



**Australian Government**  
**The Board of Taxation**

23 February 2017

Mr Kevin Hogan, MP

Chair

Standing Committee on Tax and Revenue

Parliament of Australia

Dear Mr Hogan

**Inquiry into taxpayer engagement with the tax system**

Thank you for the invitation to make a submission in respect of this inquiry. We have included in our submission some observations and comments in respect of the first item on the Committee's terms of reference – namely the cash economy.

The Board of Taxation (the Board) commenced a joint review with the Australian Taxation Office on the shadow or cash economy on or around June 2016. During our initial stakeholder consultations, we observed several themes (noted below) which may be of interest to the Committee. A summary of some overseas experiences in relation to this issue is also attached for your information and reference – refer Annexure A<sup>1</sup>.

Although the period of review by the Board was brief, the Board was impressed immediately through stakeholder engagement that there are significant opportunities to improve participation in the tax system through the greater use of information technology and automated systems and through the use of 'nudges'.

On 14 December 2016 the Minister for Revenue and Financial Services announced the establishment of the Black Economy Taskforce. Mr Andrew, AO was appointed to Chair this taskforce. The Minister's Media Release included the following details:

*I am pleased to announce that the Turnbull Government has established a taskforce to crackdown on the black economy.*

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<sup>1</sup> The information included in Annexure A was collated as preliminary research for project scoping purposes only and has not been verified with the relevant foreign governments or their agencies. Accordingly the Board cannot confirm or guarantee what action has been taken to implement these proposals or initiatives.

*The Black Economy Taskforce, to be chaired by former chair of the B20 anti-corruption taskforce, Mr Michael Andrew AO, will provide an interim report to Government in March 2017. Tackling the black economy requires a whole of government approach and participants will include the Reserve Bank of Australia, the Australian Federal Police, ASIC, APRA, AUSTRAC, and the Departments of Human Services and Immigration.*

*The Taskforce will look carefully at successful measures that have been employed overseas. Experience from both Australia and overseas shows that successful black economy strategies must avoid one-size-fits-all approaches, include a mix of both traditional tax enforcement and other tools and provide positive incentives as well as sanctions.*

*The Taskforce will provide a final report in October 2017 which will include an overarching whole of government policy framework and detailed proposals for action to counter the black economy.*

Mr Andrew, AO is also the Chair of the Board of Taxation and was leading the Board's project examining the cash economy. Accordingly, the Board ceased to lead this project effective 14 December 2016 but will continue to be engaged as a representative on the Black Economy Task Force. The Taskforce is working towards releasing a document in the coming months to facilitate public consultation.

The following observations are provided based on the Board's initial and limited consultations with stakeholders.

#### **Views expressed in initial stakeholder consultations**

- Technology and software may be implemented to improve data capture and matching opportunities for both taxpayers and the Australian Taxation Office and welfare agencies;
- the present design and intent of the Australian Business Number needs to be reviewed to consider if it remains fit for purpose and in particular whether the ABN system can be modified from a "collection" system to become a means of "verifying" the taxpayer status of the supplier of services. During consultation, stakeholders indicated that:
  - the ABN withholding requirement (where the ABN is not quoted) is not 'working' as intended;
  - there are significant ABNs registered to persons who have entered Australia on a holiday visa, the terms of which prohibit the carrying on of a business;
  - there may be instances where some taxpayers are able to quote the ABN of another taxpayer without material consequence (taxpayers using Wesfarmers and Bunnings ABN inappropriately were cited as examples);
  - the interaction of technology and registration systems for platforms such as eBay and Paypal with the ABN system may provide opportunities for increased verification or integrity.
- Limiting opportunities to use cash or increasing requirements to report cash transactions (based on overseas lessons and experiences) may reduce the opportunity for shadow economy transactions to escape the tax net;

- For example, there may be opportunities to extend the AUSTRAC and related reporting requirements to non-financial industry transactions. The *Financial Transaction Reports Act 1988* (FTR Act) and the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act) currently apply in limited circumstances.
- The FTR Act was introduced in 1988 to assist in administering and enforcing taxation laws as well as other Commonwealth, state and territory legislation. The FTR Act applies to 'cash dealers', which are defined under section 3 of the FTR Act and include the following:
  - : financial institutions
  - : financial corporations
  - : insurer or insurance intermediaries
  - : securities dealers and futures brokers
  - : cash carriers
  - : trustees or a manager of a unit trust
  - : persons that deal in travellers cheques and money orders
  - : persons who collect, hold, exchange or remit currency on behalf of other persons
  - : currency and bullion dealers
  - : casinos and gambling houses
  - : totalisator agency boards.
- The function of receipts in the tax system should be considered further including evidence of proof of purchase, to secure warranty & insurance coverage and tax deductions. Electronic receipting technology may assist in changing culture and practices in respect of the cash economy;
- The Board noted that it would be useful to consider if a smart card (with know- your- client or KYC verification) can substitute for cash in some circumstances – see for example the Hong Kong Octopus Card - and whether the level of credit card charges and fees was encouraging the use of cash or discouraging small business from adopting digital payment systems. The Board wanted to understand emerging trends for Fintech companies and payment technologies to anticipate verification requirements for same;
- The Board identified the need to have sound IT architecture that cannot be manipulated at the point of sale – for example for taxis, local stores, food courts, etc;

- The Board heard from stakeholders that ‘social contract’ style penalties may be used to encourage greater participation in the tax system – for example, there could be no standing before tribunals for landlords that are not declaring income; there could be no insurance for work over a certain limit unless a valid invoice or receipt was available.

We trust these preliminary comments are of assistance to the inquiry. We would be delighted to assist the Committee further as needed. Please do not hesitate to contact me on should you require any further information or assistance.

Yours sincerely

Karen Payne

CEO and Member – Board of Taxation

## Annexure A - The Overseas Experience

A number of international jurisdictions have responded to the threat posed by the shadow economy. The following outlines a selection of methods that have been implemented (or are planned to be implemented) by tax administrators and law-makers overseas<sup>2</sup>:

Jurisdiction	Methods
France	Cash payments of over 1000 Euros have been banned for French citizens, as well as cash payments of over 10,000 Euros for foreign citizens.
Denmark	Established a goal of eradicating cash by 2030. Likely to be followed in other Nordic countries (entirely cashless societies).
Spain	<p>The Spanish Tax Office has increased its use of data analytics to analyse and cross-reference various forms of electronic information to detect and prevent tax fraud, including using information supplied by utility companies to ascertain whether a premises is actually being used for its stated purpose.</p> <p>Cash payments over 2,500 Euros are prohibited when at least one of the parties to a transaction is a company or a professional.</p> <p>The names of taxpayers with more than one million Euros of tax debt are now published in a list and anyone convicted of tax offences has their identity published in the daily Spanish Official Gazette.</p> <p>Spanish Tax Office has also begun offering bonuses to its staff for meeting tax fraud detection targets.</p>
Italy	<p>Italian Police have conducted “spot-audits” on owners of luxury vehicles (such as Ferraris and Bentleys) to collect data on their owners and cross-check them with declared income.</p> <p>The Government closed some well-known tax loopholes by requiring banks to transfer data to tax authorities, resulting in a wave of audits.</p> <p>Government also struck an information sharing deal with the Government of Switzerland in 2015 which offers a partial tax amnesty to Italians that have hidden cash in Switzerland.</p>
Greece	The Government entered into exchange of information agreements with a number of countries as part of the Organisation for Economic Development’s Base Erosion and Profit Shifting (BEPS) plan. In addition, the Government entered into specific agreements with Germany to bolster its expertise on tax collections.

<sup>2</sup> The information included in Annexure A was collated as preliminary research for project scoping purposes only and has not been verified with the relevant foreign governments or their agencies. Accordingly the Board cannot confirm or guarantee what action has been taken to implement these proposals or initiatives.

Jurisdiction	Methods
Sweden	<p>Staff ledgers at commercial construction sites will keep information on all employees present at the site (including contractors) and be subject to unannounced inspections by the Swedish Tax Agency (STA).</p> <p>New legislation will come into force in 2017 requiring all data from mandatory taximeters to be stored at designated commercial third party central repositories, to which the STA will have on-demand access.</p> <p>Since 2010, businesses selling goods and services in return for cash payments must have a certified cash register (“black-box”) which provides real-time information to the STA on the business’ activities.</p>
Norway	<p>Individual’s tax returns are posted online annual and available for public inspection (notice is provided to an individual where another individual checks their data, however inspections by Norwegian media will not prompt any notice).</p>
Hong Kong	<p>Increasing the types of vendors and service providers who accept the electronic “Octopus” contactless smart card (now includes transport, retail, parking, online-payments, self-service kiosks and public services), thereby further reducing the need for cash transactions.</p>
Portugal	<p>The Government organised a lottery in 2014 for people who demanded receipts for goods and services they purchased, with prizes including Audi motor vehicles.</p>
India	<p>The Government is working toward policies to encourage non-cash payments.</p> <p>The Government is also seeking to introduce a broad-based Goods and Services Tax (GST) that would also extend to e-commerce.</p>
United Kingdom	<p>Her Majesty’s Revenue and Customs (HMRC) has used a variety of publicity campaigns to encourage people to report undeclared income.</p> <p>HMRC also recently gained greater powers to obtain data from payment providers and businesses intermediaries to identify hidden economic activity.</p> <p>HMRC is currently consulting on making access to licenses or services for businesses conditional on being registered for tax and for new sanctions to be applied to those who repeatedly and deliberately participate in the hidden economy, including penalties and monitoring of repeat offenders.</p>
Canada	<p>The Canadian Revenue Agency (CRA) is refining their understanding of the shadow economy and seeking to reduce the social acceptability of participation in the shadow economy.</p> <p>The CRA also established an ‘Underground Economy Advisory Committee’, comprising representatives from key industry stakeholder organisations representing a cross-section of Canadian businesses and tax professions) to provide the Minister for National Revenue with direct access to industry perspectives/input</p>

Jurisdiction	Methods
	to help inform the strategy for tackling the underground economy.
United States of America	<p>The Internal Revenue Service (IRS) employ specific auditing techniques when targeting businesses they suspect are operating the shadow economy, including undertaking comparative analyses of assets and interests, researching civil, criminal and family court files and examining loan application documents.</p> <p>IRS initiatives offering amnesty in exchange for voluntary disclosures of tax non-compliance are also used extensively.</p> <p>The US Government passed legislation in 2012 strengthening transparency and accountability of electronic payment service providers in the US.</p>
New Zealand	<p>New Zealand Inland Revenue (NZIR) investing in a specific “Hidden Economy” programme, complete with national marketing campaigns (“e.g. Declare it all or risk everything” and “Crackdown on Cashies”) targeting specific industries and raising awareness of the consequences of businesses avoiding tax obligations.</p> <p>NZIR developing and enhancing relationships with local and national participants and stakeholders in specific industries on the importance of paying taxes, recording transactions, providing receipts and requesting invoices.</p> <p>NZIR also encouraging anonymous whistleblowing on shadow economy activity.</p>