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STANDING COMMITTEE ON ECONOMICS, FINANCE AND
PUBLIC ADMINISTRATION

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HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION

Monday, 3 April 2000

Members: Mr Hawker (*Chair*), Mr Albanese, Ms Burke, Ms Gambaro, Mrs Hull, Mr Latham, Mr Pyne, Mr Somlyay, Dr Southcott and Mr Wilton

Members in attendance: Ms Burke, Ms Gambaro, Mrs Hull, Mr Somlyay and Mr Wilton

Terms of reference for the inquiry:

The House of Representatives Standing Committee on Economics, Finance and Public Administration will investigate administrative, policy and client service issues of TFN management, as recently reported by the Australian National Audit Office in audit report no. 37 1998/99. The committee will also inquire into other aspects of the TFN system in Australia.

The committee will pursue its investigation under House Standing Order (324b), which states that the reports of the Auditor-General stand referred to the relevant committee for any inquiry the committee may wish to make.

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Committee met at 9.54 a.m.

HAYWARD, Mr Christopher, Director, Agency Advice Unit, Budget Group, Department of Finance and Administration

MURPHY, Mr Edward Christian, Senior Adviser, Budget Group, Department of Finance and Administration

ACTING CHAIR (Mr Wilton)—I declare open this public hearing of House of Representatives Economics, Finance and Public Administration Committee as part of our inquiry into the management of tax file numbers. Today, we hear from the Department of Finance and Administration, Treasury and the Child Support Agency.

I welcome the representatives from the Department of Finance and Administration. I remind you that the evidence you give at this public hearing is considered part of the proceedings of parliament. I therefore remind you that any attempt to mislead the committee is a very serious matter and could amount to contempt of the parliament.

The department has not yet made a formal submission to the inquiry. Mr Hayward, you might like to make an opening statement before we proceed to questions.

Mr Hayward—We were approached by the committee some weeks ago in relation to this particular inquiry. As a result of that approach, the committee decided that we should appear to give a presentation on pricing reviews in relation to the Australian Taxation Office. Pricing reviews are an item that the Department of Finance and Administration is now progressing with a number of agencies. The pricing agreement with the Australian Taxation Office was the first of these. It came into existence on 1 July last year as a result of discussions between the Department of Finance and Administration and the Australian Taxation Office over a revised way of resourcing the Australian Taxation Office into the future.

As a result of this, the Department of Finance and Administration now recognises that pricing reviews and pricing agreements form a very useful mechanism for providing funding to agencies and so is progressing with a planned approach over a number of years to undertake pricing agreements with a number of agencies. This has been endorsed by cabinet.

ACTING CHAIR—Thank you. Perhaps you might like to expand on that. Could you outline in a little more detail what the ATO pricing agreement is? In particular, the committee understands that the agreement is not an activity based one, so you might like to detail why that is the case.

Mr Hayward—You are correct that it is not an activity based pricing agreement. It is a set price pricing agreement over three years, from 1999-2000 through to 2001-02. I will ask Mr Murphy to discuss the details, as he has more understanding of the details and the history of it. But in short, yes, you are correct.

Mr Murphy—The pricing agreement came out of a cabinet decision that there should be a review of the ATO's strategy and activities. The Commissioner for Taxation met with the Secretary to the Department of Finance and Administration and decided the best way to do this

would be in the form of a pricing agreement. At the time, we were moving to an outcome-output pricing basis and it was felt that this pricing agreement should be based on pricing the outputs which the Australian Taxation Office produce. These are: development of policy advice, tax revenue collection, transfer payments. Also, they have a small output called cross-agency support, which is mostly to agencies like the Australian Bureau of Statistics.

It was decided in the interests of simplicity—given that we were not in a position to do a full activity based costing, which we would have liked to have done, and nor were the tax office in a position to do a full activity based costing—that we would concentrate on what was the appropriate price of the output that they were producing. We folded our tax policy and tax revenue collection into one price because most tax policy is actually on tax revenue collection. This enabled us to benchmark against a number of other countries to come up with what we thought was an appropriate price. The other factor we bore in mind was that we knew the government was considering fairly major reform to the tax system. We were not entirely sure what the shape of that reform would be or what the timetable would be, but we were pretty sure that reform of one form or another was going to occur.

We felt, therefore, that if we could get in place this agreement which would provide the tax office with certainty on funding over what was going to be a very difficult period, we could do a full activity based costing system review in 2001-02 because, with respect to much of what the tax office did in 1999-2000, they will be doing it very differently in 2001-02. It was felt that this agreement should be set up for the interim, based on benchmarks against other agencies around the world, and then a full activity based costing should be done once tax reform had been fully embedded, because that would be the shape of the tax system and the tax administration in the future.

ACTING CHAIR—Has the department identified any deficiencies in the ATO's performance in terms of how it is performing against outputs and outcomes required by the pricing agreement in relation to overall program budgeting guidelines?

Mr Hayward—The pricing agreement commenced on 1 July last year. We have yet to have a full year's data available from the performance of the pricing agreement. At the end of this year we will be doing the first analysis of the ATO's performance against that agreement. On information we have to date, there do not appear to be any matters for concern in terms of the ATO's performance against the expectations of the pricing agreement.

Mrs HULL—To what extent can the pricing agreement be used to influence the efficiency and the effectiveness of the ATO's operations? ANAO and parliamentary reports have highlighted shortcomings in the ATO's performance due to the poor quality of the ATO's data and systems for over 15 years. Could this issue be addressed through the pricing agreement, in your opinion?

Mr Murphy—The cycle works in this way: we have the pricing agreement which has the performance indicators which they signed on to in their portfolio budget statement and then they report in their annual report as to how they went against that. Amongst those performance indicators is the efficiency with which they collect tax in terms of price. We have a set benchmark because we have funded the ATO a certain amount per thousand dollars of tax collected based on an assumption of what the tax will be over a forward estimates period. The

tax office is required to meet that benchmark because their funding is constant. If they can improve their efficiency, of course, they have further resources to redirect elsewhere. So there is a benchmark, which is a price per thousand dollars of tax collected, and that requires the ATO to deliver efficiencies to meet that benchmark.

Ms BURKE—During this inquiry, quite a few people who have appeared before us have stated that there are limitations within the ATO at present to do some of the things they need to do to get on top of some of the recommendations in the ANAO report, such as data matching and cleaning up the systems. Do you believe they have got sufficient resources at this point? Also, under the pricing agreement, is there enough flexibility for them to direct resources to where they are currently needed?

Mr Murphy—Yes. They are appropriated on an outcome basis. The ATO has the one outcome—effectively managed and shaped social and revenue systems to support the Australian community. The Australian Taxation Office has a ‘health of the tax system’ strategy whereby internally they determine where funds should be allocated to ensure that compliance risks are minimised and revenue collection is the greatest. This is an internal system which we are obviously not a party to. We believe this flexibility, and also the health of the tax system, give the tax office both the capability and the ability to hit hot spots and compliance concerns where they arise.

ACTING CHAIR—Mr Hayward, will the ANAO findings in relation to ATO practices and procedures be used in any way as an input into forming the next agreement?

Mr Hayward—In short, yes. We will use information such as the ANAO findings to inform us on issues that may arise in forming the next pricing agreement. We will also be looking at the impact of the implementation of both the GST and business tax reform so that we can come up with a holistic pricing agreement, which is envisaged to commence in 2002.

ACTING CHAIR—I can see that that will be an activity based agreement. Is it your assessment that that will result in improvements in the ATO’s performance and effectiveness in this area?

Mr Hayward—As part of the analysis, we expect to be looking at methodologies to ensure that the ATO is best placed to improve its effectiveness.

Mrs HULL—In their audit report, the ANAO identified potential financial benefits of about \$460 million as a result of reforms to the tax file number systems. That is basically what we have been concentrating on. Given the significant contribution that it would make to the budget, can you outline any steps that you might take to follow up on these reforms?

Mr Hayward—In relation to the tax file numbers specifically?

Mrs HULL—Yes.

Mr Hayward—I do not think we are in a position to talk about follow-up in regard to tax file numbers specifically. We look at the performance of the ATO in a much more holistic way, putting its performance against its outputs and the price of its outputs. This is part of an input

into those. We would use that in conjunction with a number of other pieces of information and data collections to inform us about how the next pricing agreement will be shaped and how the ATO might use the resourcing from the next pricing agreement to better achieve its outcome.

Mrs HULL—If there is already a suggested figure of around \$460 million that could be going back into the budget through reforms, wouldn't it be in your interest to recognise that that obviously is a significant amount of money?

Mr Hayward—That is a significant amount of money—you are quite right. But this also goes to the point of taxation policy, and that is a matter that is under the control of the Treasury portfolio, rather than the department of finance portfolio. We do not manage the policy of the tax office. We liaise with the tax office and reach agreement with them over the price of their outputs.

Mrs HULL—So you would have absolutely no follow-up?

Mr Hayward—We would have follow-up, and to that extent we would provide comment to the Australian Taxation Office and to Treasury on our considered opinion.

Mrs HULL—You would?

Mr Hayward—Yes.

Ms BURKE—Given the cross-agency aspect of the pricing agreement and the use of tax file numbers by myriad departments, not just the ATO—they are used for identity purposes and cross-matching purposes—do you think there should more appropriately be a whole-of-government approach to this, especially when you are looking at the next pricing agreement?

Mr Hayward—That is a matter that I cannot comment on at the moment. It is not a matter that we have considered. I am sure some of the results of the deliberations of this committee will inform us as to whether or not a whole of government approach to the use of the tax file number is one that the government would choose to take, but that is a matter for government decision.

ACTING CHAIR—Can I go to the question of extending the whole TFN quotation system to accommodate dealings of all business and government interaction. In the US, as you would be aware, taxpayer identification numbers are collected in all such cases of government and business interaction. In your view, what would be the costs and benefits of implementing a similar system in this country?

Mr Hayward—That is a matter that, again, that we have not looked into. We have not been asked to look into it. Before we could look into it, I think we would at least need some direction of government policy—that it wishes to pursue that. To that extent, we would be one of a number of parties that would be involved in estimating the potential costs and benefits of extending the tax file number if the government considered that there was a reason to do so.

ACTING CHAIR—So the department would not then have a view as to whether or not that may improve tax compliance or whether the additional administrative burden may place the Commonwealth at some sort of competitive disadvantage?

Mr Hayward—I am sorry, could you repeat that?

ACTING CHAIR—Obviously, in the US, the arrangements are implemented primarily for tax compliance based reasons. Do you or the department have a view on whether or not the whole notion of tax compliance would be better addressed by extending the TFN quotation system in this country? Would the administrative burdens associated with implementing such a TFN quotation extension system place the Commonwealth at a competitive disadvantage—for example, when it was dealing with contractors or whatever it might be? You may not have a view about that.

Mr Hayward—There is very little that I can provide on that. All I would say is that improvements in compliance would be a matter for Treasury, in the sense that they would reach a view of whether expanding the tax file number system would improve compliance. We would provide some advice to Treasury and the ATO on our considered views as to what the additional costs in resourcing might be to achieve this.

Mrs HULL—Do you consider that tax file numbers should be quoted as a condition of receipt of assessable government payments?

Mr Hayward—I am not in a position to answer that.

Mrs HULL—You are not in a position to answer. Would you like to try, Mr Murphy?

Mr Murphy—It is a bit out of our bailiwick, I am afraid.

Mrs HULL—Basically, I am to determine how best it might be able to operate and how best your department may be able to assist us in giving us some answers with the current inquiry that we have—if it were perceived that there might be an additional amount of income generated by having to quote your tax file number before you get receipt of assessable government payments, whether or not that would be a benefit to the government.

Mr Murphy—I think, as a general rule, we would support anything that would reduce fraud against the Commonwealth and increase compliance, but we would have to look at the costs of implementing such a system, as well as the privacy concerns, and what the government's approach to that would be.

Mrs HULL—What are your thoughts about introducing a client service number, like a national identification system, for use right across the public sector? Do you see any benefits in introducing a client service number that travelled across every department?

Mr Murphy—You mean effectively extending the tax file number to cover everything?

Mrs HULL—Yes. Whether it is called a tax file number or a client service number, a number that allows each department—it does not matter whether it is the Child Support Agency, Immigration or whatever—to be able to access one client service number. How would you receive that? Do you think that would be an idea that would be worthy of support?

Mr Hayward—I cannot speak on behalf of the department or our minister on that matter. That is a matter of policy and we are not in a position to answer at this point. I only have personal views. That is all I could answer on that.

Mrs HULL—Is there any possibility that if you had a client service number across the board you could see some benefits with respect to reduced fraud or increased revenue collection? Do you see that there may be a possibility that you could counter some of that fraud if you had a client service number?

Mr Hayward—We do not make decisions on or assessments of revenue collection and amounts of extra revenue that may arise from different approaches. They are matters that are considered and managed by the Department of the Treasury, and all matters in terms of extra revenue collection are matters that we would defer to Treasury on.

Mrs HULL—So you do not have any thought of your own?

Mr Hayward—I have personal thoughts on it, but I cannot—

Mrs HULL—But the department does not have a basic understanding; they are not working on a basic premise as to how they might be involved in the additional sourcing of revenue or reducing fraud—best management practices in order to gain more efficiencies?

Mr Hayward—We certainly work with agencies to try to improve efficiencies so that they are best placed to ensure that they operate in the most efficient way possible and are best placed to minimise fraud to the greatest extent possible. But with regard to what additional revenue may flow from that, that is not a matter that the Department of Finance assesses or makes estimates on. We provide information on the resourcing of the activities to ensure that additional revenue might flow, if that were the case, from expansion of a certain activity.

Ms BURKE—If it is not your area, is there somebody who actually has responsibility for ensuring that? As you have just said, it is not your neck of the woods, so is there somebody who is actually doing it?

Mr Hayward—We work very closely with the Department of Treasury, but the questions that you are asking seem to be moving into the area of revenue estimates, and revenue estimates are the responsibility of the Department of Treasury. I would not like to answer on their behalf.

Ms BURKE—We are talking about a pricing agreement where you are ensuring efficiencies. You are saying, ‘Here is X number of dollars. Go and do your task to collect X number of dollars.’ The ANAO has identified that there are blockages to collecting as much tax as they can. We are trying to get at how to ensure that the system is better.

Mrs HULL—Exactly.

Ms BURKE—We can ask everybody, and we will ask everybody, so I suppose it is getting to: whom do we ask? If you cannot answer it, who can? I fully understand your situation, but from our perspective where do we go to get those sorts of answers we need?

Mr Hayward—I would suggest that the answers you are seeking on additional revenue and decisions that may be made in terms of changing activities in order to improve revenue are best answered by the Australian Taxation Office and Treasury themselves. In relation to the resourcing of it, we certainly work very closely with Treasury, and particularly the Australian Taxation Office, to ensure that they have adequate resources to undertake the activities as determined for them by government and by the policy decisions made within the agency and within the Department of Treasury.

Mrs HULL—If there were a list of priorities available—say the ATO wanted to do XYZ and they needed the resources to complete that XYZ list—do you have any power to say, ‘We can’t resource that because that is an expensive resource. We can only resource the X and Y component of your request.’

Mr Hayward—It depends on the nature of the request and whether it is coming forward as a request for a new policy on which the government is being asked to make a decision versus an expansion of an existing activity within the department. We provide the Australian Taxation Office with resourcing at an agreed level, and the Australian Taxation Office is then able to use that resourcing, as it sees fit on the basis of the risk analysis that it undertakes, to divert it to those activities to best achieve the outcome that it is seeking to achieve.

Mrs HULL—With respect, it has been suggested at times by different people within this investigation that resources may be one of the major problems of the ATO in trying to combat the problems that they currently have. Is that an area that you can play a part in?

Mr Hayward—I think that was recognised by the Department of Finance and Administration when we embarked on this pricing agreement with the ATO. As I said earlier, this pricing agreement has been running now for nine or 10 months. It came into existence as a result of a decision during last year’s budget process. There was recognition by all sides that the resourcing arrangements that had been in place for a number of years prior to last year had not allowed the ATO to operate in the most effective way possible.

Mrs HULL—So you believe that that will start to change?

Mr Hayward—That is one of the bases upon which this pricing agreement has been commenced, yes.

Mrs HULL—That sounds very promising.

Mr Murphy—What we wanted to do was give the Australian Taxation Office certainty of funding at a time when they were undergoing fairly significant change. That is why the funding we have given them is now set for three years, excluding major new policy like implementing business tax or a new tax system.

Mrs HULL—You recognise that when this inquiry wraps up there may be recommendations that would require additional resourcing?

Mr Hayward—To that extent, any decision about resourcing that the government chooses to make is not constrained by the pricing agreement. With respect to the areas that are constrained by the pricing agreement, the ATO is free to adjust its resourcing within the overall envelope that it receives to address those issues that you have identified.

ACTING CHAIR—I revert to the program budgeting line of questioning that we were pursuing a little earlier. Do you consider that the fact that about 85 per cent of the ATO's appropriations relate to just one output—that being income and other taxes—in some way reduces the ATO's accountability or perhaps the quality and quantity of services that the office is able to provide?

Mr Hayward—We do not believe so.

Mr Murphy—No. They reported a lower level than that in their annual report. They report on the resources allocated to each business line and also they have effectiveness and efficiency measures by business line. You can track that broadly against types of taxation. You can do a reasonably comprehensive analysis of how they are performing in certain business lines and compare the resources they are putting into, say, high-wealth individuals and large business with income tax individuals, which is PAYE, basically. Their annual report is quite comprehensive in that respect. It is possible to do quite a good analysis over time because they have been reporting on the same methodology for some time now.

ACTING CHAIR—The committee is aware that policy advice is an agreed output under the ATO's pricing agreement. Does it concern you in any way that the ANAO has noted that the tax office could have been perhaps more proactive in bringing to the government's attention this range of policy options?

Mr Hayward—We would do analysis of the performance indicators contained in the pricing agreement and monitor them over time. Where there were areas of concern, we would bring those to the attention of the ATO. In any area where we are providing funding under the pricing agreement, if there is an activity that we believe they are not performing as we may have expected, we would at least bring it to the ATO's attention and seek their comment on it.

ACTING CHAIR—There have been some answers that you have been unable to provide. In the event that that is because those answers may overlap with other areas of the department that you may need to seek guidance from, the committee would certainly welcome any written answers that you may choose to furnish at a later date. Thanks for coming.

[10.32 a.m.]

FOSTER, Mr Ron, Manager, Financial Services and Payment Design Unit, Department of the Treasury

ACTING CHAIR—Welcome, Mr Foster, to today's public hearing. I remind you that the evidence that you give at today's public hearing is considered part of the proceedings of parliament. Therefore, any attempt to mislead the committee is a very serious matter and could amount to contempt of the parliament. Treasury has not made a submission to the inquiry so perhaps you might like to make an opening statement before we proceed to questions.

Mr Foster—No. The reason why I am here, as I understand it, is because you were looking for some background information in relation to the new ABN proposals, so I do not have a statement to make.

ACTING CHAIR—That's fine. One of Treasury's policy outcomes is:

Effective government spending and taxation arrangements

Could you perhaps just overview what this means and how this impacts and affects the determination of policy within the ATO?

Mr Foster—I am sorry, what was the statement again?

ACTING CHAIR—The statement, being one of Treasury's policy outcomes, is:

Effective government spending and taxation arrangements

It is just a broad brush reason to exist, if you like. Could you explain in a little more detail what this means and how this would affect the determination of policy within the tax office?

Mr Foster—Broadly, Treasury is responsible for making policy recommendations in respect of taxation matters which, as their main objective, have the objective of raising revenue, but also to do it in the most efficient and the fairest fashion possible and with the least compliance impact on the community at large and businesses generally.

In relation to the tax office, the tax office essentially, as I understand it, has responsibility for administering the tax system. So, in terms of their administration of the tax system, they would have reference to the legislation that the parliament gives them to administer. I presume in considering the way in which they administer that legislation they would have the broader framework of the design or the background that you find in the explanatory memorandum and the various statements that the government made as to what they intended the legislation actually to do.

ACTING CHAIR—Can you elaborate in a little more detail as to where the exact line of demarcation lies between the ATO and Treasury in terms of taxation and policy issues?

Mr SOMLYAY—And finance.

Mr Foster—As I understand it, and I think this is partly a matter for government itself, the Treasury essentially has responsibility for policy formulation and the tax office has

responsibility for the administration of those laws. So the tax office would not be responsible for formulating policy in relation to changes to the tax system or the tax system itself. But, at the point where that is legislated by the parliament, the tax office would take over and administer those systems. The tax office would obviously have a role in advising government in relation to the administrative implications of particular tax design issues as they arise.

Mr SOMLYAY—I missed part of the evidence from the Department of Finance, but when I was there they told us that they are charged with the task of resourcing the ATO so that the ATO can meet Treasury's revenue objectives. On a number of occasions DOFA have said to us, 'You'll have to ask Treasury that.' I guess this is what the chairman was asking. What is the role of Treasury in setting these revenue objectives and, if the tax file number system has defects, how does it affect your revenue objectives?

Mr Foster—To be honest with you, I have not really been briefed on these sorts of issues. My understanding of the reasons why I was here was to talk about the ABN. Maybe we have a bit of a miscommunication here. I would really have to take issues in that regard on notice.

Mrs HULL—We will go on to the ABN, Mr Foster: we do not want you here feeling that you have been set up! The inquiry that we have been undertaking is concerned with the additional tax file numbers that we currently have and, in fact, some 3.2 million excess TFNs. The relationship with the ABN and the TFN is becoming quite significant, bearing in mind that you have to nominate a TFN when you apply for an ABN. Now that we have in excess of millions of TFNs over the number of taxpayers, is it possible that we may eventually also have millions of excess ABNs? Your ABN can be used to do business transactions. I just have this thought in my mind that this may perhaps escalate in the same way that the TFN has.

Mr Foster—I am not familiar with why there are considered to be an excess number of TFNs. As I understand it, the ATO—and to a large extent it is more a question for them than me—have a proof of identity test, a fairly stringent proof of identity test, that goes with the application that is made for the ABN. That would be the way in which they identify who should have an ABN and who should not.

Mrs HULL—If, over 15 years, the ATO's tax file number system has had enormous shortcomings, what do you think are the implications for the ABN, bearing in mind that they are going into a new system that, again, works hand in hand with the tax file numbers?

Mr Foster—The ABN needs to be put in a bit of context. It essentially evolved from recommendations made by the Small Business Deregulation Task Force, which was concerned about having too many numbers and too many registrations, so the ABN was actually put in place for the purpose of making it easier for business to deal with government. That was its genesis. I am not sure what the impact would be of the way in which it relates to the TFN. That is not really something I have any knowledge of.

Mrs HULL—I will come back to the ABN specifically. How do we ensure that the ABN retains its integrity, that it does not become one of those numbers that dramatically escalates in number due to transactions? If I am carrying out a contract with somebody and I use an ABN specifically for that purpose, but it might only be a one-off contract or business contract and I might not be going to do anything—for example, the way people are going to have to secure

ABNs to carry out specific contracts—how do we ensure that it will be removed from the record, that it will no longer be a valid ABN number, and where in the system will it go? I hate to keep coming back to the tax file number, but they are in the system and there is a maze of different areas and reasons why you can get yourself a TFN. You may be able to get an ABN the same way and commit fraud, such as claiming inputs. How are we protecting the integrity of the ABN?

Mr Foster—I am sorry I am sounding as though I am unable to answer your questions here, but that is really a question for the person who is going to administer the system. I do not think it is one that is really for me. I am happy to take it on notice and get some more information for you.

Mrs HULL—It would be great if you could, Mr Foster. It would be fantastic if we could have a response as to the integrity and the maintaining of the integrity of the ABN number, bearing in mind that we have almost lost the integrity of the TFN.

Ms BURKE—If it is not your area to look at the administration, what principles did you put into place when designing the ABN number? What issues were actually looked at when you designed the number, bearing in mind that our review is of an ANAO audit report into the problems of the current tax file numbers. That report is there, and I am assuming you do look at audit reports that are undertaken. So what design issues did you look at when you created a new regulation to implement a tax number?

Mr Foster—As I said before, the genesis of the ABN was originally as an assistance to business because they wanted to reduce the number of registration numbers and the number of registrations they had with government at all levels—it is designed so that the states and territories can pick it up as well. It had its genesis in reducing the number of registrations they have with the ATO originally, because they have a number of registrations with the ATO instead of just one. This was to allow them to have one number; they could come into one place, they could get information that they needed and they could give information; if they wanted to register or they wanted to change their public officer, for example, they only had to go and tell one place and then everyone would know—it was just designed to make things easier. They were the main criteria we were looking at when we were looking at the review.

Ms BURKE—How do you design the integrity of that number so that you know it is the one business, it is the one person and it is legitimately representing that business and it is not a fraudulent number?

Mr Foster—I think that is pretty closely aligned with the question I have just taken on notice.

Ms BURKE—I am asking you: how did you design it? Did you think about it or didn't you think about it, in designing and issuing the number?

Mr Foster—No. In terms of designing the number itself, as I said, the major criteria were to break down the number of registrations. It was also felt that, by introducing the no ABN withholding, it would make some inroads into the cash economy. The level of design that you are talking about is the next level down, which is essentially done at the time that the legislation

is drafted and the systems are put in place, which is essentially the kind of thing that the ATO does.

ACTING CHAIR—Is it possible to use an ABN from the public business register to commit fraud—for example, by falsely claiming GST input credits?

Mr Foster—The ABN is the GST registration number. With any system, no matter how well it is designed, it is possible for somebody to commit fraud if they wilfully go about doing so. I know that the ATO is very aware of this, particularly from experiences that have occurred overseas with the introduction of GSTs in other areas. It has looked specifically at this issue and no doubt has appropriate mechanisms in place to deal with it.

ACTING CHAIR—Do you think people will be able to commit identity theft against businesses, perhaps by using ABNs obtained from the public business register? What protections are there for business in that regard?

Mr Foster—I would have to take that on notice. I have no idea.

ACTING CHAIR—There are a range of questions that you have taken on notice and we would certainly appreciate your getting back to us in writing with those.

Mr Foster—Sure.

ACTING CHAIR—While I am on the subject, the audit office report does raise a range of tax policy issues, especially with respect to extending the TFN system. Would Treasury be able to provide the committee with written advice on these as well?

Mr Foster—I can certainly take that back to the area that would be responsible for that, yes.

Mrs HULL—We have a TFN number crisis. Having an excess of tax file numbers is a problem. If you are going to take questions on notice, I need to be clear as to what I need to have to enable me to understand. If the TFN is the basis of the ABN, which we know it is, will we fill in our TFN when we send away for our ABN?

Mr Foster—The TFN is not the basis of the ABN. I think it is one of the checks that the tax office uses. There would be people who do not have a TFN, for example, who might have an ABN.

Mrs HULL—How important is the TFN? How significant is the TFN when you come to assess an ABN?

Mr Foster—I am sorry; I do not know.

Mrs HULL—Can you take that on notice?

Mr Foster—I am sure the tax office has a series of checks that it does, of which the TFN is one. I would have to take it on notice.

Ms BURKE—We can assure you that when you fill in the form to register for an ABN, it does ask for it.

Mr Foster—I am sure it does.

Ms BURKE—You have got to provide it.

Mr Foster—I think it is only one thing that the tax office is looking at, so it is not—

Mrs HULL—Absolutely. I do not know what level—it could be, say, a level of one to 10—is the TFN? And an application for an ABN: at what level is that assessed? Is that taken into account in a significant way, in a less significant way or would it not even matter if you never ever put it on? Do you know what I mean? If that is the case, why do you put it on? I want to know the significance of a TFN when you are applying for an ABN. If the TFN is significant and it has problems with an excess of numbers, then surely, if it is significant—I am not saying it is, but if it is—you will encounter problems with the ABN. The ABN will encounter the same sorts of problems if it is a significant basis for an ABN and, in that way, we will end up with defrauding of the Commonwealth again, as we have with the TFN. So, in your taking on notice and your response back to us, could we identify just what the relationship is with the TFN on the ABN application? How significant is the TFN to the workings of an ABN? Is it recognised that, if it is of significance, there is scope for the integrity of the ABN to be compromised, as has the TFN?

Mr Foster—I am certainly happy to take those on notice, but I would point out that I really think they are questions for the ATO rather than Treasury in terms of how they actually administer the application for the proof of identity test for the ABN and the TFN.

Mrs HULL—I am sorry, but I think that if Treasury is bound by the ABN and is looking at revenue and applying revenue with association with the ABN then surely it is in Treasury's interest to understand that they may have a problem. That is my point.

Mr Foster—Certainly.

Mrs HULL—Can we have a response on that?

Mr Foster—Certainly.

ACTING CHAIR—Have you read the audit report and are you familiar with its contents?

Mr Foster—I have not no. The areas responsible for the TFN arrangements in the Treasury would be familiar with it, I am sure.

Ms BURKE—Which area in Treasury would that be? Would you have an idea?

Mr Foster—Off the top of my head, no, I would not. Sorry.

Mr SOMLYAY—This inquiry is about the audit report, and I would have thought that if Treasury sent someone over to give us evidence they would be familiar with the audit report. Have you seen the paper submitted by the tax institute to the inquiry?

Mr Foster—No. I am sorry, I think there has been a miscommunication here because what was put to me, in terms of coming up to this committee, was that you wanted to get some background information in relation to the ABN. That is all that was said to me. If I had known that you wanted to discuss the contents of the ANAO report and talk about TFN, then we would have taken a completely different approach. I was not aware that you wanted to go into that area.

Mrs HULL—Mr Foster, would you like to give us some background on the ABN?

Mr Foster—Some background?

Mrs HULL—Maybe it would clarify some of the things that we are trying to determine if you wanted to explain to us exactly how the ABN will work and some background on it that you may be more comfortable with.

Mr Foster—The background to the ABN was as I said: the original genesis was in the Small Business Deregulation Task Force recommendations which sought to reduce the number of numbers and registrations that business needed. It was widened somewhat further than business so that it could be used and be of benefit to non-profit organisations and virtually anybody carrying on any sort of an enterprise, which is pretty broad. It covers most individuals and entities other than, say, perhaps a salary and wage earner. It was intended to cover a very wide range of entities and individuals so that they could get the benefit from that. It was obviously intended that it have a high integrity and that there be strong proof of identity tests included in the legislation and carried out by the ATO.

It was also seen, as I said earlier, as a means of actually making some inroads into the cash economy on a variety of fronts. For example, once you have a GST system alongside the income tax system there are various benefits that flow from the data collection to the revenue authorities in those circumstances. Because the GST information is obtained a little earlier than income tax information it provides more real-time information for the revenue authorities that they can act upon. They get much better trend information and a much better checking basis. It also means that with a strong ABN registration for GST it would assist with the administration of the GST system in dealing with the sorts of things that you are raising in relation to input tax credit claims and so on. By also including the no ABN withholding you actually have an opportunity to make some significant inroads into the cash economy so that it makes it much harder for businesses and other enterprises—not just businesses but other individuals or people operating outside the tax system—to actually continue to operate outside the tax system. If they cannot quote that ABN then they lose a significant portion of the payment. That broadly was the background to the ABN itself.

The introduction of the GST was seen as a great opportunity to actually do something like this because in introducing the GST we needed to go through a full-blown registration process. We already had a situation where we were going through a very significant registration process which would impact on a wide part of the economy. It was an opportunity to use that vehicle

and address also the concerns that business had raised in the small business deregulation task force by introducing an ABN registration process. The GST would be one of the registrations that an entity could make using the ABN. That is essentially the background.

Mrs HULL—Given your overview of the ABN, you can understand our concern. When you are trying to cut down the cash economy and you are trying to increase revenue, you can understand our concern with the possibility that the ABN is open to flaws within it, as has been the tax file number. What you might be trying to achieve may be compromised by this mere loss of integrity of the ABN if it is allowed to go the same way. You can understand where we are coming from.

Mr Foster—Yes.

Mrs HULL—Thank you.

Ms GAMBARO—I can understand the need for the ABN in a business circumstance for registering and dealing with government and all those things, but can you explain to me why a not-for-profit organisation has to register? I can understand an organisation having to register for an ABN number, but if you take the members of a board of a not-for-profit organisation, the information on the form requests that they give their individual tax file numbers. If they are not earning any profit or they are operating in a voluntary capacity, which goes back to some of the questions Mrs Hull has asked, if there is no significance for a TFN and an ABN, why are they being asked for a TFN when they are not earning any profit? Is there some benefit in having that sort of information being asked for not-for-profit organisation members? Again, is there some sort of data matching occurring? Is it because of the computer system being able to recognise TFNs? What is the reason for that? I know I have thrown you a difficult question, but it is the sort of thing that we have to deal with in our everyday life.

Mr Foster—I would need to find that out.

Ms GAMBARO—Take it on notice.

Mr Foster—I presume it is just part of the proof of identity test.

Ms GAMBARO—I would be interested to know. Is it forming some sort of sub-database and where will that information go? If they are not earning any profit, if they are not earning any income, why are they being asked for a TFN if they are voluntary members of an organisation?

Mr SOMLYAY—And once that ABN has been issued, if one of those directors drops off, is a replacement required to give a tax file number as well?

Ms GAMBARO—That is another interesting question too. Thank you.

Ms BURKE—I am going to ask two that you probably are not going to be able to answer, but I would like to put them on the record. In their submission to this inquiry, the Tax Institute of Australia expressed concern that the problems currently associated with the management of the TFN system will be transferred now to the ABN system which will have consequences for business. What we have been trying to get at with the line of questioning is: what is Treasury's

view of the Tax Institute of Australia's submission and of that proposition that you will now have a range of problems with ABN like we do with TFN, one being that there are currently 3.2 million excessive TFNs out there? I know you cannot answer it. I am putting it on the record.

The other question is particularly in relation to withholding arrangements. The ANAO's report says that there are problems because a whole lot of areas are actually outside the TFN range for withholding arrangements—for example, real estate transactions. Considering that you have just put store on withholding arrangements for the ABN, are you going to be picking up some of the areas that the ANAO report currently thinks are slipping through the net?

Mr Foster—Obviously, the issue of extending withholding would be one for government, but I would be happy to have a look at that report and get back to you on that.

Ms BURKE—If it is not your area, I would appreciate it if the relevant area looks at that.

Mr Foster—Yes. There are some significant issues once you start talking about domestic transactions and implying withholdings in such circumstances. I do not think you actually want to make every household in Australia responsible for making withholdings from people that they sell things to, for example. There are obviously some basic issues sitting in there, but I would be happy to have a look at that.

Ms BURKE—The proposition in the report is that, if we extend the TFN or some such number, we may pick up some of those larger cash arrangements, not just household ones. It would be interesting to see, once Treasury looked at the report, if it has a view as well.

Mr Foster—Sure. The no ABN withholding is very broad at it stands. I think it would cover some of the transactions that you are referring to, but I am happy to have a look at that and we will get somebody to come back to you.

Ms BURKE—Thank you.

ACTING CHAIR—As there are no further questions, that concludes your appearance today, Mr Foster. We thank you for your attendance.

[11.10 a.m.]

BIRD, Ms Sheila Margaret, Assistant General Manager, Child Support Agency, Department of Family and Community Services

ACTING CHAIR—Welcome, Ms Bird, to today's public hearing. I remind you that the evidence you give at the public hearing today is considered to be part of the proceedings of parliament. I therefore remind you that misleading the committee is a very serious matter and could amount to a contempt of the parliament. The committee has received submission No. 24 from the Child Support Agency and it has been authorised for publication. Are there any corrections or amendments that you wish to make to your written submission?

Ms Bird—No.

ACTING CHAIR—You might like to make an opening statement before we proceed to questions.

Ms Bird—The effectiveness of the child support scheme relies very heavily on the use of income information about parents. The vast majority of that information is obtained from the Australian Taxation Office. The most reliable way of accessing that income data is to identify the person's tax file number. In this way the information can be automatically transferred from the ATO's computer system to the Child Support Agency's computer system. As the committee would be aware, child support is an extremely sensitive and emotional issue and an incorrectly matched person can lead to serious consequences. As a result, the integrity of the tax file number system is crucial to the work of the Child Support Agency.

ACTING CHAIR—What additional steps do you think that the tax office might conceivably take to improve its data quality? In particular, are there any steps that you would like to see the ATO take that may be of specific use to the agency?

Ms Bird—The steps that we would appreciate are basically those mentioned in the audit report. For example, if a person does have duplicate tax file numbers, that can lead to the Child Support Agency using wrong income data. Some sort of examination of tax file numbers to make sure that each person has only one tax file number would assist the agency's operations. Also, it is important to the Child Support Agency that that information is correct when it is put into the tax system. For example, if a date of birth is not keyed correctly, so that the integrity of that information is not correct, that can lead to the Child Support Agency not being able to identify a particular person. It really is about removing duplicates and making sure of the integrity of the individual person's information.

ACTING CHAIR—The ATO's data and systems management arrangements have been considered by both ANAO and parliamentary reports to be somewhat substandard for a period of several years. Do these shortcomings in any way adversely impact on the operations of your agency?

Ms Bird—At any one time there are only a small number of Child Support Agency clients who we are not able to identify in the tax system, so it is not an enormous problem for the Child

Support Agency because we are usually able to match people. As I said, the most significant area is if there are duplicates.

Mr SOMLYAY—What do you mean by a small number?

Ms Bird—I do not have the figure off the top of my head, but it would be no more than three per cent of clients. I think it is actually less than that.

Ms BURKE—One of the complaints coming through our doors, particularly from mothers who have orders against fathers, is that they are hiding income; that you cannot track it and there is no way of tracking it. Certainly, as you say, if you are not matching correctly, there is a problem. A typical case will be, ‘My ex is a doctor, he’s earning squillions, but, according to his tax file number, he’s only reported earning \$6,000 last year.’ Is there any way of ensuring that the information you are collecting and using on individuals’ actual income, so that it is being assessed properly, can be assisted and helped in any way? Have you checked whether people are hiding income, moving it around, having multiple tax file numbers, that sort of thing?

Ms Bird—There are a number of ways that parents can reduce their income, which, in turn, reduces their child support liability. Some of these ways are legal within the tax system and some are outside of the system. The legal ways in the tax system basically are income splitting or being a director of a corporation so that you can have corporate entities that receive income while you do not. That is one of the things that we need to look at under the new ABN system. If we were able to identify which people belong to and have control of which corporate entities, the Child Support Agency would be in a better position to look behind the corporate veil in those cases to determine whether an individual person had a capacity to pay child support that is greater than their taxable income, even though for tax purposes their set-up may be totally legitimate. So a linkage between ABN and tax file numbers would assist the Child Support Agency.

In the non-legal areas, the other people concerned are those who are operating in the cash economy and are not lodging tax returns or are not disclosing income. I am not sure what can be done to ensure those people are in the tax system.

Mrs HULL—Ms Bird, you have basically outlined some of the areas in which you can commit fraud against the Commonwealth through the CSA. Let us say that someone has four or five tax file numbers because they are in a corporation, a company, a trust, et cetera. Their income is distributed to those tax file numbers, but they only have one tax file number for child support assessment purposes, which could be the tax file number that receives very little income at the end of the ‘trust distribution’, so to speak. How would it be possible for you to pick up all of those TFNs that that one individual had? Is it possible for you to do that?

Ms Bird—We have access to the tax file number database, so we may, for example, identify that there appears to be more than one tax file number for a particular individual. In those circumstances, we would make further inquiries to try to find out what the real tax file number is for that person. So we have access to that. However, if a person had four or five tax file numbers and they were consolidated into one tax file number, then that would be the easiest way for the child support agency to put all of that income together.

Mrs HULL—Moving on from that, would you view a client service number that may be available across all departments for the one person as being able to support CSA in their attempts to collect child support payments? If everyone had a client service number across the board, it would obviously be easier for you, because problems perhaps arise between you and Centrelink for other payments that Centrelink provides—child support certainly impacts on those payments. A particular effort in child support can impact severely on Centrelink, unless the communication is very clear. Do you see a client service number as being a suitable way to proceed across departments?

Ms Bird—Provided the number had high integrity, then it would ease the administration of child support if an individual had one identifying number across all government departments and agencies. It would not only assist in identifying the right amount of income which could then either increase or decrease child support, it could also assist in enforcement activities.

Mrs HULL—Following on from that, when you request a departure from the formula whereby the departure process is put in place, do you uncover many cases of fraud by people requesting a departure from assessment through taxation purposes, and are those then referred onto the ATO if you uncover those fraud cases?

Ms Bird—I would not be able to give you numbers of particular cases where that arises but in the course of our business our staff may discover, for example, that somebody is evading or avoiding their taxation responsibilities. In those cases we do notify the Australian Taxation Office. We also come across some cases where a person is in receipt of social security benefits and is also in the work force. In those circumstances we notify Centrelink.

Mrs HULL—For income tax purposes and for child support assessment purposes, if a mistake is made in a group certificate and it is submitted—something might have been left off the group certificate by a person inadvertently and it has come back with an income tax assessment—it then needs to be amended. You can amend them upward. So if you come back with an amended tax assessment and it is more than the last one, then for child support purposes you are able to take out more child support payments. But if it is amended downward, if it is in favour of the particular person, then you are not able to accept that taxation assessment downward. It is okay to look at avoiding payment for taxation purposes, but the Child Support Agency will only accept the amendment if it increases the revenue for the Child Support Agency, not if it decreases it. Is that the case?

Ms Bird—I would need to check the precise language in the legislation. In broad terms, if an error is as a result of the person lodging the tax return then the new assessment would be taken into account for child support purposes.

Mrs HULL—The point I am trying to get at is that if we are saying you can minimise your tax in order to gain child support benefits, not paying them perhaps, I would suggest that that is probably going to be very difficult. Is that the reason why child support does not accept an assessment that is down rather than an assessment that is up? That is the question I am trying to find the answer to.

Ms Bird—I think the particular area that you are looking at really only picks up those people who have lodged returns. If they have claimed something as a deduction in their tax return that

is not a legitimate tax deduction, when the ATO identifies that and issues a new tax assessment then that will affect the child support. The intention is that you cannot make a mistake in your tax return which will set your child support at a lower rate and then sometime down the track correct that mistake but still have your child support calculated on the lower amount. It certainly is intended to prevent people manipulating the system. I think it is also a case that if an assessment has been made on a taxable income and the payee has received that child support in good faith and has spent the child support on caring for the children, it would be then inappropriate to go back and adjust that when the person who had responsibility for determining their right income was the person who made the mistake.

Mrs HULL—So there is not a lot of scope for fraud through the ATO purposes?

Ms Bird—Not in that particular way, no.

Mr SOMLYAY—Have you got any idea what percentage of your clients would be avoiding their legitimate payments? You mentioned there are two ways of doing it: legally and illegally. Is there any way of saying what that percentage would be?

Ms Bird—No, not really. It is really impossible for us to predict what proportion of our clients are operating in the cash economy. We do know that there is approximately 10 to 13 per cent of our payers who are in receipt of some sort of business income, and it is people who are in receipt of business income that have more scope to manipulate the tax system to reduce their child support arrangements.

Mr SOMLYAY—Following on from that, what impact do you think the grossing up of fringe benefits will have for CSA?

Ms Bird—The grossing up of fringe benefits only impacts on people who are employees, so it is people who are already in the tax system. What it will mean is that the Child Support Agency will automatically take into account the value of those fringe benefits in determining child support. That starts from 1 July 2000. Prior to that, the Child Support Agency could take those employer provided fringe benefits into account, but only in the process that we have where one parent or the other can apply to depart from the formula assessment. This will now make it a systemic approach.

Mr SOMLYAY—And that will solve a lot of the problems of avoidance because many people pay themselves a low wage and leave the rest in the business and get their benefits in the form of fringe benefits.

Ms Bird—Yes, it will certainly reduce the capacity for those people to minimise their child support.

Mr SOMLYAY—Good.

Ms Bird—In the same way that there is a process now where we can take fringe benefits into account, there will be a process whereby, if in an individual case it would produce an unfair outcome to take those employer provided fringe benefits into account, the person could apply to

have them deleted wholly or partially from the assessment. So it does have flexibility built into system.

Ms BURKE—A lot of people presenting before the inquiry have talked about the extent of identity fraud, and the CSA makes reference to it in its submission to the inquiry. Have you got an opinion about the extent of identity fraud and how it is impacting on collecting moneys for payees?

Ms Bird—One of the peculiarities about the child support system in comparison to the way that most government departments do business is that the Child Support Agency in each case is dealing with two members of the public. In the vast majority of cases, we are dealing with a mum and a dad, and in the vast majority of cases mum and dad are able to identify who the other person is to the agency quite easily. There are cases where people did not know each other quite so well and a person may say on their child support application that the father of the child was John Smith and he was about 25 years old. I think our issues have more to do with cases where the person cannot be described well enough for us, rather than people being able to hide their identities. So it is not really a big issue for the Child Support Agency.

Ms BURKE—Since the Child Support Agency relies heavily on all the other agencies, particularly the ATO, for gathering your information, is there an issue of actually linking that person back to their income—the payer back to the sources of income? Do you have identity problems in that relationship?

Ms Bird—We do have access to all of the ATO data, so, for any person who is within the tax system, it is not difficult for us to do that. The difficulties only arise where a person is not operating within the tax system.

Ms BURKE—Anything to do with the Child Support Agency, as anyone who has worked in an electorate office will tell you, has heightened tensions around it and also the issues of privacy. You are one of the agencies that has access to this data matching. Can you make any comments about complaints about CSA with respect to privacy?

Ms Bird—We do keep very good records of privacy breaches. We also have a very good complaints system whereby people can let the agency know if there is a problem. I do not have with me the actual numbers of privacy breaches that we have had, but I can provide that to the committee, if it would like. However, having said that, overall, when you consider the number of clients that we have and the number of transactions that we deal with on an annual basis, our privacy breaches are extremely low.

ACTING CHAIR—In your submission you note that the tax office does have access to CSA data and that this data may be more up to date as it does not rely as heavily on information being volunteered by clients. Does the ATO currently match against this data and do you think such matching could improve the quality of ATO data?

Ms Bird—My understanding is that there is no regular data matching on a systemic basis. However, in individual cases, the ATO can access Child Support Agency information, and vice versa. We have more regular contact with the vast majority of people than the tax office does—for example, most people only contact the tax office once a year when they lodge their tax

return—so we may have more up-to-date information about addresses and so on. However, automatically updating records on that basis may be problematic because people may want to have different addresses for taxation purposes compared with child support purposes. I am not really sure how much benefit would be obtained from that sort of data matching.

ACTING CHAIR—What steps do you think the ATO will need to take to do this data matching? For example, would the CSA be happy with an MOU between it and the ATO?

Ms Bird—The CSA and the ATO already have service agreements which cover a whole range of activities, so I do not think there would be any problem with that. However, without looking into it in further detail, I do not know that there would be huge benefits gained from that sort of data matching between the tax office and the Child Support Agency.

Mr SOMLYAY—The new administrative arrangements with CSA are not being literally co-located with the tax office. Is that better or is it providing difficulties?

Ms Bird—The vast majority of our sites in the various regions are still co-located with the tax office. Our mainframe computer system is part of the tax office's mainframe computer system. That is very important to our efficient use of business. Brisbane office late last year moved to premises where they are no longer co-located with the Australian Taxation Office. However, they do still have access to all the ATO's computer systems, and when they need to communicate with their tax colleagues they probably now phone from one building to a different building, rather than ringing from one floor in a building to a different floor in the building. So for the vast majority of our front-line service delivery staff there has been very little difference in how they do business.

ACTING CHAIR—On the basis of your own experience of arrangements people use to avoid their child support responsibilities, can you make any suggestions—and you may choose to make these at a later time, perhaps even in writing—for changing or tightening the TFN system to reduce child support avoidance?

Ms Bird—One of the changes to the child support legislation that took effect from 1 July last year was to give the Child Support Registrar the power to initiate the process to change the assessment where the registrar believes that the income is not adequately reflected in the assessment. Prior to that, only a parent could apply. One of the things that we are looking to do from that process is to get some really good data about what sort of arrangements people have, how they manipulate the system, what impact it has on child support and therefore on government revenue. That has only been in process since 1 July last year. We are getting some results that are very promising in terms of lifting the corporate veil, so to speak, about income available to a person. But to really answer your question, I think we need to get better data from that exercise before we could come up with any suggestions that have any real backing. Certainly, in our evaluation of that process, we can put specific emphasis on whether there are things around the tax file number that we could recommend be improved.

ACTING CHAIR—In terms of the CSA's own data management systems, how are duplicate or inactive records dealt with? Are they archived? Is that, by and large, a costly process?

Ms Bird—The Child Support Agency has only been in operation for 11 years. With a lot of our clients, we do have quite a long relationship with them, until the youngest child turns 18. So we have not had to have a huge amount of experience in terms of archiving. Duplicate cases have not really been an issue for child support. I am not sure whether that is because we are able to pick them up at the point of registration or whether people realise that they have already applied for child support and there is not much point in trying to apply again because the father or mother will know that they are already paying child support. So duplicates are not really an issue for child support. In our current computer system, we do not have an archiving facility. Our computer system is being redeveloped at the moment and the new computer system will give us that archiving ability.

ACTING CHAIR—I turn finally to the question of the withholding tax system. This obviously helps to facilitate a means by which people who do not quote their tax file number still pay tax on certain income types. Is it conceivable and likely that people would choose to pay withholding tax in order to avoid child support, perhaps by minimising their taxable income? In the view of the agency, would some sort of mandatory tax file number quotation system for these transactions improve child support collection arrangements?

Ms Bird—It is difficult to think about what other people's motives are. My understanding of the rate of withholding is at the top marginal tax rate a child support liability for one child is 18 per cent. I do not know whether people would actually sit down and do the arithmetic to work out whether there is a financial advantage in doing so. However, having said that, the Child Support Agency is not restricted to just using taxable income. If the agency is able to find out that a person has a source of income and they are not lodging tax returns, we can then piece together what that income is and use that for child support purposes. Even though a person may not lodge a tax return, that does not give them a guarantee of not being caught up with at some stage or another to pay their child support.

ACTING CHAIR—On the whole question of tax file numbers again—because that is what the thrust of the inquiry is about—is it the agency's view, as you understand it, that there is a case for considering use of the tax file number system by other Commonwealth agencies when making funding decisions about the TFN system?

Ms Bird—I am sorry, I did not get your question properly.

ACTING CHAIR—I will read it as I have written it. Do you think that there is a case for considering use of the tax file number system by other Commonwealth agencies when making funding decisions about the TFN system?

Ms Bird—Do you mean if the Department of Finance is looking to fund the tax office, for example, should they consider what is happening across the whole of government?

ACTING CHAIR—Yes.

Ms Bird—I guess the agency's view is that anything that would improve the integrity of the tax file number would assist in the administration of child support purposes. It is probably a matter for government to determine the various priorities.

ACTING CHAIR—We have received correspondence in relation to the agency's use of tax file numbers as correspondence reference numbers; that is, clients being requested to use the TFN on correspondence as part of identification. Can you outline briefly how tax file numbers are used on agencies' correspondence? Do you consider this to be, in any way, possibly a breach of privacy in relation to tax file numbers?

Ms Bird—The Child Support Agency only uses tax file numbers on correspondence to the person who owns that tax file number. For example, if we are writing to the father we would only ever use the father's tax file number in that correspondence; the same with the mother—we would only ever use the mother's tax file number. There was a small period of time where, when we asked somebody to deduct child support from, say, a real estate transaction, if there were child support arrears, we gave that person a receipt form to return the child support to the agency that had the person's tax file number on it. That was a practice that lasted only for a short period of time. As soon as we became aware of it we stopped that from happening. We use the case number as the identifier in those cases.

ACTING CHAIR—We are in receipt of correspondence from a client of the agency who has claimed that this particular practice, in general, is of particular concern given that, in his view, the CSA often incorrectly addresses mail. I wish to draw that to your attention for comment.

Ms Bird—The vast majority of our mail goes to the last known address of the particular person. If the person advises us of a new address, in the vast majority of cases it is the new address that we will use. We are an organisation that does have a large number of transactions and because we are dealing with human beings doing that work, from time to time there will be an error made. I mentioned earlier that the number of privacy breaches on an annual basis is very small.

ACTING CHAIR—Are there any further questions? Thank you for attending. We appreciate your time and input. Again, I wish to thank all the witnesses who have appeared before the committee today.

Resolved (on motion by **Mr Somlyay**):

That this committee authorises publication, including publication on the parliamentary database of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 11.46 a.m.

