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Tax File Number registration

4.1   High quality, accessible TFN registration procedures are important for ensuring the integrity of the TFN system and for delivering good customer service. They also assist the efficient operation of those systems within the ATO and across government that rely on TFN information.

4.2   The ANAO emphasised the importance of the registration process, particularly in terms of ensuring 'correct identification of individual taxpayers'[1], as required by legislation.

> Legislation requires that the Commissioner be satisfied that the applicant's identity be established before issuing the person with the TFN. The Commissioner has discretion to refuse to issue a TFN if he is not satisfied as to the applicant's true identity.[2]

4.3   Ensuring that individuals are correctly identified and issued with a single TFN, and that their details are properly recorded will:

- ensure that quality information is entered into the ATO's data bases;

- improve the quality of management information by ensuring that the data base correctly represents the profile of current taxpayers; and

- reduce the scope for fraud by minimising cases of identity fraud or possession of multiple TFNs.

4.4   Stringent registration procedures are a cost effective means of reducing fraud as registration occurs in almost all cases before a tax obligation has been incurred. They also ensure data quality, as only high quality data is entered into the database. This has a benefit for the ATO and more broadly across the Commonwealth. A focus on the front-end registration point can limit the need to deal with downstream consequences such as recovering tax debt and removing poor quality data from the database.

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1   ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.17.
2   ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.39.

4.5   Efficient and accessible TFN registration procedures are also an important component of providing good quality customer service. Ensuring that people have equal access to TFN registration is an important part of delivering on the ATO's commitment to treating all taxpayers fairly, as required by the ATO's Taxpayers' Charter. In addition, given the importance of a TFN for individuals in meeting their tax obligations, the ATO has an obligation to ensure that people can easily obtain a TFN.

ATO registration procedures

4.6   The large number of duplicate TFNs and the poor quality of ATO data support the need to refine ATO registration processes. The effectiveness of the registration process as a means of minimising duplicate TFNs and identity fraud was supported by Ms Mackenzie, an officer with the ATO, in a submission that she made to the Committee[3] (see also paragraphs 5.9 and 5.38).

4.7   **The ATO's 'preliminary research has shown that approximately one in ten individual TFN applications already have an existing TFN'[4].** This provides further support for reviewing the ATO registration procedures to ensure that these applications are detected and that the number of people accidentally applying for a duplicate TFN is reduced.

4.8   Improving ATO registration procedures can also improve client service by improving accessibility and processing time.

Use of information technology

4.9   Information technology can provide improvements to the accessibility of TFN registration processes and the generating of TFNs.

4.10   The Committee recognises the wide range of mediums the ATO uses to make information available to the public. The Committee encourages the ATO to continue to review its procedures and seek client feedback to ensure that it is making effective use of available technologies in order to streamline TFN registration. Of note in this regard is advice that the Committee received from Mr Muirhead of the difficulties he had in obtaining a TFN registration form – noting that while the ATO website does include downloadable forms, that these were not compatible with his system and hence were not printable; that the ATO helpline was only

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3   Ms Mackenzie, Submission No.1, p.1.
4   ATO, Submission No.17, p.26.

available during business hours; and that there was not a fax number available for information[5].

4.11   With regard to the generating of TFNs, there is a need to improve the ability of the ATO's system to pick up potential duplicate TFNs at the point of registration. The ATO should consider introducing software solutions for automating checks for duplicate TFNs.

4.12   The current process for registering new TFNs on the ATO data base does allow operators to conduct a number of checks to determine whether the individual already has an existing TFN. However, the checks are at the discretion of the operator, rather than carried out automatically by the computer system, and the system is also only able to perform a very basic level of checking.

4.13   The Taxation Institute of Australia have provided the Committee with an example where a duplicate TFN was generated, and the ATO explanation was that 'apparently the "…TFN registration operative failed to utilise the registration system's matching capacity and a second TFN was issued in error" (extract from undated ATO letter received on 28 August 1998)'[6].

4.14   In contrast with this approach to checking for duplicate registrations, the AEC has a number of automated checks on name and address at the point of registering people on the electoral role. The AEC Roll Management System also 'uses "Sounds-like" (Soundex) name matching software'[7] and 'a number of in-house software applications … that allow various inquiry criteria to be used'[8].

4.15   The ATO needs to investigate the range of systems solutions available to improve TFN registration, including the possible use of IT fuzzy logic and other techniques of advanced mathematics. These systems need not be expensive to implement. The Committee understands that a number of the AEC in-house software applications were developed at relatively low cost[9].

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5   Mr Muirhead, Submission No.2, p.1.
6   TIA, Submission No.14, p.3.
7   AEC, Submission No.39, p.4.
8   AEC, Submission No.39, p.4.
9   Informal advice from the AEC.

Issuing of TFNs

4.16   The ANAO considers that there is a need for the ATO to review the format in which the TFN is provided in order to ensure that it 'is easy for clients to access, use and maintain, while protecting their individual privacy'[10]. This is based on assessment that the current paper notification provided by mail 'is not particularly user friendly or secure'[11]. The ANAO have suggested that the ATO should review current practices in the United States for issuing Social Security Numbers and the work of financial institutions for issuing Personal Identification Numbers in order to identify better practice.

4.17   The ATO have advised the Committee that, as part of the TFNIP, they are reviewing the format and content of TFN advice supplied to TFN applicants. In reviewing the method of TFN notification, the ATO is focussing on developing a more retainable format. The ATO is also considering options for improving taxpayer education at TFN issuing point, including consideration of tailoring advice to market segments and including information about the importance of retaining TFN details. This project appears well advanced, with the ATO having advised that they are currently 'developing some prototypes'[12].

4.18   This review also offers an opportunity to consider the information sent to people who have applied for a new TFN but already have an existing TFN. The Committee understands that in this situation, that the advice sent to individuals does not indicate that there was an existing TFN, hence potentially missing an opportunity to improve taxpayer awareness.

Recommendation 10

4.19   **That the Australian Taxation Office review its Tax File Number registration processes, including automating checks for duplicate Tax File Numbers, making better use of available software, and improving the format and content of Tax File Number advice supplied to Tax File Number applicants.**

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10   ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, Recommendation. 2(e), p.56.

11   ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.54.

12   ATO, Submission No.17, Appendix 3, p.3.

Alternative means of TFN registration

4.20   Using alternative means of TFN registration can improve client service and verification of the identity of applicants. In their report, the ANAO suggested a number of additional means of TFN registration, particularly in relation to increasing registration by external agencies.

4.21   The potential for increased TFN registration by schools, Centrelink and the Department of Immigration and Multicultural Affairs is investigated below.

School registrations

4.22   The ANAO recommended that the ATO take steps to improve and extend the Schools Education Program (SEP)[13], which is an ATO program for educating school students about their future taxation obligations and providing an opportunity for issuing TFNs. The ANAO considered this program to be a low cost, low risk approach to TFN registration, in particular as there is greater certainty of individuals' identity through this registration process.

4.23   The Auditor-General found that:

> The benefits arising from SEP include:
>
> ■   it helps young people better understand their tax rights and responsibilities under Commonwealth law;
>
> ■   it is an efficient way of obtaining quality, low cost TFN registrations for a significant proportion of eligible Australians; and
>
> ■   it ensures that young people about to enter the workforce have a TFN and therefore do not incur the TFN withholding tax levied at the highest marginal rate.[14]

4.24   While the ATO agreed with the ANAO's recommendations, the Committee is concerned that the ATO appears to be placing a low priority on this issue. For example, despite having software and systems that would be highly suited to offering schools an electronic TFN application service, the trial of such a service 'was delayed because of other priorities'[15].

4.25   The Committee received a mixed reaction to the proposal to extend the SEP and hence the level of TFN registration conducted through schools.

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13   ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, Recommendation 1, p.22.

14   ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.42.

15   ATO, Submission No.17, p.20.

4.26   The ABA and Ms Mackenzie, an ATO officer[16], were supportive of extension of the SEP as 'an effective way of enhancing TFN integrity and … getting TFN applicants identified with some reliability'[17].

4.27   In contrast, the Taxation Institute of Australia do not support extension of the SEP without extensive community consultation and a full review of the program. The TIA claims that the proposal to expand the SEP through systemic access to schools ignores 'the privacy concerns of principals and school communities'[18] and 'does not recognise the duplication risks that can and do occur when people join the workforce at a later date'[19].

4.28   While the Committee agrees that these concerns should be monitored, it does not consider that they warrant reducing the use of the SEP.

4.29   The Committee agrees with the Auditor-General that the SEP produces benefits for both young people and the ATO. In particular, given that 47.2 per cent of 15-19 year olds are employed[20], and that a TFN is a condition for receipt of income support and the Higher Education Scheme, it is likely that a large proportion of young people require a TFN. This limits the concern that the time delay between issuing and using a TFN will result in duplicate TFNs being issued because young people have forgotten they were previously issued a TFN.

4.30   In addition, the Committee understands informally from the ANAO that most schools, public and private, welcome the ATO officers and appreciate the job that they are doing and that the SEP was particularly appreciated in country schools.

4.31   The ATO have also advised that:

> An independent evaluation was completed in January 2000.
> Report offered positive reinforcement for the Schools Program
> with some minor changes (mainly in presentation to classes).[21]

4.32   More systemic access to schools and better support from ATO management would mean that ATO staff involved in the SEP could spend more time in schools and less time arranging visits. However, an invitation to attend an individual school would remain dependent on the decision of the school's principal.

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16   Ms Mackenzie, Submission No.1, p.1.
17   ABA, Submission No.10, p.2.
18   TIA, Submission No.14, p.2.
19   TIA, Submission No.14, p.3.
20   ABS, Unpublished data, Labour Force Survey, 1998-99.
21   ATO, Submission No.37, p.2.

4.33 The Department of Education, Training and Youth Affairs (DETYA) has advised the Committee that they consider that the best way to advance the SEP and encourage school participation would be through peak school organisations such as the Australian Secondary Principals Association, the National Catholic Education Commission and the National Council of Independent Schools Associations[22]. The Committee welcomes DETYA's offer to facilitate an approach by the ATO to these organisations.

Recommendation 11

4.34 **That the Australian Taxation Office take steps to improve the coverage of the Schools Education Program, including through working with the Department of Education, Training and Youth Affairs in approaching peak school organisations in order to seek their support for this program.**

Centrelink registrations

4.35 The ANAO considers that there is significant benefit for Centrelink clients in remote and regional areas being able to register for a TFN through Centrelink offices. Consequently, the ANAO has suggested that 'there may be merit in Centrelink being able to accept TFN applications from any applicant, not just those who are Centrelink clients'[23].

4.36 This benefit arises from individuals in rural and regional areas being able to register for a TFN over the counter, as opposed to posting original documents to the ATO in order to obtain a TFN. There may also be an improvement to PoI processes if the proposal were to reduce the need for Justices of the Peace to authenticate identity documents in remote areas.

4.37 The Committee considers that the ATO should also consider whether there are other agencies that could accept TFN applications in order to improve accessibility to over-the-counter registrations in rural and regional areas. In considering other agencies, the ATO would need to be sure that the agencies were properly able to guarantee PoI verification.

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22 DETYA, Submission No.29, p.1.
23 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.44.

4.38   In response to the ANAO's recommendations, the ATO advised that they have been 'undertaking work with Centrelink on a range of initiatives, including electronic transfer of Centrelink client applications and POI certification by Centrelink for non-Centrelink clients'[24].

4.39   The Committee is concerned that this work appears to have stalled. The ATO have advised that 'further work is required in this regard'[25] but have not provided advice of any such work occurring.

4.40   Centrelink has advised the Committee that, with appropriate funding, that they would be able to accept TFN applications from any applicant and that upon request from the ATO they would develop a costed option for ATO consideration[26].

4.41   Responsibility for advancing this proposal clearly rests with the ATO, which should act on their agreement to investigate this proposal.

Recommendation 12

4.42   **That Centrelink be able to accept Tax File Number applications from any applicant and not just Centrelink customers as an option for those with limited access to alternatives, and that a system for electronically transferring this information to the Australian Taxation Office be introduced.**

Department of Immigration and Multicultural Affairs registrations

4.43   As noted by the ANAO, 'the ATO advised that a joint project is being undertaken by the ATO and DIMA to systematically exchange visa issue data as the basis for automated TFN registration'[27].

4.44   This project would improve PoI processes by allowing the ATO to rely on the expertise of DIMA in assessing overseas identity documents and reducing duplicate checking of identity documents by the ATO and DIMA. It would ensure that work rights were properly established through use of DIMA visa data and would also improve client service for people entering the country who had a legitimate requirement for a TFN.

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24   ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.55.
25   ATO, Submission No.17, p.23.
26   Transcript, p.117.
27   ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.44.

4.45   While this project would require an initial outlay on systems reforms, it would have a downstream resource saving to the ATO by simplifying the registration process for these people. 'The ATO anticipates that this initiative could automate the registration of potentially 200 000 – 300 000 TFN applications per year'[28].

4.46   Despite significant progress having been made in developing this option, including obtaining agreement from the Privacy Commissioner for the proposal, the project was suspended due to a claimed lack of IT resources in both agencies[29].

4.47   Largely in response to ANAO and Committee enquiries, the ATO have advised that DIMA was approached in May 2000 'to provide IT specifications with the intention of developing the system in 2000/01 if resources permit'[30].

4.48   The Committee notes that the need for a better system was raised by the ANAO as part of efficiency audits of DIMA in 1994[31] and again in 1998[32], and agreed to by both agencies. Clearly both the ATO and DIMA have placed so low a priority on this initiative that they have not been prepared to fund it. **A consequence of several years of such short sightedness is that this year when, of all years, a sophisticated automatic computer based system is needed to manage the huge Olympic influx, the ATO is instead having to consider short term 'band-aid' solutions to this problem.** As stated by the ATO:

> In order to address the likely large influx of overseas visitors in the next year, as a result of the Olympics, the ATO is also currently examining other short-term options to streamline TFN processing.[33]

4.49   The Committee is concerned that this is another case of the ATO failing to implement reforms due to the failure of management to commit systems resources to the TFN system. Original advice from the ATO was that this project would be deferred 'until at least late 2000'[34] – this has since shifted to '2000/01 if resources permit'[35]. The Committee is not confident that this

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28 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.44.

29 Transcript, p.119 & ATO Submission No.17, p.23.

30 ATO, Submission No.37, p.3.

31 Auditor-General. 1994. *The Compliance Function: Department of Immigration and Ethnic Affairs.* Audit Report No.35 1993-94 Efficiency Audit. Canberra, Australian Government Publishing Service, *xxv* 59p.

32 Auditor-General. 1997. *Immigration Compliance Function: Department of Immigration and Multicultural Affairs.* Audit Report No.7 1997-98 Follow-up Audit. Canberra, ANAO, *xvi* 65p.

33 ATO, Submission No.17, p.23.

34 ATO, Submission No.17, p.23.

35 ATO Submission No.37, p.3.

project will receive resources in the next financial year, as suggested by the ATO. In addition, while the ATO has identified a number of alternative projects that would make better use of DIMA visa data than is currently the case and improve client service, the ATO has not demonstrated any commitment to implementing these projects and has in fact postponed any action on these proposals due to discussions of timing of the 'DIMA auto-registration' proposal[36].

Recommendation 13

4.50   **That the Department of Immigration and Multicultural Affairs and the Australian Taxation Office introduce automated Tax File Number registration for new arrivals into Australia.**

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36   ATO, Submission No.37, pp.2&3.