

SUBMISSION	JCPAA	14 AUGUST 2012	UNCLASSIFIED
FORMAT	AUDIENCE	DATE	CLASSIFICATION



Australian Government
Australian Taxation Office

ATO submission to Joint Committee of Public Accounts and Audit hearing: Friday 14 September 2012



UNCLASSIFIED

TABLE OF CONTENTS

Table of contents	2
LIST OF ATTACHMENTS	3
INTRODUCTION	4
SECTION 1	5
A summary of our performance in 2011-12	5
SECTION 2	6
Theme 1: service delivery	6
Tax time	6
Managing complaints	9
Learning from complaints and their nexus with clear communication	10
Findings of the review of service standards	10
Benchmarking ATO performance against international practice standards	11
Realising the benefits of the Change Program	12
ATO Information and Communication Technology (ICT) Forward Work Program	12
Efforts to promote the update of the 'no strings attached' small business advisory service	13
Improving service in our contact centres	14
Whole-of-government service delivery	14
Progress on any changes to governance structure	14
Theme 2: Compliance	15
Using new technology to better understand and communicate with taxpayers	15
Digital curriculum resource	15
New Australians	16
Initiatives for simplification of communication and the use of plain language – including before and after examples	16
Processes for speedy release of superannuation funds in crisis situations	16
Managing debt while supporting people where we can	17
Simplification of lodgment processes for medium, small and micro businesses	18
Trends in compromised TFNs and new strategies for resolving complex compromised TFNs	20
Small business benchmarks: evaluation, including taxpayer feedback, of the use of benchmarks	21
Litigation trends	23
Alternative dispute resolution (ADR)	23
Summary of legal cases that may have significant tax administration implications	24
Work done estimating the tax gap and its possible impacts	24
Theme 3: Policy development and implementation	25
Interaction with Treasury and other key agencies on policy development and consultation	25
Collaborating with other agencies to assist small business	27
Theme 4: External scrutiny and reviews	28
Australian National Audit Office (ANAO)	28
Commonwealth Ombudsman	29
Inspector-General of Taxation	31
SECTION 3	33
ATO response to recommendations in JCPAA Report 426	33

LIST OF ATTACHMENTS

- Attachment 1: An overview of the ATO's performance for 2011–12, presented in July to the organisation's internal Plenary Governance Forum
- Attachment 2: *Corporate overview 2012-13*
- Attachment 3: *Strategic statement 2010-15*
- Attachment 4: *Your case matters 2012*
- Attachment 5: *Compliance program 2012-13*
- Attachment 6: Example of improved ATO correspondence (before and after)
- Attachment 7: Summary of key litigation with significant tax administration implications
- Attachment 8: External scrutineer recommendations not agreed to by the ATO.

INTRODUCTION

1. This is the ATO's tenth submission to the Joint Committee of Public Accounts and Audit (the Committee) for its hearings with the Commissioner of Taxation.
2. On 23 September 2011, we attended a new expanded hearing before the Committee, appearing alongside our external scrutineers and industry representatives. We support the Committee's broadened approach to hearings providing for additional constructive dialogue between the Committee, the ATO, our external scrutineers and industry representatives for the benefit of the Australian community.
3. In November 2011, the Committee released *Report 426 Ninth biannual hearing with the Commissioner of Taxation (Report 426)*. We note the Committee's recognition of the additional preparatory work for these hearings in their decision to revert to annual rather than biannual hearings.
4. We have accepted all the Committee's recommendations that are matters for the ATO, noting that recommendations 2, 3 and 4 are matters for Government or the ATO's external scrutineers. The additional information sought by the Committee in recommendation 6 is contained in section 2 of this submission.
5. Our submission is structured in three sections:
 1. a summary of our performance in 2011-12
 2. further information sought by the Committee, categorised by the themes identified in the Committee's report
 3. a summary of the Committee's recommendations in *Report 426* and the ATO's response to each.
6. Also provided with this submission are the following corporate documents for the Committee's information:
 - an overview of the ATO's performance for 2011-12, presented in July 2012 to the organisation's internal Plenary Governance Forum (Attachment 1)
 - *Corporate overview 2012-13* (Attachment 2)
 - *Strategic statement 2010-15* (Attachment 3)
 - *Your case matters 2012* (Attachment 4)
 - *Compliance program* (Attachment 5).

SECTION 1

A SUMMARY OF OUR PERFORMANCE IN 2011-12

7. Full details of our performance will be presented in the *Commissioner of Taxation Annual Report 2011-12*, to be tabled in October 2012.
8. Overall, the ATO performed well in 2011-12, and we are continuing to build upon the strong foundations we have built in the past. Our approach of encouraging high levels of proper participation in Australia's tax and superannuation systems through a mix of service, ease of compliance and enforcement has seen collections of tax increase in 2011-12 consistent with economic parameters.
9. In the area of superannuation, for the first time the stock of lost superannuation declined — a reduction of around \$5 billion — and the enhancement to SuperSeeker is the first phase of the development of an individual's portal.
10. Our performance report for 2011-12 shows that it was a year of outstanding performance. We met nearly all of over one hundred key performance measures, including our commitments to States and Territories for the administration of the goods and services tax (GST). A copy of our Plenary Governance report is at Attachment 1.
11. Through strong financial management and reinforcing a thrift ethic, our interim unaudited result for 2011-12 is an operating surplus of \$3.4 million (\$0.9 million for the ATO component, and \$2.5 million surplus for the Australian Valuation Office) against an operating budget of over \$3.4 billion.
12. We also continued to deliver on budget measures from the 2011-12 Federal Budget and prior years.
13. While we met our target for collectable debt for the first 10 months of the year, difficult financial conditions meant that we did not meet the target for the last two months, ending with collectable debt representing 5.5% of total collections rather than our 5% target. Funding received in the 2012-13 Federal Budget should help us contain further growth in our debt holdings, while remaining empathetic to taxpayers in short term difficulties.
14. This year we met our performance commitments to the community on 20 of 22 service standards - a significant improvement on the previous year. The two that were not met were individual tax returns lodged electronically and Australian Business Register (ABR) registrations.
15. Our performance for individual tax returns was 91% against a target of 94% in 14 days, partly attributable to exceptions which required manual processing and extra refund integrity checks introduced this year. We have reviewed this service standard for 2012-13 and are closely monitoring performance as we enhance our business processes.
16. Our performance of 89% for ABR registrations resulted in a 4% shortfall against our target of 93% in 28 days. This service standard was impacted by system issues which have largely been addressed with the implementation of a new system in late May 2012. Backlogs have increased while we bed in the new system, but we have implemented a range of strategies to improve performance including increased resources, reviewing processes and procedures, and further training and support for our staff. We are closely monitoring performance in this area.
17. Overall, community confidence in the ATO, as reflected in our surveys, continues to be high at above 80%. For tax agents we have seen a significant improvement in their satisfaction with our overall service which has risen from 51% in 2011 to 62% in 2012. In February 2012, we launched the Tax Practitioner Action Plan. The object of this plan is to further build our engagement and relationship with the tax profession. We have also received positive feedback from large business on how our risk differentiation framework (RDF), and the greater transparency that it provides, is enhancing our relationship with them.

SECTION 2

THEME 1: SERVICE DELIVERY

18. Our *Corporate overview 2012-13* (see Attachment 2) embodies the theme of better tailoring service delivery to the community. In coming months, we will be publishing a 'Better ways' outline of the service improvements we are planning for the future. We are working on improvements to provide the community with easy access to the services and information they need and which are important to them. They will be able to look after their own tax and superannuation affairs online, access information and services through a variety of devices including mobile devices, and deal with us electronically in ways and times convenient for them. We look forward to providing the Committee with more information about this approach as this work progresses.

Tax time

19. Each year we aim to improve tax time so that the lodging of tax returns is as easy as possible, while ensuring for the Government and the community that everyone pays the correct amount of tax under the law.
20. For people who prepare their own tax returns, *e-tax* is a free, convenient and secure service that provides an easy and quick way to prepare and lodge a tax return. Our pre-filling service helps people to complete their tax return by downloading information we have received from employers, financial institutions, government agencies and other third parties. This information is 'pre-filled' straight into the relevant questions in *e-tax*, saving time and helping to ensure tax returns are correct.
21. We continue to work with employers, financial institutions, share registries, Government agencies, health funds and others to encourage early lodgment of information so that we can make more information available sooner through the pre-filling service. Over time, the financial institutions of Australia have progressively provided most of their information by the end of July even though they are only required under the law to provide it by 31 October. Similarly employers are required to provide information by 14 August but increasingly, large employers provide their information in early July.

Planned future improvement

22. We recognise the growth in the use of non-Windows platforms and we are taking steps to enable Apple Macintosh and other non-Windows based platform users to access *e-tax*. Due to a number of complexities related to IT security concerns and usability, *e-tax* for Apple Macintosh systems was not available in time for Tax Time 2012. We will continue to develop an Apple Macintosh version of *e-tax* to ensure the underlying technology can work effectively and securely. We expect that an Apple Macintosh version for *e-tax* will be available for Tax Time 2013. In the longer term, we are working towards a new version of the *e-tax* product that is web-based as a part of our ATO Online program of work. The new version of *e-tax* will be built to allow compatibility of the product with the majority of operating systems being used by the community.

Pre-issue checking of income tax returns and activity statements

23. Our efforts to tackle incorrect and fraudulent refund claims include both pre-emptive action and the checking of all returns for potentially incorrect claims before we issue a refund.
24. Whilst we are focused on releasing legitimate refund claims in a timely manner, we balance this with our responsibility to protect the revenue. Accordingly, we use a suite of analytical models to detect and stop potentially over-claimed or fraudulent refunds.

25. The risk models that form part of our income tax return integrity program use a series of known behavioural attributes and fraud indicators to build a risk profile for individual income tax returns. All income tax returns submitted are held for 48 hours and assessed against these indicators to detect errors, such as over-claimed entitlements or possible fraudulent activity, before refunds are issued.
26. Where a return is identified as 'at risk', the refund is held, the return is taken 'offline' and the taxpayer and/or registered tax agent are notified within 14 days after lodgment that their return has been held for review and when they can expect further contact from us. Claims that are identified as legitimate are released and refunds (where appropriate) are issued.
27. We continue to enhance the capability of the analytical models using various sources of information including intelligence obtained through:
 - previous year audit results
 - analysis of information we hold
 - referrals obtained from the community (including tax agents)
 - information exchanged with other government agencies.
28. In addition to the use of analytical models, we also:
 - work with other agencies to share information and develop whole-of-government initiatives
 - provide advice to the community about protecting personal details and possible scams
 - work with the tax profession to identify and encourage the reporting of suspicious behaviour.
29. In 2011-12, over 109,000 income tax returns were held for potential over claiming or fraud. Of these, around 79,000 (less than 1% of total refunds processed) required a full review, with just over 60,000 of these resulting in adjustments, protecting revenue of around \$200 million. As a result of the volume of reviews produced by the analytical models, the time taken to complete the processing of these returns increased and resulted in delays for some taxpayers.
30. Some tax returns take longer than others to finalise. Cases that are stopped because of potential identity crime can take a long time to action. A number of cases are referred for prosecution action or we have to seek additional information using a formal request. This adds significantly to the time taken to process the returns. Others where taxpayers or their agents have left out necessary details are often quickly rectified by obtaining the relevant information.
31. Our processes for checking returns for possible incorrect claims or fraud has caused some frustration with both taxpayers and tax agents. We acknowledge that our communication could have been better, and we have taken steps to improve it. We received valuable feedback from tax agents, taxpayers, the community and external scrutineers and have reviewed complaints we received in relation to this issue. In response to this feedback, we have implemented new approaches to manage the large volume of 2011 tax returns that were held for rectification or further scrutiny. The improvements made throughout 2011-12 and for 2012-13 include:
 - refining the analytical models to reduce the number of refunds stopped and subsequently released without adjustment
 - improving our practices to more efficiently review held returns in a timely manner, and
 - increasing the amount of time given to the taxpayer to provide supporting documentation where they believe they have legitimate claims
 - having a flexible workforce to better manage the peak workload during the period July to December
 - providing tips to taxpayers and their agents about common errors, and reminding them to include necessary information.

In relation to improving our communication on this matter, we:

- consulted with agents on our approach and co-designed our communication products with, for example, our regional and national ATO tax practitioner forums
 - user tested our letters to taxpayers and provided advance copies to external scrutineers such as the Commonwealth Ombudsman as well as forums such as the ATO Tax Practitioner Forum for feedback
 - are communicating our processes and progress, including notifying the taxpayer and/or agent within 14 days after lodgment that their return has been held for review and when they can expect further contact from us
 - are providing clearer information to the community through improved call centre scripting and escalation processes
 - are including clearer reasons for decision in our finalisation letters to provide greater clarity for tax agents and taxpayers explaining why a claim is not allowed
 - are using relationship managers to work with tax agents with significant numbers of refunds that are held for correction or further review, and tailoring communications and case actioning based on the reasons for correction or review.
32. Our service standard for processing of credit activity statements (paper and electronic) is 14 days of receipt in the ATO. The benchmark is 92% of electronic credit activity statements processed within the 14 day service standard, and 85% of paper activity statements processed within the 14 day service standard. In 2011-12, we processed 98% of electronic credit activity statements and 97% of paper credit activity statements within 14 days.
33. In 2010–11, there were 2.2 million activity statement refund claims totalling approximately \$48 billion. 42,000 refunds were audited and we adjusted on average one out of every four of these. This resulted in \$601 million of incorrect refunds being corrected from 10,800 adjustments.
34. In 2011–12, we received a similar number of activity statements (2.2 million). We improved our selection of cases and reviewed fewer refund claims. 26,900 refunds were audited and we adjusted on average one out of three of these claims. This resulted in over \$567 million of incorrect refunds being corrected from 9,900 adjustments.
35. Organised groups have misused Australian business number (ABN) registrations for fraudulent purposes. In 2011-12, 21 people were prosecuted for activity statement refund fraud (17 relating to GST) with custodial sentences ranging from two months to 5.5 years. There are 98 matters going through the Courts or under assessment by the Commonwealth Director of Public Prosecutions (CDPP) for possible criminal prosecutions. Of these, 96 are GST matters and the remainder are fuel tax credit matters.

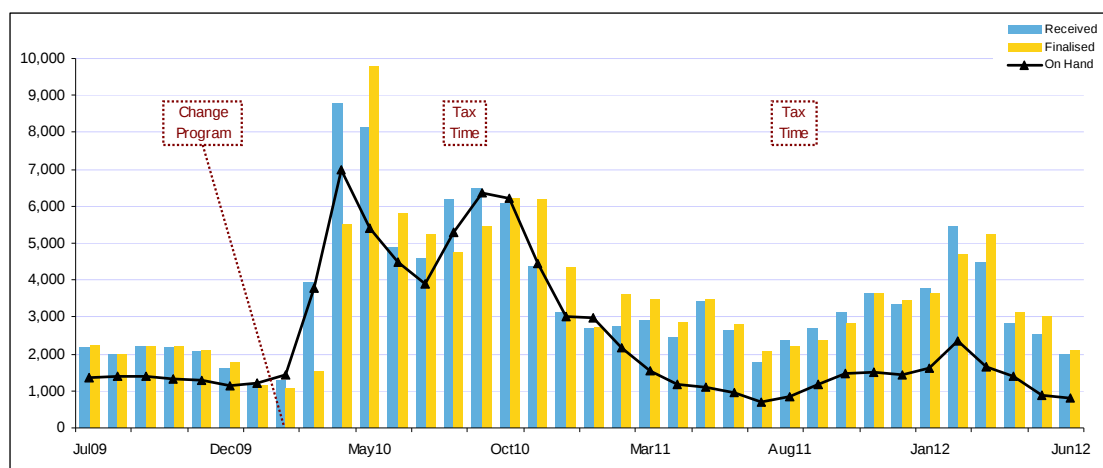
Tax Time 2012

36. We continually work to improve our services and we used the Tax Time 2011 experience, including taxpayer and tax agent feedback and complaints, to improve Tax Time 2012.
37. Weekly meetings with tax practitioner representatives, including professional bodies, have allowed us to provide and receive two-way feedback on Tax Time 2012. To date, the feedback has been very positive. Our weekly meetings have also enabled us to issue weekly tips and alerts to tax practitioners.
38. We recognise that proactive communication is critical in meeting the community's expectations. In addition to improvements highlighted above, improvements implemented for Tax Time 2012 include:
- the launch in April 2012 of our *Progress of return* online tool, which allows people to check the progress of their individual income tax return for the current year

- where a return needs to be reviewed, we automatically issue an initial letter notifying the taxpayer that their return has been held for review and advising of the minimum likely delay in the issuing of any refund
 - tip sheets and alerts for tax practitioners to avoid delays in return processing and integrity risks such as identity fraud
 - a dedicated frequently asked questions page on our website addressing common tax time issues
 - use of social media, including a program of Twitter and Facebook posts and various YouTube videos including 'Five steps to using e-tax'.
39. For Tax Time 2012, we have replaced our *TaxPack* suite of instructional materials, including *TaxPack supplement*, with a more streamlined set of instructions. The *Individual tax return instructions* suite has been designed to better suit the circumstances of those taxpayers who prepare their own tax returns and still lodge on paper. The changes have been informed by research and user testing conducted with taxpayers who lodge paper returns. Information concerning less common or more complex circumstances has been removed and placed on our website. Messaging to explain the change and how to access additional instructions on our website are contained in the new product. So far we have had no significant feedback from the community, very few complaints and less than expected phone calls seeking assistance or access to the website only instructional content.

Managing complaints

40. Feedback from taxpayers on the way we administer the tax and superannuation systems provide us with valuable insights into the consequences of the way we do things and how we can improve our services.
41. Our handling of complaints is currently measured against two service standard benchmarks:
- the service standard for the initial contact with the complainant is within three working days of receipt of the complaint. The benchmark for this service standard is 85%
 - the service standard for the resolution of a complaint case is 21 days from the date of receipt. The benchmark for this service standard is 85%.
42. Since our last appearance before the Committee, we have further improved our performance against both of these service standards. We have met or exceeded the benchmark (85%) for both service standards each month since March 2011.
43. In response to recommendation 1 in the Committee's *Report 426*, we made our service standards information more visible on our website. Information about our service standards and current performance can now be accessed from any page on ato.gov.au by selecting 'About Us' – 'Service Standards' – 'Current year performance'.
44. Our continued focus on improving the way we manage our interactions with the community saw 20% fewer complaints in 2011-12 than in 2010-11 (see graph 1 below), with the average time taken to resolve a complaint improving from 26 days in 2010-11 to 15 days in 2011-12. We also continued to reduce the number and profile of complaints on hand from 962 at 30 June 2011 to 804 at 30 June 2012. The proportion of aged cases (complaints over 60 days old) relative to all complaints on hand was 4% at 30 June 2012.



Graph 1: Complaint volumes July 2009 – June 2012

45. The improvement of our management of complaints has been an area of focus for us.
46. In July 2011, we engaged Boston Consulting Group (BCG) to provide recommendations to reposition our complaints process into a broader enterprise intelligence feedback framework and suggest ways to align our complaints process with complaint handling best practice.
47. Following this review, we have established a dedicated project to lead further improvements, consolidated under three major streams of work focusing on:
- analysing and understanding the cause of complaints
 - addressing the cause of complaints
 - improving our complaints handling processes to improve taxpayers' experiences when they have cause to complain to us.
48. An example of a recent improvement we have made to our complaints handling process is that we streamlined the process for tax practitioners' complaints so that they liaise directly with the person resolving their complaint, rather than an intermediary. This enables us to resolve these complaints in a more timely manner.

Learning from complaints and their nexus with clear communication

49. Timely, accurate and clear communication with taxpayers is fundamental to helping them understand their rights and obligations. We continue to make improvements in the way we communicate, incorporating suggestions for improvements from the Commonwealth Ombudsman's office, where appropriate.
50. For Tax Time 2012, we provided copies of our standard tax time letters to the Commonwealth Ombudsman's office to seek their feedback on the clarity of the letters and welcomed suggestions for improvements.

Findings of the review of service standards

51. ATO service standards are a key indicator of our performance in terms of service delivery to the community.
52. As noted in our previous submission, we engaged external consultancy Boston Consulting Group (BCG) to draw on international and national experience in both the public and private sector to provide direction for a contemporary approach to service standards to apply over coming years. Broadly, results of this review found that our current service standards were primarily internally focused, used timeliness as the major metric and may not align with contemporary community expectations.

53. The review recommended that we consider a renewed set of service commitments reflecting the community's expectations – *'be easy to deal with', 'be timely', 'keep me informed', 'be helpful and accurate', and 'be professional'*. It was recommended that these five service commitments replace the existing 22 timeliness service standards. We have, in-principle, agreed to the recommendations made by BCG.
54. A Service Improvement Steering Committee, chaired at Second Commissioner level, with senior membership across the ATO, meets regularly to oversee the progress of improvements to how our performance is managed against community expectations as a result of the BCG review. The steering committee developed a 'prototype of new service commitments' that has been tested with the community and our staff.
55. Research providers ChantLink were engaged to conduct the user testing of the prototype through use of focus groups with individual taxpayers, small and micro businesses, and our staff. BCG was also re-engaged to undertake a very short assessment of our progress-to-date.
56. Key findings from the user testing validated that the five high level service commitments (outlined above) resonate with the community. This assurance, supported by findings by BCG, confirm that we are now in a position to finalise these five service commitments and implement an appropriate set of measures and standards that align to the commitments.
57. We also undertook our annual internal review of current service standards, taking into account the direction of the external review and implementing some interim measures that complement the longer term approach. This resulted in a change to one of our key service standards, *'Individual Electronic Tax Returns'*, from 14 days to 12 working days, and with an additional commitment to inform taxpayers and/or agents if we do not expect to finalise their electronically lodged individual return within 30 calendar days. This change came into effect from 1 July 2012.

Benchmarking ATO performance against international practice standards

58. During 2011-12, the ATO finalised its involvement in an international tax benchmarking study co-ordinated by Her Majesty's Revenue and Customs. The study focused on benchmarking the performance of ten tax administrations for ten chosen functions.
59. Of the aspects of our operations that were studied, the study identified several examples of leading practice across our contact centre operations, processing of personal income tax returns, GST registrations, resolving complex queries and risk-based GST audits.
60. We were also assessed as performing well, relative to other tax authorities studied, in:
 - online filing of personal income tax returns
 - cost of processing a GST registration
 - elapsed time to resolve complex income tax queries
 - yield per dollar invested in GST risk assessment
 - number of personal income tax disputes and the cost to resolve those queries.
61. Furthermore, we were one of four administrations which have much lower opening and closing debt balances as a percentage of total tax revenues than the other countries studied.
62. This study also feeds into the existing processes we undertake to continually review and improve our performance. In particular, we have identified and are implementing a range of continuous improvements to our efficiency and effectiveness across some elements of our contact centre operations, tax return processing functions, complex private ruling processes, GST and debt management functions.
63. For example, we are continuing to work on a range of initiatives aimed at finalising complex private rulings in a more efficient manner. All complex private rulings are now triaged at point of entry to the ATO, to identify the primary query, the skills set required to respond and

appropriate next steps. This action, combined with the recent strategy of redeployment of technical resources to the operational areas under the transforming technical decision making project, will realise anticipated benefits, including a reduction in elapsed time.

64. Involvement in these studies, our cross-agency work and our work in the Organisation for Economic Cooperation and Development (OECD) — particularly its Forum on Tax Administration, of which the Commissioner is a vice chair — allows us to recognise what we do well but also provides ideas for improvements.

Realising the benefits of the Change Program

65. Over the duration of the Change Program there were a number of external, independent reviews from scrutineers. We commissioned a further review to explore whether the benefits (both tangible and intangible) were realised after a period of time following conclusion of the Change Program. CPT Global Ltd conducted this further review commencing in January 2012 and concluding in June 2012. A copy of this report was recently provided to the Committee.
66. In their report, CPT Global Ltd observed: *'The Change Program has provided the ATO with an integrated technology and business delivery capability that provides the basis of future efficiency dividends'*.
67. CPT Global Ltd findings included tangible financial benefits of over \$150 million per annum, providing a return on investment period of four years for the ATO self-funded part of the Change Program. This assessment is consistent with the earlier review conducted by Aquitaine Consulting. We believe this compares very favourably with industry best practice.
68. The new ATO service delivery framework introduced following the conclusion of the Change Program has also provided the basis for further realisation of benefits by providing the foundation for leveraging other initiatives such as enhanced fraud detection, analytics and pre-filling capabilities.

ATO Information and Communication Technology (ICT) Forward Work Program

69. One way we can help Australian businesses to minimise compliance costs is to encourage more online interaction between business and public sector agencies.
70. The ATO ICT Forward Work Program (the Program) details our technology agenda for the next 12–18 months and also provides an outlook of proposed changes through to 2015. The Program builds on the infrastructure developed as part of the ATO's Change Program which enables us to be more flexible and responsive to changing Government and organisational priorities.
71. The first priority and a considerable proportion of the Program is committed to delivering the Government's significant new policy agenda. We will also progress other important initiatives aligned to our *Strategic statement 2010-15* (see Attachment 3). One of these key initiatives is a program of work which aims to increase electronic interactions and deliver better, more integrated, personalised and cost effective online experiences for the community, tax practitioners and business.
72. Table 1 below summarises key recent achievements in our ICT work program and planned future outcomes that improve the community's experience in interacting with us electronically.

Table 1: Key achievements and planned delivery in the ATO's ICT Forward Work Program

MAJOR MILESTONES ACHIEVED DURING 2011-12	PLANNED DELIVERY DURING 2012-13 AND BEYOND
- Delivered online 'Progress of return enquiry tool' enabling a taxpayer to check on the progress of their current year tax return. - Implemented an enhanced <i>SuperSeeker</i> online service which allows people to see details of any active superannuation accounts which have received a contribution in the past two financial years; lost superannuation reported to the ATO or ATO-held superannuation money; and an online form to make it easier to request consolidation of accounts.	Develop an 'individuals portal' during 2013 to increase and enhance our online service offering to individual taxpayers. Initially we will focus on: - moving <i>SuperSeeker</i> services to view and consolidate accounts to a new online platform - enabling people to make payment arrangements, change their details and check progress of returns (moving the current 'Progress of return enquiry tool' onto a new online platform). Looking beyond 2013 we have a number of other enhancements planned including: - moving our electronic lodgment service to Standard Business Reporting [please note the Productivity Commission's endorsement of this approach] - moving the tax agent portal and business portal to a new online capability.

Efforts to promote the update of the 'no strings attached' small business advisory service

73. Our nationwide small business assistance program aims to make our support practical and accessible, and can include free on-site support from our staff.
74. The key assistance product offered through these strategies is free, tailored, business assistance visits where our officers help small businesses on a variety of tax topics including ABN registration, employer obligations, superannuation and other taxes, record keeping and activity statement lodgment.
75. This program aims to support the business community, develop stronger relationships with local intermediaries and increase our presence in regional areas. Recently we have been targeting regional areas for seminars and workshops and have been receiving a positive response from participants.
76. We also work with 479 industry, trade and business associations who represent approximately 1.3 million members. Fifteen of these associations have approximately 107,550 members directly related to the building and construction industry.
77. Promotion of the small business advisory service in flyers and online includes a note that information obtained as part of the assistance will not be used to commence an audit on the participating business. We also promote the service through industry channels such as the Small Business Newsletter that issues monthly to 678 subscribers (industry bodies) with an estimated reach of 1.4 million small business operators. Recipients of the newsletters include the Council of Small Business Australia, the Chamber of Commerce and Industry, the Master Builders Association and many others.

Improving service in our contact centres

78. Over the last couple of years, we have provided our contact centre staff with a broader set of skills and support. This allows them to answer more enquiries during a taxpayer's initial call, limiting the need to transfer the call to other parts of the ATO. This is part of our emphasis on first contact resolution.
79. Our contact centre staff, who speak to taxpayers every day, are encouraged to suggest ways we can improve our business. During 2011-12, 1,895 ideas were put forward covering opportunities to reduce the effort involved when dealing with us and improving the information we provide. For example, we have reduced the time it takes to complete certain requests. In the past, if a taxpayer misplaced their activity statements and requested six or more to be reissued, our contact centre staff were unable to complete these requests over the phone. As a result of a suggestion from staff, we have trained our contact centre staff to complete these requests over the phone. As the requests can now be completed during the initial call, taxpayers are able to receive their activity statements sooner as the delay that resulted from referring the request to another area of the office has been removed.
80. An external consultancy conducted a review of our contact centres in 2011-12 and concluded that our current operating approach is cost effective, flexible and the right model to deliver a good service to the community. The review also identified opportunities to further improve our business model. Working through these opportunities will be our focus for the coming year.
81. We have been outsourcing calls to our general enquiry number since 2006 and we now outsource about a third of our overall call volumes (including both general and tax practitioner calls). Outsourced contact centres are a cost effective option to manage workloads, particularly seasonal peaks. They also offer flexibility and scalability, which reduces the costs associated with recruiting and training a large seasonal workforce. The review conducted by the external consultancy supported this part of our business model and recommended we continue to build flexibility in our workforce through outsourcing. In 2012-13, we will refresh our outsourcing arrangement to provide greater flexibility to manage seasonal peaks and deliver consistent service throughout the year.

Whole-of-government service delivery

82. We have been working with the Department of Human Services (DHS) to streamline services as part of a broader strategy to foster a whole-of-government approach to service delivery.
83. Moving towards a shared service model for Government services has dual benefits: streamlining the community's interactions with Government, while improving our efficiency. In 2012-13 we will be moving to a co-located arrangement with DHS in Albury and will continue to look for further opportunities for partnering arrangements of this type.
84. This initiative received positive acknowledgment in the Public Service Commissioner's *State of the Service Report 2011* as a key component in the broader strategy to foster a whole-of-government approach to service delivery. It was noted that feedback from surveys conducted about the initiative were very positive with respect to the level of service provided to the community.

Progress on any changes to governance structure

85. On 5 August 2010, the Government announced its intention to establish a Tax System Advisory Board.
86. On 21 January 2011, the former Assistant Treasurer, the Hon Bill Shorten MP, announced the Government's consultation arrangements for the Advisory Board, which included the formation of a consultation panel. The consultation panel delivered their report to Government by 30 June.

87. Detailed arrangements in relation to the Charter and membership of the Advisory Board remain a matter for Government. Treasury has the carriage of assisting Government in progressing this matter.

THEME 2: COMPLIANCE

Using new technology to better understand and communicate with taxpayers

88. We receive about 10 million calls each year. Although all calls are recorded for quality assurance purposes, it is not possible to review them all. So in 2011-12, we started using new technology to better understand taxpayers, improve our service and detect potential scams. The technology can scan for key words and phrases in millions of call recordings in a timely manner, allowing us to respond to emerging trends.
89. The technology can also be used to improve services outside of the contact centre. For example, we examined data from calls in response to letters sent by us. We are able to measure the rate of response and understand why people call us when they are not required to. We can use this information to adjust the content of letters, make decisions about when to send them, and ensure we are properly prepared to handle any enquiries we receive in our contact centres.
90. The use of these sophisticated analytics is ground breaking work, which we showcased at the OECD Forum on Tax Administration (FTA) in January 2012.
91. The FTA's report on social media also recognised the progress we have made in this space. Social media enables us to provide practical guidance and information in a time, manner and place suitable to taxpayers. These tools are a valuable alternative for taxpayers, giving them the ability to receive a response from us in a manner and location convenient to them. The channels also enable us to scan social media comments and conversations to understand how the community perceives us, what issues are a priority for the community, and to respond accordingly. As at 9 August 2012:
- our Facebook page (launched 1 July 2011) has gained 2,110 followers. Facebook enables the community to share our stories and interact with us in a genuine way
 - our Twitter page (launched 1 March 2010) has gained 9,749 followers. We use Twitter to provide the latest information on new measures, changes to legislation, reminders, and information on system outages, scams and online security. Twitter also allows our followers to 'retweet' information they think is important to their followers, further increasing our audience reach. Since our Twitter channel began, social media measurement tool Twitonomy estimates that 68.2% of our tweets have been retweeted
 - our YouTube channel (launched July 2011) has almost 100 videos uploaded containing information, demonstrations, promotional campaigns and 'how-to' guides. Some of these videos are available in languages other than English. There have been over 197,258 views of our videos since we started using the channel in July 2011.

Digital curriculum resource

92. In line with our vision that Australians will value their tax and superannuation systems as community assets, where willing participation is recognised as good citizenship, we are working to provide young Australians with an understanding of the tax and superannuation systems before they enter the workforce.
93. Our new, online educational resource, called *Tax, super + you*, is designed to help young people learn about the role tax and superannuation play in the Australian community. This is a new style of product for us. The product is a complete learning management system which includes interactive quizzes, flash animations and games to make learning about the Australian taxation system an entertaining, as well as educational, experience.

94. *Tax, super + you* was officially launched on 10 July 2012 by the Assistant Treasurer, the Hon David Bradbury MP. As at 9 August 2012, 186 Australian schools have registered to use the resource and 47 schools have set up courses with a focus on taxation. There are also 1,488 people registered to use the self-managed course which is available to the broader community.

New Australians

95. In December 2011, we launched *Your business and tax*, a product for new small business owners from a non-English speaking background (NESB).
96. This product was developed in partnership with NESB users and is available on DVD and online in six languages, with an additional five languages planned for release in 2012.
97. It has been designed to inform and educate new and intending NESB small business owners about their tax obligations and entitlements. The product aims to minimise confusion arising from an inability to read or understand tax and other financial terminology. Subtitles have been used to further assist understanding and familiarity with tax terminology, and also to improve access for hearing impaired viewers.

Initiatives for simplification of communication and the use of plain language – including before and after examples

98. We send some 65 million pieces of correspondence each year. For many taxpayers, letters are the primary form of contact they have with us. Writing in a style that is easy for people to understand and clearly explains what we want the recipient to know or do is an ongoing priority.
99. As such, we are committed to reviewing our letter templates every two years to ensure the content reflects a high writing standard. Reviews concentrate on using plain English, giving clear and practical messages, identifying self-help options and highlighting review rights. We employ a variety of influencing techniques in our letter writing approach from areas such as behavioural economics, marketing and psychology, which are consistent with current commercial and other government communication strategies.
100. Our approach is validated in consultation with the community. We do this in a variety of ways including user-testing at the ATO's Simulation Centre, consultative groups such as the ATO Tax Practitioner Forum, scrutineers such as the Commonwealth Ombudsman and tax practitioner workshops.
101. For a before and after example of one of our improved letters, see Attachment 6.

Processes for speedy release of superannuation funds in crisis situations

102. Where superannuation fund monies are held by the superannuation funds, including funds listed on the Lost Member Register (LMR), hardship applications are made directly to the relevant fund. The decision to release monies for hardship purposes is made by the fund with guidance provided from the Department of Human Services, which is responsible for processing applications for early release of superannuation. In cases where superannuation fund monies are held by the ATO, claims are submitted directly to us so we can ensure claims are processed as a priority.
103. We manage claims for the release of superannuation under hardship following the same guidelines as all hardship claims we receive. Claims are assessed to determine whether a hardship claim is substantiated and whether the release of the money is allowed in the circumstances of the case. We do this as a matter of priority with payments generally made in less than 48 hours.
104. In 2011-12, we participated in the Australian Law Reform Commission (ALRC) inquiry into Family Violence and Commonwealth Laws – Improving Legal Frameworks. This review had a

focus on the rules for early release of superannuation, as well as self-managed superannuation funds (SMSF) given the often close relationship of SMSF members.

105. The ALRC recommended that we update our guidance material to ensure that SMSF trustees are aware of their obligations, specifically in circumstances involving family violence. We are reviewing the existing material for trustees to this end.

Reuniting Super strategy

106. We have established a Reuniting Super strategy to increase the level of engagement people have with their lost and ATO-held superannuation, and reduce both number and value of related superannuation accounts.
107. During 2011-12, superannuation funds completed a full re-report of their lost members, instead of the regular incremental report. The re-report required funds to report details of all current lost-uncontactable and lost-inactive member accounts that were held with the fund as at 31 December 2011. Funds were also required to report if they had no lost members. The number of reported lost accounts has decreased by 32%, and there has been a 20% decrease in value. Overall, the combined number of lost and unclaimed accounts has decreased by 16%, and there has been an 18% decrease in value.
108. The decline in lost superannuation was helped in part by our provision of current address information to superannuation funds, allowing them to re-establish contact with their members. During the year we provided 1.4 million addresses to funds, as a result reuniting 900,000 people with \$5 billion in superannuation.
109. In 2012 we released an enhanced version of our *SuperSeeker* tool. For the first time, people can see in one place all of their active superannuation accounts, including a point in time balance, as well as their lost and unclaimed superannuation. They are also able to manage their accounts by initiating an electronic rollover between accounts, or by claiming their lost or unclaimed superannuation.
110. In delivering the Stronger Super reform program, we will continue to work with the superannuation industry to connect people with all of their superannuation entitlements.

Managing debt while supporting people where we can

111. As a result of improvements we made in 2010-11 to our business model, total collections resulting from our debt collection activities increased 17% in 2011-12. Even with these improvements, the level of collectable debt grew by 18% in 2011-12 and at 30 June 2012 was \$16.6 billion. Around two-thirds of this increase was income tax collectable debt, which was \$7.1 billion at 30 June 2012.
112. The increase in collectable debt reflects the challenging economic climate in 2011-12, particularly in the micro business sector (businesses with a turnover of up to \$2 million). At 30 June 2012, micro businesses, which are a major focus of our assistance and collection activities, accounted for 71% of activity statement collectable debt and 50% of income tax collectable debt.
113. We continue to support and assist taxpayers experiencing difficulty paying their tax debts. This assistance includes:
- payment arrangements aligned with the taxpayer's cash flow
 - interest-free payment arrangements for activity statement debts for viable small businesses with a good history of meeting their tax payment and lodgment obligations
 - targeted support provided to individual and business taxpayers experiencing serious financial difficulty or hardship.

114. As at 30 June 2012, we had 281,125 payment arrangements in place to the value of \$3.8 billion. This includes 35,900 general interest charge free arrangements to the value of \$687.9 million.
115. We also continued our focus on business viability assessments. We are currently piloting the use of independent viability assessments by external firms for cases with large debts and complex business structures. Our use of business viability assessments helps ensure fair and consistent decisions in relation to payment proposals or in determining the most appropriate collection action.
116. Because personal bankruptcy and the winding-up of a company have serious implications for debtors and creditors, we initiate these proceedings only after careful consideration. We will initiate wind-up proceedings where there is clear evidence a business is not viable. A businesses failure to meet agreed payment arrangements on multiple occasions or refusal to engage with us in settling their tax or superannuation liabilities raises questions about its viability. It is inappropriate and unfair to others for a business to continue to operate while insolvent.
117. There has been a significant increase in the number of wind-ups initiated by the ATO, reflecting the ongoing effects of the economic downturn and our focus on assessing business viability. In 2011-12, 2.3% (519) of total bankruptcies and 14.4% (1,555) of total wind-ups were initiated by the ATO. The respective figures in 2010-11 were 2.0% (462) of total bankruptcies and 10.9% (1,066) of total wind-ups initiated by the ATO. We engage external consultants to conduct regular independent reviews of our management of insolvency cases. The 14 reviews (of over 1,000 cases) completed to date have found that our actions have not lead to any premature bankruptcies or wind-ups.
118. We are also promoting community awareness and understanding of how we manage tax debts via comprehensive information on our website and through regular discussions with tax professionals and community representatives at our consultative forums.

Simplification of lodgment processes for medium, small and micro businesses

119. We have worked closely with the community and various intermediary groups to understand pressure points in the existing lodgment process. We continue to encourage electronic lodgment, and to simplify existing channels for lodgments with tools such as AUSKey and the Standard Business Reporting (SBR) lodgment process.
120. We are currently exploring several avenues to further simplify the lodgment process. A review of current business returns is underway to identify opportunities to reduce the reporting burden on small and medium businesses. For example, we will be reducing the amount of information we require business taxpayers to provide in their annual income tax return and schedules for the 2012-13 income year onward by:
- removing around 30 labels from the annual returns
 - halving the length of the capital gains tax schedule
 - deleting the capital allowances schedule
 - deleting the personal services income schedule
 - relocating a number of labels from the tax returns to the international dealings schedule to better target the collection of that information.
121. This process will also consider opportunities to leverage data matching to automate components of various business returns through pre-filling.

Electronic tools

122. A range of electronic tools and calculators are provided on our website to enable small businesses to self assess or calculate taxation obligations or entitlements and access guidance tailored to their small business circumstances. Our online tools for small businesses include:

Name of tool	Description	Number of views in 2012*
<i>Is your business tax-ready?</i>	Helps small businesses check whether their business practices are helping them meet their tax obligations	18,031
<i>GST property tool</i>	Helps to determine the GST implications for property-related transactions	13,100
<i>Research and development tool</i>	Assists businesses to calculate their research and development (R&D) tax offset claim	New
<i>Employee/contractor decision tool</i>	Assists businesses to find out whether a worker is an employee or contractor for tax and superannuation purposes	129,387
<i>CGT small business concessions tool</i>	Designed to help determine whether a business is eligible for the capital gains tax concessions for small business	18,229
<i>Building and construction industry - employee/contractor decision tool</i>	Assists payers in the building and construction industry understand their tax and superannuation obligations in relation to an individual worker	49,883
<i>Payment arrangement calculator</i>	Assists taxpayers in determining a payment arrangement that suits their individual circumstances	40,554

* to 31 May 2012.

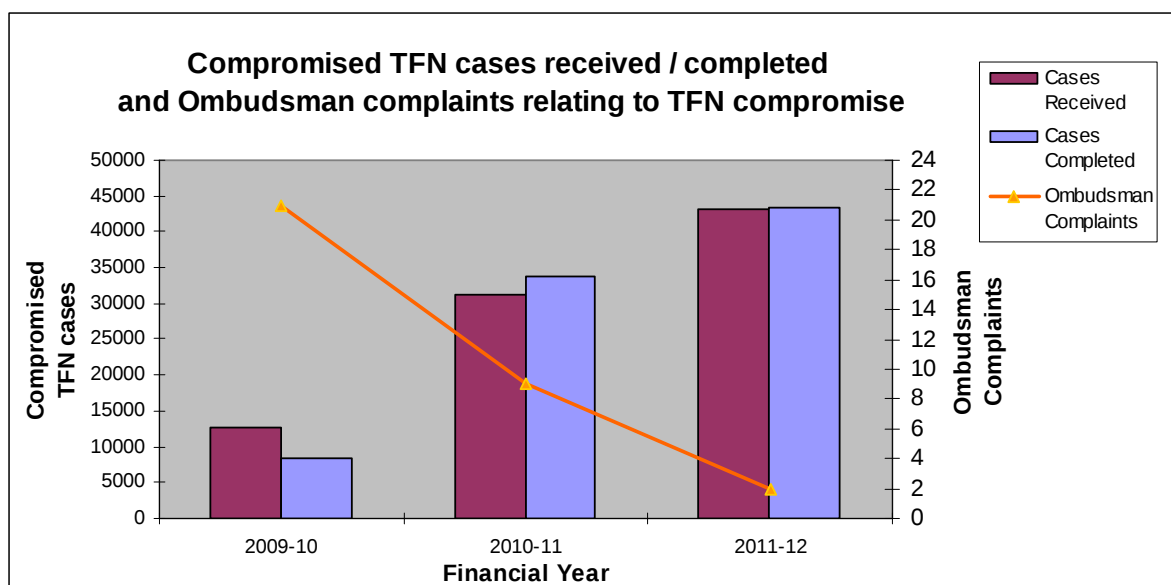
Case study: The new GST property tool, making it easier to understand property transactions

123. On 7 November 2011, we released the GST property tool. This interactive web-based decision making tool provides GST guidance and support those who undertake property transactions. It incorporates a series of questions and answers to enable users to better understand and meet their GST obligations relating to property transactions. The development of the GST property tool drew on the analysis from our qualitative research project, Reporting on GST on Property Transactions. We user tested the tool with tax agents and small to medium size property developers and incorporated improvements into the design.

124. Not all electronic tools are provided on our website. For example, the *Residential colleges GST tool* is provided by direct mail-out on CD to universities with student accommodation, residential colleges and their advisers. The tool was developed in consultation with the sector, specifically to assist them with determining the GST status of their complex mix of supplies and the corresponding input tax credit entitlements. Approximately 200 CDs were sent when the tool was piloted in 2009, and again when it was updated and re-released in 2012.

Trends in compromised TFNs and new strategies for resolving complex compromised TFNs

125. Correct registration of a person's tax file number (TFN) is the fundamental building block upon which the administration of the tax system is based and is integral to maintaining community confidence in the system. Accordingly, we encourage the community to protect their TFN.
126. There continues to be an increase in the number of detected incidents relating to compromised TFNs, with trends showing an expected growth of 8–13% in the next two to three years. The increase can be attributed to:
- improvements to our detection of compromised TFNs and their inappropriate use
 - increased community awareness leading to more reports from taxpayers and agents of potential compromised identity
 - increased exposure to risk through the growing use of electronic media for all financial transactions.
127. Given projected compromised TFN growth, this continues to be a focus area for us. Current strategies in place to detect and minimise fraudulent activity include:
- promoting community awareness about identity theft and making it easier to report
 - participating in a number of multi-agency forums focusing on identity crime, including the Operational Identity Crime Forum (known as OPAL) and the Identity Crime Response Plan Implementation Team. OPAL is a forum for law enforcement and government sector agencies to meet and discuss current and emerging threats. The Identity Crime Response Plan Implementation Team also considers preventative measures to reduce the incidence of identity crime
 - continuing to review and fine tune our information matching tools, data mining techniques, and fraud models based on intelligence gathered by the ATO and across agencies to limit the potential benefits of identity takeover. Of the 109,000 income tax returns stopped in 2011-12 for potential over-claiming or fraud, almost 7,900 returns with refunds of approximately \$40 million were held for review due to suspected identity crime, resulting in protected revenue of \$21.6 million
 - continuing to strengthen and maintain our own proof of identity processes and taking a whole-of-government approach to ensure consistent standards are adopted
 - reducing opportunities for inappropriate use of TFNs through data matching and information sharing with other agencies to identify potentially compromised TFNs.
128. Despite the increase in number of incidents, improvements to the way we manage compromised TFNs has seen a decrease in complaints to the Commonwealth Ombudsman (see graph 2 below, which compares compromised TFN cases on the left axis against Commonwealth Ombudsman complaints on the right axis).



Graph 2: The relationship between compromised TFNs and taxpayer complaints lodged with the Commonwealth Ombudsman

Small business benchmarks: evaluation, including taxpayer feedback, of the use of benchmarks

129. Small business benchmarks help businesses compare their performance against similar businesses in their industry.
130. The benchmarks are calculated from information reported on the income tax returns and activity statements of businesses that operate in similar industries. Benchmarks are published as a range to account for businesses with different annual turnovers, variations across financial years, regions and business models.
131. We identify the appropriate industry benchmarks for a business based on the information provided to us, which includes:
 - business industry code
 - the description of the main business activity on the income tax return
 - the trading name of the business.
132. Our 2011 tax agent perceptions survey showed that 89% of agents surveyed were aware of the benchmarks, 66% refer them to their clients and 75% refer to them personally as part of their business practice. Members of the Cash Economy Advisory Group reported that benchmarks are used in assisting their clients in business purchases, and in determining the reasonableness of income reported by their clients.

Case study: Small business benchmarks

133. Ann and Paul wrote to the ATO after receiving a letter advising them that their business was outside their industry benchmark. After reviewing their records Ann and Paul were satisfied that they had reported correctly. However, they took a closer look at their business practices to better understand why they were outside of the benchmark. Their investigation found that they were providing their customers with slightly more product than their budget projections allowed, which they believe had diminished their profit margin. As a result of our letter and their review of their records, Ann and Paul changed their policy to provide customers with the budgeted quantities, with the expectation that profits would begin to increase.

134. We also use benchmarks, amongst other indicators, to identify businesses that may be avoiding their tax obligations by not reporting some or all of their income. If a business' benchmark ratio is significantly above other businesses in their industry, they may attract our attention.
135. We recognise that there may be legitimate reasons why a business reports outside of their benchmark. For example, they may have higher costs or lower selling prices than most other businesses in the industry. It is important that these are reflected in business records. We always consider individual taxpayer circumstances and evidence provided to explain income and expenses. We use taxpayer provided evidence ahead of benchmark data if the information is credible.
136. The benchmarks help us to create and maintain a fair and level playing field for the 90% of 900,000 businesses that are in industries covered by a small business benchmark and who operate within the benchmarks.
137. We have listened to feedback received around the use of small business benchmarks and adjusted our approach to address these concerns by:
- reviewing our approach to telephone reviews that we conduct to simplify the questions asked and publishing the questions on our website. These improvements reduced the time taken for telephone reviews from about 40 minutes to 10–15 minutes
 - sending letters to taxpayers' agents, two weeks prior to sending the letter to the taxpayer
 - engaging an external consultant with expertise in the field to provide feedback on the letters and incorporating that feedback into our letters
 - having all our letters tested in the ATO's Simulation Centre with tax agents and taxpayers to address issues of tone, content and readability
 - improving the way information is presented on our website, including providing examples of how businesses can calculate their own benchmark to compare with the published ones.
138. We are seeing evidence of changes in taxpayer behaviour as a result of our use of benchmarks as part of our risk assessment process. Our tracking of the performance of taxpayers in six industries - carpentry services, clothing retailing, hairdressers, restaurants, takeaway food services and electrical services - shows significant increases in the number of businesses that now report income in the same range as their industry peers when they previously reported income that was well below that of other similar businesses, as detailed in the graph below.



Graph 3: Businesses reporting income in the same range as industry peers

139. In 2010-11 we wrote to approximately 30,000 businesses because they were reporting significantly less income than expected. Of these businesses 17% have since started reporting income commensurate with their peers. This pleasing result represents over 5,000 businesses which have lowered their risk profile.

Litigation trends

140. Our data indicates most disputes are resolved well before litigation. Of the 15.6 million income tax returns filed in 2010-11, approximately 0.15% (24,255) taxpayers objected and only 0.005% (767 taxpayers) appealed. Of those cases that do proceed to litigation, approximately 80% are resolved without the need for a hearing.
141. We are committed to sharing these trends with the community and this year for the first time we published *Your case matters 2012* on our website, a booklet designed to show key data and analysis about Australia's tax and superannuation litigation. We propose to update the booklet regularly. A copy of *Your case matters 2012* is provided at Attachment 4.

Alternative dispute resolution (ADR)

142. We continue to take steps to facilitate earlier and more cost effective resolution of disputes by focusing on improving our dispute management and handling processes. Most, but not all disputes, will be capable of being resolved early. For some disputes, including test cases, a judicial determination is an important tool in clarifying the law and resolving disputes consistently for all taxpayers.
143. Since 2009, the ATO has been the chair of an inter agency ADR forum where Government agencies meet each quarter to discuss ADR issues and share knowledge about ADR policy and initiatives. Our work in ADR, in particular our role as Chair of the forum, was recently acknowledged by the chair of the National Alternative Dispute Resolution Advisory Council (NADRAC) at the launch of the NADRAC publication *Your Guide to Dispute Resolution*.
144. The Inspector-General of Taxation's (IGT's) report on his review of the ATO's use of *Early and Alternative Dispute Resolution* was released on 31 July 2012. Our responses to his recommendations are contained in the report.
145. In the Federal Court, mediation is the most common form of ADR and is almost exclusively used in tax cases. However, it should be noted that 80% of tax and superannuation cases are heard by the Administrative Appeals Tribunal (AAT).
146. In the AAT, the primary ADR tool is conferencing and there is at least one conference in every matter, which is often the catalyst for a resolution of the dispute prior to a hearing. For those matters which are not resolved at the conference, a more formal ADR process is frequently undertaken. In tax cases in the AAT, this is usually by way of conciliation followed by mediation. Conciliation is often preferred by both us and the taxpayer as it not only provides the parties an opportunity to identify options to resolve the dispute but also the conciliator may provide a view on the terms of a settlement and actively encourage the parties to reach an agreement.

Planned future improvement

147. We are working towards publication of our first *Dispute Management Plan* by the end of 2012. We believe publication of the Plan will enable a common understanding of our management of different types of disputes and encourage a collaborative approach to resolving disputes. There will be an annual review of the Plan.

Summary of legal cases that may have significant tax administration implications

148. We identify litigation issues that we consider to be of significance for the tax system. As requested by the Committee, Attachment 7 provides a summary of recent legal cases that may have significant tax implications.

Work done estimating the tax gap and its possible impacts

149. We note the Committee's interest in tax gap analysis, as noted in paragraph 1.85 of *Report 426*.

150. 'Tax gap' can be defined as the difference between the amount of tax payable if there was complete compliance with tax laws in a defined period, and the amount actually collected for that period. While this sounds simple, measuring the tax gap is something which has long challenged revenue agencies and there is no generally recognised formula.

151. Traditionally, tax gap analysis for income tax would involve a random sample of audits, which would be a significant burden for taxpayers and require dedication of a significant portion of the ATO's compliance resources. The ATO instead takes a risk-based approach to prioritising compliance work.

152. In recent years we have placed more emphasis on measuring the effectiveness of our activities. We want to better understand the impact we are having on compliance, and most importantly, to continuously improve our compliance responses as we gain greater insight as to what is effective and what is not. That is, to what extent have our efforts brought about positive and sustainable changes to willing and proper participation in Australia's tax and superannuation systems.

153. There is a growing level of interest in the measurement of 'tax gaps' internationally. Work is being done on the issue around the world and this may lead to the development of better methodologies. We too have taken an interest in gap analysis, short of random sampling methodologies, and the Commissioner's speech of 20 April 2011 (*Measure for Measure: The Four Pillars of Compliance*, available on our website) provided valuable insights in relation to registration, lodgment, proper and accurate reporting and payment behaviour.

154. We are currently in the process of developing, through the use of macro-economic data, a benchmark as to the level of GST collections. Such a GST gap is the measurement of the difference between theoretical GST liabilities and actual GST liabilities. This first step to an estimation of the 'tax gap' will be preliminary and will continue to be refined and enhanced into the future. We are planning to release this research in the *Commissioner of Taxation Annual Report 2011-12*, to be tabled in October 2012.

155. It should be noted that other countries have other alternative approaches to tax gap measurement. The United States focuses on non-filing, unreported and under-reported income and underpayment of tax and compares actual data against data from audit programs (adjusted as necessary) and administrative data. It covers individuals and corporate income tax, estate tax and employment tax. The Inland Revenue Service has on occasions been funded specifically for tax gap research (including audits for tax gap purposes).

156. The United Kingdom, while conscious of the limitations of any tax gap measurement methodology, has also released tax gap figures. In relation to indirect taxes (such as VAT), it takes what it calls a 'top-down' approach, comparing actual revenue with what might be expected from a comparison with national accounts. This is similar to the work the ATO is doing. In relation to direct taxes, it uses a 'bottom-up' approach, estimating components of the tax gap using departmental sources such as surveys and administrative and operational data.

157. The ATO is applying both a top down analysis (see *Measure for Measure* speech noted above) and a bottom up approach through our revitalised Effectiveness Program. However, the former is subject to methodological limitations and the latter is not yet sufficiently comprehensive to provide a reliable estimate.
158. We will continue to follow overseas developments with interest.

THEME 3: POLICY DEVELOPMENT AND IMPLEMENTATION

Interaction with Treasury and other key agencies on policy development and consultation

159. As noted in our previous submission, we strongly believe our early involvement in policy and law design leads to better policy outcomes that take into account implementation and ongoing administration and compliance cost issues for the community.
160. In our last submission, we noted that we would continue to work with Treasury to bring together senior officer involvement at earlier stages of the policy design process (for example, by including both Treasury and ATO officials in 'rapid response' and 'rapid design' processes). We welcome the Committee's interest in this work, noting the comments at paragraphs 1.120 and 1.121 of *Report 426* and provide the following update on this work.
161. During 2011-12 we have worked closely with Treasury to develop a quality assurance framework for new policy, which cements the collaborative approach of the two agencies from early stages of policy development. This framework will be formally launched at an upcoming tax policy conference in September 2012.
162. This quality assurance framework centres on early engagement between Treasury and the ATO to ensure there is common understanding of the policy intent. For larger or more complex projects this engagement will be in the form of face-to-face 'rapid solution design' workshops, which will bring stakeholders from the agencies together to discuss the intent of the policy and how law may give effect to that policy intent without unintended consequences.
163. The new framework provides for an increase in the face-to-face interactions of Treasury and ATO colleagues early in the policy and law design process to identify potential issues, and work together to identify potential solutions. It also includes sign off points from each agency to help ensure that the legislation and its implementation mirrors the policy intent.
164. Whilst we are working towards the launch of the above framework in September 2012, we have continued to inject the voice of administration as well as our law interpretation and design skills into the law design process, as can be seen by the following examples.

Implementation of building and construction reporting regime

165. Following the Government's announcement to introduce a reporting regime for contractors in the building and construction industry, we have worked closely with Treasury in consulting with industry, their representatives and software developers on development of the regulations. We have also consulted with the community on the practical aspects of the system and in development of educational material.
166. The Taxable Payments Reporting system commenced on 1 July 2012, with the first annual reports due on 21 July 2013. We have undertaken an education program to help affected businesses understand their obligations. The program consists of seminars, webinars, a direct mail out to businesses that engage contractors, visits, and articles that industry publications can use. Industry representative bodies have worked with us to support the introduction of the arrangements and have acknowledged and appreciated our efforts.
167. Further education activities will continue this year in the lead up to the lodgment of the first annual report.

Implementation of the income testing of the private health insurance rebate

168. Following the passage of the legislation to income test the private health insurance rebate, we have worked closely with the Department of Health and Ageing to support the private health insurance industry in implementing the changes. For example, the ATO, Department of Health and Ageing and Department of Human Services (Medicare) have worked together with industry on communication products and in presenting information sessions to members of the private health insurance industry.

Superannuation reform

169. The Stronger Super program of reforms has provided the opportunity for us to engage closely with Treasury and other agencies on policy development, administrative design and consultation with industry stakeholders.

170. The reform agenda is a seven year program of work which will deliver a range of benefits across the superannuation system including supporting members making more informed choices about their superannuation monies, increased data integrity and ease of transacting across the superannuation system, greater back-office efficiency and increased confidence in the integrity of the self-managed superannuation fund sector.

171. The Super Reform Government Steering Committee is a high level cross-agency committee established to provide a forum for monitoring implementation of superannuation reform measures, including receiving updates on progress from agencies, identifying potential obstacles to implementation and strategies to move forward and identifying where synergies can be gained from close collaboration. The Committee is chaired by Treasury with the secretariat function provided by the ATO. At a lower level, the agencies engage with each other to ensure a shared understanding of implementation issues and common issues encountered during legislative development.

172. In addition to working with other agencies, we have undertaken significant work with relevant stakeholders, including broad stakeholder consultation, research and communications activities. This early engagement and collaboration between Government agencies, the ATO and industry has helped to shape the design and implementation of the reforms. This will help to ensure readiness with each individual measure that is part of the reform program, by identifying and mitigating obstacles as well as fostering an understanding of the work required by all parties to implement the reforms.

173. In 2011-12, we commissioned an independent research company, Colmar Brunton Social Research, to undertake comprehensive research about the superannuation reforms. In total, 11 reports have been prepared and are available on our website.

174. We undertook both qualitative (one-to-one interviews and focus groups) and quantitative (online and phone surveys) studies to examine the views and understanding of the superannuation reforms across key stakeholder groups. This included:

- individuals
- employers
- Australian Prudential Regulation Authority (APRA) regulated superannuation funds and administrators
- self-managed superannuation fund (SMSF) trustees
- SMSF approved auditors
- tax intermediaries, including tax agents, financial planners and BAS agents
- payroll software developers.

175. Findings from the research are being used to guide and inform the development of our strategic approach for the introduction of the Government's superannuation reform package.

176. We expect to launch an appropriate advertising campaign in 2013 as part of a communication strategy to help inform the community about the reforms. The campaign launch is likely to coincide with the lead-up to the start date of many of the major reforms (July 2013), which is when audiences will feel the most impact.

Mineral resource rent tax (MRRT) and extended petroleum resource rent tax (PRRT)

177. We worked closely with the Treasury and other stakeholders in developing policy and law for the new MRRT arrangements and extended PRRT. In addition to working closely with Treasury throughout the process, we worked with the Department of Resources, Energy and Tourism and the Policy Transition Group (PTG) which was established by the Government to develop the technical design of the new resource tax arrangements and was chaired by the Minister for Resources, the Hon Martin Ferguson AM MP, and Mr Don Argus AC.

178. We continued to be involved in the work of the Resource Tax Implementation Group (RTIG) (set up to give effect to one of the PTG recommendations), led by the Treasury to consult on the development of the legislation.

179. Consultation with industry and the tax profession was a key feature through the development of the policy and law through the PTG and the RTIG. ATO involvement throughout these early stages made it possible for us to continue working with all stakeholders on the administrative aspects in parallel with the policy and legislative development. We influenced the design of both law and administration in areas including:

- calculation of mining revenue reasonably attributable to the resources at the valuation point
- valuation principles
- integrity provision to prevent profit shifting
- notes in the law and examples in the explanatory materials.

180. Our early engagement also enabled us to:

- engage in early consultation with industry and the tax profession, primarily through the National Tax Liaison Group (NTLG) Resource Rent Tax Sub-committee, on practical administrative issues for the new resource rent tax arrangements
- publish early guidance material on a range of issues including valuations and record keeping for starting base, penalties, instalments and joint ventures
- make a number of administrative decisions once the law commenced, to reduce the compliance burden for taxpayers. These decisions addressed concerns raised during our consultation with industry and the tax profession about their ability to meet obligations during the transition to the new resource rent tax arrangements. However, these decisions do not impact on the timing of payments of MRRT.

Collaborating with other agencies to assist small business

181. As an example of our collaboration with other agencies, we assisted the Department of Human Services (DHS) with their implementation of the Small Business Clearing House, resolving superannuation guarantee issues as well as undertaking joint mail outs to small employers to promote use of the service and compliance with superannuation guarantee obligations more generally.

182. In June 2012, DHS hosted the first Small Business Superannuation Clearing House webcast. We participated in the webcast, providing an opportunity to talk directly with small business owners about services available to help with the administrative processes of running a small business.

183. To improve the extent to which we are consulted early by other agencies leading new policy initiatives, we have sought to raise our profile with other departments outside the Treasury

portfolio. This is assisted through the use of the New Policy Proposal template (developed by Department of Finance and Deregulation and Department of the Prime Minister and Cabinet), which guides agencies to consult with us on any possible tax implications of a new policy proposal. Recent examples of agencies consulting with us include the Department of Agriculture, Fisheries and Forestry and the subsequent tax implications of grants made to individuals or entities. We have also worked with the Department of Climate Change and Energy Efficiency to consider the tax implications of the carbon pricing package and Department of Health and Ageing with regard to changes to the private health insurance rebate.

THEME 4: EXTERNAL SCRUTINY AND REVIEWS

184. We work co-operatively with external scrutineers throughout their reviews and audits to develop practical, workable recommendations that benefit the administration of the tax and superannuation systems.
185. Our Audit Committee oversees the implementation of recommendations made by scrutineers. In order to assist both the scrutineer and our Audit Committee in tracking the implementation of recommendations, we have put in place a process to provide a quarterly report on the progress of the implementation of recommendations. In relation to agreed Commonwealth Ombudsman Administrative Deficiency findings, progress reports are provided twice yearly to the Ombudsman's office.
186. We are planning to publish information about our implementation of scrutineer recommendations on our website, consistent with our corporate value of openness and accountability.
187. We work closely with all of our scrutineers to reach a shared understanding of the issues. For example, our processes with them may involve meetings and briefings over several months. Nevertheless, there will be situations where we simply disagree with scrutineers, although the statistics show that these are exceptions to the general rule. There are a variety of circumstances where we may not agree with a recommendation, including circumstances where:
- it may not be possible to implement the recommendation across all taxpayer markets or segments or the recommendation could adversely impact another taxpayer market or segment
 - the recommendation may not have considered other whole-of-ATO or whole-of-government policies
 - we may have conflicting feedback or evidence of the issue from other sources, for example, the National Taxpayer Liaison Group or the Small Business Consultative Committee
 - the recommendation may be very specific and limit our ability to differentiate according to circumstances
 - we think on reasonable grounds that the recommendation will not improve matters.

Australian National Audit Office (ANAO)

ANAO reports tabled 1 August 2011 - 31 July 2012

188. In the period 1 August 2011 to 31 July 2012, three ATO-specific and four cross-agency performance audit reports were tabled.
189. ATO-specific audit reports tabled during the period:
- Audit Report No. 54: The engagement of external debt collection arrangements.
 - Audit Report No. 40: Interpretative assistance for self managed superannuation funds.

- Audit Report No. 16: The management of compliance in the small to medium enterprises market.

190. Cross-agency audit reports tabled during the period:

- Audit Report No. 47: Implementation of the superannuation clearing house facility
- Audit Report No. 25: Administration of Project Wickenby
- Audit Report No. 22: Administration of gateway review processes
- Audit Report No. 18: Information and Communications Technology security: management of portable storage devices.

ANAO audits in progress as at 1 August 2012

191. There are five ANAO performance audits specific to the ATO in progress:

- The Australian Taxation Office's management of property management
- The Australian Taxation Office's administration of personal services income
- The administration of the Tax Agent Services Act (with a focus on the effectiveness of the Tax Practitioners Board's implementation of and administration of the regulatory arrangements for tax agents)
- The Australian Taxation Office's management and reporting of Goods and Services Tax, Fringe Benefits Tax and Fuel Tax Credit information
- The Australian Taxation Office's administration of debt relief.

192. There is one ANAO cross-agency performance audit involving the ATO in progress:

- Preparation of the Tax Expenditures Statement: follow up audit.

193. Our annual financial statements are audited by the ANAO in accordance with the *Financial Management and Accountability Act (1997)*. The audited financial statements will be available in the *Commissioner of Taxation Annual report 2011-12*.

ANAO recommendations

194. In 2011-12, we agreed with 100% of recommendations made by the ANAO. Since 2007, we have not disagreed with any ANAO recommendation. The following table summarises our responses to ANAO recommendations:

Table 2: ATO responses to ANAO recommendations 2007-08 to 2011-12

Financial year	No. of Audits	Agreed	Agreed in part	Agreed in principle	Disagreed	Open recs	Total recs
2011-12	7	11	0	0	0	9	11
2010-11	9	16	0	0	0	10	16
2009-10	7	14	0	0	0	0	14
2008-09	4	17	2	3	0	0	22
2007-08	8	27	1	4	0	0	32
Total	35	85	3	7	0	19	95

Commonwealth Ombudsman

195. For 2011-12, the Commonwealth Ombudsman completed one own motion review and:

- referred 174 investigations to us, compared to 238 in 2010-11

- referred 526 investigation briefs (including Progress of Return queries) to us, compared to 860 in 2010–11. The Commonwealth Ombudsman uses investigation briefs to make initial enquiries of us regarding potential investigation matters
- referred 41 'one last chance review requests', a new category for this year
- provided suggestions, comments or feedback (under section 12(4) of the Ombudsman's Act) in 48 cases, compared to one in 2010-11 (when these were first used)
- made a finding of administrative deficiency in six investigations compared to 10 in 2010–11.

196. The following table summarises Commonwealth Ombudsman complaint volumes:

Table 3: Commonwealth Ombudsman complaint volumes

Cases received	2008-09	2009-10	2010-11	2011-12	% change on prior year
Approaches/complaints about ATO to Ombudsman ¹	1,266	1,594	2,418	2717	+ 12%
Ombudsman initial enquiry for information (Status request)	-	-	146	298	+ 104%
Ombudsman initial enquiries for information (Progress of return and investigation briefs) to ATO	220	660	860	526	- 39 %
Ombudsman investigations referred to ATO	182	262	238	174	- 27 %
Ombudsman review requests ('one last chance' referrals)	-	-	-	41	-
Cases finalised	2008-09	2009-10	2010-11	2011-12²	% prior year
Administrative deficiency	20	18	10	6	- 40%
Comments/feedback/suggestions under s12(4)			1	48	-
Ombudsman investigations	180	205	271	197	- 27%
Ombudsman review requests	-	-	-	32	-

¹ These figures represent the total approaches to the Ombudsman's office. Only a portion of these are referred to the ATO for any level of investigation.

² As at 30 June 2012

197. The Commonwealth Ombudsman has finalised one own motion investigation (in July 2012). The final 'Agency Report' was provided to us in April 2012:

- The *Investigation of a complaint about Project Wickenby*.

Summary of recommendations made by the Commonwealth Ombudsman

198. Below is a summary of 'Administrative Deficiency' recommendations made by the Commonwealth Ombudsman.

Table 4: Commonwealth Ombudsman 'Administrative Deficiency' recommendations

Financial year	Section 8 investigations	Agreed	Agreed in part	Disagreed	Open recs	Total recs
2011-12	6	9	1	2	2	12
2010-11	10	13	1	0	0	14
2009-10	18	30	1	11	0	42
Total	34	52	3	13	2	68

199. In 2011-12, we agreed with 75% of Section 8 Investigation recommendations made by the Commonwealth Ombudsman.

200. Below is a summary of 'Own Motion' recommendations made by the Commonwealth Ombudsman.

Table 5: Commonwealth Ombudsman 'Own Motion' recommendations

Financial year	No. of reports	Agreed	Agreed in part	Disagreed	Open recs	Total recs
2011-12	1	2	0	0	2	2
2010-11	1	5	0	0	0	5
2009-10	2	1	1	0	0	2
Total	4	8	1	0	2	9

201. In 2011-12 we agreed with 100% of the Own Motion Investigation recommendations made by the Commonwealth Ombudsman.

Commonwealth Ombudsman recommendations that the ATO disagreed with during 2011-12

202. During 2011-12, we disagreed with two recommendations and one in part from Commonwealth Ombudsman. Table 1 in Attachment 8 details these recommendations and our response. As the report for the *Investigation of a complaint about Project Wickenby* has not been made public by the Commonwealth Ombudsman, those recommendations and responses have not been included.

Inspector-General of Taxation

Inspector-General of Taxation (IGT) reports released 1 August 2011 to 31 July 2012

203. Four IGT reports were released by the Assistant Treasurer between 1 August 2011 and 31 July 2012:

- The Review into the Australian Taxation Office's small and medium enterprise audit and risk review policies, procedures
- The Review into the Australian Taxation Office's administration of class rulings
- The Review into the Australian Taxation Office's large business risk review and audit policies, procedures and practices
- The Review into the Australian Taxation Office's use of early and Alternative Dispute Resolution.

Inspector-General of Taxation reviews waiting for release by the Minister

204. One IGT review is awaiting release by the Assistant Treasurer:

- Review into the Australian Taxation Office's use of benchmarking to target the cash economy.

Inspector-General of Taxation reviews in progress at 1 August 2012

205. One IGT review is currently in progress:

- Review into improving the self-assessment system.

Inspector-General of Taxation recommendations

206. In 2011-12, we agreed in whole with 85%, in part with 4% and in principle with 5% of recommendations made by the IGT. Below is a summary of our responses to IGT recommendations.

Table 6: IGT recommendations

Financial year	Reviews	Agreed	In principle	Agreed in part	Disagreed	For Govt.	Open recs	Total
2012-13	1	11	3	6	1	1	20	22
2011-12	3	66	4	3	4	0	56	77
2010-11	4	12	3	7	1	4	3	27
2009-10	5	37	5	3	3	3	1	51
2008-09	1	1	0	0	0	0	0	1
2007-08	4	19	0	4	2	0	1	25
Total	18	146	15	23	11	8	81	203

Recommendations that the ATO disagreed with 1 July 2011 – 31 July 2012

207. During 2011-12, we disagreed with four and disagreed with parts of three IGT recommendations. In 2012-13 (to 31 July 2012) we disagreed with one and disagreed with parts of six IGT recommendations.

208. Table 2 in Attachment 8 lists these recommendations and our response.

SECTION 3

ATO RESPONSE TO RECOMMENDATIONS IN JCPAA REPORT 426

Recommendation 1

The Committee recommends that the Australian Taxation Office increase the visibility of the traffic light reporting system, on its achievements against benchmarks, to a more prominent position on its website with clear signposting for visitors to the website.

ATO Response: Agreed, completed and can be found at ato.gov.au and accessed from any page under 'About Us' – 'Service Standards' – 'Current year performance'.

Recommendation 2

The Committee recommends that Australian Taxation Office notifications to the Government, either directly or through Treasury, on tax policy and legislative problems be made public within 12 months of submission, along with the Government's response.

ATO Response: Whilst the Committee originally advised they considered the ATO should respond to this recommendation, we have advised the Committee that we consider this a policy recommendation and a matter for Government.

Recommendation 3

The Committee recommends the Inspector-General of Taxation's reviews be made public within a reasonable time.

ATO Response: The Committee did not refer this recommendation to the ATO for response as it would appear to be a matter for Government.

Recommendation 4

The Committee recommends that the external review agencies investigate and report on opportunities for more strategic planning and improved information sharing as they undertake their reviews to avoid duplication of their efforts and the Australian Taxation Office's resources.

ATO Response: The Committee did not refer this recommendation to the ATO for response, as it would appear to be a matter for the ATO's external scrutineers.

Recommendation 5

The Committee recommends that all future Australian Taxation Office submissions are provided at least one month before the scheduled public hearing into tax administration.

ATO Response: Completed and is the current practice.

Recommendation 6

The Committee recommends that the next Australian Taxation Office submission include information on the following areas:

- findings of the review of service standards
- gaps identified between international best practice service standards and current Australian Taxation Office performance
- learnings from complaints and their nexus with clear communication
- initiatives for simplification of communication and the use of plain language – including some 'before' and 'after' examples
- trends in compromised Tax File Numbers and identity fraud, including work with crime detection agencies
- new strategies for resolving complex compromised Tax File Numbers

- simplification of lodgment processes for medium, small and micro businesses
- efforts to promote the update of the 'no strings attached' small business advisory service
- evaluation, including taxpayer feedback, of the use of benchmarks
- work done on estimating the tax gap and its possible impacts
- interaction with Treasury and other key agencies on policy development consultation
- a summary of legal cases that may have significant tax administration implications
- progress on any changes to the Australian Taxation Office governance structure
- progress on the Australian Taxation Office Online 2015 project
- implementation of recommendations by the external scrutiny bodies, and recommendations not agreed to and why, and
- processes for speedy release of superannuation funds in crisis situations.

ATO Response: Agreed and contained within this report.