



Australian Government
Australian Taxation Office

Australian Taxation Office Submission

JCPAA inquiry based on the Commonwealth Performance Framework

Auditor-General’s reports 31 (2015-16) - Administration of Higher Education Loan Program Debt and Repayments

Contents

Contents	2
Introduction	3
ANAO recommendations and ATO actions	4
Recommendation 1	4
Recommendation 2	5
Recommendation 3	7
Recommendation 4	9
Recommendation 5	11
Other related initiatives	12

Introduction

1. The Australian Taxation Office (ATO) is responsible for the collection of monies under the Higher Education Loan Program (HELP). In 2015-16, the Australian National Audit Office (ANAO) undertook a performance audit of the effectiveness of the administration of HELP debt and repayments by the ATO and the Department of Education and Training (Education).
2. Monies owing under the HELP scheme is growing from year to year in line with Education’s expectations and forecasts. This increase is attributable to an upward trend in the number of individuals studying and an increase in those choosing to defer repayment of their tuition fees (rather than pay up front).
3. Repayment is only required when an individual earns income above a specific threshold (\$54,125 in the 2015-16 income year). It is only when this threshold is met that the repayment of tuition fees are due and collectible. Collection and recovery of these monies are then made through the ATO.
4. The ANAO found that HELP is a mature program, based on a solid foundation of collecting student loans through the income tax system. It did identify that there is scope for the ATO and Education to make meaningful improvements to important aspects of the program’s administration.
5. The ATO welcomed the review and considers the report supportive of its overall approach to managing HELP debts and repayments. The review identified a number of opportunities for improvement in our risk management and compliance processes and with recent innovations, a more efficient and effective administration of the program will be attained.
6. In response to the ANAO recommendations, the ATO has developed a formal implementation plan for the strategies designed to satisfy those recommendations. That implementation plan is subject to a corporate assurance process and the ATO is on track to implement all of the ANAO recommendations.

ANAO recommendations and ATO actions

Recommendation 1

- To simplify and improve the debt recording process, the ANAO recommends that Education and the ATO redesign the controls for the initial recording, transfer and upload of HELP debts.

7. The current process for transferring student loans between Education and the ATO involves several stages requiring manual intervention at each stage. On a quarterly basis, Education creates debt files (including personal details of the client and the amount of student loan) and sends them to the ATO. The data in these files is manually validated, before a matching process is undertaken to confirm the client's identity and then allowing the ATO to create new accounts or update existing ones. Where student loans are unable to be matched, a manual matching process is performed. As part of the matching process, there is an automated Tax File Number (TFN) validation check, which assists in ensuring the potential for fraud is reduced.

Joint ATO and Education actions

8. With recent changes to the law and further changes that have been tabled in Parliament, the ATO and Education are currently developing a real time data exchange channel which will:
 - streamline and automate the process for reporting of HELP obligations to the ATO;
 - allow for the redesign of the controls for more simpler and efficient recording, transfer and upload of HELP obligations;
 - allow real time transfer of HELP loans from Education to the ATO;
 - include an automatic TFN verification and validation process which will further minimise fraud.
9. This will ensure a client's account is more accurately reflected with student loans being transferred to the ATO in real time, rather than having a lag. It will also reduce the number of unmatched cases, given TFNs will need to be verified as well as validated prior to a record being accepted by the ATO.
10. The ATO and Education meet regularly to monitor progress and resolve any issues identified by the project teams.
11. This initiative is part of a formal corporate project that was underway at the time of the audit and this platform is expected to be operational from 1 July 2017.
12. Implementation is on track.

Recommendation 2

- To improve the management of risks associated with the Higher Education Loan Program and support Education's and the ATO's compliance with the risk management requirements set out in the Memorandum of Understanding, the ANAO recommends that Education and the ATO:
 - a) develop risk management plans for their respective services under the Memorandum of Understanding; and
 - b) introduce a standing agenda item for risk management at Higher Education Meetings to facilitate discussion of relevant risks.

13. When government decided to introduce income-contingent loans in 1989 for repayment of higher education fees, the Education Minister commissioned a consultant to design and develop the scheme. As part of the recommendations, using the existing income tax system was considered the most efficient and effective way of collecting HELP student loans. The law provides that where repayment of a HELP loan is required, the income tax notice of assessment stipulates an amount owing as a compulsory HELP repayment. This amount becomes an income tax obligation for the purposes of collection and recovery. As such, the ATO is able to apply existing risk management and compliance plans in place for income tax to HELP clients and their student loans.
14. The identification and treatment of risk associated with HELP is managed as part of the ATO corporate risk management strategy for the income tax system already in place. Therefore, HELP has been managed under this strategy as part of the holistic approach of managing overall risk under the tax system.

ATO actions

15. In line with the ANAO recommendation, the ATO has undertaken an internal risk assessment process for HELP in line with the ATO's corporate risk framework. This has led to the development of a specific *ATO Risk Assessment Plan* for HELP.

Joint ATO and Education actions

16. Since April 2016, risk management has been a standing agenda item for Higher Education meetings held between the ATO and Education. These meetings are held on a regular basis and support discussion and identification of risks in the HELP scheme that need to be addressed.
17. The ATO and Education have also undertaken a risk assessment process looking at joint risks and treatments associated with HELP. Education are also preparing a primary risk management plan for both the ATO and Education that will integrate the separate HELP risk management plans.

18. The Risk Management Plan outlined in the MOU between the ATO and Education for the HELP is on track to be in place in December 2016.
19. Implementation is on track.

Recommendation 3

- To provide assurance that compliance risks associated with HELP are effectively identified and mitigated, the ANAO recommends that the ATO and Education work together to develop a risk-based compliance and enforcement strategy for HELP. To improve the management of risks associated with the Higher Education Loan

20. As stated in recommendation 2, the law provides for the collection of student loans through the income tax system by the raising of a compulsory repayment on a notice of income tax assessment. Therefore, the adoption of the PAYG withholding regime was necessary to alleviate the burden on a client with a HELP student loan of having to pay an additional amount of income tax after the processing of their return. The application of the PAYG withholding regime ensures that employers are able to regularly withhold additional amounts of tax in anticipation of the compulsory HELP repayment an individual may have on their notice of assessment at the end of the income year.
21. The ATO includes HELP student loans as part of its existing income tax risk-based compliance and enforcement strategy. As part of this strategy, the Pay As You Go withholding scheme, which supports regular collection of student loans through employers, assists in reducing risks with non-payment of HELP loans.
22. Each year we:
 - include HELP clients into the income tax lodgment compliance strategy where the ATO has some indication that the client's income is around the minimum repayment threshold; and
 - include HELP clients nearing the repayment threshold to identify those individuals potentially over-claiming deductions and/or under-declaring income in order to avoid or lower their compulsory repayment amount.
23. The ANAO did recognise that the ATO undertook general compliance activity that included coverage of HELP as part of its business as usual work. Relevant statistics for 2013-14 are:
 - 1,997,973 HELP clients;
 - 65% had a compulsory HELP repayment raised;
 - 35% that did not have a compulsory repayment raised were either under the repayment threshold or did not lodge an income tax return;
 - Of the 35% who did not have a compulsory repayment raised, 78% were undertaking further study and had an additional HELP obligation in that year.

24. In their risk-based compliance strategy, Education included a recommendation by the ATO to educate HELP clients about their obligations earlier rather than at the time they are making repayments. To address this recommendation they will be:
 - informing students at the point of enrolment that they are incurring a debt (not just enrolling in a course); and
 - emphasising the need for a sustainable program – (using messages such as: if you want your children to have the education opportunity you did, consider repaying when you can, not just when you have to.)
25. Compliance is a shared responsibility between the ATO and Education and the two agencies are bringing together an overall compliance approach.

ATO actions

26. The ATO are developing a compliance strategy which brings together all the compliance risks and approaches currently undertaken across the organisation. The strategy also incorporates new approaches to assist HELP clients with their obligations such as sending reminders to clients about their obligation to lodge returns, alerting them to their HELP balance and informing them that they may make voluntary repayments of their HELP loan at any time.
27. It is planned that the ATO compliance strategy will be endorsed in December 2016.

Joint ATO and Education actions

28. The ATO and Education will meet again in November 2016 to discuss each agency's compliance plans and work together to develop a single overarching strategy.
29. Implementation is on track.

Recommendation 4

- To support the design of HELP and better inform key stakeholders in the higher education sector, the ANAO recommends that Education and the ATO expand the information provided publicly to include a broader range of information such as the growth in HELP debt and collection of repayments, overall and for the separate HELP programs.

30. There are currently five loan types under HELP. The law provides that these five loan types are grouped together into one HELP loan for the purposes of administration and collection. Accordingly, this does not allow for payments against the HELP loan to be split into each loan type and therefore, does not allow them to be tracked separately.
31. The ATO acknowledges that Education are policy owners of the HELP scheme and that Education have the responsibility of reporting on the program outcomes, such as the growth and success of the scheme, and estimating loans that are unlikely to be repaid. In supporting Education with the communication of information, the ATO provides a range of general information on its website and through social media to encourage and support existing clients with complying with their obligations under the law. Education have recently produced a video to assist clients to understand their ongoing obligations.
32. The ATO also has a communication strategy in place which includes regular updates to its websites and social media when communicating with its clients. These communication mediums are not only for the general public, but enable the ATO to contact a broad spectrum of existing and future clients to provide information on HELP. The recent change in the law to require repayment of HELP loans from client's living overseas enabled the ATO to utilise these mediums of communications to effectively communicate the changed repayment obligations to this group as well as all existing clients.
33. The ANAO suggested that the ATO increase its coverage of information available to clients in respect of deferments and waivers. A deferment is where the client's circumstances allow the ATO to defer all or part of the compulsory repayment raised by an income tax return. A waiver is where the Department of Finance makes a decision to extinguish a HELP loan.
34. The ATO publishes an Annual Report which provides information on combines HELP and Student Financial Supplement Scheme (SFSS) collections into a single entry (table 2.2 p39 of the Commissioner of Taxation's Annual Report 2015-16). The ANAO suggested that these entries should be separated.

ATO actions

35. The ATO in consultation with Education, updated its website with more information on deferments and waivers in accordance with the ANAO’s recommendation. Furthermore, the ATO also strengthened its social media messaging with quarterly reminders and updates part of a revised communications strategy.
36. The ATO is also considering whether the current information on HELP provided in its annual report for 2016/17 can be expanded to allow HELP and SFSS collections to be split into two distinct categories, showing amounts collected under the individual schemes. Provided that systems constraints are resolved, this has been scheduled to appear in the Commissioner of Taxation’s 2016-17 Annual Report.

Joint ATO and Education actions

37. Education has provided a list of additional information it would like to publish in respect of HELP and the ATO is working to supply the additional data.
38. The ATO expects that this data set will be deliverable to Education in December 2016.
39. Implementation is on track.

Recommendation 5

- To enable informed decision making regarding HELP, the ANAO recommends that Education more fully analyses characteristics of debt and repayments, and consider this information to inform program design.

40. The Australian Government Actuary (AGA) provides actuarial services to Education, the policy owner. AGA provides Education an estimate of the HELP student loans unlikely to be repaid each year. It also provides Education an analysis of the data and financial modelling to assist Education with general policy considerations. The ATO supplies de-identified tax data to AGA each year to assist with its modelling for Education. This data includes details about debt, repayments and income.

Joint ATO and Education actions

41. The ATO, AGA and Education are working towards;
- expanding the level detail relating to the income information already being provided by the ATO; and
 - including education data held by Education.
42. This expanded dataset would be held in a single database managed by the AGA. Both AGA and Education would be able to access the database to:
- improve analysis to assist with policy design and sustainability of the scheme; and
 - undertake more accurate actuarial modelling of student loans unlikely to be repaid and repayment behaviour.
43. The data will continue to be de-identified before being sent to AGA.
44. This initiative is part of a formal corporate project with the delivery schedule being developed and planned for 1 July 2017. This initiative will also contribute to meeting the intent of Recommendation 4.
45. Implementation is on track.

Other related initiatives

46. ANAO made several suggestions that, while not recommendations, the ATO has been able to implement. These include:

- The ANAO suggested that the ATO update its HELP repayment calculator to enable debtors to estimate repayments for future years where the thresholds were known. The ATO implemented this functionality in July 2016.
- The ANAO also suggested that the ATO consider whether additional guidance or training should be implemented to better support decision makers in respect of deferment applications. The ATO conducted a training session for staff in August 2016 on decision making processes, focusing on consistency in the application of principles and tools when considering applications for deferment.
- The ANAO suggested that it would be useful for the ATO to outline a forward work program in its communication strategy in order to better support individuals willing to meet their HELP obligations. The ATO has several communication strategies for each of its loan products, which it continually reviews and updates as required. The ATO uses both traditional forms of communication as well as social media to keep individuals up-to-date with their repayment obligations. For example, with the recent change in the law requiring HELP and Trade Support Loan debtors residing overseas to repay their debts, the ATO used both email and standard mail to communicate the changes.
- When the decision was made to cease the statement mailout in 2013, individuals had access to their HELP account balance through ATO online at any time. This provides a more accurate and up-to-date balance for the individual. The balance on the mailed statement, sent once a year, is not always reflective of the current balance on the account.
- The ATO notes that at the time of the ANAO audit there was legislation before Parliament to remove the HECS-HELP benefit. This law passed Parliament and was given Royal Assent in September 2016, with the HECS-HELP benefit ceasing from 1 July 2017, although claims for the benefit will be available until 30 June 2019. Some of the ANAO's observations were in relation to the HECS-HELP benefit and therefore, will no longer be an issue after cessation of the scheme.

