

Introduction

Background

- 1.1 On 30 June 1999, the House Economics Committee agreed to investigate administrative and policy issues in relation to the Tax File Number (TFN) system, as raised by a recent report by the Australian National Audit Office (ANAO) Report No.37 1998-99 entitled *Management of Tax File Numbers*¹. The Committee's investigation was conducted under House Standing Order (324b), which states that the reports of the Auditor-General stand referred to the relevant committee for any inquiry the committee may wish to make.
- 1.2 As noted by the ANAO:
- In 1997-98 the ATO collected tax revenue of \$110.34 billion ... The TFN system is a cornerstone of the tax revenue system as well as regulating part of the superannuation industry that managed in 1997-98 total annual contributions of approximately \$30 billion and Commonwealth benefit payment systems that distributed in 1997-98 about \$50 billion. The efficiency and effectiveness with which these collection, regulation and distribution systems work now depends crucially on the integrity of the TFN system.²
- 1.3 The ANAO's performance audit set out to ascertain how efficiently and effectively the Australian Taxation Office (ATO) administers the Tax File Number system and to identify opportunities for improvement to that system.

1 Auditor-General. 1999. *Management of Tax File Numbers: Australian Taxation Office*. Audit Report No.37 1998-99 Performance Audit. Canberra, ANAO, 126p. (Referred to as ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*).

2 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.13.

ANAO findings

- 1.4 The ANAO confirmed that the TFN system has led to the collection of additional tax revenue and provision of better services to clients at lower costs. However, further efficiency and effectiveness gains of the order of \$460 million are achievable for the Commonwealth if the audit recommendations are implemented. Given the nature of the ANAO's work, these estimates are likely to be conservative.
- 1.5 The ANAO identified less than optimal efficiency and effectiveness of the TFN system due to:
- shortcomings in the quality of the ATO's data bases, eg data matching studies by the ANAO revealed '3.2 million more individual TFN registrations than people in Australia counted at the last census ... [and] an estimated 185 000 potential duplicate records of individual taxpayers amongst 17.1 million active tax records of such taxpayers'³;
 - weaknesses in the management of the risk associated with verification of the identity of the TFN applicant;
 - deficiencies in the systems supporting the administration of the TFN withholding tax, eg the ATO cannot reconcile the accounts of almost all investment bodies and there are gaps in the coverage of the TFN system particularly for real estate transactions and transactions reported to the Australian Transaction Reports and Analysis Centre (AUSTRAC); and
 - less than full compliance by the ATO's clients with the TFN quotation arrangements.
- 1.6 The ANAO believes the ATO could have been more proactive in advising government about problems with the TFN system and options to address these problems.
- 1.7 The ATO agreed with the ANAO's recommendations, with some qualifications. During the course of the inquiry, the Committee has heard from the ATO about the progress they have made against the ANAO recommendations. While the ATO appears cooperative in implementing these reforms, the Committee is concerned that significant priority has not been given to the proposals. In particular, the Committee is concerned that the ATO has made limited progress, primarily due to resource constraints, and that steps have not been taken to make resources available. This is of increased concern given that the Australian Business Number (ABN) relies on the use of TFNs as a major identifier of applicants.

Scope and conduct of the inquiry

- 1.8 The Committee has examined administrative, policy and client service issues of TFN management. In particular, the report addresses administrative measures that could strengthen the TFN system and revenue collection, focussing on the areas of data and systems quality, data matching and TFN registration. The report then moves on to consider broader policy issues confronting the ATO, namely tax treatment of non-residents, Proof of Identity (PoI) issues and possible extensions to the TFN system. Lastly, there is a brief consideration of the implications of these findings for the new ABN system.
- 1.9 The inquiry was advertised in the *Weekend Australian* on 25/26 September 1999. The inquiry received 39 submissions from the public, the ATO, interested government agencies, ATO staff, tax practitioners, various interest groups and others. A list of the submissions is at Appendix 1. The 26 sets of documents listed at Appendix 2 were accepted as exhibits. The Committee held eight public hearings through December 1999 to April 2000. Hearings were held in Sydney and Canberra. A list of the hearings and witnesses is at Appendix 3. The Committee also inspected TFN withholding tax arrangements through a site visit to an Investment, Royalties and Withholding (IRW) unit of the ATO in Sydney.