



**Australian Government**  
**Australian Taxation Office**

# ATO Submission

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Standing Committee on Tax and Revenue

2 February 2016

## Commissioner's foreword

This submission contains information on a range of issues, products and services relating to the Australian Taxation Office's administration of our tax and superannuation systems as per the Committee's request.

As an organisation, we have made significant progress in changing the way we work to deliver the best possible experience with the tax and super systems for our clients, our staff and our partners. We have actively embraced a more contemporary approach to our thinking, our planning and our execution of early, purposeful and respectful client interaction.

We have made a purposeful decision to administer for the majority who want to do the right thing rather than the minority who don't, by making it easy to comply and hard not to.

We will continue to build community confidence by ensuring everyone pays the right tax at the right time. Critically, the integrity of the system will be maintained by supporting those who choose to do the right thing and dealing with those who do not.

Initiatives that we have implemented in recent months are delivering tangible results and taxpayers are now finding it easier to comply with their tax and super obligations than ever before. At Tax Time last year, nearly 1.8 million taxpayers used the ATO's simplified online lodgment service, 'myTax', to lodge their tax returns. This represents an increase of 68% over 2014 and we expect around 2.8 million taxpayers will use myTax to lodge their returns this financial year.

myTax will continue to provide a more seamless, accessible and streamlined experience for taxpayers. It is available for all categories of individual taxpayers who wish to prepare their own returns, including those with rental income and capital gains as well as sole traders.

Preparations to implement the ATO's new tax practitioner lodgment service are at an advanced stage. We are working with tax practitioners and software providers to ensure a smooth transition from the Electronic Lodgment System (ELS) to the Standard Business Reporting (SBR) platform.

SBR is an Australian Government initiative designed to simplify business-to-government reporting. It enables tax professionals and businesses with an ABN to prepare and submit reports directly from their business software – this means they don't have to log in to a number of different systems.

Businesses and government will no longer have to spend hours filling out paper forms, re-entering information into separate systems and portals, or interpreting agency-specific terms on forms to understand what is required.

In order to address concerns about lack of sufficient lead-in time and to ensure that practitioners experience a successful Tax Time 2016, we will extend the transition period from ELS to SBR by maintaining the ELS Gateway as a 'safety net' until 31 March 2017.

We continue to monitor the operation of the tax agent portal and I am pleased to note that complaint volumes have reduced since July 2015 and are now tracking below the long term average.

We recognise that the Tax Agent Portal is an integral part of a tax agent's business. We continue to work closely with tax agents and the professional associations to address their concerns as a matter of priority and to keep them informed about system updates, fixes and changes which may impact their business.

We remain committed to addressing ongoing and emerging issues with the portal promptly so that tax professionals have access to the tools and services they require to conduct their business.

We are currently improving and rationalising our existing correspondence products to ensure we enhance client's understanding of their obligations and actions required. We are achieving this through clear, concise and consistent messaging across the ATO's traditional and digital communication service offering.

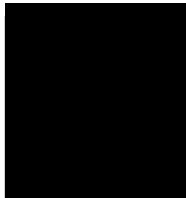
In December last year, we published the first Corporate tax transparency report for the 2013-14 year containing the tax details of some 1500 large corporate taxpayers. We anticipate publishing the tax details of around 300 private corporations by late March 2016.

Publication of the report is intended to inform public debate about tax policy, particularly in relation to the corporate tax system. It forms part of a much wider domestic and global push for improved corporate tax transparency.

Our organisational belief, supported by research, is that by shifting our culture and approach on key elements of our service offering, we will deliver better, more sustainable, measurable compliance outcomes.

I am pleased to report that our clients and stakeholders are starting to see and experience a change for the better – not just in our products and services, but also in our culture and our positive, 'can-do' attitude to dealing with people and situations.

I trust that members will find the information in this submission useful.



**Chris Jordan AO**  
**Commissioner of Taxation**

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## Digital services for business reporting – electronic lodgment

### Development of new tax practice management software

1. The ATO is committed to working with software developers to deliver the new Practitioner Lodgment Service as the primary and default lodgment channel for tax practitioners in Tax Time 2016. The new lodgment channel will use Standard Business Reporting (SBR) languages and formats and tax practitioners will still be able to lodge using the existing Electronic Lodgment Service (ELS) until March 2017 as a transition measure.
2. Currently, the primary high volume and high value services, such as Individual Income Tax Return, Activity Statements, Company Tax Return, Partnership Tax Return and Trust Return are available for software developers to incorporate into their commercial software. The ATO is finalising a number of value added SBR-enabled services for Tax Time 2016. We are working to resolve defects for these remaining services such as applying for Private Rulings and a small element of the Client Update functionality.
3. The ATO has provided technical specifications relating to Tax Time 2015, Tax Time 2016 and SuperStream to software developers to enable them to update their software packages. Software packages updated to these specifications will allow tax professionals to lodge or submit forms through the new lodgment channel, which will allow two-way transmission of information (for example, allowing pre-fill of tax return information) compared to the current ELS experience.
4. The ATO acknowledges that the shift to an SBR-only lodgment platform represents a major change for the tax profession.
5. Discussions with tax practitioners and software developers have led to an agreed strategy where a lodgment 'safety net' will be available for Tax Time 2016.
6. To ensure that practitioners (on behalf of their individual and business clients) experience a successful Tax Time 2016 and have access to a reliable electronic lodgment service, the ATO will maintain the Electronic Lodgment Service Gateway as a 'safety net' until 31 March 2017.

### Consultation with software developers and the tax profession

7. The Future of the Tax Profession Working Group has begun to develop and refine a detailed extended transition plan and the communication and engagement activities to support the transition. This collaborative approach will provide greater transparency and ensure that the tax profession is fully informed of the progress of the transition activities, what the changes will mean for them and their business and what they may need to do to prepare for the transition to ensure minimal disruption to their business.
8. The ATO will work closely with each individual software developer to develop an appropriate transition plan with a view to ensuring that the transition experience for their clients is as seamless as possible.
9. A decision regarding the use of the 'safety net' will be undertaken jointly with input from software developers, the tax profession and the ATO.
10. We noted to the Committee in August 2015 that the number of lodgments submitted through SBR would be dependent on software developers having incorporated, tested

and released the relevant code in their commercial packages. We do expect major software developers to be ready and have new software available when we implement the new Practitioner Lodgment Service in Tax Time 2016.

## Wider benefits of Standard Business Reporting

11. SBR is an Australian Government initiative designed to simplify business-to-government reporting. SBR enabled business software provides business with an efficient and accurate reporting capability by automating the preparation and lodgment of government reports directly from business software. It is intended to simplify and reduce the time and cost associated with collating information and submitting reports to government. Tax professionals will be able to access SBR with their AUSkey and through SBR-enabled software.
12. The ATO notes that tax professionals are generally embracing the changes technology is offering and have identified efficiencies in the way they work, saving time and cost.
13. Benefits for key stakeholders include:
  - for tax practitioners**
    - > increased productivity as lodgment becomes a by-product of accounting processes for tax practitioners, business and individuals. In addition, to the extent that SBR can automate some aspects of tax practice, tax agents are able to focus more on the “value add” for clients – getting returns right and helping businesses to operate and grow more effectively
  - for software developers**
    - > a more integrated and streamlined service offer to tax agents
  - for the ATO**
    - > reduced ATO business operational costs by improved accuracy through prefill and pre-lodgment checks
    - > more streamlined experience for clients – not entering duplicate/previously shared information.

## Tax Agent Portal

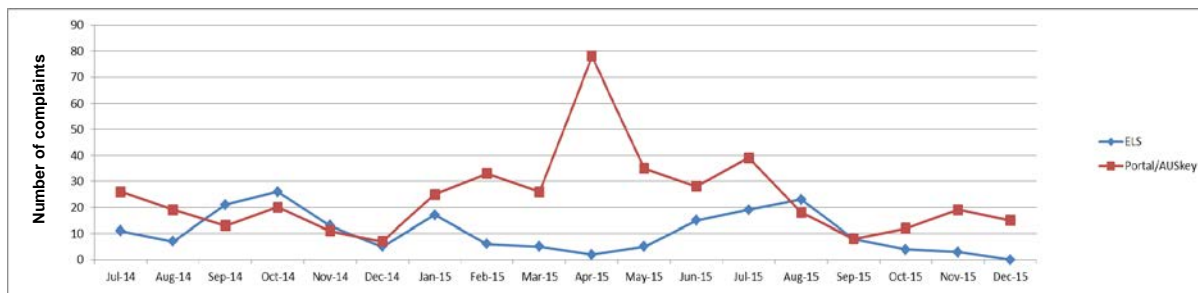
14. The ATO recognises that the Tax Agent Portal is an integral part of a tax agent's business. We are committed to working closely with tax agents and the professional associations to address any operational or performance concerns as a priority, and to keep them informed about the system updates, fixes and changes that are occurring in their environment to help them build sustainable businesses.

### ATO tax agent portal systems issues

15. As with any production system there will be issues with the portal from time to time. Since the last hearing in September 2015 there have been a number of issues with the portal including:
  - > intermittent problems accessing the portal functionality
  - > slow response times during peak periods
  - > instances where client details may not be current
  - > various issues with accessibility of reports, correspondence lists and messages.
16. Addressing ongoing and any new issues promptly remains our priority to ensure that tax professionals have access to the tools and services they require to conduct their business in a timely manner.
17. In October 2015, the ATO released an online view of the performance of the Tax Agent Portal. Based on a sample of live transactions, the report gives a near-real time picture of portal availability and response times for screen refresh once data has been entered. The service can be viewed at <http://tap.status.ato.gov.au/>.
18. The ATO will work with tax agents to ensure that they are aware of the availability of this information.

### Tax agent complaints

19. The ATO continues to address tax agent complaints as a priority, with the majority of the complaints received during the period September to November 2015 relating to:
  - > income tax activity statements or activity statements not processing within normal timeframes (resolved)
  - > income tax or activity statement lodgments due not reflecting correct lodgment status (awaiting resolution to occur alongside future improvements).
20. The ATO continues to monitor the operation of the portal and we note that complaint volumes have reduced significantly since July 2015 and are now tracking below the long term average. We remain committed to addressing complaints in a timely manner with a solution-oriented approach to minimise disruption to tax agents' business.



## Client correspondence list

21. To help support and educate tax agents on the client correspondence list, portal functionality and benefits, the ATO is releasing a number of animations that demonstrate how to use these functions.
22. Following the September 2015 hearing of the Committee, the ATO engaged with a cross section of the tax agent community to better understand and implement short-term changes to the client correspondence list to address tax practitioner concerns. These solutions are scheduled for delivery throughout March and April 2016 and include:
  - > an enhanced 'default' view which supports current 'mail bag' based practices
  - > a resolution of the inconsistencies of ATO system sent dates and displayed client correspondence list delivery dates
  - > a BAS agent view of the client correspondence list.
23. These solutions are intended to assist tax practitioners when viewing correspondence issued to their clients, and to provide an enhanced service while the ATO works with the tax professional community to co-design further improvements.
24. We have identified that electronic requests for large quantities of information from ATO systems (such as a large tax agents downloading the client correspondence list for all of their clients' details for the maximum available period at portal peak usage times) places a significant load on our systems and slows the response time for other users. The ATO is working with the tax agents concerned and has agreed on suitable alternatives to minimise the impact on the portal in the peak demand periods.
25. We are co-designing a longer term design solution with a range of Tax and BAS agents that is expected to:
  - > fit within existing practice processes
  - > provide the ability to choose which correspondence is directed to the agent and which goes direct to their clients
  - > support the agent/client relationship to deliver optimal outcomes.
26. In addition, the ATO plans to co-design further enhancements to the portal system to provide the most appropriate way to notify agents of communications, and enable them to choose which communications should be forwarded directly to their clients.

## Education and transition to a new portal

27. During November and December 2015, the ATO conducted interactive forums with approximately 100 tax professionals at approximately 50 premises to gain a better understanding of their practice hardware, software, internet service and practice processes, and to address their concerns with portal accessibility. The visits were



conducted with the assistance of the Chartered Accountant Australia and New Zealand Professional Association. The population of agents visited were representative of most sectors of the tax agent population and included tax agents known to have had raised concerns regarding accessibility and ability to utilise the portal effectively.

28. As an outcome of these forums, a pilot program is being developed where ATO staff will visit new tax agents and existing tax agents who require assistance to demonstrate how to best utilise the portal functionality for optimal client outcomes. It is expected that this program will commence in March 2016.
29. In early February 2016 the ATO will begin consulting with the Professional Associations, Tax and BAS agents and software developers about transitioning to a new platform on ATO Online. This new platform will provide improved navigation, consistent look and feel, and will be available to software developers for inclusion in practice management software. Tax agents have indicated that the following services would be of value to their businesses practice:
  - > manage BAS delivery channel preference through digital channels
  - > lodge annual Activity Statement and PAYGW
  - > transparency of request progression (include secure message requests)
  - > access to all client accounts, eg Super, HELP, Super Guarantee, legal account and enhanced filtering, exporting and printing
  - > save and resume functionality.
30. The services that would be transitioned, the timing of the transition and possible new services will be the subject of further consultation with the tax professionals.

## ATO's correspondence program

31. The ATO is currently rationalising existing correspondence products to ensure they contain clear, concise and consistent information which is easier to follow in line with the community's expectations. To achieve this, the ATO has:
  - > established a single area within the ATO that has assumed responsibility for the development, distribution and ongoing management of all ATO correspondence
  - > established communication protocols to ensure consistency of message across diverse audience groups
  - > implemented a new system to meet the ATO's future correspondence requirements.
32. In late 2014, the ATO reviewed and re-wrote over 100 high-volume paper letters that were generating complaints and/or confusion. Over 6.5 million letters, written in the new contemporary format and style have been issued to taxpayers providing a better experience. The letters included:
  - > Debt overdue amounts
  - > Eligibility for claimed tax offsets
  - > Pay As You Go credits
  - > Superannuation Guarantee
  - > Superannuation Co-contributions/Low Income Superannuation Contributions.
33. Specialists in behavioural insights (BI) and contemporary content writing were engaged to assist this effort and BI has been applied to all revised and new letters. Indicative results show that payments on time have increased by 10% for taxpayers receiving the revised Debt letters.
34. The Correspondence Program has also:
  - > completed a correspondence inventory review reducing the number of standardised system generated letters from 3,300 to 2,200. This number is expected to reduce further as we progress through the program
  - > established tools and templates to support the process of rationalisation
  - > developed an ATO Outbound Style Guide to deliver clear, concise and consistent correspondence that meets the client's needs.

## Consultation

35. The ATO continues to work collaboratively with stakeholders to better understand the changing operating environment and the changing needs of tax professionals, business leaders and individuals. Recent consultation includes:
  - > user testing where a range of clients including tax professionals, business and individuals provided comment and feedback on re-written letters for each of the channels - email, letters and SMS
  - > input and guidance from the ATO Tax Practitioner Advisory Group
  - > a panel of communication experts assisting with re-writing letter content to enhance understanding of messages and actions required.

## Timeline and performance indicators

36. The Correspondence Program is expected to be delivered throughout the 2016 calendar year and beyond, with progressive delivery of contemporary letters. We are currently preparing detailed plans to finalise the delivery schedule and will provide this schedule to the committee in our next submission.
37. As we continue to transform and redesign outbound interactions, the following areas of benefit will be measured to monitor progress and educate future design:
  - > feedback from community – through professional surveys on how our clients view the new contemporary correspondence readability and content
  - > reduction in paper and postage cost
  - > reduction in staff required to manage correspondence
  - > improvements in lodgment and payment rates.

## Streamlined tax returns

38. The ATO endeavours to provide a light touch tax experience with contemporary online services like myTax that can be used with mobile devices.
39. myTax provides eligible individuals with straightforward tax affairs a streamlined, substantially pre-filled online income tax return lodgment service that they can view, adjust and submit online.
40. During Tax Time 2015, myTax has been used by nearly 1.8 million taxpayers (an increase of 68% on 2014).

### Breakdown of the 1.8 Million taxpayers

Channel	Percentage %
My Tax users (from 2014)	40
Used e-tax in 2014	33
First time lodger	13
Used a tax agent in 2014	9
Did not lodge in 2014	4
Lodged a paper tax return in 2014	1

41. The figures above are accurate as of 20 November 2015. As more people lodge their 2015 returns these percentages may change.
42. In Tax Time 2016, myTax will be available for all individual taxpayers who wish to prepare their own return. The legacy e-tax product (the current option for those not yet able to use myTax) will be retired.
43. myTax in 2016 will provide a more seamless, accessible and streamlined experience for taxpayers and will include:
  - > all necessary tax return questions, including those for taxpayers with rental income, capital gains and business income (sole traders)
  - > personalisation of the return based on available prefill information, ensuring taxpayers only need to complete the questions relevant to them
  - > the ability to upload deductions recorded via the myDeductions function in the ATO smartphone app directly into the relevant tax return question
  - > integrated online support tools and calculators, along with supporting instructions, to provide tailored assistance to those who need it.
44. As well as the streamlined experience for taxpayers myTax will provide personalised messaging, prior to lodgment, where our analysis indicates potential errors or higher than usual claims. We are expecting up to 3 million taxpayers will use myTax to lodge their tax returns in Tax Time 2016.

## Voice Authentication

45. During Tax Time 2015, the ATO introduced voice authentication making it easier and faster for taxpayers to verify their identity when calling the ATO. This voice technology adds an extra layer of security by verifying taxpayers' unique voiceprints.

46. Voice authentication was also expanded to the ATO app in November to provide individuals and sole traders access to online services from their mobile devices. To date, over 1.5 million taxpayers have enrolled their voiceprint to authenticate themselves when calling the ATO or accessing online services via the app.

## Performance against perception of fairness

47. Since the 2014–2015 perceptions research program the ATO has continued its research into the perceptions of fairness in tax disputes. After five waves of surveys, and strategies to address taxpayer feedback, we have seen improvements in the most recent results.
48. Our most recent survey results for wave five have been collated for the period 1 July – 30 September 2015, to understand taxpayers' perceptions of fairness when they have a dispute. The sample covered 129 individual and micro business objections and five litigation matters. The latest survey also represents the first quarter where objections were being managed through our Review and Dispute Resolution function.
49. The wave five results show that 60% of all taxpayers who had a dispute finalised in the relevant period felt the overall process was fair, with 64% agreeing the final decision was fair. The improvement in overall perceptions of fairness compared to the same time last year has caused us to revisit the previous results to understand the reason for such an improvement on the annual results for last year (being 45%).
50. As stated in our August 2015 submission these results put the organisation in line with the overall target we set of 60% over a 12 month period to 30 June 2016. However as they are the results for a quarter and as such do not represent a trend we will use the feedback from the survey results to continue to improve and ensure we have effective and ongoing engagement with clients throughout the dispute resolution process.
51. There were significant improvements among individual taxpayers in the following areas:
  - > reasons for decisions were clear
  - > the process was conducted in an honest way
  - > individual circumstances were taken into account
  - > the ATO treated people in a polite manner.
52. Improvements in individual perceptions align to the strategies employed in Review and Dispute Resolution around increasing our phone contact to understand the client's situation and, better explain our processes and our decisions. Improvements are also aligned to the ATO's proactive dispute management approaches, as outlined previously to the committee. This includes utilising in-house facilitation to resolve cases early.
53. Feedback in wave five indicates there are still opportunities for further improvement, predominantly around how we communicate with the taxpayer. It was clear to see that penalties and interest remain strong drivers as to whether taxpayers believe they have been treated fairly.
54. From the intelligence gathered from staff feedback and the perceptions of fairness research, we have found perceptions of fairness can be improved through:
  - > effective communication
  - > clear processes
  - > client-centred approaches.
55. Review and Dispute Resolution has been implementing strategies to improve "fairness awareness" among ATO staff, including awareness sessions and client experience packages aimed at improving the understanding of perceptions of fairness in disputes

generally. We have also identified Fairness Champions in all ATO sites providing direct support to our objections staff.

56. Initiatives have also included “pick up the phone and stay on the phone”, which is likely to have influenced the increase in perceptions of fairness in the individual market segment. Contact made by the ATO increased in this wave, with nearly two thirds of the survey participants having a recollection of speaking to an ATO officer and a decrease in those with no recollection of contact at all. For the previous 12 months, around 54% of taxpayers recall speaking to an ATO person.
57. Further, we have finalised a report into mapping our end-to-end objection process to look for opportunities to streamline and improve the way in which we manage and resolve objections, with a particular focus on early intervention strategies. This includes:
  - > empowering staff to have earlier conversations (and ongoing conversations) to resolve disputes
  - > equipping staff with a better understanding of the value and weight of oral evidence when considering a dispute
  - > identifying opportunities for early engagement when an objection is received
  - > identifying critical intervention points, including further conversations with taxpayers before adverse decisions are to issue.
58. We are investing time in an improved triage to identify cases which can be quickly resolved. We are using some of the ATO’s more experienced litigation staff in Review and Dispute Resolution to undertake triage of objections work, and it is having an impact on the number of cases that can be resolved very quickly.
59. Also, in instances where a decision is likely to be unfavourable to a taxpayer, we adequately explain the reasons for our decision and provide the taxpayer with an opportunity to clarify any misunderstanding.

## Continued work on perceptions of fairness

60. Work is continuing to understand the dispute survey population and gain insights into:
  - > why decisions to disallow objections are subsequently overturned or changed
  - > whether there are trends in how decisions are made that may indicate a need to reduce red tape
  - > identifying where objection decisions are upheld or overturned in subsequent litigation to identify best practice.
61. We are looking to expand the survey to include taxpayers in private groups and high wealth individuals segment and the public groups and internationals segment over the next two quarters.
62. Wave six is set to commence in February 2016 for the period 1 October to 31 December 2015.

## Tax Gap

63. As noted in the Committee's November 2015 report, we have refreshed the Goods and Services Tax (GST) and Luxury Car Tax (LCT) gap estimates. We also published a further five gap estimates in the *Commissioner of Taxation Annual Report 2014-15*. These were excise and duty estimates for beer, petrol and diesel, wine equalisation tax, pay-as-you-go withholding and fuel tax credits.
64. We had previously committed to publish a number of other estimates<sup>1</sup> in the *Commissioner of Taxation Annual Report 2014-15*, subject to the credibility and reliability of the methodologies and the results. In developing these estimates, we found that methodological improvements and further data were required to ensure they were as robust and accurate as possible. We considered the views of external experts and tax gap consultants in making this assessment.
65. We appreciate the Committee's recognition of the ATO's need to defer the high wealth individual income tax gap estimate for this reason. The same determination was made for the large company income tax and tobacco excise and duty. We are working on refining these measures.
66. We anticipate that we will increase our confidence in the estimates by:
  - > continuing to work with experts to provide greater certainty around key assumptions
  - > developing new data sources and testing complementary estimation approaches
  - > for income tax, generating estimates for the individual income tax and small and medium company income tax estimates as a point of comparison for the large company and high wealth individual income tax gap estimates.
67. Further work has commenced in order to construct credible and unbiased tax gap estimates for individual and company income tax, and fuel tax credits. Activities to measure fringe benefits tax and self-managed superannuation fund income tax are being planned and will be undertaken in 2016-2017.
68. In 2015-2016, we plan to update estimates<sup>2</sup> for previously published gaps and publish for the first time:
  - > company income tax – large companies, and micro, small and medium companies
  - > individual income tax – high wealth individuals, and all other individuals
  - > tobacco excise and duty
  - > superannuation guarantee.
69. We continue to focus on identifying the key drivers and manifestations of tax gaps and are creating further complementary measures to improve our understanding of the levels of willing participation in the tax system.

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<sup>1</sup> These were large company income tax, high wealth individuals income tax, tobacco excise and duty and fringe benefits tax.

<sup>2</sup> In our 2014-15 publication, we noted that pay-as-you-go-withholding estimates would be updated when revised data was released in October 2015. We have decided to reserve updating the data to the middle of 2016 when we will be able to calculate both the 2012-13 and 2013-14 estimates.



## Commissioner of Taxation Annual Report 2014-15: tax gap data and tables

### Tax gaps as a percentage, 2009–10 to 2013–14<sup>(a)</sup>

	Reliability of estimate	2009–10 %	2010–11 %	2011–12 %	2012–13 %	2013–14 %
<b>Tax</b>						
Goods and services tax	Medium	3.0	5.5	6.2	5.6	4.9
Petrol and diesel excise and duty	Medium	na	0.8	0.0	1.9	1.6
Wine equalisation tax <sup>(b)</sup>	Medium	na	2.3	4.3	3.3	(c)
Beer excise and duty	Low	0.5	1.0	1.0	0.0	(c)
Luxury car tax	Medium	4.1	4.3	4.1	4.3	3.3
<b>Withholding</b>						
Pay as you go withholding	Medium	2.1	2.2	2.1	(c)	(c)
<b>Administered expense</b>						
Fuel tax credits	Medium	na	1.5	1.5	1.5	1.5

a) The estimates are exclusive of debt.

b) This is an estimate of the gap in wine equalisation payable only, not taking into account wine producer rebates.

c) These will be calculated when revised National Accounts data is released in late October 2015.

### Tax gaps as a dollar value, 2009–10 to 2013–14<sup>(a)</sup>

	Reliability of estimate	2009–10 \$m	2010–11 \$m	2011–12 \$m	2012–13 \$m	2013–14 \$m
<b>Tax</b>						
Goods and services tax	Medium	1,420	2,700	3,120	2,890	2,700
Petrol and diesel excise and duty	Medium	na	130	–	305	260
Wine equalisation tax <sup>(b)</sup>	Medium	na	25	45	35	(c)
Beer excise and duty	Low	10	20	20	–	(c)
Luxury car tax	Medium	20	25	20	20	15
<b>Withholding</b>						
Pay as you go withholding	Medium	2,500	2,910	3,080	(c)	(c)
<b>Administered expense</b>						
Fuel tax credits	Medium	na	55	60	55	70

a) GST and pay as you go withholding gaps are rounded to the nearest \$10 million, all other gaps rounded to the nearest \$5 million. The estimates are exclusive of debt.

b) This is an estimate of the gap in wine equalisation payable only, not taking into account wine producer rebates.

c) These will be calculated when revised National Accounts data is released in late October 2015.

## Cash and hidden economy

70. The ATO's strategy to address the cash and hidden economy is focussed on protecting honest businesses from unfair competition in industries where cash economy behaviours have been identified.
71. In 2014-2015 we undertook around 280,000 compliance audits, reviews and other activities with small businesses exposed to the cash and hidden economy. This work was supported by enhanced analytics and data regarding electronic payments, online advertising and online business.
72. We aimed to collect around \$220 million in liabilities; however we exceeded our plans at the end of the year as reported in the *Commissioner of Taxation Annual Report 2014-15*.

## Measuring the success of the ATO's cash economy program

73. In late 2014, we began an examination of the cash economy strategy.
74. An analysis of a representative sample of cash economy industries shows that compliance levels have either been maintained or there has been no significant decline over a ten year period.
75. Examination of on time lodgment behaviour of taxpayers audited shows an improvement in on-time lodgment in subsequent reporting periods. Since 2011, there has been a general upward trend in community confidence in the ATO's ability to deal with people who do not declare all of their income.
76. Strike rates on our audit products have increased since the 2010-2011 year demonstrating an improvement in our risk detection models although we have not seen an increase in average net GST reported as a direct result of our treatment strategies.

## Industry focus

77. A key part of the cash economy program is a focus on specific industries. Currently, the restaurant and café and the hair and beauty industries are a core focus, however the ATO actions are not confined to these industries. The ATO takes action on significant cases regardless of industry.
78. Under the new approach we are starting to see changes in the confidence of the community. A 35% increase, year-on-year, of community referrals for the hair and beauty industry has been observed. In this industry we have seen on-time lodgment of activity statements increase at six times the rate of other small businesses.
79. The ATO has undertaken activities in the Haymarket area of Sydney, Adelaide and most recently Box Hill, Melbourne. In these locations over 600 individual businesses were visited to both check how they are going, and to provide them with assistance with over 200 businesses identified for follow-up actions.
80. Five information sessions were held for the community and attended by 300 business owners and tax professionals.
81. The strategy has gained significant media attention and general support for the approach to protect honest businesses.

## Business benchmarks

82. The ATO has been tracking the reported figures for a number of businesses across a number of industries for many years. These are businesses that have remained viable when many similar small businesses fail.
83. We have observed that businesses are increasingly reporting performance figures that sit within the small business benchmarks for their industry.

## Moving forward

84. We have updated our outcome framework to bring a greater focus to measuring the impacts of our activities and demonstrate how we will go about achieving our outcome 'Confidence in the administration of Australia's tax and superannuation systems'. Work has commenced on an important aspect of the new framework, a revised set of performance measures that includes demonstrating the broader revenue effects of the activities we undertake.
85. In addition to testing the effectiveness of particular industry strategies by using measures such as improvements in lodgment we are developing a methodology to measure the total revenue impacts. This methodology will measure the impacts of our work on past non-compliance, preventing non-compliance now and promoting future compliance. While this work is in the early stages, we expect to start reporting the broader impacts of some activities in the *Commissioner of Taxation Annual Report 2015-16*.

## Sharing economy

86. As outlined in our August 2015 submission the ATO has been working with the community, industry stakeholders and other government departments, to examine and understand sharing economy models, such as in the taxi and accommodation industries, to provide advice on the taxation implications for relevant stakeholders.
87. Sharing economy activities include but are not limited to:
  - > renting out a room or an investment property
  - > providing services through a tasking site or renting out a car park.
88. The sharing economy does not present any new compliance risks, however the ATO continues to monitor the risk landscape to ensure that we understand the impacts of any new or emerging business models and their effect on the revenue base and the effectiveness of our compliance strategies.
89. The ATO's review activities are being managed on a co-ordinated ATO-wide basis, across all taxes including income tax, superannuation and GST.
90. Our focus has been, and will continue to be, to help and assist the community to understand their obligations, except where specific circumstances may warrant alternate actions.
91. The ATO will continue to:
  - > take a 'client experience' focus in providing assistance to the community
  - > provide information/ruling products that engage the community to inform them about their tax obligations that result from participation in the sharing economy
  - > explore how to contact people directly to assist them with their tax obligations, including by collecting data to identify participants
  - > consider how technology can assist the sharing economy to comply with their obligations e.g. apps etc.
92. The ATO continues to consider means to reduce the cost of compliance, 'red tape' and difficulties in compliance by participants in the sharing economy. We have also provided extensive web guidance on the income tax and GST treatment of various business models and will continue to do so.

## Ride-sourcing initiatives

93. In September 2015 the ATO hosted webinars attended by over 240 tax professionals and drivers. Following the webinars, we responded to 78 questions posed on topics ranging from GST to income tax obligations. The ATO continues to see a steady rise in taxi industry GST registrations.
94. The ATO used its formal powers to collect data from a financial institution to identify ride-sourcing drivers (drivers) in order to contact them directly. Using that data the ATO wrote to three populations of potential drivers in December 2015. The letters:
  - > provided 4,300 individuals that are currently registered for GST with information to assist them meet their GST and income tax obligations
  - > advised 5,500 individuals that the ATO considers they should be registered for GST, and provided information on how they can meet their obligations. These individuals were identified as likely to have provided ride-sourcing services on or after 1 August 2015 based on payment flows in the preceding period

- > informed another 6,100 individuals that may have provided ride-sourcing services in 2014-15 only about their income tax obligations.
95. The ATO will continue to work with financial institutions to identify whether additional individuals should be contacted. The data may contain up to a further 12,000 drivers.
  96. The ATO will continue to collect financial institution data on a quarterly basis to build its understanding of the population. We will also explore its powers to collect the data, including the identity of drivers, directly from the overseas facilitator and/or its representative in Australia if it has access and control of the relevant data.

## Legal challenge

97. An overseas ride-sourcing facilitator has commenced declaratory proceedings in the Federal Court of Australia challenging the ATO view of the GST consequences of ride-sourcing. Recent State and Territory decisions in relation to ride-sourcing are in relation to State law.

## ATO recovery practices

98. The ATO continue to investigate and test new and improved ways to make it as easy as possible to support taxpayers to pay their tax on time using a wide range of tools and payment channels, including the use of SMS reminders and redesigned debt letters.
99. We are increasing our use of analytics and behavioural insights to gain a greater understanding of payment behaviours, and applying these insights to deliver the right treatment at the right time for the right taxpayer with the right capability.
100. We recognise that individuals or viable well-run businesses may occasionally experience short term cash flow issues. To assist we give taxpayers a hand up through entering tailored payment arrangements. In 2014-15 we granted over 800,000 payment arrangements. For this financial year to 31 December 2015, we have granted over 400,000 payment arrangements.
101. Where taxpayers experience serious hardship or financial difficulty we have a specialist hardship capability that provides targeted support, using a range of debt relief options. We have enhanced this capability by starting up a dedicated hotline to help drought affected taxpayers manage their tax payment obligations and partnering across ATO, government and intermediaries to design better outcomes.
102. For the minority of taxpayers that don't promptly address their tax debt, we take timely, firmer action to prevent them from gaining an unfair financial advantage over the majority who pay on time. This includes garnishees, director penalties and insolvency proceedings. Even after we have commenced firmer recovery action, we remain willing to work with taxpayers, with a number of taxpayers paying after we initiate these actions. Through analytics we are enhancing our capability to identify and target those businesses with debt issue who still choose to trade.
103. The ATO does not initiate wind-up proceedings based on specific debt thresholds. We are using risk models to identify cases for more timely action, which has resulted in a recent increase in the number of ATO initiated wind-up applications (*reference Comparison of ATO initiated and total wind-ups (Corporations)*). Ultimately, the court decides whether a business is insolvent or not based upon evidence provided by both the ATO and the taxpayer.
104. The issuing of garnishee notices is one of the Commissioner's statutory recovery powers. These notices are issued to third parties directing them to pay monies held or owed to the taxpayer to the Commissioner instead. The majority of garnishees are issued to banks and financial institutions and are point in time garnishees.
105. These garnishees are generally for either the amount outstanding or 30% of the balance of the account, whichever is the lesser amount.

## Inspector-General of Taxation review into the ATO's Debt Collection Management

106. The ATO has made significant progress in implementing the recommendations from the Inspector-General of Taxation's (IGT) review into the *ATO's management of Debt Collection*. Currently two of the 16 recommendations agreed to by the ATO have been implemented with a further three on track to be closed by 31 January. Of particular interest to the Committee is progress with the implementation of recommendations 2.3b and 4.2.

### **Recommendation 2.3b**

The IGT recommends that the ATO:

As an interim measure, whilst awaiting the result of its research projects, take earlier, more frequent and proportionate debt recovery action to minimise the necessity to take firmer action at a later time.

107. The ATO has made significant progress to address this recommendation by completing our revision of:
  - > our debt prevention work identifying those who are unlikely to pay on time
  - > the letter process to issue earlier reminders to clients when they have not paid on time.
108. As part of our ongoing Analytics for Client Engagement (ACE) program, we are developing engagement strategies that utilise analytical models to identify the Next Best Action including:
  - > preventative strategies which encourage payment on time
  - > low touch, low cost strategies to prompt clients to pay their payment arrangement obligations
  - > re-engaging clients who have not recently interacted with the ATO.
109. We have made changes to the way we engage clients earlier where they have not met their payment arrangement obligations. This treatment is the first of many tailored engagements as part of our Next Best Action design.
110. We have also made changes to the way we view the level of risk associated when we agree to payment arrangements. By making greater use of risk-based differentiation we are able to define payment plan terms that are better suited to individual circumstances.
111. To assist our frontline staff we have provided decision support tools and work is underway to embed analytics into all customer-facing channels, ensuring a consistent client experience across all channels. We are also taking a less “scripted” approach to debt calls and are giving our staff more flexibility to manage a debt conversation with a taxpayer based on the individual circumstances of the case.

### **Recommendation 4.2**

The IGT recommends that, consistent with recommendation 2.3(b), the ATO act sooner and take proportionate actions to prompt company directors to address impending insolvency.

112. Consistent with our response to recommendation 2.3b, the two broad elements of our plan to address this recommendation are:
  - > revising our early engagement process to provide earlier reminders to companies who haven’t paid on time. We have already started engaging clients earlier where they haven’t met their payment arrangement obligations
  - > developing and implementing engagement strategies utilising analytical models as part of our ACE program which identify the next best action to recover the debt.
113. We are in the process of developing and trialling the analytical models that will support the remainder of our response to this recommendation which is anticipated to be completed by February 2017.

## Volume of debt recovery actions

### Stronger recovery action

	2011-12	2012-13	2013-14	2014-15	2015-16 (YTD 30 November)
Garnishee notices issued	28,848	56,274	54,153	55,741	28,954
Director penalty notices (DPNs issued)	2,157	4,904	8,486	5,642	2,878
Lockdown DPNs	n/a	1,740	3,659	2,331	1,128
Statutory demands (s459E Notices) issued	1,895	2,869	3,897	8,026	2,903
Summonses issued	3,402	8,269	5,653	3,109	935

### ATO creditor's petitions and wind-up applications filed in court

	2011-12	2012-13	2013-14	2014-15	2015-16 (YTD 31 October) <sup>4</sup>
Creditor's petitions filed <sup>4</sup>	900	490	802	664	496
Wind-up applications filed <sup>5</sup>	2,078	2,014	1,983	2,456	1,438

### Comparison of ATO-initiated and total bankruptcies (Individuals)

	2011-12	2012-13	2013-14	2014-15	2015-16 (YTD 31 October) <sup>4</sup>
ATO-initiated <sup>6</sup>	519	320	565	310	221
ATO is a creditor <sup>6</sup>	5,139	5,173	5,117	4,588	1,741
Total (AFSA) <sup>6</sup>	22,176	20,874	18,592	17,158	5,881
<b>ATO-initiated / Total</b>	<b>2.3%</b>	<b>1.5%</b>	<b>3.0%</b>	<b>1.8%</b>	<b>3.8%</b>
<b>ATO is a creditor / Total</b>	<b>23.2%</b>	<b>24.8%</b>	<b>27.5%</b>	<b>26.7%</b>	<b>29.6%</b>

### Comparison of ATO-initiated and total wind-ups (Corporations)

	2011-12	2012-13	2013-14	2014-15	2015-16 (YTD 31 October) <sup>7</sup>
ATO-initiated <sup>5</sup>	1,555	1,071	1,333	1,264	1,033
ATO is a creditor	7,461	7,450	6,882	6,376	2,779
Total (ASIC) <sup>5</sup>	10,818	11,192	9,916	9,205	4,119
<b>ATO-initiated / Total</b>	<b>14.4%</b>	<b>9.6%</b>	<b>13.4%</b>	<b>13.7%</b>	<b>25.1%</b>
<b>ATO is a creditor / Total</b>	<b>69.0%</b>	<b>66.6%</b>	<b>69.4%</b>	<b>69.3%</b>	<b>67.5%</b>



## FOOTNOTES

1. *The actions listed in this table are not mutually exclusive. More than one of the actions may be taken as a case progresses.*
2. *Figures are at the taxpayer level. Where a taxpayer has more than one debt case, any action taken is only counted once, even if it relates to more than one case.*
3. *As a result of legislative changes that came into effect on 30 June 2012, figures from 2012–13 onwards include DPNs issued in relation to:*
  - *unpaid superannuation guarantee charge (SGC)*
  - *'lockdown' director penalties (i.e. those where a director has limited options for discharging their penalty because the unpaid PAYG withholding or SGC remains unreported three months after the due date).*
4. *Figures for creditor's petitions filed in court are estimates based on counts of cases created internally.*
5. *Information provided by the Australian Securities and Investments Commission (ASIC). Figures are provisional and may be revised at a later date.*
6. *Information provided by the Australian Financial Security Authority (AFSA). Figures are provisional and may be revised at a later date.*
7. *Latest available figures.*

## Corporate tax transparency report

114. The first corporate tax transparency report was published on 17 December 2015. It listed all public entities and foreign owned private companies that reported more than \$100 million total income in the 2013-2014 income year.
115. Prior to publication, the ATO published guidance material specifically covering:
  - > the source of the published figures
  - > background into how those figures were derived and affecting factors
  - > specific analysis of the published data.
116. The report listed 1539 entities with \$100 million or more total income along with 12 entities with Petroleum Resource Rent Tax payable and seven with Mineral Resource Rent Tax payable. Each affected entity received a letter detailing the figures to be published providing them an opportunity to verify the relevant figures.
117. The listed entities reported a total of around \$42 billion tax payable.

## December 2015 amendments to the legislation

118. On 11 December 2015 *section 3C of the Tax Administration Act 1953* was amended meaning that Australian-owned resident private companies reporting total income of \$200 million or more are subject to the provision, with effect for the 2013-2014, and later income years. This was a partial reversion of an earlier amendment which had excluded all Australian-owned resident private companies.
119. All new affected entities were contacted in mid-December 2015 by email where possible and advised that they would receive a letter in January 2016 outlining specific details to be published.
120. Once those details are verified the existing list will be amended to include the additional entities. We anticipate publication in late-March 2016.

## Response to date

121. The Media response to the publication of the data tended to focus on the number of entities reporting nil tax payable.
122. A number of affected entities have chosen to provide more detailed online statements outlining their tax performance.
123. We anticipate further media interest at both publication of the amended report (March) and of Taxation Statistics for the 2013-2014 year which potentially allows for more detailed aggregate cross-referencing (April).