



Policy costing

Increasing Australian Taxation Office (ATO) compliance resources	
Party:	Australian Labor Party
Summary of proposal: This proposal has three components. <ul style="list-style-type: none">• Component 1 – Make the existing Tax Avoidance Taskforce ongoing at its existing funding level• Component 2 – Provide the Australian Taxation Office (ATO) with an additional \$50 million in funding each year for compliance and anti-avoidance work relating to trusts.• Component 3 – Provide the ATO with an additional \$50 million in funding each year for compliance work relating to multinationals. This proposal would commence on 1 July 2020.	

Costing overview

This proposal would be expected to increase the fiscal balance by \$220 million and the underlying cash balance by \$50 million over the 2019-20 Budget forward estimates period. This impact reflects the net effect of an increase in revenue from additional compliance activities and an increase in departmental expenses for the ATO.

The proposal would be expected to have an ongoing impact that extends beyond the 2019-20 Budget forward estimates period. A breakdown of the financial implications over the 2019-20 Budget forward estimates period is provided at [Attachment A](#).

Departmental expense estimates are based on the ATO funding specified in the proposal.

The underlying cash balance impact differs from the fiscal balance impact because of a timing difference between when tax liabilities are raised from compliance activities and when they are collected.

The financial implications of each component of this costing are highly uncertain as there is limited information available to estimate how additional revenue raised from compliance activities would be expected to change over time. Although the assumed rates of revenue return on additional ATO funding used in the costing are based on information provided by the ATO, they are particularly uncertain over longer periods of time and for large amounts of additional funding, such as the increments specified in this proposal.

The financial implications of the interactions between the components of this costing are also highly uncertain. The full extent of the overlap in compliance activities between the different areas of the ATO that would receive the additional funding is unknown, but would be expected to be significant. The level of diminishing returns on increased compliance funding is based on assumptions derived from information from the ATO.

Table 1: Financial implications (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Fiscal balance	-	50	90	80	220
Underlying cash balance	-	-30	20	60	50

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Key assumptions

The Parliamentary Budget Office has made the following assumptions in costing this proposal.

All components

- The ATO would be able to increase staffing levels and other resources to fully utilise the additional funding by the start date of the proposal.
- A proportion of the additional revenue raised under this proposal would be the result of increased voluntary compliance.
- The total number of staff hired under each component would be expected to decline over time due to increased staffing costs and the effect of the efficiency dividend.
- A number of staff would need to be employed for ancillary roles, such as interpretive assistance duties.
- Additional revenue raised would be collected in subsequent years and some liabilities (bad debts) would never be collected.
 - Bad debts would be between 5 per cent and 33 per cent of all compliance collections, depending on the particular area of compliance activity undertaken.

Tax Avoidance Taskforce

- Based on information from the ATO, additional revenue from increased ATO funding above what is already included in the 2019-20 Budget would be 40 per cent lower than the revenue return estimated for the 2019-20 Budget measure *Tax Integrity – extension and expansion of the ATO Tax Avoidance Taskforce on Large Corporates, Multinationals and High Wealth Individuals*.
- Extending the Tax Avoidance Taskforce on an ongoing basis would be expected to have a diminishing rate of return of 35 per cent that phases in over a period of seven years from 2023-24.
- The Tax Avoidance Taskforce would interact with other compliance areas such as the 2018-19 Budget measure *Black Economy Package – new and enhanced ATO enforcement against the Black Economy*.
- The Tax Avoidance Taskforce would be expected to have an indirect compliance impact, consistent with the 2016-17 Budget measure *Tax Integrity Package – establishing the Tax Avoidance Taskforce* and the 2019-20 Budget measure *Tax Integrity – extension and expansion of the ATO Tax Avoidance Taskforce on Large Corporates, Multinationals and High Wealth Individuals*.

Multinational tax compliance

- The estimated return on full-time-equivalent staff employed as direct active compliance staff for multinational tax compliance would be \$1 million per year.
- There would be a diminishing rate of return of 40 per cent that phases in over a period of eight years from 2021-22.

Trusts tax compliance

- The estimated return on full-time-equivalent staff employed as direct active compliance staff for trusts tax compliance would be \$1.5 million per year.
- There would be a diminishing rate of return of 40 per cent that phases in over a period of eight years from 2021-22.

Interactions

- There would be a high degree of overlap between the compliance activities undertaken in each component of the proposal. This overlap would be expected to reduce the revenue raised from the additional trusts and multinational tax compliance funding by 50 per cent.

Methodology

Tax Avoidance Taskforce

The financial implications of this component of the proposal were estimated based on an ATO full-time-equivalent resource-based model. The model determined the number of additional full-time-equivalent staff that would be hired by the Tax Avoidance Taskforce and estimated the expected revenue return, based on historical revenue return information. Staffing numbers were reduced over time based on the wage cost index and the efficiency dividend. Estimated additional revenue was reduced to allow for the diminishing return assumptions outlined above.

Multinational tax compliance

Similar to the Tax Avoidance Taskforce, the financial implications of this component of the proposal were estimated based on an ATO full-time-equivalent resource-based model. The compliance activity for this component was focused only on multinational tax compliance.

Trusts tax compliance

The financial implications of this component of the proposal were estimated based on an ATO full-time-equivalent resource-based model. The compliance activity for this component was focused only on trusts compliance.

Interactions

Estimates of the total interaction between the components was calculated by using the assumed changes as outlined in *Key assumptions*. These estimates were then subtracted from total compliance collections.

Revenue estimates have been rounded to the nearest \$10 million. Departmental expense estimates have been rounded to the nearest \$1 million.

Data sources

Commonwealth of Australia, 2016. *2016-17 Budget*, Canberra: Commonwealth of Australia.

Commonwealth of Australia, 2018. *2018-19 Budget*, Canberra: Commonwealth of Australia.

Commonwealth of Australia, 2019. *2019-20 Budget*, Canberra: Commonwealth of Australia.

The Treasury provided the modelling for the 2016-17 Budget measure *Tax integrity package – establishing the Tax Avoidance Taskforce*.

The ATO provided additional information on the 2016-17 Budget measure *Tax integrity package – establishing the Tax Avoidance Taskforce*.

The Treasury provided the modelling for the 2019-20 Budget measure *Tax integrity – extension and expansion of the ATO Tax Avoidance Taskforce on Large Corporates, Multinationals and High Wealth Individuals* and the 2018-19 Budget measure *Black Economy Package – new and enhanced ATO enforcement against the Black Economy*.

Attachment A – Increasing Australian Taxation Office (ATO) compliance resources – financial implications

Table A1: Increasing Australian Taxation Office (ATO) compliance resources – Fiscal balance (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
Revenue													
<i>Tax Avoidance Taskforce</i>	-	-	-	-	960	1,130	1,140	1,110	1,040	970	890	-	7,240
<i>Multinational tax compliance</i>	-	30	70	80	180	170	150	140	130	120	120	180	1,190
<i>Trusts compliance</i>	-	120	120	100	200	200	190	180	160	150	150	340	1,570
<i>Interactions</i>	-	-	-	-	-190	-190	-170	-160	-150	-130	-130	-	-1,120
Total – revenue	-	150	190	180	1,150	1,310	1,310	1,270	1,180	1,110	1,030	520	8,880
Expenses													
<i>Departmental</i>													
<i>Tax Avoidance Taskforce</i>	-	-	-	-	-317	-317	-317	-317	-317	-317	-317	-	-2,218
<i>Multinational tax compliance funding</i>	-	-50	-50	-50	-50	-50	-50	-50	-50	-50	-50	-150	-500
<i>Trusts compliance funding</i>	-	-50	-50	-50	-50	-50	-50	-50	-50	-50	-50	-150	-500
Total – expenses	-	-100	-100	-100	-417	-300	-3,218						
Total	-	50	90	80	733	893	893	853	763	693	613	220	5,662

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms.

A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Table A2: Increasing Australian Taxation Office compliance resources – Underlying cash balance (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
Receipts													
<i>Tax Avoidance Taskforce</i>	-	-	-	-	430	840	1,110	1,120	1,050	970	900	-	6,400
<i>Multinational tax compliance</i>	-	10	30	60	160	170	160	140	130	120	120	100	1,100
<i>Trusts compliance</i>	-	60	90	100	210	200	190	180	160	150	150	250	1,490
<i>Interactions</i>	-	-	-	-	-190	-190	-170	-160	-150	-130	-130	-	-1,120
Total – receipts	-	70	120	160	610	1,020	1,290	1,280	1,190	1,110	1,040	350	7,870
Payments													
<i>Departmental</i>													
<i>Tax Avoidance Taskforce</i>	-	-	-	-	-317	-317	-317	-317	-317	-317	-317	-	-2,218
<i>Multinational tax compliance funding</i>	-	-50	-50	-50	-50	-50	-50	-50	-50	-50	-50	-150	-500
<i>Trusts compliance funding</i>	-	-50	-50	-50	-50	-50	-50	-50	-50	-50	-50	-150	-500
Total – payments	-	-100	-100	-100	-417	-417	-417	-417	-417	-417	-417	-300	-3,218
Total	-	-30	20	60	193	603	873	863	773	693	623	50	4,652

- (a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms.
A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.
- (b) Figures may not sum to totals due to rounding.
- Indicates nil.