interaction the main mechanism for taxpayer engagement with the ATO. Tax time 2016 was a test for progress under this digital transformation agenda. This report records good news from the ATO; tax payers have embraced online compliance in increasing numbers while complaint levels have dropped sharply compared with last year.

The digitisation of ATO services is a major part of the Reinvention strategy, but it is not all. The broader strategy entails behavioural as well as structural change. Rather than focus on enforcement action, the ATO's new priority is 'early engagement', so that tax payers know their rights and obligations, and can use digital tax and superannuation lodgement systems to make compliance easier. For those without or unused to digital access, a suite of alternative services and supports are available.

The ATO's evidence to the Committee during this review suggested that taxpayers have good reason to be confident that the reform process is being managed with the propriety and professionalism expected of Australia's key revenue collection agency. Certainly, positive responses from tax professional bodies and small business indicated that past anxieties have dissipated. The ATO has emerged as a partner in the design and transformation of services to these sectors, with opportunities for high level consultation and a range of outreach programs working to resolve outstanding issues. The Committee has recommended that

these well received supports to small business and tax agents should continue beyond the initial development phase, to further refine services to these sectors.

While the ATO is to be congratulated on its achievement over the reporting period, the Committee takes the view that the agency's transformation program has reached a point which calls for greater accountability in performance reporting in a number of key areas. This will allow for the results of reform to be better gauged over time.

The Committee has made 14 recommendations in this report which call for, among other matters, more comprehensive reporting on: staff investment and deployment; progress against digital service milestones; investment in data analytics and auditing of debt collection decisions; the functionality and security of online systems; progress and numbers of new draft rulings and on tax simplification measures; and prioritisation of work identifying the size of the revenue gap.

A number of these recommendations go to the need for increased accountability to the public at a time when the digitalisation of government services has raised concerns about the security and integrity of the data held. The ATO's work in this area has been commended. However, sustained system outages in late December 2016, then in early 2017, saw the Office contract an independent assessment of its data development and management processes. There were also well publicised problems with data sharing of tax information, which damaged public confidence in the fairness and integrity of ATO data matching systems.

The Committee regards the personal and business impacts of ATO service disruptions as a concern, and has recommended that the ATO benchmark the functionality and security of its online systems for report in its next annual review. In the context of fairness to taxpayers, the Committee has also recommended that the ATO invest more in data analytics and auditing, and work with the Department of Human Services to limit the potential for errors in data sharing.

A related request is for agency-wide reportage on investment in and deployment of staff, to ensure value for money in high (person to person) and low (online) functions, including in compliance activity. The Committee regards this information as a priority following the workforce redesign that was conducted by the ATO in late 2015. More comprehensive reportage against ATO's fairness

measures, which rate the total quality of taxpayer satisfaction with ATO services, is a complementary measure.

In this report the Committee commends the Inspector-General of Taxation for his work in mediating more serious tax disputes, a role he took on in May 2015. A matter raised during this review was the tax treatment of self-assessing offshore (non) residents and the Commissioner's unlimited powers for retrospective auditing in cases of non-lodgement. The Committee has identified an anomaly in tax law which it considers unfairly impacts on long term non-residents, and has recommended the ATO provide an administrative remedy.

Finally, as Chair, I would like to draw attention to the relevance of evidence taken during this review to the Committee's ongoing inquiry into tax payer engagement with the tax system. Under this broad mandate, the Committee has specific interests in investigating the extent of the cash economy in Australia, and the work that the ATO is doing domestically, and with overseas counterparts, to identify the drivers and antidotes to its proliferation.

In anticipation of this, the Committee in this report has also urged the ATO to prioritise the development of indicators to identify and assess the size of the revenue gap, and to report promptly on its findings to promote public debate and awareness of the extent of the problem.

I thank the ATO Commissioners, the Inspector-General of Taxation and his Deputy, and representatives of tax professional and small business peak bodies for providing their professional insights during this review, and look forward to further discussion in coming months.

Kevin Hogan MP
Chair

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Members

Mr Kevin Hogan MP

Chair

Ms Julie Owens MP

Deputy Chair

Ms Terri Butler MP

Ms Nicolle Flint MP

Mr Milton Dick MP

Mr Julian Leeser MP

Mr Jason Falinski MP

Mr Bert van Manen MP

Terms of Reference

The Tax and Revenue Committee will review the 2015–16 Annual Report of the Australian Taxation Office.

For this review, the Tax and Revenue Committee has resolved to investigate a range of matters raised in the 2015–16 Annual Report of the Australian Taxation Office, including:

- progress on new technology projects, including myTax;
- relationships with tax practitioners;
- how the ATO is monitoring and assisting individuals and very small businesses who are not computerised to handle the new environment;
- how does the ATO benchmark its performance in introducing new IT: how does it compare, say, with the banks, or other countries' tax offices;
- an update on measuring the tax gap, any new estimates of particular taxes and of total revenue impacts, and an overall timetable for completion;
- the new strategy for addressing the cash economy, and an assessment of its effectiveness;
- a progress report on dealing with the backlog of draft public rulings; and
- an update on the indicators of perceptions of fairness in disputes and other performance information as listed in the Committee's previous report.

Abbreviations

Australian Business Software Industry Association	ABSIA
Australian Cyber Security Centre	ACSC
Australian National Audit Office	ANAO
Australian Taxation Office	ATO
Australian Taxpayers' Alliance	ATA
Australian Business Software Industry Association	ABSIA
Business Activity Statement	BAS
Chartered Accountants of Australia and New Zealand	CAANZ
Chief Executive Officer	CEO
Client Communication List	CCL
Cyber Security Working Group	CSWG
Council of Small Business of Australia	COSBOA
Electronic Lodgement Service	ELS
Goods and Services Tax	GST

House of Representatives	HoR
Information technology	IT
Joint International Taskforce on Shared Intelligence and Collaboration	JITSIC
Practitioner Lodgement Service	PLS
Price Waterhouse Coopers	PwC
Software Industry Partnership Office	SIPO
Standard Business Reporting	SBR
Tax Practitioners Board	TPB

List of recommendations

Recommendation 1

3.9 The Committee recommends that the Australian Taxation Office (ATO) report on:

- the ratios of staff deployment in person to person advice, both telephone and in community outreach, compared with online delivery and maintenance, relative to each business line;
- the investment in training, and the nature of training, for staff who have a direct engagement with taxpayers; and
- the extent to which the ATO is using contract staff and volunteers, their training and contracts of appointment.

Recommendation 2

3.10 The Committee also recommends that the ATO:

- provide total cost figures for deployment of staff across all ATO service bands to allow for a cost benefit analysis by business function; and
- advise on any comparative analysis that has been done on the outsourcings of particular business lines.

Recommendation 3

- 3.21 The Committee recommends that the ATO in its Annual Report tabulate progress of the digitisation of ATO's services from conception to current status, with information on how the ATO is tracking against original delivery targets.

Recommendation 4

- 3.32 The Committee recommends that the ATO should further invest in data analytics and auditing to promote the integrity of the tax system and work with the Department of Human Services and other agencies to enhance the auditing and review of apparent discrepancies identified through data matching.

The Committee also recommends that the ATO should ensure there is adequate telephone support provided, particularly in peak times or when there is a disruption to online services.

Recommendation 5

- 3.41 To provide greater certainty to Australian taxpayers, the Committee recommends that the ATO develop best practice benchmarks for measuring and reporting on the security and functionality of its online systems in its Annual Report.

Recommendation 6

- 3.50 The Committee recommends that the ATO, to improve certainty and reduce business impacts on tax agents, should publish on the Tax Agents Dashboard:
- a projected schedule and service updates on enhancements to the Practitioner Lodgement Service and corresponding changes on the Electronic Lodgement Service as an ongoing feature, with
 - advice on the timeframe and milestones for launch of the additional lodgement gateway for 2017 tax time and its functionality thereafter.

Recommendation 7

3.60 The Committee recommends that the ATO continue to invest in community outreach and assistance programs such as the ATO Fix-it Squads and Agents Visit Program beyond system development for consultation and ongoing refinement of user friendly digital service systems for the small business sector.

Recommendation 8

3.70 The Committee recommends that the ATO provide information in its Annual Report on:

- its trajectory and progress in the redesign of tax law to simplify compliance; and
- the number and timeliness of public rulings, issued and finalised, over the reporting period.

Recommendation 9

3.77 The Committee recommends that the ATO develop specific output targets for online services used by general taxpayers and by tax agents to benchmark the functionality of these services. The ATO should also include this benchmarking in its Commitments to Service Performance framework, and report outputs in its annual reports.

Recommendation 10

3.79 The Committee also recommends the ATO report against its fairness measures – on the basis of taxpayer and tax agent experience of the outcome; the process; the information provided; and interaction with staff – for specific business lines, including audit, advice and debt work, in its next Annual Report.

Recommendation 11

3.90 The Committee recommends that, in the interests of fairness, the ATO should assess and issue automatic notices of assessment to non-resident tax payers with nil income.

Recommendation 12

- 3.99 The Committee recommends that the ATO, to better inform public and policy debate and increase community awareness, should publish in 2017 its revenue gap measures and report the total revenue gap estimate and assessments for different community sectors on its website as they become available, and in the 2016–17 Annual Report.

Recommendation 13

- 3.101 The Committee recommends that the ATO's Annual Report should include a more detailed differentiation of data on unrecoverable debt, including by distinguishing between the amounts of debt written off as unrecoverable at law or that is uneconomical to pursue.

Recommendation 14

- 3.105 The Committee recommends that the ATO provide more detailed information in its Annual Report about its investment in compliance activity relative to revenue outcomes under debt recovery activities, for both funded pre-existing ATO activities and for indirect additional revenue commitments.