

CHAPTER 4

ALTERNATIVES

Introduction

4.1 After lengthy consideration of the Government's proposal and the arguments and explanations put forward in its support, and with due regard to all the evidence before it, the majority of the Committee opposes the introduction of the Australia Card system. This opposition has two major bases:

- (i) concern at the effect of a national identification system on the nature of Australian society and the civil liberties of individuals in that society (see Chapter 3 and Addendum); and
- (ii) fundamental doubts as to the cost-effectiveness of the proposal, and whether it is an appropriate solution to the twin problems of tax avoidance and evasion and the many other fraudulent activities which it claims to cover.

4.2 On this second point, the majority of the Committee was persuaded by the evidence of Mr Frank Costigan QC, the former Royal Commissioner, whose work pioneered the modern-day fight against tax evasion. Mr Costigan told the Committee:

... I am bemused at the attempt to correct what are articulated as problems in the community by a solution such as the Australia Card. I have read what Roger Clarke said in one of his submissions and I agree entirely that it is using a jackhammer to crack a nut.

We are setting up what is on any view, an extraordinarily expensive system justified by additional revenue that is going to come in through stopping tax avoidance and tax evasion. There are much cheaper and effective ways of coping with the problem which arises from tax evasion and tax avoidance. There is no perfect solution - you are never going to stop it all - but you can put in place mechanisms that will make it more difficult in the first place to avoid or evade and, secondly, easier to identify and collect.¹
[emphasis added]

4.3 The majority of the Committee is of the view that the reforms recommended in Chapter 2 of this Report, particularly the computerisation of birth, death and marriage registers and the improved controls on financial institutions recommended by the Costigan Royal Commission - reforms which are unanimously supported by this Committee - will significantly redress problems arising from the use of false identities. It further believes that a number of reforms in the procedures and operations of the Australian Taxation Office (ATO) are not only more appropriate means of combating tax evasion but are also obvious and long overdue. Many of the reforms recommended by the majority of the Committee as an alternative to the Australia Card proposal are included in that proposal as essential components, although officers from the ATO were reluctant to admit that these reforms could proceed independently of the introduction of the Australia Card system, as the following lengthy exchange with Mr James Killaly, Assistant Commissioner, on the information reported by non-bank interest-paying entities shows:

Mr Killaly - Bear in mind, though, that banks only account for a portion of the interest that is paid in the community. There are other avenues for earning interest, for example, a private citizen can enter a mortgage arrangement through the local solicitor's trust account. He can invest money and it can be done that way. Government

bonds, for example, are another way, and bearer bonds. There are all sorts of things that at the moment we find very difficult to bring within the system, not just because of our technology problems but also because our access powers are being very vigorously debated.

...

Mr PORTER - How will that be resolved by ID card?

Mr Killaly - What we are saying in this proposal, and it is a work that has to be backed up by a legislative package, is that those positive obligations to report would be placed on payers of interest. It would overcome any access problem that people would argue that we have now.

...

Mr Killaly - The legislative package that would be required to back up the Australia Card would require the imposition of a duty on payers of interest to pass over that information to us.

CHAIRMAN - Why can you not do that now?

Mr Killaly - We can do it now in two ways: Regulation 11(2) is the first way and that applies only to companies. It applies only to companies that have to lodge income tax ...

Mr PORTER - No, he means why can we not change the legislation now.

Senator HAINES - If we are going to change it anyway, why cannot we change it now?

Mr SAUNDERSON - If banks are required, by legislation, to report that information to you, why cannot you simply change that to extend to all payers of interest?

Mr Killaly - You could, but you still have the problem with integrity of information.

Mr SAUNDERSON - So the argument that the Australia Card is going to enhance it simply because you can legislate for the payment is not necessarily a valid one, is it?

Mr Killaly - No, it is an incidental advantage that you would get from putting the program through.

Mr SAUNDERSON - So the fact that you are going to have to pass legislation is something that ought to be done anyway, irrespective of whether you have a card. The problem of matching the information later is something else, is it not?

Mr Killaly - That gets down to a question of policy.

...

Mr SAUNDERSON - I just want to come back to the question of the banks. You said that the requirement to raise the money from other interest paying institutions would mean that you would have to change the legislation anyway - that is to extend it beyond banks and any other recognised areas.

Mr Killaly - No, we have not said that. What we have said is that under the present legislative framework we would have to do it on a case by case, entity by entity basis, rather than have a systematic annual reporting of information where the onus was on the payer of the income.

Mr SAUNDERSON - What we are saying is that you could change the legislation to place that onus on them, could you not?

Mr Killaly - Yes.

Mr SAUNDERSON - Without a card, you could do it today.

Mr Killaly - Yes.

Mr SAUNDERSON - You could say that all organisations that are involved in interest payments will be required under law to make submissions to the Taxation Office.

Mr Killaly - Parliament could certainly do that.

Mr SAUNDERSON - So it does not need a card to do that.

Mr Killaly - No.²

4.4 The majority of the Committee sees no reason why reforms such as extending the information reporting requirements on interest paid to all payers of interest, could not be introduced immediately. It believes that this and the other reforms discussed below are appropriate, cost-effective and minimally privacy invasive methods of protecting the revenue from tax evasion and avoidance. The central recommendation relates to the reporting of information.

4.5 Given that the ATO operates on a system of information reporting in order to assess the full liability of taxpayers, central to the question of the efficiency of the system is the quality of the information provided and the quality of the matching process. Evidence to the Committee has shown that information provided to the ATO is extremely limited (for example, only 18-20 per cent of all interest paid is reported); of that which is provided very little is checked; and of that checked, only about 50 per cent is successfully matched - more would require tedious manual checking with low cost-benefits.³

4.6 Tax evasion is commonly achieved through two main practices: the non-disclosure of assessable income and the overstatement of expenses. In the unincorporated business sector, the loss to government revenue from these practices is estimated to be \$1000 million per annum. Tax evaded by companies through these practices is estimated at \$500 million per annum.⁴ So long as the ATO continues to experience serious difficulties in checking the information it does receive, there can be no foreseeable improvement in the situation and substantial losses will continue through tax evasion.

4.7 While certain measures have been proposed and are gradually being implemented to redress the present problem - measures such as staffing increases, re-equipment of ATO's computer facilities and the extension of tax deduction at source arrangements, all of which are discussed later in this Chapter - primary attention has been focused on the need for a numbering scheme of high integrity to facilitate the processing of information and its matching with taxpayers' returns. Of course, the national identification scheme embodied in the Government's proposal for an Australia Card would provide such a high integrity numbering system, however, the majority of the Committee recommends a system based on a high integrity tax file number.

Upgrading the tax file number

4.8 The present tax file number has very low integrity - there is no proof of identification required before assignment of the number. The number is used merely as an identifier within the ATO to enable taxpayers' returns to be matched with their computer records, however, there has never been a wide scale requirement for taxpayers to use their number, nor have employers had to include it on statements of earnings supplied to the ATO.

4.9 Even where the current tax file number is used, the matching process is of limited value. For example, tax instalment declarations are seldom matched with income tax returns. According to the Commissioner for Taxation, the instalment declaration system 'was never designed so that there would be a total match between those forms and other information within the system'.⁵ In the initial years of the Prescribed Payments System, approximately 10 per cent of the numbers quoted were invalid.⁶

4.10 Information presently provided to the ATO by financial institutions is matched essentially on the basis of common name and address. A basic difficulty in effecting the match, highlighted by the ATO in evidence to the Expenditure Sub-Committee, is that the institutions do not generally provide the information in a way that can be physically matched with taxation records. A common numbering system, used by the ATO and the institutions, would overcome this difficulty - particularly if the information was also provided in a format which facilitated matching.

4.11 At the request of the Committee, the ATO provided information on the expected revenue gains from the use of a tax file number instead of an Australia Card number. Three options were identified:

1. use of the existing tax file number;
2. use of an improved tax file number, ie. with moderate integrity; or
3. use of a tax file number with the same integrity as the proposed Australia Card number.

(a) Existing tax file number

4.12 While use of the existing tax file number could be expected to improve the ATO's ability to process and match the information received with tax returns lodged, it would not seriously affect those evaders using false names or invalid file numbers. Consequently the ATO estimated revenue gains from use of the existing tax file number to be only \$6-9 million.⁷

(b) Moderate integrity tax file number

4.13 Table 4.1 below sets out the revenue gains estimated by the ATO from use of a moderate integrity tax file number compared with the use of an Australia Card number. As the level of integrity of such a number would be lower than that of an Australia Card number, the estimated tax revenue benefits would be less than those estimated for the Australia Card without photograph option. The reasons put forward by the ATO in explanation of the lower integrity and consequent reduced gains is that the proof of identity procedures appropriate for ATO use would be less stringent than those adopted by the Department of Social Security and contemplated by the HIC.⁸ Further, the ATO believes that it is inappropriate for it to refuse to issue a tax file number to someone wishing to pay tax.

Table 4.1 Estimate of recurring gross tax revenue benefits

	AUSTRALIA CARD		MODERATE INTEGRITY INCOME TAX FILE NUMBER
	WITH PHOTO \$M	WITHOUT PHOTO \$M	\$M
SALARY AND WAGES	77	57	31
INTEREST	208	163	83
RENT	27	21	11
BUSINESS TAXPAYERS BETTER AUDIT SELECTION	16	13	6
REDUCTION IN THE TIME PER CASE	19	19	8
NON-LODGERS	85	69	34
INCREASED RANGE OF CASES	263	183	105
CORPORATIONS	29	27	12
TOTAL	724	551*	290

* Discrepancy in total due to rounding

4.14 The costs associated with the widespread issue of moderate integrity tax file numbers to persons who do not now have a number would be additional to the ATO costs included in the Government submission. Offsetting savings would be realised however, for example, by the obviated requirement for computer systems and equipment to access the Australia Card register. Further significant savings would occur if the tax file number were linked to computerised births, deaths and marriage registers. Overall, the ATO costs associated with the issue of taxation file numbers would be less than for the Australia Card option. The cost-benefit ratio estimated by the ATO for use of a moderate integrity taxation file number is approximately 1:12. This compares with the cost-benefit ratios calculated for overall tax uses of the Australia Card - 1:27 without a photograph and 1:35 with a photograph.⁹ Of course, a tax file number with high integrity would also be expected to have a cost-benefit ratio of 1:27.

4.15 While the revenue gains predicted for a moderate integrity tax file number are much lower than those claimed for an Australia Card with or without a photograph, the ATO warned that there is no certainty that the recurring revenue benefits of \$290 million estimated for this improved tax file number would be maintained over time due to its lesser integrity. The ATO recommended that, if this system were introduced, an ongoing program to maintain and improve the integrity of the tax file number be conducted to ensure the gains remained locked in.

(c) High integrity tax file number

4.16 In response to questions by the Committee, the ATO agreed that a tax file number with a level of integrity similar to that proposed for the Australia Card would produce similar

revenue gains to those estimated under the Australia Card without photo option, with similar staff and equipment costs.¹⁰

4.17 The majority of the Committee sees no reason why the integrity of an improved tax file number could not approach that of the Australia Card and hence attract similar revenue benefits as those estimated for the Australia Card without photograph. If all the procedures proposed for issue of an Australia Card were followed for the issue of new tax file numbers, with current holders of tax file numbers required to confirm their identities under the same procedures over a period of time, then the level of integrity of the tax file number would be equivalent to that of the Australia Card number, and the same benefits - as estimated under the without photo option - could be anticipated. The Committee was surprised at the reluctance of the ATO to admit this fact.¹¹

4.18 The ATO informed the Committee that the improved taxation file numbers could be fully issued by 31 March 1988, with revenue gains commencing from the 1988/89 financial year. This commencement date is one year earlier than that under the Australia Card proposal. To achieve this date, the ATO believes a Government decision would be required by mid-May 1986, with enabling legislation passed by the Parliament in the 1986 Budget sittings. Resource and equipment acquisition, negotiations for agency arrangements, systems development, etc. would occur from mid-May 1986 until end March 1987, and issue and verification of tax file numbers would begin from 1 April 1987. Mandatory use of tax file numbers would be required from 1 April 1988, with the first annual reporting of information based on the numbers from 30 June 1988.

4.19 The majority of the Committee considers as an appropriate option the upgrading of the tax file number to a level of integrity equivalent to that of the Australia Card

number, and its use in the ten ATO uses proposed for the Australia Card number. The Committee also considers that the legislation enacted to require financial institutions to use the tax file number should include a requirement that the information reported to the ATO be provided in an acceptable format. Such a requirement applies in the United States, where institutions exceeding a threshold volume of transactions must supply the information in acceptable magnetic media or be subject to sanctions.¹²

4.20 Recommendation: That legislation be enacted to require financial institutions to provide information reported to the Australian Taxation Office in an acceptable format.

Withholding tax

4.21 A withholding tax is an arrangement whereby tax is withheld or deducted at source; credit may be given against individual taxpayers' final liability at end-of-year assessment.

4.22 Officers of the ATO appearing before the House of Representatives Standing Committee on Expenditure Subcommittee reviewing efficiency audits of the ATO admitted that a withholding tax could be more effective than other methods of tax collection.¹³ The Commissioner of Taxation, Mr Trevor Boucher, said that 'an appropriate system of deduction at source could raise more revenue than an information reporting system'.¹⁴

4.23 Mr Brian Norris, Chairman of the Tax Panel, Institute of Chartered Accountants in Australia, strongly supported the deduction of appropriate taxation from income at source wherever possible, and suggested the extension of forms of withholding tax.¹⁵ A factor identified by Mr Norris as encouraging

compliance with a withholding tax is that a person (the payer) is less likely to take a chance on another person's (the payee's) behalf. Of course, this theory would not apply to small jobs performed for cash, as the casual employer would likely pay less for a job if no tax was deducted.¹⁶

4.24 The Committee notes that Australia already has several forms of withholding tax:

Pay As You Earn (PAYE) -
tax instalment deduction system requiring tax to be deducted from salaries and wages and remitted to the ATO by the employer.

Prescribed Payments System (PPS) -
tax is deducted at source in respect of certain payments (in prescribed industries where tax evasion is known to be significant) for work and services not subject to the PAYE system.

Imputation on Company Dividends -
company income distributed to resident individual shareholders is to be taxed at the company tax rate and credited against personal tax liability. System to commence in 1987-88.

Non-Resident's Interest and Dividends -
interest and dividend payments remitted overseas are taxed at 10 per cent by the paying institution as a final liability.

Bearer Debentures -
interest paid by companies on bearer debentures is taxed at the maximum personal rate unless the name and address of the payee is supplied to ATO (this does not apply to payments made by the Reserve Bank).

4.25 The only major areas where there is no withholding tax at present are:

- . domestic interest
- . primary production
- . business income outside the PPS.

Deduction at source arrangements are therefore an accepted part of the Australian taxation system. The Committee notes that a withholding tax at the maximum personal marginal tax rate is included in the Government proposal as a sanction where an account is not associated with an Australia Card number. The Committee considers that withholding tax on interest payments at the maximum personal marginal tax rate may be an appropriate penalty to ensure compliance with this aspect of the tax file number system.

4.26 Recommendation: That irrespective of whether a tax file number or an Australia Card number is introduced, a withholding tax on interest payments be imposed on interest-bearing accounts which are not associated with a number.

(a) Dividends and interest

4.27 Both the Australian Audit Office and the ATO estimate that the amount of tax revenue foregone because of undisclosed interest and dividends is in the range of \$308m to \$512m per annum. However, the ATO considers the contribution of undisclosed dividends to this sum to be negligible because rebates are available on most dividends.¹⁷ The ATO informed the Committee that only 18-20 per cent of the total interest paid in Australia is reported; of this reported information, approximately half of the transactions processed remain unmatched.¹⁸ As the value of unmatched transactions exceeds

the value of matched transactions, it is possible that less than 5 per cent of the value of interest paid is matched to taxpayers' returns.

4.28 The system of dividend and interest checking currently practised by the ATO was the subject of an efficiency audit conducted by the Australian Audit Office and transmitted to the Parliament in December 1984. In 1983-84, dividend and interest checks raised an extra \$14.2m in tax assessed; in 1984-85 (with an additional 115 staff specifically for checking activities) the increase was \$18.7m.¹⁹ However, this figure represents only approximately 6 per cent of the lowest estimate of tax revenue foregone.

4.29 Mr Antony Minchin, Acting Assistant Auditor-General, told the Expenditure Subcommittee that the Audit Office suggested consideration of a withholding tax in its Report because of its low opinion of the dividend and interest checking system in the ATO.²⁰ He added that a withholding tax system has a far more favourable cost-benefit ratio than the kind of internal checking the present system involves,

eg. PAYE	CBR	1:100
D&I check	CBR	1:10

and reported a 1985 Treasury estimate that a withholding tax could realise 2/3 of the amount of tax evaded on undisclosed income.²¹

4.30 While undisclosed dividends should no longer cause a loss to revenue once the imputation system is operative in 1987-88, the matter of undisclosed interest is of concern. The linking of interest bearing accounts to a tax file through use of a common number should promote greater voluntary disclosure of interest income and will facilitate checking - but only of

the information received. If the information is not provided, or, if provided, cannot be processed, then the gain to revenue relies on greater voluntary compliance and possibly some audit activities.

4.31 Bearer bonds: An obvious loophole in the present system of tracking interest paid on bearer bonds is the exclusion of the Reserve Bank from the system as it is not considered a company.

4.32 Interest paid on Commonwealth Bearer Bonds has increased significantly in recent years:

1981-82	\$7.7m
1982-83	\$13.2m
1983-84	\$23.6m
1984-85	\$35.6m ²²

This interest may be paid in cash and so evade the present taxation system.²³

4.33 The Committee believes this anomaly will be addressed by the House of Representatives Expenditure Subcommittee in its forthcoming Report, and looks forward with interest to its recommendations.

(b) Prescribed Payments System

4.34 The apparent success of the Prescribed Payments System (PPS) seems a favourable indicator of the effectiveness of a withholding tax in the business area. The magnitude of the problem of tax avoidance and evasion in this area is described by the following quote from the March 1986 Report of the Auditor-General:

In respect of unincorporated businesses, the ATO has estimated that only 63% to 75% of reportable farm income and 70% to 75% of reportable non-farm income is disclosed in returns. In particular industries, unincorporated businesses disclosed in returns as little as 60% of reportable income. Tax evaded by understatement of income and overstatement of expenses by unincorporated businesses was estimated to amount to \$1000 million per annum.

Companies were considered to disclose a higher proportion of income than unincorporated businesses. Tax evaded by understatement of income and overstatement of expenses by companies was estimated to amount to \$500 million per annum.²⁴

4.35 Although the PPS is directed only at a specific range of industries, since its introduction the ATO has detected approximately 22 000 non-lodgers representing some 20 000 businesses - mainly in the building and labour industries.²⁵ The ATO estimates that the increase to revenue from the introduction of the PPS will be \$300m for the 1984-85 year.²⁶ Collections this year from the PPS already approach \$500m, although this is not entirely an increase.²⁷

4.36 Changes to the system announced by the Treasurer in September 1985 are expected to achieve a net revenue gain of \$105m in 1986-87 and \$45m in subsequent years.²⁸ The PPS itself is the subject of an audit, and its extension to some other industries is possible.

(c) UK System

4.37 In the U.K., deductions at source (from salary and wages and dividends and interest) generally meet the end of year liability of the taxpayer. Taxpayers believing that their total liability has been covered are not required to lodge returns, hence the amount of forms processed is reduced. Taxpayers can

elect to lodge a return if they believe a refund is owing, while those who are liable to a surtax because of higher income are required to lodge returns or else risk substantial penalties.²⁹

4.38 The Commissioner of Taxation, Mr Boucher, believes this system is resource-intensive even with the aid of computers.³⁰

Upgrading the resources of the ATO

4.39 Serious deficiencies in the resources of the ATO have been identified both by the ATO itself (eg. in Annual Reports of the Commissioner of Taxation) and by external agencies (eg. the Australian Audit Office in its Report of December 1984).

4.40 Some current practices of the ATO can best be described as obsolete: manual checking of data and other labour-intensive procedures, and use of computer systems based on analysis and design work of the mid 1960s combine to severely retard the efficiency with which the ATO can perform its functions. In evidence to the Expenditure Subcommittee, the Commissioner of Taxation, Mr Trevor Boucher, recognised the need for the ATO to move to up-to-date computer hardware and software, but added that the shortage of appropriately skilled staff was a severe constraint.³¹

4.41 The introduction of new procedures and improvements in ADP capabilities are anticipated to free up significant numbers of staff for redeployment in highly productive areas such as auditing and taxation investigation activities. For example, the introduction of self-assessment should release approximately 1200 staff from technical assessing duties over a two year period.³² Productivity gains resulting from greater application of ADP processing will also permit redeployment of

staff. The Australian Audit Office estimates the Cost Benefit Ratio (CBR) of compliance activities to be 1:5 as opposed to the CBR of assessing activities 1:1 or 1:2.³³

4.42 In addition, the ATO has had a steady increase in its staffing levels over recent years:

30 June 1983	14268	
1984	14866	
1985	15889	(AOSL* 15617)
AOSL 1986	16500	

* AOSL - Average Operative Staffing Level

Although the above figures show a substantial increase (15 per cent) in staffing levels, new functions such as the PPS, 'bottom of the harbour' schemes, and even Freedom of Information, combined with the increasing natural workload of the ATO, have absorbed most of the increase. The ATO also claims to have been inadequately staffed at the base of comparison.³⁴

4.43 The 1984/85 Annual Report of the Commissioner of Taxation reports an increase of 727 staff for that year, 392 of which were specifically recruited for audit and internal compliance. For the 1985/86 year, an increase of 504 staff were approved specifically for compliance work, plus an additional 100 staff for one year to work on collecting unpaid tax from the 'paper' avoidance schemes of the late 70s and early 80s.³⁵

4.44 Recruitment is a major problem for the ATO for a number of reasons:

- (a) the widespread shortage of skilled staff, particularly accountants, tax lawyers and systems people, but including the chronic shortage of stenographers;

- (b) the low level of pay scales relative to the private sector causing high 'wastage' of staff (over 2000 separations occurred in 1984-85 although the ATO could not provide a breakdown showing the proportion due to resignations);
- (c) the large numbers of staff which need to be recruited and trained each year (over 3000 recruited in 1984-85); and
- (d) the lack of attraction for computer staff - analysts and programmers - to work on antiquated systems such as those held by the ATO.

4.45 Suitably qualified and experienced staff are not available in the numbers required by the ATO. While its intensive training program attracts what it regards as its 'fair share' of law and accounting graduates, once experienced, these staff are susceptible to the more attractive remuneration packages offered by the private sector. This is exacerbated by the nature of the tax officers' work, ie. frequent contact with prospective employers.

4.46 Another problem the ATO has in retaining staff is the 'promotions bottleneck' which applies particularly in the States. Rapid advancement to the class 8 or 9 level (\$31 609-35 489) can be achieved, but opportunity for further progress within a State Office is then extremely limited.

4.47 A point made unofficially in relation to the Australia Card proposal is that the HIC has already flagged its anticipated need for large numbers of systems/program staff in the marketplace. The view is that it will have little difficulty in meeting its need for qualified people simply because it

boasts the latest IBM equipment (provided for the Medicare scheme) - the opportunity to work on what is perceived to be the best equipment available is regarded as a great attraction. If the ATO had such equipment, the same attraction could be expected. However, the ATO claims that the speedy assembly of sophisticated equipment would require waiving certain APS guidelines (eg. tendering requirements, etc). The HIC as a statutory authority may have had more flexibility in this regard.

4.48 In evidence to the Expenditure Subcommittee, the ATO estimated that it could take 4 to 5 years to successfully plan, develop and implement a more appropriate computer network.³⁶ However, in his Report of December 1984, the Auditor-General stated that the ATO had 'failed to take full advantage of technological advances that should permit computerised processing, particularly of interest data being obtained from financial institutions and other bodies'.³⁷ In fact, evidence to the Expenditure Subcommittee showed that the ATO was using very little of the information with which it is presently being provided. Further, in recent years, the ATO's expenditure on ADP has fallen far short of its appropriations:

	Appropriation	Expenditure
	\$	\$
1982-83	14.8m	10.4m
1983-84	28.0m	9.0m
1984-85	21.0m	10.9m
1985-86	12.9m	1.2m to date ³⁸

4.49 According to the ATO, greater use was not made of the funds available because of delays in the supply of equipment.³⁹ In evidence to the Expenditure Subcommittee, the Department of Finance noted that there were some management problems in the ATO in the area of computerisation, although these have

been overcome to some extent.⁴⁰ These management problems were also brought up by the Auditor-General's Office in its evidence, which highlighted a major deficiency as being a lack of organisational ability in the ADP area: 'Had it had more resources, it might have made a bigger mess'.⁴¹

4.50 The Committee considers that the ATO does recognise many of its limitations and notes that last year it conducted some in-house efficiency audits with the assistance of an outside management consultant. The ATO regards the full realisation of the savings identified in that process as dependent on computer re-equipment and the establishment of new systems.⁴²

4.51 In response to the proposal that a system be adopted based on high integrity tax file numbers, the ATO noted that an essential part of the decision would be that it 'be given the resources to develop and carry out its plans and authority to acquire and have installed outside the usual acquisition procedures the necessary computer equipment to issue file numbers. Also essential will be the need to acquire and fit out suitable accommodation for the computing system'.⁴³

Conclusions and Recommendations

4.52 These conclusions and recommendations are supported by a majority of the Committee comprising Mr James Porter, MP (Deputy Chairman), Senator Janine Haines, Senator Christopher Puplick, Mr Charles Blunt, MP and Mr John Saunderson, MP.

4.53 Having considered the Government's proposal for a national identification system, as well as alternatives such as the use of photographic cards and the extension of the use of the current tax file system, the majority of the Committee rejects all proposals for the issuing of identity cards, with or without a photograph.

4.54 The majority of the Committee takes this view because such proposals fail to address the major problems which were to be overcome by the introduction of the national ID system, namely:

- . to combat tax evasion;
- . to reduce welfare fraud; and
- . to identify illegal migrants.

4.55 The majority believes the creation of a new bureaucracy of 2000 public servants within the HIC, with the sole task of identifying every man, woman and child in Australia, is a wasteful exercise which will not address the problems of tax evasion and social security fraud but will provide the mechanism by which the very fabric of our society will be irreversibly altered, opening the way for the greatest attack on the privacy of individuals as the 'Identity Bureau' identifies, monitors, and updates information on every person in Australia.

4.56 The Committee recognises, however, that there is a serious problem in Australia with losses in tax revenue. The majority believes that this is best solved by attacking the problems within the current system. The majority has therefore opted for an extension of the tax file number system in order to reduce tax evasion as well as to assist in attacking social security fraud.

4.57 The majority of the Committee unequivocally rejects the Government proposal for an ID system. It proposes the following outline for the extension and upgrading of the tax file number system:

- . In order to minimise disruption to the community, delays in implementation and costs, we believe that it is reasonable to accept that current tax files, with a

continuous tax record exceeding five years, have sufficient integrity to not require personal interviews or new applications in order for them to receive formal confirmation of their tax file number. However, these files should be the first to be verified under the normal audit processes, thereby confirming their legitimacy over a period of time.

- . Current tax file numbers with less than five years continuous tax record (as well as those citizens who do not possess a current tax file number) would be checked for legitimacy by a process of personal interview and the production of verifying documents in the same way as the Australia Card proposal. These interviews would be carried out by Social Security officers (or nominated departments where Social Security offices are not easily accessible) as agents for the ATO.
- . The Department of Social Security would not issue tax file numbers, but the information gathered by the Department would be sent to the Australian Taxation Office where, following the necessary validation - including reference to the computerised birth, death and marriage registers - and recording, the tax file number would be issued to the applicant.
- . Where it is necessary for an urgent payment to be made to the Australian Taxation Office by a person not in possession of a tax file number, then the issuing of a temporary number, subject to a personal interview within four weeks of issue should be introduced (this provision is identical to that provided for in the opening of accounts with financial institutions under the Australia Card proposal.⁴⁴

4.58 Recommendations:

- (i) That the use of the tax file number be extended to cover all the financial transactions proposed in the Government submission for use of the Australia Card number by the Australian Taxation Office, as well as for social security purposes.
- (ii) That all other Departments (ie. other than the Australian Taxation Office and Department of Social Security) be barred from access to and use of the tax file number.
- (iii) That the Medicare system continue to operate as a separate entity, but that the method of issuing new Medicare numbers and cards, be they new or replacement, be altered in order to improve the integrity of the system and reduce the issuing of multiple cards.
- (iv) That the integrity of the tax file number be upgraded to that of the proposed Australia Card number based on the following premises:
 - . that taxpayers with a continuous tax record exceeding five years not be required to make an application;
 - . that the file numbers of these taxpayers be verified by normal audit processes over a period of time;
 - . that all other taxpayers and persons who do not currently possess a tax file number verify their identity to the same level of integrity as proposed under the Australia Card program;

- . that the interview process for verifying identity be conducted by the Department of Social Security or nominated agents; and
 - . that temporary arrangements be made where necessary to facilitate payment of tax before verification of identity.
- (v) That a Parliamentary Committee be established within three years of the introduction of the upgraded tax file number system with the express task of reviewing the implementation of these recommendations. The Committee to report to Parliament on these matters and to recommend further action where necessary.

4.59 The use of the tax file number in the way recommended along with the other recommendations of the report will attack tax evasion and fraud against the Government in a much more positive way than that proposed by the Government.

4.60 We accept that the ATO will need to provide formal notification to each individual of their registered tax file number. This can be done in a variety of ways, however, it may be most convenient for this notice to be provided annually when the ATO issues taxpayers with their notice of assessment.

4.61 Given that the integrity of the tax file number is upgraded in the way recommended by the Committee, then savings achieved will be similar to that of the Government's proposal. The Government will need to ensure that the ATO has sufficient and appropriate resources to implement the Committee's recommendations, however, the time taken to implement and the cost of implementation will be substantially less than that of the Government's proposal.

Terry Aulich
Chairman

Parliament House
Canberra
May 1986

Endnotes

1. Evidence, pp. 1204-5.
2. Evidence, pp. 1898-1905.
3. Evidence, p. 1894.
4. Estimates from the Draft White Paper Reform of the Australian Tax System (AGPS, June 1985), p. 37.
5. House of Representatives Standing Committee on Expenditure Sub-Committee reviewing efficiency audits of the Australian Taxation Office. Transcripts of 12, 13 and 18 March 1986 [Hereafter 'REC transcript'], p. 238.
6. Evidence, p. 1914.
7. Letter to Committee Chairman from the Second Commissioner of Taxation, dated 6 March 1986; see Appendix 4.
8. Evidence, p. 3957.
9. HIC Final Planning Report, p. 217 and evidence, pp. 3955-6.
10. Letter to Committee Chairman from the Second Commissioner of Taxation, dated 25 March 1986; see Appendix 4.
11. Evidence, pp. 3960-1.
12. REC transcript, p. 265.
13. *ibid.*, p. 48.
14. *ibid.*, p. 236.
15. *ibid.*, p. 99.
16. *ibid.*, p. 110.
17. Evidence, p. 2072.
18. Evidence, p. 1894.
19. Commissioner of Taxation Annual Report 1984-85, (AGPS, 1985) PP. No. 250/1985, p. 52.
20. REC transcript, p. 191.
21. *ibid.*, p. 193.
22. *ibid.*, p. 266.
23. *ibid.*, p. 199.

24. Report of the Auditor-General upon audits, examinations and inspections under the Audit and other Acts (AGPS, 1986) P.P. 30/1986; p. 143.
25. Evidence, p. 1916.
26. REC transcript, p. 274.
27. *ibid.*, p. 32.
28. Statement by the Treasurer, The Hon. Paul Keating, M.P. Reform of the Australian Taxation System (AGPS, 1985), p. 13.
29. REC transcript, pp. 99 and 233.
30. *ibid.*, p. 235.
31. *ibid.*, p. 8.
32. *ibid.*, p. 11.
33. *ibid.*, p. 217.
34. *ibid.*, p. 21.
35. *Op. cit.*, pp. 7-8 and 33.
36. REC transcript, pp. 15-16.
37. Report of the Auditor-General on Efficiency Audits (AGPS, 1984) PP. No. 1/1985, p. ii.
38. REC transcript, pp. 66-7.
39. *ibid.*, p. 254.
40. *ibid.*, p. 68.
41. *ibid.*, p. 230.
42. *ibid.*, p. 294.
43. Evidence, p. 3966.
44. Submission by the Government of Australia to the Joint Select Committee on an Australia Card Towards Fairness and Equity: The Australia Card Program (February 1986), paragraph 5.2.44 et. seq.