



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

ECONOMICS LEGISLATION COMMITTEE

Consideration of Additional Estimates

FRIDAY, 23 FEBRUARY 2001

CANBERRA

BY AUTHORITY OF THE SENATE

SENATE
ECONOMICS LEGISLATION COMMITTEE
Friday, 23 February 2001

Members: Senator Gibson (*Chair*) Senator Murphy (*Deputy Chair*), Senators George Campbell, Chapman, Murray and Watson

Senators in attendance: Senators Campbell, Chapman, Conroy, Cook, Gibson and Watson

Committee met at 9.09 a.m.

TREASURY PORTFOLIO

Consideration resumed from 22 February.

In Attendance

Senator Kemp, Assistant Treasurer

Senator Abetz, Special Minister of State

Department of the Treasury

Mr Greg Smith, Executive Director, Budget Group

Australian Taxation Office

Mr Bruce Jones, Second Commissioner of Taxation

Mr Rick Matthews, Deputy Commissioner, GST

Mr Chris Taylor, Assistant Commissioner, GST

Mr Jim Killaly, Assistant Commissioner, Large Business

Mr Neil Mann, Acting Deputy Commissioner, Small Business

Company Auditors and Liquidators Disciplinary Board

Mr Paul Coleman, Registrar

CHAIR—The committee will resume its activity. We again welcome Mr Coleman and the minister. Any questions, Senators?

Senator GEORGE CAMPBELL—We should apologise to Mr Coleman for dragging him back this morning for 20 minutes.

Senator CONROY—I think that is most appropriate. I do think that we need to make a few apologies in this committee. Mr Coleman, we are delighted that you have been given that apology. We were talking late last night about ASIC advising you that there were a number of cases flowing through. Have you any idea what they are in relation to?

Mr Coleman—At the time of writing this report, the board had dealt with two matters, one involving a registered auditor and liquidator and another involving a registered auditor post 30 June. The board had an additional five matters, three relating to auditors and two relating to liquidators.

Senator CONROY—So ASIC advised you there were more coming on top of that?

Mr Coleman—Correct. It is only an informal advice.

Senator CONROY—I appreciate that. How are you funded? How is the board funded?

Mr Coleman—The board is funded by a budget allocation given to us by ASIC; we are not directly funded by DOFA. An amount is usually built into ASIC's budget to fund the board.

Senator CONROY—Given this increase in work that you are expecting, have ASIC indicated they will give you a little bit more money so that you can—

Mr Coleman—At the time this report was written, we approached ASIC and they said that they would happily review our budget at midyear. That review is currently in process. Preliminary explorations on my part indicate that we will get a favourable response.

Senator CONROY—Who can refer matters to the board?

Mr Coleman—Only ASIC.

Senator CONROY—At page 4 of your annual report you state that the reduction in administrative matters has been the result of centralisation of administration of those matters in the South Australian regional office of ASIC. I understand that ASIC has had to cut its budget for the regional small business program, which I understand will involve some job losses in those regional offices. Will that impact on your activities?

Mr Coleman—Let me say this: in the first term of the board under the chairmanship of Mr King, we approached ASIC and made a number of recommendations on how they could streamline their processes in relation to administrative matters. As far as we are aware—and we have had no advice to the contrary—the reduction in administrative matters is solely because of these new procedures that ASIC has adopted on the board's recommendation. Whether or not budget cuts will impact on the centralisation of administrative matters is a matter that I think is more appropriately answered by ASIC.

Senator CONROY—I was thinking more on your administrative matters. If they have retrenched or laid off the officer who was key to running your administrative savings, I am presuming there is a flow-on effect to you.

Mr Coleman—No, the administrative matters are those types of matters which are almost like strict liability offences where auditors or liquidators may have failed to lodge a statutory notice, have been convicted of an offence which warrants cancellation of their registration or have been bankrupted or something similar. Those matters are usually uncontested and are dealt with in about 15 minutes each. So they are more routine matters, and any reduction in those would not have an impact on our workload other than a positive impact on our budget.

Senator CONROY—I move to briefly discuss with you the Stuart Gooley case. Your board found him guilty of a number of things and made a number of recommendations in terms of penalties. He was suspended for two years, was he?

Mr Coleman—The board's original penalty was a two-year suspension.

Senator CONROY—You said the board's original—

Mr Coleman—That has subsequently been set aside by the Administrative Appeals Tribunal.

Senator CONROY—So your decision is still your decision.

Mr Coleman—Yes.

Senator CONROY—I got the impression maybe you had made a second decision. You supported that it was overturned?

Mr Coleman—Personally or the board?

Senator CONROY—I am happy to take either.

Mr Coleman—The board went to a great deal of trouble to outline the reasons why it gave that penalty, and so, too, of course, did the Administrative Appeals Tribunal. The board naturally felt that a two-year suspension was the appropriate penalty in that case and—

Senator CONROY—There were some very serious issues here.

Mr Coleman—Correct, yes—dissipation of \$50 million of shareholders' funds.

Senator CONROY—Did it surprise you that the tribunal agreed with all of your findings and left them all to stand and yet felt there was basically no penalty involved—that the embarrassment of being found guilty of such serious breaches was enough?

Mr Coleman—Personally speaking, yes, it was somewhat disappointing. In fact, solicitors acting for Mr Gooley, when they lodged the appeal with the Administrative Appeals Tribunal, only sought review of the penalty, so none of the facts were contested.

Senator CONROY—Were in dispute.

Mr Coleman—No.

Senator CONROY—It seems a fairly poor message—not to yourselves, who did the right thing, but to the industry as a whole—that, if someone can get no penalty for what is the most serious case in corporate history, other than maybe Bond or Skase, you can get off scot-free with just an admonishment.

Mr Coleman—I do not think that Mr Gooley got off exactly scot-free, even with the reprimand. Mr Gooley was a very senior and highly respected member of the profession—still is, I believe.

Senator CONROY—That is the problem; he should not be.

Mr Coleman—He was a member of a number of committees and auditing and accounting boards. He has to pay a costs order which is quite a significant amount of money, and that is still being argued as we speak. We anticipate settling that within the next month.

Senator CONROY—If he won the review of the penalty, does that mean you lost in terms of costs? You do not have to pay his costs for that appeal, do you?

Mr Coleman—No. In relation to CALDB matters, the Administrative Appeals Tribunal has no jurisdiction to award costs.

Senator CONROY—That would have been the final insult. In terms of Mr Gooley or anybody else who is found guilty by your board, this was a high profile case that got a little bit of media, which would be quite unusual, I would imagine, other than in the trade journals. Do you think that in the future Mr Gooley should have to disclose to potential clients his conviction? I appreciate that there is a shame file in the trade journals, but that is basically to your fellow professionals. I accept you do not want to be on the shame file. I am told it is the most well read section of some of the trade journals. But, in terms of the clients who are then

approached, do you think that people who have been found guilty by your board should be forced to disclose that fact to potential clients who are unlikely to have read a trade journal?

Mr Coleman—The board has not formed a view on that. Needless to say, someone in Mr Gooley's position is only going to be dealing with large and well-informed companies. His firm has stated their support for Mr Gooley and his position.

Senator CONROY—They have attacked the board quite vigorously, in fact, haven't they, publicly?

Mr Coleman—No. Arthur Andersen has let the board off rather lightly compared to some others.

Senator CONROY—I will get to KPMG in a minute.

Mr Coleman—I thought you might.

Senator CONROY—They are a very popular company. I do not know if you were following yesterday at all.

Mr Coleman—No.

Senator CONROY—You certainly have not formed a view. Is it under consideration—that it be a requirement that when you are found guilty you have got to notify potential future clients who will be unlikely to know? This is a disclosure, really, and it would add to the deterrent effect, hopefully, by being publicly shamed to potential clients, which I think would—

Mr Coleman—Mr Gooley's case did receive a little broader coverage in some places than in others. For example, in Melbourne the *Age* gave Mr Gooley's case a fair amount of coverage, whereas in Sydney I think it was sort of a footnote in 'Rear window' in the *Australian Financial Review* and nothing else. That case is also, I understand, going to be reported on the front page of an international accounting journal. That is the information that I have to hand. The board will take on board your question and the board will see if we should form a view. It should also be noted that in relation to membership of the society—CPA Australia and the institute—it is a breach of both their rules for one of their members to be disciplined by the CALDB.

Senator CONROY—Are you aware of either of those organisations doing anything in relation to Mr Gooley—suspending his membership, which would, in effect, have the same effect as what you had done, I would presume, if he has not got his certificate of CPA or ICA?

Mr Coleman—The most I can say in answer to that question is that the board has received several queries from people who I know are staff of the disciplinary committee of CPA Australia.

Senator CONROY—Okay. We can move on to the KPMG partners who were disciplined over the seven accounts. They have led a very vigorous attack on the board. In fact, they were very unflattering—bordering on nasty—to the individuals who actually conducted that review. Is that correct?

Mr Coleman—That is our assessment of it.

Senator CONROY—Do you think that it was fair criticism?

Mr Coleman—No.

Senator CONROY—What was the penalty for those partners?

Mr Coleman—Mr Amos, who was the auditor of the Seven Group, the listed company, was suspended for three months and was sent off for some additional continuing professional education in advanced auditing—I think about 10 hours in the next 12 months over and above his usual CPA requirements. Mr Walsh, who audited an unlisted subsidiary, was reprimanded and sent off for the same number of hours of additional CPA education.

Senator CONROY—Have you sought an apology? I think the gentleman whom they particularly targeted—have they apologised for their behaviour?

Mr Coleman—Not that I am aware of, no.

Senator CONROY—Are you seeking an apology on their behalf? They actually targeted an individual. Rather than just have a go at the board, they really picked on some poor gentleman from Adelaide. They portrayed him in a very derogatory manner. Anybody who knows the individual and takes the time to look at his CV would actually find that he has a fairly substantial CV. Could you outline the gentleman's CV?

Mr Coleman—Certainly. There is very much an abridged CV contained in the annual report. The person you are talking about is Mr Morris. He is the partner of an accounting firm in Adelaide. He is a member of the urgent issues group and he is also an Australian representative to the International Accounting Standards Committee.

Senator CONROY—That is a fairly substantial position. You do not just get that by being—

Mr Coleman—A partner in a second-rate accounting firm.

Senator CONROY—Yes. Thank you. I had obviously forgotten those words when I read them. Yes.

Mr Coleman—He has also previously been a member of the Auditing Standards Board and the expectation gap working party and previously chaired the ASCPA national technical standards committee. Mr Morris is held in the highest regard by every member of the board.

Senator CONROY—Thank you. I just briefly want to talk about Adsteam. I do not think it quite made it to you, but ASIC received an enforceable undertaking against Deloitte. Are you familiar with that case?

Mr Coleman—Only from what I have read.

Senator CONROY—You did not get a briefing on it? It seemed to me that there were some fairly serious issues there as well in terms of the profession.

Mr Coleman—I do not want to apply a strict legalistic answer, but, to preface my answer, the board's jurisdiction is only enlivened once it receives an application from ASIC. Until it does that, any information that comes to the board is either by way of what is out in the press or if ASIC decides to give us some form of informal briefing.

Senator CONROY—I might raise it with them the next time I have them—whether or not, as a practice issue, when they get an enforceable undertaking, it may not have reached the

prosecution stage or the disciplinary stage for you but they might want to give you just a courtesy briefing. I know that is a matter for ASIC. I assumed that they naturally would, when they received an enforceable undertaking, come back to you and just give you the details so you have got it on your file.

Mr Coleman—I am not even sure who the parties to the enforceable undertaking were.

Senator CONROY—Do you think that there are any systemic problems? These are fairly high profile individuals and high profile cases, with a couple of the biggest of what they call the big five. You have got two of the big five here, with senior individuals involved. Do you think that there is a systemic problem with the auditing profession at the moment? Do you see this as a decline in standards?

Mr Coleman—No. The board, I would say, would not say that there is a systemic problem.

Senator CONROY—Just a few cowboys.

Mr Coleman—I do not even think I would call them cowboys. The board has noticed some trends, but, just personally speaking, there has been a marked improvement in standards since the 1980s.

Senator CONROY—I should hope so. You could not say that when you are back at square one. You mentioned that you had seen some trends. Could you just briefly outline those?

Mr Coleman—It is anecdotal only. There has been no serious research by either me or any member of the board, but the trends we have noticed are that the bulk of auditors coming before the board are in their 50s.

Senator CONROY—Okay.

Mr Coleman—There is a very high percentage of them.

Senator CONROY—Being under 50 and not an accountant, I am not quite sure what that means. I am not quite sure what that would imply. Is there any change in accounting standards that people have not kept up with? Is that the kindest way to describe that?

Mr Coleman—We can only make assumptions on it, and, as I say, that is a trend that we have identified. It may be that after so many years—and I say this only hypothetically—

Senator CONROY—No-one is looking to catch you out here. I think you just made the joint front page of that international journal.

Mr Coleman—Thank you very much. It may be that auditors that have been in the profession for that long may overlook things inadvertently. I know myself, from drafting the document—a long document—after I have read it four times I am still missing the same mistake; I am sure that may well be happening. But that is just a trend that we have noticed.

Senator CONROY—Is that something that you would look at—an educational program? Obviously, there are equal opportunity laws nowadays and you cannot discriminate against anybody who is over a particular age. You could perhaps look at a program for somebody who has been in the industry 25 years or a refresher course that you could look at as a way to address that trend?

Mr Coleman—Yes. The chairman and I currently are exploring methods which we can communicate what this board under Philip King has been doing for its first triennium and communicating to both ASIC and the profession by one way or another some of the trends we have noticed, like that particular trend I mentioned in respect of auditors. That may mean either myself or the chairman preparing a paper for publication in a trade journal or a house magazine of one of the larger firms. I have already been approached by one firm to write a joint article with one of their staff for their house magazine.

Senator CONROY—Have you discussed this with the CPA or the ICA?

Mr Coleman—No, not yet, because the chairman and I are still talking about how we want to proceed with it. Once we have made a more concrete decision, then we will approach the relevant accounting bodies and see—

Senator CONROY—Is there anyone under the age of 50 on the board or in any of those associations that you can draw natural support from?

Mr Coleman—I beg your pardon?

Senator CONROY—Is there anyone under 50 that you can draw natural support from?

Mr Coleman—On the board? I do not think that there is anybody under 50 on the board. I cannot speak for Mr Morris.

Senator CONROY—I am trying to think of every avenue where you can try and sell this idea. Just one last question—and I asked this question of ASIC but I did not get particularly far—I am sure you are aware of last week's *BRW*.

Mr Coleman—I have it here.

Senator CONROY—There was an article which was titled 'Insolvency: "Puppets" under pressure: suspicions about the independence of voluntary administrators put the system under scrutiny'. It questioned the independence of some insolvency practitioners when appointed by directors of ailing companies need a voluntary administrator. Do you have any comment on that? I appreciate that it is a glossy magazine and it might have been sensationalised a bit, but there was a serious issue at the nub of what they were writing about.

Mr Coleman—The board has not had any matters involving a conflict of interest between voluntary administrators and the directors of the company under administration brought before it, and the board is really not in the business of developing policy in the area, although by default some of its judgments do in the end create policy. There was a recent example where the board's decision changed the entire profession's practices.

Senator CONROY—What was that?

Mr Coleman—It was in relation to joint administrators. There was a view in the profession in relation to a joint administrator who had been appointed joint only so he could take over if the lead administrator went on holidays, was overseas for some reason or was unavailable. The second administrator was of the view that he could sit there and do nothing until he was called in to do something. An administration went wrong. The lead administrator agreed to a nine-month suspension by consent and the second administrator defended the action brought against him. The board held that he had a duty similar to a sleeping director of a company.

Senator CONROY—You have to do something to earn the money, in other words?

Mr Coleman—No, he has to keep himself apprised of the administration on an ongoing basis.

Senator CONROY—So you should not take the term ‘sleeping director’ too seriously.

Mr Coleman—Correct.

Senator CONROY—There is a case which I think was mentioned there and which has been talked about in other newspaper articles recently—National Textiles. There was a perceived relationship between the person called in to be the voluntary administrator and the directors. Are you familiar with that case?

Mr Coleman—Only from what I have read in the press.

Senator CONROY—From what you have read, would you be concerned if there was that link?

Mr Coleman—The board would consider an application from ASIC and, based on all of the facts presented and after offering the respondent an opportunity to be heard, would make decisions as to whether or not that conflict existed and what to do about that conflict. If the board had such a matter brought before it, the board would naturally be very concerned that these conflicts were arising and would be very concerned if a trend was occurring within the profession.

Senator CONROY—From the facts that were available in the media, it does seem to be a reasonable case of a degree of conflict. I appreciate that it is a newspaper report and I am sure all the facts are not available, but certainly there appears to be a relationship.

Mr Coleman—From my personal experience, a case brought up on such a set of facts would require a hell of a lot more information than is provided in the press. I would not like to comment either way. I cannot.

Senator CONROY—Are you aware of any other cases and matters like this coming before you that have been raised? Are there any coming up or have there been any recently that you are aware of?

Mr Coleman—I cannot confirm or deny whether or not I have any coming up. I have a statutory obligation to maintain the confidentiality of matters presently before the board. I can speak of matters that have been dealt with by the board. From my recollection, the board dealt with one auditor approximately three years ago who had a conflict with his client company.

Senator CONROY—Who is in charge of establishing, if you like, the protocols, regulations or industry practice to try to delineate those conflicts of interest? I understand that in cases to do with auditors, for instance, you have seen Mr Levitt, who has recently retired, have a red-hot go at really trying to draw the lines. I understand that that is something that is being considered here in Australia. Who looks after that similar sort of standard? There is no one? Is it just understood that ‘Tut-tut, you shouldn’t do it.’?

Mr Coleman—My understanding from the press and from my limited experience in the area is that the setting of standards in relation to auditor or liquidator independence and other

similar standards is the responsibility of the various professional bodies—in this case, the insolvency practitioners institute or CPA Australia.

Senator CONROY—The reason I ask is that it seems you are a fairly logical place to start or organisation to have involved in those discussions, given, as you said, that your judgments had changed practice. Obviously you carry a lot of weight in this sort of discussion. Are you actively involved in discussions on this issue?

Mr Coleman—No, because the board only carries any weight once it has handed down a decision that has been affirmed on appeal or has not been appealed, as was the case with KPMG Partners.

Senator CONROY—So you would have no capacity to say to ASIC, for instance, ‘We have noticed that this is a bit of a growing problem’ or ‘There is a fair bit of angst about it. We think we can make a contribution. We can give you a discussion paper about it.’ Do you have the facilities to do that? Maybe there are really just you and one or two others in your office and that you actually spend all of your time on cases and have no research capacity. I plead ignorance on the issue of whether you have a research unit or the capacity to make a contribution to ASIC on that debate. ASIC are very overworked, so they do not always pick up on all the market trends straight away.

Mr Coleman—First of all let me say that the CALDB is a one-man agency.

Senator CONROY—It is just you? Sorry.

Mr Coleman—Apart from my board members. In the case I mentioned earlier regarding the co-administrators, the board in its decision did suggest that I write to the IPAA and inform them of the outcome of that decision. I withheld that notification until the outcome of the AAT appeal. However, that case caused so much discussion within the profession that they were moving on it before the matter came up before the AAT and it was no longer considered necessary to write that letter to the IPAA. Where the board does see a trend or a serious area for concern that the relevant body should address in relation to its standards, the board is not reluctant to communicate its views, either through a decision or additional to the decision, by letter.

Senator CONROY—Do you get invited to speak at seminars and those kinds of things where you could raise those issues if you felt there was a trend? Do you have the capacity to write an article, as you say, that would appear in the journals or appear at a trade conference?

Mr Coleman—As I said earlier, that is one area we are exploring. The solicitor who has been acting for us with the Australian Government Solicitor—when we need legal advice we take it externally from the AGS—is currently the editor of the *Insolvency Law Journal*, and he and I have been talking about that possibility. The chairman has been invited to participate in one or two conferences, but the chairman is of the view that it would be inappropriate for him to do that, because we are an adjudicatory authority. It would be, I suppose, similar to a District Court or Supreme Court judge going along to discuss—

Senator CONROY—Not enunciating the law?

Mr Coleman—No. The board enunciates the law in its decisions.

Senator CONROY—But Michael Kirby and others—judges—often give their views about legal arguments.

Mr Coleman—I should qualify what I said. The chairman has been invited to participate in panel discussions at conferences, and he considers that inappropriate. He has not been—

Senator CONROY—Really? He thinks that it is inappropriate for him to say, ‘Look, we see this trend and we want you to address it.’? Is it a secret society, with a wink and a nod behind a closed door?

Mr Coleman—I do not think that is a view generally. It is because of the other members of the panel in the cases I am speaking of. In fact, one of the other members of the panel was a previous respondent before the board.

Senator CONROY—Is that sort of like gamekeepers and poachers? Is that an experimental approach?

Mr Coleman—I am not sure.

Senator CONROY—I just would have thought that the chairman and you appearing in a panel situation would be able to comment on the cases—not the actual individual cases but the themes that came out of the cases. I thought it would have been helpful to the industry for that to appear in magazines and in journals. Just because somebody has once appeared before you should not mean that there is a veto involved.

Mr Coleman—As I said earlier, the chairman and I are both exploring methods by which we can communicate the board’s views. As I said, we are exploring putting journal articles in. We are not opposed to writing journal articles.

Senator CONROY—It will stimulate public debate, won’t it?

Mr Coleman—It may be that once some of those articles are published there may be more invitations for the chairman to come along and express his views. It would probably be inappropriate for me because I am not an auditor. I am not a liquidator. My experience is elsewhere. I have administrative experience, and that is why I hold the role.

Senator CONROY—Maybe I will get the chairman to come with you next time.

Mr Coleman—The chairman actually sends his apologies, but he had an unbreakable engagement in Queensland.

Senator CONROY—That is quite all right. Hopefully, we will see him next time. I look forward to meeting him next time and I can chat with him about it direct.

Mr Coleman—Definitely.

Senator CONROY—Thank you very much.

CHAIR—Thank you, Mr Coleman, for coming in this morning and completing that. We now move to tax.

Senator COOK—While we are changing over, Mr Chairman, last night I said that we—that is, the Labor Party—would abolish the Board of Taxation. That is not the policy of the party and I now withdraw those remarks.

Senator Kemp—You also made some comments about the members of the board.

Senator COOK—I did not make any comments about any individual member of the board. If anything I have said is regarded as an attack upon the integrity of the board, then it is not intended.

Senator CONROY—They are all government flunkeys, though.

Senator Kemp—Senator Conroy, stop mumbling under your breath. If you have something to say, say it loudly. Put it into *Hansard* and then we can have a debate.

Senator CONROY—I would be happy to. I said they are all government flunkeys, sycophants to the GST.

Senator Kemp—They will judge you, Senator.

Senator CHAPMAN—Are you—

Senator CONROY—Are you inviting me outside, Senator Chapman? I have just been intimidated.

Senator CHAPMAN—Ten steps to courage.

Senator CONROY—I am going to have to raise this in parliament. I have been threatened by Senator Chapman.

Senator Kemp—Senator Chapman, the only observation I would make is that people will draw their conclusions from a man who purports to be a senior member of any future Labor government. The way he talks about people is disgraceful.

Senator CHAPMAN—There will never be one, Minister.

Senator COOK—That is what they said in Queensland.

Senator CONROY—You live in the last bastion of conservatism. Don't worry. Have you checked your phone? Wilson's been on the phone inviting you back. I think you should turn your phone on. There is a very important call.

[9.40 a.m.]

Australian Taxation Office

CHAIR—The committee will come to order. We welcome to the committee Mr Greg Smith and Mr Bruce Jones. Any questions, Senators?

Senator COOK—The Treasurer yesterday issued press statement No. 7 headed 'Streamlined GST and PAYG reporting', which is extensively reported on today, of course. Has there been any amendment or addition to this statement since, or is that still the government's position?

Mr Matthews—As far as I am aware, the statement stands as is. We have published some additional information on our web site today to give further explanation. That is the only extension that I am aware of.

Senator COOK—What does that do? Does it amplify what is in this statement?

Mr Matthews—It does provide some amplification on some aspects, and, of course, we will be continuing to do that as we explain and follow through on the education and information campaign, which I believe is foreshadowed in the release.

Senator COOK—Does it change anything that is in the statement?

Mr Matthews—Not that I am aware of. Do you have something particular in mind to focus me?

Senator COOK—I will come to that. I just want to be sure that, in your view, nothing that has been published since this statement changes it.

Mr Matthews—I believe that what would have gone out should be consistent, but I would be happy to try and respond to anything specific that you have in mind.

Senator COOK—We will come to a couple of points in a moment. Last night on the *7.30 Report* the Treasurer said he had been kicking and screaming to get these changes made to the BAS; that he had been, in the context of his statement, doing this ahead of the Labor Party's proposal to amend the statement, ahead of the West Australian election and ahead of the Queensland election; and that he had not been dragged kicking and screaming to do it because of the change in the political climate—words to that effect. Did he go down to the tax office and kick and scream, Mr Matthews?

Mr Matthews—Senator, I was not home from here in time to catch that report. All I can say is that, of course, as I think I mentioned last night, the consultation process to start taking on board feedback from the business activity statement started, in fact, before Christmas. I can clarify the date of the meeting you asked me about last night. The first meeting was on 15 December. I have now covered that point. So feedback is a process that has been under way for some time and, as you know, has culminated in more recent meetings and the announcement of the government yesterday.

Senator COOK—So he did not go down and kick and scream and demand change? It arose from a consultative process.

Mr Matthews—In my experience, the consultation process has been a very productive and measured one.

Senator CONROY—You did not notice the Treasurer kicking and screaming at all?

Senator Kemp—I think the response has been given. The Treasurer has indicated his enthusiasm to promote change. I think that was the nub of what the Treasurer was referring to. I think that was the thrust of what I understood the Treasurer to be saying.

Senator COOK—Mr Matthews, if the need for change arose from consultation being conducted by you or your office, why could the changes not be made administratively by the commissioner?

Mr Matthews—I believe that indeed some of them can and will be. As the press release makes clear, the commissioner will administer the arrangements under the existing legislation. However, some elements of the changes may require legislative change. That is why the announcement was made by the Treasurer yesterday.

Senator COOK—This is not a way of the Treasurer kicking and screaming and insisting 'We will legislate over you' rather than allowing the tax office—

Mr Matthews—I think we have covered that. I have not been screamed at or kicked. I am sure the commissioner has not, either. I think the expression seems to me to convey an

enthusiasm for change and should not be taken literally in the sense that you seem to be trying to take it.

ACTING CHAIR—A figure of speech, in other words.

Mr Matthews—I believe so.

Senator CONROY—Grandstanding? Is that the word you are looking for?

Senator Kemp—Can we just stick to the facts.

Senator COOK—Which changes that were announced yesterday do require an amendment to black-letter tax law in order that the collection of information necessary to rate taxpayers will be changed to this system?

Mr Matthews—Perhaps I can come to that in another way in that I believe the existing GST law will enable the new reporting arrangements and instalment arrangements to be put in place now, pending legislation, and that there is the possibility of some changes to give effect to some of the annual reporting requirements which, of course, do come into place further down the track.

Senator COOK—So virtually we can do it now administratively?

Mr Matthews—Some of it, Senator.

Senator COOK—Some of it?

Mr Matthews—The earlier parts, I guess. That is the gist of what I am saying—the parts that need to be moved upon immediately.

Senator COOK—Just so that I am clear, let me return to my question. You have turned my question around, which is fine, but let us go back to it.

ACTING CHAIR—That is unfair.

Senator COOK—I am not trying to have a debate. I was just observing that what Mr Matthews said he did.

Mr Matthews—I did—

Senator COOK—Mr Matthews said, ‘Let me come at this question this way.’ I am not hectoring him or anything; I am just saying, ‘That is what you did.’ But can I go back and pursue the line of questioning I want to take, which is my reasonable and polite right, I think?

ACTING CHAIR—Continue in that vein and you will have the chair’s support.

Senator COOK—Thank you, indeed. It is Friday morning.

Senator Kemp—It has been a long week.

Senator COOK—It has not even begun.

Senator Kemp—I think it is more than beginning. I can see the final siren in sight.

ACTING CHAIR—Put your question, Senator Cook.

Senator COOK—Thank you. What parts of the minister’s statement yesterday require a change to the act in order to give effect to what he has undertaken to do?

Mr Matthews—As I said, in broad terms I think there may be legislative change required to give effect to some of the pay-as-you-go changes and some of the annual elements of reporting.

Senator COOK—The annual elements?

Mr Matthews—Yes.

Senator CONROY—Such as?

Mr Matthews—There are a number of features of these new choices which enable, for example, those who take advantage of the GDP instalment system to complete their obligations by lodging an annual reconciliation of their GST together with their income tax return. That may require some change to the legislation.

Senator COOK—Were those changes recommended to the Treasurer by the tax office arising from your consultations?

Mr Matthews—There is a lot of advice provided by us and others to the government. I believe it is the custom for us not to be drawn on what confidential advice and recommendations we might make to the government. I understand that is the custom—that our advice to the government is confidential.

Senator COOK—Okay. So you cannot reveal publicly what you advised the minister?

Mr Matthews—I believe that is the custom, that we would take that position.

Senator Kemp—In fairness, I think that is the custom which has a very long standing, and I think it would be a significant change in the nature of government of this country if that information was freely given before committees.

Senator COOK—Obviously, I will not ask for things to be revealed. It would be improper. However, given the extensive consultation to which you have referred, what were the major features from the tax office point of view that came out of that consultation? Where did it see the priorities for change?

Mr Matthews—I am trying to disconnect those two things momentarily. As has been made clear in the media and by other commentators, there was a diversity of opinion out in the community between those who were finding the new reporting arrangements under the new system easy and who were comfortable with it, and there was another component who were clearly finding those things difficult. The feedback was really broken along those two camps. Hence, as I mentioned last night, I believe the new choices now provide that balance. Clearly, the reporting arrangements were troublesome for some. That was, I think, a matter of public record - the area of most focus.

Senator COOK—So the area of most focus was what, the frequency of the lodgment of forms?

Mr Matthews—No. For some, the information required was clearly proving an onus for them.

Senator COOK—The red tape?

Mr Matthews—As I mentioned last night, the information required to administer the system, whether in business or in the tax office, is a product of the legislation. The form and the records kept in business are a product, again, of the legislation, not merely a matter of administration.

Senator COOK—The impression I have from your remarks - let me articulate the impression I have obtained and you can tell me whether I have misunderstood you. The impression I obtained was that, while of course the office is open to views expressed by the taxpayers about how things can be improved, by and large business can look forward to a period of stability after these changes. We do not expect that next month, if there are more complaints, the forms will change again; we expect a period of reasonable stability. Is that a correct interpretation of what you were trying to do?

Mr Matthews—There is a package of change now, which has been announced in this press release and which will need to be more fully explained in the course of the education and information campaign which we now need to commit to and follow through on. I believe that that is the extent of the changes that I am aware of at this stage. I think the short answer to your question is yes.

Senator COOK—Thank you. However, I think I am obliged to point out that at the previous estimates you were as certain then that there was no need for change as you appear now to be certain there is no need for ongoing change.

Mr Matthews—I think we covered that last night.

Senator COOK—I would not want to embarrass you by going back to the record and quoting.

Mr Matthews—I would not be embarrassed, but I think we did cover that last night.

Senator COOK—However, this time we think we have got it right. According to the media, a number of complaints about the changes have been voiced. Can I just go to a few of them and get your views about them? Firstly, Mr Ron Silverberg of the Housing Industry Association is reported in the *Herald Sun* today as saying his members had had a big drop in activity over the summer holidays, the period immediately after the December quarter BAS. That meant their next GST liability for the March quarter would be calculated on the basis of a time of much greater activity. ‘When they were asked to pay, they may not have the money’, Mr Silverberg said. That is a legitimate concern, isn’t it?

Mr Matthews—If I could simplify that to make sure I have it clear, I think you are saying that the December quarter that would have been reported on by his members was a period of lower trading and, therefore, if we base an instalment on that, it would give them a lower result than might be the actual.

Senator COOK—You were not here yesterday, but we had a discussion in the macro-economics section with Treasury about the building industry. While Treasury will argue prospects appear rosier, there is no doubt, I do not think, that the building industry has fallen into a great big hole since the GST.

Mr Matthews—I think I have understood what has been expressed there.

Senator COOK—Mr Silverberg is saying, ‘Therefore, on behalf of my members, it is an unrepresentative period.’

Mr Matthews—That is why, as I think the press release makes clear and certainly the additional information on our web site makes clear, people who choose the flexibility of the instalment option will have the ability to vary their instalment to more closely reflect their current sales pattern. So that would be applicable either upwards or downwards and, therefore, would be an option open to members of Mr Silverberg’s organisation and anyone

else. So they can vary if they feel that the instalment that we provide for them does not reflect the instalment they would wish to pay.

ACTING CHAIR—Can I ask a question?

Senator CONROY—The chair wants to exercise his prerogative.

Senator COOK—Before you do, I was distracted and I was wanting to—can I ask Mr Matthews to go over that last bit again, because I want to be sure I have it right?

Mr Matthews—I was saying that if anybody - Mr Silverberg's members included - feels that the instalment that we provide for a quarter is not reflective, is either too high or too low according to their view of their trading position, they can vary that to more closely reflect their current sales. So that would be the option that enabled—

Senator CONROY—So you are billing them, in effect, the same as their last time?

Mr Matthews—We will advise them of the appropriate instalment based on their December quarter. As in other parts of the tax system, they can vary that amount to more closely reflect their current sales if they choose to or they can simply choose to pay the amount that we provide and do nothing else. So that flexibility is there to accommodate that situation.

Senator COOK—I have some further questions on this point, but I will yield to the Acting Chair.

ACTING CHAIR—Given that under the new arrangements taxpayers have two options, are there any restrictions in terms of when they exercise that option? In other words, can they continue through to 30 June or next December or some other time or must that option be exercised straightaway? What is the time period for them to exercise that option?

Mr Matthews—The new instalment option would be available from the next quarter so that we will provide in time for the third quarter, which is due on 28 April, an instalment amount. People can choose that option then and we will ask them to confirm that that is the system on their fourth quarter. We will ask them to confirm that that is the system they want to adopt from that point.

ACTING CHAIR—My point is this: is it possible for people to continue, say, if they wish to 30 June before exercising the option to go to the new option? Can they continue as they are going now if they so desire and then at 30 June it might suit them then to move over to the new option, or must they exercise that this current quarter?

Mr Matthews—We will provide the choice on the fourth quarter, so they could go through in the third quarter if they wish. We will provide the full range of options on their fourth quarter form, which we expect to be a new form. They will confirm that choice or make that choice on that.

ACTING CHAIR—It is just the cyclical pattern that some businesses might have an unusual up or down in the December quarter.

Mr Matthews—Indeed, as the earlier question has indicated but, again, they can choose that from the third quarter with the option to vary the instalment if they wish.

ACTING CHAIR—Or from the fourth quarter after the end of June?

Mr Matthews—Yes.

Senator COOK—Where does it say in the press release that you can do this?

Mr Matthews—In the press release itself there is a reference to accommodating fluctuating incomes, but I may need to be sure of that. It is under variation provisions. It is in the second paragraph at the top of page 2. The last sentence states that variation provisions will be available where previous year's adjusted payments are not suitable.

Senator COOK—And that explains all that you have just told us?

Mr Matthews—That is the covering provision which—

Senator CONROY—Fake words.

Mr Matthews—I think it is very clear: variation provisions will be available where adjusted payments are not suitable. I could have simply answered your question with those words, I believe, and that would have been quite adequate.

Senator CONROY—You have adequately described it. I think you have adequately described it.

Senator COOK—But, with respect, the problem is that you then go to the transitional arrangements. For example, it is not clear whether those variation provisions are available for quarters three and four from the text. You are saying they are not?

Mr Matthews—No, I am saying they are.

Senator COOK—They are? Will that require legislation?

Mr Matthews—Not to my knowledge.

Senator CONROY—Can I just clarify that sentence? That sentence refers to the fact that next year there will be variation provisions. It says, 'Variation provisions will be available where previous year's adjusted payments are not suitable.' It is previous years, not previous quarters. So in actual fact it does not cover the issue we are talking about.

Mr Matthews—No, I accept your point, but clearly any press release will not cover the full dimensions and explanation of the information campaign, which the press release notes, we will need to accompany these changes. There will obviously be some elaborations on what is in the 2000 press release.

Senator CONROY—Basically, there will be a lot of finetuning and elaboration, but we are just trying to get to the nub of what was announced. Does your web site contain those same words? I could call it up if I knew how to find it, but that is my technology issue, not yours.

Mr Matthews—The web site does include those words. What is further elaborated on the web site is that, for the remaining two quarters of 2000-01, entities choosing this option will pay instalments equal to their GST net amount for the December quarter excluding any sales tax credits or a varied amount to more closely reflect current sales. That is the statement on the web site.

Senator COOK—The point both Senator Conroy and I are concerned about is that when asked to identify where it indicates that you can vary for the third and fourth quarters you point to the sentence 'Variation provisions will be available', and you make that point to us. But the fourth sentence goes on 'where previous year's adjusted payments are not suitable'. A plain reading of that does not suggest that the remaining quarters—the third and fourth quarters—are therefore eligible, does it?

Mr Matthews—I agree with your point of detail, but as I have said there will be many things which we will need to more clearly explain in the coming days and weeks in the lead-up to the option.

Senator CONROY—This is a policy variation, though.

Mr Matthews—No, it is not a policy variation because the web site document is also there to provide additional information to what was announced in the press release.

Senator COOK—Where does it say that in the press release?

Mr Matthews—It says that the tax office will mount an extensive information education campaign to accompany these changes, and this is part of it.

Senator COOK—It does not say in the press release, 'Check our web site.'

Senator CONROY—When was the web site posted?

Mr Matthews—I think last night. I could check the exact time for you.

Senator CONROY—Last night?

Mr Matthews—I think it was last night.

Senator COOK—After Mr Silverberg made his comments?

Mr Matthews—Yes.

Senator CONROY—After the press release was issued?

Mr Matthews—It had nothing to do with Mr Silverberg's comments. I can quite assure you that that was written well before.

Mr Smith—The second sentence under transitional arrangements refers to the decision to introduce these arrangements—that is, all of them referred to in the previous section—early. So I think that the link sentence in the press release is that, notwithstanding the absence of any data—

Senator CONROY—But a very constructive—

Senator Kemp—Just hold on.

Mr Smith—It is the statement that, nevertheless, the government has decided to introduce these arrangements immediately to apply from the third and fourth instalments. The only variation of these arrangements that is then made is the explanation of how that is done without a previous annual return, which is the next paragraph. By implication, these arrangements are all of the arrangements set out in the previous section subject to the fact that special measures are necessary in the absence of an annual return. I think that was the intention of the press release.

Mr Jones—Certainly, the second and third paragraphs are broad descriptions of the change. That is why they are, in that sense, not year specific apart from the 2002 component.

Senator COOK—When asked the question directly, you point to the variation provisions sentence at the end of the second paragraph on page 2. We have already had Mr Matthews acknowledge that that improperly explains the point and that, therefore, one ought to consult the web, which was posted after the press release. But there is nothing in the press release to say, 'Go to the web for more information.' What is in the press release is that the Tax Commissioner will provide extensive information and education. Where do you get it? It does not say.

Mr Matthews—I think what has now been further provided is that the sentence that mentions the variation provisions should not be read out of context of the rest of the press release, which Mr Smith has now clearly focused us on.

Senator CONROY—He spoke to us on those implicit assumptions.

Mr Matthews—The intention is clear in both the release and in the web site information.

Senator COOK—In order to come to the intention and in order to avoid what clearly is an assumption that policy is being changed daily—on the run as we go—one has to go to the context of all of this. Three months ago you said, ‘Perfect. We won’t change it. This is world’s best practice.’ The Labor Party comes out with its form. There is an election in Western Australia. There is an election in Queensland. Anger and annoyance at the BAS form is one of the elements that the analysts point to as a reason why the Liberal heartland votes Labor, and hey-presto in the next week the Treasurer comes up with this. There is a criticism by Mr Silverberg and, bang, on the web we see something that is not contained in here.

Senator Kemp—Mr Chairman, can I just make a comment?

Senator COOK—Is that not a sequence—

Senator Kemp—Senator—

Senator COOK—I have not finished. If you don’t mind.

Senator Kemp—Hurry up and I will respond.

Senator COOK—I will take my time to make this point, because it is quite an important point. One cannot escape the context in which these things happen and the circumstances that give rise to those changes. This has been a badly handled mess-up for which Australian small business has paid an onerous penalty and many of them have claimed that they have gone out of business because of the extra workload, which is in direct defiance of the government’s undertaking at the 1996 election to halve red tape. When you mention that to any business audience, a hollow laugh ensues. Now you have come up with your masterly change. There are some positive things here that we applaud. We still do not think you have got it right. Business is still testy about it and then there is a further change. If that is not policy on the run, if that is not running electorally scared, I ain’t seen it before.

ACTING CHAIR—Senator Kemp, your opportunity to refute those remarks?

Senator CONROY—Stop leading the witness.

Senator Kemp—We have had an example of policy on the run from the Labor Party in the last 12 hours. Last night the Board of Taxation was so appalling that Senator Cook would not have any truck with it and it was going to be abolished. That was Labor Party policy. First thing this morning—

Senator COOK—Can I just say it was not. And I corrected the record this morning.

Senator Kemp—First thing this morning; that is right. Last night the Labor Party was—

Senator COOK—I said I was wrong.

Senator Kemp—looking to a senior—

Senator COOK—I do not want to be misrepresented.

Senator Kemp—So sensitive!

Senator COOK—Point of order, Mr Chairman.

ACTING CHAIR—There is no point of order.

Senator Kemp—I am going to finish my comments, Mr Chairman.

Senator COOK—On a point of order—I do not want the minister to mistakenly mislead—

ACTING CHAIR—Senator Cook, just a minute.

Senator COOK—The point of order is this: I said I was wrong. Labor Party policies remain the same.

ACTING CHAIR—There is no point of order, Senator Cook.

Senator COOK—And I have withdrawn as a consequence.

ACTING CHAIR—You are debating the point.

Senator COOK—No, it is not a debating point. It is a factual point.

ACTING CHAIR—Order!

Senator COOK—And it is a question of my integrity in dealing with the committee.

ACTING CHAIR—Senator Cook, you have the right to respond after the minister.

Senator Kemp—Mr Chairman, we have had to sit here and listen to a five-minute diatribe from Senator Cook that was highly political, highly tendentious and highly false in many cases. Nonetheless, we sat here quietly because we understand the rules of the game. If Senator Cook wants to go on in this manner, people respond. So Senator Cook went on and on and used this forum in quite an improper manner. Then the big substance of his comments was alleging that the government had made a huge backflip. I then draw attention to what I regarded as one of the more amazing things I have seen before an estimates committee. Two Labor senators spent a considerable amount of time last night telling us how awful the Board of Taxation was and what a poorly constructed body it was. The members of the board were insulted. Lo and behold, first thing this morning in trots Senator Cook and says, ‘Sorry about that last night. It was all quite false. In fact, the Labor Party now thinks the Board of Taxation is a great idea and the board will continue.’

Senator CONROY—No, that is not what he said. The Labor Party had always thought that.

Senator Kemp—No, I am going to continue now because we have had to put up with a long comment from Senator Cook. If you want to behave like that, I will respond equally. So Senator Cook then went on and tried to construct a case that somehow the government was making changes daily on the run on this particular BAS statement, which is quite false. The situation, Senator Cook, for your information—

Senator COOK—I said you were running electorally scared.

Senator Kemp—Senator Cook, we can have this in the chamber. I do not know why you are wasting the time of the senior officers of the department with this sort of highly political comment.

Senator COOK—I am waiting to ask you a question. You are holding the floor.

Senator Kemp—No, Senator Cook. You set the standard and I am following through. I am going to finish this comment. What Senator Cook said, as is so often the case, was false. Just as his comments last night were silly and ill-informed, so his comments this morning have been silly, ill-informed and highly political. The fact of the matter is the government, as I said yesterday, has listened to community concerns and responded appropriately to those concerns.

There was a completely false and pathetic attempt to pretend that there had been changes since last night, which was quite untrue, which had been carefully explained to Senator Cook by Mr Smith and by Mr Matthews, and yet Senator Cook then persists with this quite false line of argument. We can deal with the political issue in the chamber. We are more than happy to do that, and that is the appropriate spot. I put this to the committee: we have officers here who can answer questions on these important changes. I suggest we stick to that. But if there is going to be political comment at this table, I am going to respond. If fair questions are put to the officers, I am more than happy for the officers to respond.

ACTING CHAIR—Senator Cook, do you wish to respond or do you wish to ask a question?

Senator Kemp—Can I also add that I think Mr Smith has some further information.

ACTING CHAIR—Mr Smith, you have further information to clarify this?

Mr Smith—I would like to quote from the Treasurer's press conference yesterday on the release of the press release—

Senator COOK—Do you have a transcript of that press conference?

Mr Smith—I am quoting from a transcript that I have been given.

Senator CONROY—Could we have a copy of the transcript? It is a public transcript?

Mr Smith—I rely upon the minister's officers for that. Referring to the transitional period, I will quote the relevant section:

But we think that that is the best snapshot—

referring of course to the December quarter—

in this transitional situation to take. If it's not an appropriate snapshot, they can still do variations. But it gives us the opportunity to simplify that as from April.

So there in the press conference is an explicit reference to variations in the transition.

Mr Matthews—Finally, I could just say that I am personally aware that the information on the web site was written and ready at the same time as the press releases.

Senator COOK—You are aware it was?

Mr Matthews—Yes.

Senator COOK—It was posted later, of course.

Mr Matthews—There is always a slight lead time.

Senator COOK—Let me go to another business question raised about the form. The *Australian Financial Review* today states:

... a spokeswoman for the Australian Industry Group, Ms Heather Ridout, said cash flow remained a problem for many businesses and the changes announced yesterday would not address that issue.

The article then actually quotes her, and I assume these are, therefore, her own words:

'I don't think it necessarily goes all the way ... We were hoping that we would get unified annual reporting,' Ms Ridout said.

'Businesses are struggling not only with the regulatory thing, but also with cash flow... We are hoping there will be some more consultation for further changes.'

The Australian Industry Group represents a major section of industry in manufacturing and construction and is a well regarded and respected industry organisation, is it not?

Mr Matthews—I am not actually very familiar with that particular organisation in detail. I am aware that, having scanned the media releases this morning from the CPAs, Hays Knight, the National Farmers Federation, the National Institute of Accountants, the Chamber of Commerce and Industry, the Institute of Chartered Accountants and so on, there seems to have been, if I could say, a fairly overwhelming positive response from those sources—

Senator CONROY—They are all going to get more money to sell this now, aren't they? They are all going to get paid more money in an education campaign.

Mr Matthews—on balance to what are obviously always going to be a range of opinions.

Senator COOK—You are debating with me now.

Mr Matthews—I am not debating with you, Senator.

Senator COOK—You are.

Mr Matthews—I am simply saying that I cannot comment on those particular ones. You singled that one out. I am just simply saying that there has been a range of reactions—

Senator COOK—With the greatest of respect, you are debating with me. I will deal with those other organisations, but the question I am asking you about now, and the question to which I would appreciate an answer, is: you say you are not aware of the Australian Industry Group and you cannot verify that it is a widely representative group which is respected as the voice of manufacturing and construction. I accept that you are not aware of them and you cannot verify that. I hope you will take my word for it that that is what they are and they are highly regarded as representative of the needs of business in those sectors that I have referred to.

Mr Matthews—Yes.

Senator COOK—I am aware of a lot of positive comment and I must say that, since these changes copied many of the aspects of what the Labor Party proposed, we would welcome them as well. The trouble is: we think they do not do it well enough and they do not do it properly and there are still some problems with the system that has been announced. That is the area.

Senator Kemp—Mr Chairman, Senator Cook is quite entitled to have his views. I do not argue with the fact that people will have different political perspectives. But I think the overwhelming response has been extremely positive. This is not to say that every person in every organisation gives it 100 per cent, but I think the response has been tremendous. If you look at the collection of press releases, the NIF, 'BAS winners for farms and small business—

Senator CONROY—\$4 million to the CPA and \$1.4 million to the chartered accountants—

ACTING CHAIR—Senator Conroy—

Senator CONROY—These are your paid hacks.

ACTING CHAIR—The minister has not finished talking yet.

Senator Kemp—I will just make the fact that Senator Conroy—

Senator CONROY—You have given them a lot of money to cover up their debacle last time.

Senator Kemp—Senator Conroy spends his whole time attacking senior people in this country. He spends his whole time—now he is attacking very respected bodies and

organisations. Senator Conroy holds himself out as a member of the alternative government. People will judge what sort of people these are. These are independent bodies. These are not bodies which are bought by the government. These are bodies—

Senator CONROY—\$8 million to ACCI—

Senator Kemp—Let me finish.

Senator CONROY—These are bought and paid for. These are people who designed the original debacle.

ACTING CHAIR—Senator Conroy, you have the next call, but the minister is on his feet.

Senator Kemp—Mr Chairman, I have a rule at this committee, as you know, that if there are fair questions being asked and factual questions seeking responses from officers that should go on, but if people are going to make political comments, I am going to respond. I am not going to leave on the record that Senator Conroy can get away with attacking bodies like the CPA, the National Farmers, ACCI—

Senator CONROY—The Tourism Council.

Senator Kemp—Let me go through all those bodies which Senator Conroy has now said have been bought.

Senator CONROY—Paid hacks.

Senator Kemp—That is what he said. The *Hansard* will show that. These are—

Senator CONROY—Mark Paterson is a muupet for the government.

Senator Kemp—These are respected independent bodies which have often been very vocal in areas where they do not agree with the government. For Senator Conroy to come to this committee—

Senator CONROY—Mark Paterson has only ever agreed with the government.

Senator Kemp—and go on with this sluggish behaviour: they will judge you, Senator Conroy. You are meant to be holding yourself out as a minister of an alternative government. You are basically a union thug and your behaviour here absolutely demonstrates—

Senator GEORGE CAMPBELL—Point of order!

ACTING CHAIR—That is not parliamentary.

Senator Kemp—In that case, if you have ruled that, Mr Chairman, I shall absolutely certainly withdraw it. As you know, I am a stickler for high standards in these places.

Senator GEORGE CAMPBELL—You are getting very excited.

Senator Kemp—I think something quite serious has happened here in this committee. The serious thing that has happened is the behaviour of Senator Cook and Senator Conroy and the traducing of the reputations of people and organisations. I have never seen it so bad before a committee. These bodies have been very vocal and have often been quite critical of the government. For Senator Conroy to come out and claim that these bodies have been bought is quite disgraceful, in my view, and I put that view on record.

ACTING CHAIR—From the chair, Senator Conroy, as a member of some of those bodies, I would ask you to desist because I do not think it helps.

Senator COOK—All I said, which sparked this onslaught from the minister, was that we think the changes that the government have announced where they copied the Labor initiative

are positive. We just do not think they have copied the Labor initiative thoroughly enough and if they had, it would have been a better outcome. That is all I am saying. That is not an attack on anyone.

Senator Kemp—If you are going to make political points—and this is going to take up the time of the committee. You have a wonderful chance to canvass positions now before senior public servants. Frankly, if we are going to have political argument, it is not for the public servants to get into those arguments. I will get into them. So I suggest, Mr Chairman, that you encourage members of the committee to focus on what they should be focusing on: seeking factual responses to questions. In that context we will always assist senators.

Senator COOK—That is where I was when you were off getting a cup of coffee, Minister. Therefore you may have missed it. I had just quoted to Mr Matthews a statement made and reported in the *Australian Financial Review* this morning by Ms Heather Ridout of the Australian Industry Group, and I would ask Mr Matthews to acknowledge that the Australian Industry Group is a respected body representative of manufacturing and construction businesses. The point we are up to for your explanation, Minister, is that Mr Matthews was not aware of that. He has kindly accepted my word on that subject. If I may now, I will go to what Ridout said, which is already on the record and I think you are aware of it, Mr Matthews. Do you want me to—

Mr Matthews—I now have a copy of the article.

Senator COOK—How do you respond to her concerns about reform?

Mr Matthews—I am actually, to start with, rather unclear about what is being sought. I am not sure what is meant by ‘unified annual reporting’, for example. I guess my first response would have to be I would need to seek more information about what exactly is being sought.

Senator COOK—Can we just take this one at a time then? I do not want to interrupt your flow, but you have just made a significant point that I would like to go to. I am a bit surprised that you are not aware of this body. This is a genuinely highly respected body representative of the manufacturing sector—

Senator GEORGE CAMPBELL—Nine and a half thousand firms.

Senator COOK—and of the construction sector. You have not consulted them on the BAS form?

Mr Matthews—Not personally.

Senator COOK—Has the tax office consulted them?

Mr Matthews—I would need to take that on notice to know whether they have been involved in any of our other processes. I am not sure.

Senator COOK—Ms Ridout is quoted as using the word ‘unified’ returns. You are not aware of what she means?

Mr Matthews—Not in this context, but it is only a media report. There could be more behind it.

Senator COOK—Would you care to get hold of her submission and find out?

Mr Matthews—We would, of course, be interested in any further observations about—as I indicated last night, it is our responsibility to keep an open mind on suggestions. It may also be, as we continue to follow through on the full information and education campaign, that some of the—

Senator COOK—Sorry, I am not doing justice to you, but I think we have cleared up the consultation with the chair. I can now give justice to you.

Mr Matthews—I was just going to say that it may be that, as we follow through with the information and education campaign and explain the further detail that inevitably will come, some of the issues raised by the Australian Industry Group may indeed be addressed with further information.

Senator GEORGE CAMPBELL—Are you aware that the Australian Industry Group is represented by nine and a half thousand employers in this country, of which about 80 per cent are small businesses?

Mr Matthews—I was aware of the group but not the detail of its membership and background.

Senator GEORGE CAMPBELL—Are you aware that they are probably the biggest employer group in the country?

Senator COOK—Can I go to the next part of what Ms Ridout said:

Businesses are struggling not only with the regulatory thing, but also with cash flow ... We are hoping there will be some more consultation for further changes.

I take it, from the context, she is referring to the fact that the arrangements, even as they are not constructed, interfere with the cash flow of small business.

Mr Matthews—That may be her view.

Senator COOK—Senator Campbell has just told us how representative it is. He has emphasised the small business membership, but there is a big business membership of this organisation as well.

Mr Matthews—So I understand.

Senator COOK—Is there some way of meeting her needs on cash flow?

Mr Matthews—I do not think that is really a matter for me to comment on. I am not sure, firstly, what her needs on cash flow are or what her suggestions are. There is the membership of the ARI, as you indicated, which is fairly diverse. There are, of course, over two million businesses—the majority of them small businesses—in the GST system. That is also a very diverse group. The response from others who represent, I would suggest, potentially a broader group, has of course been positive. I am just trying to indicate that there is always going to be room for a diversity of views and that that is what we are seeing here in the responses. On the information that I have I cannot comment one way or the other on the issues touched on in this article without any great elaboration. In any event, as regards the cash flow, I am not sure that it would be a matter for the tax office to buy into, anyway.

Senator Kemp—We would have to see exactly what was said. It is possible even that there may have been a misquote in the *Australian Financial Review*. I think it is a bit difficult for Mr Matthews to be commenting on something which may well be misleading or incomplete. I have not got their press statement before me.

Senator COOK—It is possible but unlikely that the *Australian Financial Review* misquoted.

Senator Kemp—It has happened before.

Senator COOK—It has happened before and they would be the first to acknowledge that. But they also have a pretty peerless record for accuracy. In any case, the Chairman is wanting

us to adjourn so we can have a much needed caffeine fix. This is probably a point where we can.

Senator Kemp—That is a very wise ruling, Mr Chairman. I congratulate you.

Proceedings suspended from 10.31 a.m. to 10.59 a.m.

Senator WATSON—Before I hand over to Senator Gibson, I had a comment and a request from the back of the room asking members of the committee not to draw any public servants into the political crossfire. If that could be avoided it would be appreciated.

Senator CONROY—Sorry?

Senator WATSON—I am not sure of the particular issue, but the request was made to me not to draw bureaucrats into the political crossfire of questioning and I think we have got to respect the professional integrity of the bureaucrats involved.

Senator CONROY—Tell them to stay out of politics.

Senator WATSON—No, the bureaucrats are not in politics. They are advisers and they are there to perform a job.

Senator CONROY—Tell the government to stop putting them up front on radio.

Senator WATSON—Come on! This is not an unreasonable request.

Senator CONROY—And stop using them as a political—

Senator WATSON—I ask members to respect the professional integrity of members of the Australian Public Service.

Senator Kemp—Mr Chairman, I think the point is extremely well made.

Senator CONROY—You are going to have to be clear. You are going to have to actually explain their comments—

Senator Kemp—I think that is important. Where there are political points to be made, I think Senator Cook and I occasionally indulge in some political crossfire. People might think it is utterly tedious and they may well be right, but it does happen. And I think that is appropriate. But it is not appropriate for people in the Public Service to be attacked.

CHAIR—Agreed. Thank you, Senator Watson.

Senator COOK—Sorry, I was not here for all of Senator Watson's statement.

CHAIR—I ask the senator to repeat his comments.

Senator COOK—Did it relate to anything that I have done?

Senator WATSON—The remark was not identified to any particular senator. But it was felt that there were occasions this morning where the bureaucrats may inadvertently have been brought into some of the crossfire and we were asked to respect their professional integrity.

Senator COOK—I think the bureaucrats are professional enough to know that they ought not get involved in political debate. And if they do invite themselves into our domain, they will be dealt with in our domain.

Senator Kemp—Let us all agree that there is an important general principle here which we should all adhere to. We all may have particular views about particular examples, but I think it is a pity if we cannot—

Senator CONROY—Just because they could not let you out on the radio and you send the tax office out to do what is your job, Minister—

CHAIR—Senator Conroy! Order!

Senator Kemp—We can have a great slanging match, but I do not think that advances the considerations. But as a general principle I think it is important that public servants are not drawn into these political debates.

CHAIR—Agreed.

Senator CONROY—Then you should have been appearing on radio. But you are too incompetent, so they could not let you out.

CHAIR—Senator Conroy! The committee will resume with further questions.

Senator CONROY—I just had some questions—if they are not too policy oriented—about the variations system that has been announced. You indicated, Mr Matthews, that you would be sending out to each individual business essentially a letter saying, ‘This is what you paid in the second quarter. This is what you are required to pay. Do you have a variation that you would like to pursue?’ Is that the tenor of the letter?

Mr Matthews—In a sense. In time, and hopefully by the fourth quarter, we will actually print the instalment amount on the form.

Senator CONROY—So you would not be printing it for the third one? I appreciate that the Treasurer said you are very challenged in terms of trying to meet this particular—

Mr Matthews—There are a number of issues, but the third instalment will still use the existing form.

Senator CONROY—But will there be a covering letter saying essentially, ‘You can pay your second quarter amount?’

Mr Matthews—Yes, they will be notified of what that amount is.

Senator CONROY—They will be invited then, if they would like to vary—

Mr Matthews—The letter will explain the variation options and also explain how to take that amount and enter it on their existing base to satisfy their obligations for the third quarter.

Senator CONROY—I will come back to it box by box. If they write back to you and say, ‘We do want to vary,’ on what basis will they be able to vary?

Mr Matthews—The principle as outlined in the information provided—and I now understand that the information that was provided on the web site was also provided to journalists at the press conference with the press release yesterday, just to further amplify that.

Senator CONROY—Unfortunately, we were here.

Mr Matthews—Yes.

Senator CONROY—So we did not get a copy of it.

Mr Matthews—Nor did I; I was here, too. But that does make clear that the principle behind there is that they can vary to more closely reflect their current sales.

Senator CONROY—If someone writes back to you and says, ‘Christmas is my boom period. I only trade at 50 per cent and therefore I am only going to pay 50 per cent of my second quarter,’ would you just accept that?

Mr Matthews—We in fact will not require them to write back to us. They can put their varied amount on the form.

Senator CONROY—Okay. So they can just send you a cheque for half and you will accept that?

Mr Matthews—But the other rule, similar to the income tax system, will be that by the time the amount total—

Proceedings suspended from 11.05 a.m. to 11.57 a.m.

ACTING CHAIR—I have been advised that Senator Kemp has been called away and Senator Abetz will be presiding over this committee.

Senator CONROY—Where has he been called away to?

Senator Abetz—That is strictly confidential.

Senator CONROY—I want to go back and clarify. I found your web site. Someone gave me a copy. You mentioned earlier that there are no penalties, but there is an interest charge. Are there any other tax schemes where an interest rate charge is not described as a penalty?

Mr Matthews—An interest charge is not a penalty.

Senator CONROY—It is a gift? Is it voluntary?

Mr Matthews—It is an interest charge. Its characteristics are quite different to that of a penalty.

Senator CONROY—But it is a compulsory payment to the tax office.

Mr Matthews—Yes, as are many.

Senator CONROY—It is not a voluntary payment. So it is a compulsory payment of money to the tax office.

Mr Matthews—As are many, yes.

Senator CONROY—Do you think a taxpayer who is paying it would view it as not a penalty?

Mr Matthews—I cannot speak for them. What I can say is that the basis for the charge is simply to make up for the time value of money that is lost in the delay and it is therefore an interest charge as such.

Senator CONROY—I fully understand the rationale of it.

Mr Matthews—Whatever might be in the minds of some, the characterisation and the law behind it says that it is an interest charge. There is quite a different area of the law which relates to penalties. So it is not, by law, a penalty.

Senator CONROY—So some ordinary taxpayer who is paying you an interest charge in relation to this who thinks it is part of a penalty is just wrong?

Senator Abetz—I do not think the officials can assist with those sorts of questions, Senator Conroy. I think you have been told what the law is.

Senator CONROY—I think Mr Matthews was in the middle of a sentence before you interrupted him actually, Minister.

Senator Abetz—I do not think what the law is and what might or might not be in the mind of a particular taxpayer is very helpful to the process of these estimates.

Senator CONROY—If you want to assist in covering up the fact that a new penalty has been introduced under the guise of helping small business, then that is fine, Minister. We have appreciated your time.

Senator Abetz—Senator Conroy, once again you are using inflammatory language in trying to get a headline for yourself, but you have been given a very good and detailed answer by the official.

Senator CONROY—We appreciate that you are desperate to cover up the increase in penalties and the new penalties, Minister. So I am happy to move on if you will put your cup of coffee down.

Senator Abetz—It is a cup of tea. You are wrong again.

ACTING CHAIR—Senator Conroy, there has been no change to the penalty or interest jurisdiction in relation to these charges.

Senator CONROY—Thanks for your opinion as well, Senator Watson. I appreciate it.

ACTING CHAIR—It is a fact.

Senator CONROY—I appreciate your, as always, informative chairing. Perhaps you would like to go and sit next to Senator Abetz. No, perhaps you would not like to.

Senator Abetz—But I think it does highlight the spin you want to put on certain things. That is a political comment that you can make outside and issue a press release about, but let us get on with the questions.

Senator CONROY—Thanks for your opinion, Minister.

ACTING CHAIR—Senator Conroy, do you have a question?

Senator CONROY—When the small business receives your new information package, do they have to make a calculation about whether or not they are within an 85 per cent variation? Can they make a guess? In your view, what information will they base their decision on as to whether to accept your instalment suggestion or come up with their own?

Mr Matthews—The whole point of this choice is to relieve people of having to make any calculations if they so choose by simply accepting the instalment.

Senator CONROY—Do they have to fill in the BAS form if they accept your instalment?

Mr Matthews—I think we have already covered that in previous answers.

Senator CONROY—My apologies. I am not trying to—

Mr Matthews—No, that is all right, but you did ask me that question before. They simply put the instalment amount into 1A, yes.

Senator CONROY—So they can choose to pick any amount, as long as at the end of the fourth quarter when you are doing the reconciliation—

Mr Matthews—We have not written the detail of the letters that will go out on this as yet, but they will go along the lines of reminding them that the 85 per cent rule is there. The principle will go towards what is said in the statement here—that is, they can vary it to more closely reflect their current sales. So if they can make a reasonable judgment that their sales are different in this quarter to the previous one, they are entitled to vary on that basis, but we would encourage them to keep an eye on the 85 per cent and, as we do under the income tax system in this same area, because it is the same set of principles and rules that apply, keep an

eye on the whole of their year and think ahead to keep that 85 per cent rule in mind. So we will be providing them with advice about the total system.

Senator CONROY—So you will be giving them guidance to try to—

Mr Matthews—We will be providing guidance on the options and how to use and choose the right options to vary or to choose the instalment without having to do anything else.

Senator CONROY—When they are doing the annual return, the reconciliation, what labels will they have to fill in?

Mr Matthews—Which option are you talking about?

Senator CONROY—I am assuming with the annual return it is not optional and they will have to reconcile—

Mr Matthews—But there is an annual information report under the streamlined reporting arrangement for those who are going quarterly but still calculating their actual GST. That is one option under this package. For those doing that, they will have filled out three boxes on their quarterly return and will simply be asked to complete four boxes on an annual information sheet. It will not be a reconciliation for those people using the streamlined reporting. For those using the instalments, there is a different situation. They will submit an annual reconciliation sheet and they will be asked to provide annualised information on their annual turnover or sales, their exports if they have any, although very few do, any other GST free sales if they have them, capital acquisitions and other acquisitions. That essentially will be it in addition to what they have actually collected for the year and what credits they have obtained for the year. So essentially it is very similar to the information that people would use if they were using the accounts method to derive their liability and there would be a maximum therefore on that annual reconciliation I think of about seven boxes.

Senator CONROY—So you are not ever going to get the information in boxes G1, G2 and G3 even in the annual—

Mr Matthews—Yes, I have just outlined that we will, in all cases.

Senator CONROY—In all cases? I am concerned as to how you explained it.

Mr Matthews—Under the streamlined reporting, each quarter people will still be calculating their GST, either from their records using the accounts method or the calculation sheet, which we will have sent separately. They will simply report to us what is now labelled as G1, which is their GST sales and purchases, and the amounts payable at 1A and the amounts that they have paid on purchases for their business at 1B. So those three boxes will come in quarterly and those boxes are their actual liability so they do not need to do an annual reconciliation, but they do need to provide us with four more boxes on an annualised basis, and essentially they are the remaining accounts method boxes.

Senator CONROY—Because I have not seen any accounts methods form, I am at a disadvantage.

Mr Matthews—There is not a separate accounts method form, but they are certainly separate instructions.

Senator CONROY—Because I am unfamiliar with the accounts method as opposed to the previous system where we have sat down and gone through each box, I am not familiar. So I am at a disadvantage. I am not trying to catch you out. I am working on the basis that I am trying to get information on the record. I am still confused, so please bear with me. Therefore, I guess starting with a generalised question might be easier. Will all the information that was

going to be provided before the new streamlined method was introduced still be received, albeit with, as we said, a time lag of two quarters? Obviously now you are not going to necessarily collect it all, because you will not be getting all the information you previously would have been getting in three and four, but you will receive that annualised at the end.

Mr Matthews—Under the streamlined reporting options, some of that information will continue to come in quarterly and the balance will come in as an annual information—

Senator CONROY—So you have got one and two. So all the information in boxes G1 to G20 you have got for one and two. Three and four—they do not have to fill those in?

Mr Matthews—That is correct, if they are using the streamlined reporting, yes.

Senator CONROY—If they are using the streamlined method, if they have not filled out three and four for G1 to G20 they will be required to supply G1 to G20 in their annualised—

Mr Matthews—No, they will not. Many do not supply G1 to G20 now because they are using the accounts method to calculate their GST, which simply requires them to report labels G1, G2, G3, G10 and G11 to the extent that they have them, to the extent that they are relevant.

ACTING CHAIR—Mr Matthews, for the *Hansard* record, could you just explain what a G10 is?

Mr Matthews—To go through those again, the labels that they would be required to complete at the moment, if they were using the accounts method, would be G1, which is total sales; G2, which is exports; G3, which is other GST-free sales; G10, which is capital purchases; or G11, which is other purchases.

Senator CONROY—How can you be collecting all the same information that you would have been collecting then before yesterday's announcements? How can you still be collecting the same amount of information if they are not filling out G1 to G20 at the end? I just assumed that all that is happening is the deferral of the collection of information to a more manageable, once-a-year process, whereas what you seem to be indicating is that you have collected half the information that you were previously going to collect and now you are not going to be collecting it. I am not trying to characterise you unfairly; I am just trying to get it clear, so talk me through it.

Mr Matthews—I think you are under the impression that everybody has, as a matter of course, completed all 20 boxes on the back of the form now, whereas that is far from the case. I could get you some figures, but around 70 per cent or 80 per cent would complete only four or five boxes under the current system, and that is if they were using the calculation sheet to calculate their liability. Those who were using the accounts method option were also only required to complete a subset of those.

Senator CONROY—Even those using the simplified system—and again it is my assumption—the accounts method, I think it is called—

Mr Matthews—Yes.

Senator CONROY—I assumed that, even though they were using three or four boxes, when it came to the end of the year—

Mr Matthews—No. There was no concept under the system before these announcements that had an annualised element to the system anywhere. There was no annual component to the system until these announcements—to the GST system, that is.

Senator COOK—My question is to Mr Matthews. I think we have had these questions before, but they constitute part of the missing tape. I do not want to re-create the vanished six minutes.

ACTING CHAIR—This could be dangerous!

Mr Matthews—I will do you the courtesy of listening to the question the first time. Sorry about that before.

Senator COOK—That is all right. The question I was asking—I think when we were cut short the minister had actually taken over part of the answer—was that the complaint aired by Mr Nick Venetoulis and apparently his wife, Vicki Venetoulis, on the front page of today's *Sydney Morning Herald* about the new system is that they are still going to have to spend an inordinate amount of time keeping their records, and that it has cost \$800 in accounting fees for their first BAS and they expect a similar bill this time. The two questions that arise from that are: why is it costing so much? This is a regular complaint: why has it been costing so much, and much more than what the office said it would when the system was introduced?

ACTING CHAIR—Put the question in the context. I think they are against the GST generally rather than commenting about the reforms.

Senator COOK—Who are?

ACTING CHAIR—The *Sydney Morning Herald* is.

Senator COOK—Where do they say that?

ACTING CHAIR—At page 4.

Senator COOK—They are commenting on the reforms, Mr Chairman.

ACTING CHAIR—They are commenting on the reforms—

Senator COOK—I thank you for helping the witness, but I think you are wrong.

ACTING CHAIR—but generally against the GST as a principle. I thought it just had to be put into that context, that is all.

Senator COOK—Let's just stick with your intervention. It is interesting that, firstly, the chair should intervene and, secondly, they may very well be against the GST. Most Australians are. But their complaints are specific to the BAS and the record keeping burden. If they are simply dismissed because they are against the GST and their complaints on record keeping and the cost burden for their accountants can be swept aside, then you are ignoring the valid complaints of a lot of Australians. I do not think that is what your intention is.

Senator Abetz—If they are against the GST, they will not be voting Labor, either, Senator Watson.

Senator COOK—That is, of course, absolute arrant rubbish.

Senator Abetz—So you are going to abolish the GST, Senator Cook?

Senator COOK—You know what our policy is.

Senator Abetz—No, nobody else does, either. That is why I am asking you.

Senator COOK—A lot of people know and you want to maintain the fiction that there is no policy here. Of course, that is absolute nonsense.

Senator Abetz—All right, what are you going to roll back?

Senator COOK—And that is a Liberal Party stunt.

Senator Abetz—All right, what are you going to roll back?

ACTING CHAIR—Order!

Senator COOK—We are going to roll all the GST back and we are going to roll it back progressively—

ACTING CHAIR—Mr Matthews, perhaps with those few comments you might like to answer the question.

Senator COOK—Do you want a debate about this? Do you really want—

Senator Abetz—There is nothing to debate because you have no policies.

Senator COOK—You keep ducking the issue.

Senator Abetz—You have no policies, nothing to debate.

Senator COOK—Your party keeps running around Australia, lying about the ALP policy—

ACTING CHAIR—Order!

Senator Abetz—Withdraw that.

Senator COOK—No, I will not withdraw it. It is true.

Senator Abetz—Withdraw it.

ACTING CHAIR—Order!

Senator Abetz—Withdraw it.

Senator COOK—I am not going to.

Senator Abetz—On a point of order, Mr Chair, we know that Senator Cook has a capacity to become very inflamed at estimates committees and uses unseemly language. He has done it again and he ought be forced to withdraw it.

ACTING CHAIR—It is a collective. I think it is a collective—

Senator Abetz—No, previous rulings have been you can—

Senator COOK—No, I am in order.

Senator Abetz—No, you are not in order when you are interjecting whilst I am trying to make a statement to the chair.

ACTING CHAIR—I think we will take some further advice on that, Senator Cook. We will come back to it. In the meantime, perhaps it would be helpful if Mr Matthews answered the question.

Senator COOK—My first question before the chair came to—

Mr Matthews—I think I recall the question.

Senator COOK—As enlightenment for the chair, it was about the burden—

Mr Matthews—I guess there are two things I would say in response. The first is that I do have a concern, and it means we can never do too much in terms of education and information. This story, and indeed the one that you showed me yesterday from the Hobart *Mercury*, both have elements in them that suggest to me on the basis of the story that there are easier ways for these businesses to go about meeting their obligations under the current system as well as the now additional option. I could elaborate on some of that if you wish me

to, particularly from the Hobart one. I think that there are—and I am concerned about this—still people who are doing it with more difficulty even now than they perhaps need to. I see elements of that in both of these stories and that is why we follow up and actually send people out to see if we can assist on those matters, and we will see if we can try to do that here. The second point that I—

Senator COOK—How much then should this gentleman pay his accountant for the record keeping?

Mr Matthews—I cannot comment on that or the advice that has been given by the accountant. But I have seen, and see in both these articles, cases where they have options which they perhaps have not been advised of or our information has not reached them adequately and we need to do more or we need to provide some assistance. But I make the general point that I think there are easier ways for some people to go about it now that they are not doing. The second point is to turn to the new choices that they have.

Senator COOK—Before we do that, is the office at all concerned that some accountants might be abusing the confusion created by the paperwork and overcharging?

Mr Matthews—I cannot really comment on that as not being a concern. I would just say that we are still at—and so are accountants—the relatively early stages of the new system, and they may themselves not necessarily all be aware of the options to be able to pass it on. I cannot pick up your comment that there may be abuse out there. Personally, I would not think that that was the case. I would just think that this was part of the bedding down of the system.

Turning to the second part of the question, certainly the second article is in the context of a reaction to the proposals announced yesterday. I would say that there are now choices that can be made. In answer to you earlier I was saying that there certainly is a proportion of businesses that have chosen in a longstanding way not to regularly keep their records together and simply to go to their accountant and have them sorted out at the end of the year. I am not suggesting that this is a case, but there is certainly a category there that followed that practice. Therefore, the need to move to a regular system has given the impression of additional work. Those people certainly do have some new choices under the arrangements announced yesterday in that they can simply pay for four quarters an instalment to us without doing any further work and continue their practice, if that is what they did, of going and having the GST reconciled at the same time as they do their annual tax return. I do think that that is clearly a choice that people in the category I have mentioned would find very much easier.

Senator COOK—But the point of the Venetoulis complaint, as I read it, reported in the *Sydney Morning Herald*, is that whichever way they decide to go, quarterly or annual reporting, the weight of record keeping is such as to impose huge strains on their business. That is their complaint.

Mr Matthews—The underlying record keeping and substantiation are essentially not really any different from the income tax system. If you wish to calculate the GST using the actuals system or under the present system, you are certainly required to make distinctions between some GST-free and other categories, although interestingly in both of these businesses I would say that they are wholly taxable. That is why I am suggesting that there could well be some easier approaches to their accounting than they are, in fact, following. Nonetheless, they do have some new options now to choose that would mean, certainly if they choose to, less frequent record keeping. They can do this now at the end of the year with their income tax return and with their accountant if they so choose, having simply paid an instalment provided by us at each quarter.

Senator COOK—So they do not need to keep the records with the same assiduous care they had to under the previous system?

Mr Matthews—You do not need to bring them together until the end of the year, which is what people have tended to do under the income tax system. It is a frequency issue, I guess, there.

Senator COOK—You have to do the paperwork but you do not actually have to finalise the sums?

Mr Matthews—Many people will find that they have never done that record keeping—they have actually turned to their accountant to do that once a year—and that is really the option which is now introduced into the system. As we have said in previous sessions, there are certainly benefits to business of improved record keeping and, indeed, there have been many commentators who are saying that that is starting to be recognised.

Senator COOK—Thank you.

Senator CONROY—We seem to have lost half an hour because of the breakdown. Are you calling lunch for an hour, despite the fact that we have lost time? We cannot commit to finish. There is no standing order about finishing at 3.30 so we can all catch a plane. We will just keep going. I am just trying to help everyone get away.

CHAIR—We will finish this afternoon.

Senator CONROY—We will finish this afternoon, but that does not give you the capacity to finish at 3 o'clock, when you want to finish.

CHAIR—I am happy as long as we finish at 4 o'clock.

Senator CONROY—There is nothing in the standing orders that says, 'The Senate estimates process stops so Brian Gibson can catch a plane.'

Senator WATSON—No—

Senator Abetz—But if you lose the quorum it will happen, won't it?

Senator CONROY—If you lose a quorum, Minister, you are back next week.

CHAIR—Let us be sensible about this.

Senator CONROY—You will be back next week if the quorum simply lapses, because then we have to reconvene. It is really that simple. I am just suggesting a half-hour lunch because we have lost half an hour.

CHAIR—I am happy to compromise and come back at a quarter past one.

Senator Abetz—What a good idea.

Senator CONROY—If we do not finish, we do not finish.

CHAIR—Okay.

Senator Abetz—That makes sense. You cannot argue with that.

Senator CONROY—Mr Matthews, I am learning as I go so please bear with me. This variation method is now available to essentially 85 per cent of small business or 85 per cent of businesses, is it?

Mr Matthews—Those eligible for the instalment system are those with quarterly GST who have an annual turnover of less than \$2 million, and that would probably comprise 95 per cent plus of businesses.

Senator CONROY—Ninety-five per cent of businesses with GST could move to this method if they chose to?

Mr Matthews—Yes.

Senator CONROY—We were talking about how you were going to measure the variation—the 15 per cent. Over the four-quarter period, at the end of the fourth quarter, they must have reached 85 per cent to avoid an interest charge?

Mr Matthews—Yes.

Senator CONROY—And there is no vetting of the amount each quarter? You will just accept that and do a test at the end of 12 months to see that they are within the 85 per cent bounds?

Mr Matthews—Yes. We will, of course, be providing guidance that people should be making their variations, as the release says, with an eye to keeping them in line with their sales pattern—broadly.

Senator CONROY—There is no requirement for them to meet anything other than the 85 per cent test?

Mr Matthews—That is the bottom line, if you like.

Senator CONROY—So you could pay zero in the first quarter.

Mr Matthews—Sorry, there will be a requirement for them to make their variations in line with their broad pattern of sales without having to calculate that, obviously, to the nth degree.

Senator CONROY—But there is no penalty fee involved if they do not? In other words, if I wrote back to you and said, ‘I am going to pay zero in the first quarter, zero in the second quarter, zero in the third quarter and then I will basically pay you an annualised payment,’ that takes me within the tolerance of 85 per cent; I am within the law.

Mr Matthews—What we do under the income tax system—and we may well do here; as I say, we have not written the detailed guidance on this—

Senator CONROY—We are just making it up as we go at the moment?

Mr Matthews—No, not at all. These rules here are essentially the same as the income tax framework.

Senator CONROY—But there is no legislation about this? I have got your web site now.

Mr Matthews—What we will be doing is telling people that we would expect to see an alignment between their variation and their sales patterns.

Senator CONROY—I appreciate you will be telling me you expect to see it. What I am asking you is: if they do not, is there no penalty?

Mr Matthews—If there was a substantial variance that had, in fact, caused an inappropriate delay of revenue, we may have a look at the option of interest charges in those cases. But we would not do that yet. That is where I would leave it.

Senator CONROY—I am reading from your web site now:

If the total GST paid by the 4th quarter is less than 85 per cent of the actual GST for the year then interest charges will apply.

Mr Matthews—Yes, they will.

Senator CONROY—There is no suggestion that in the first quarter that if I pay you zero there is an interest charge. There is no suggestion here that if I pay you zero in the second—

Mr Matthews—No, but there is a suggestion that you can vary it in accordance with your current sales.

Senator CONROY—Yes, but if I choose to submit zero in the first three quarters and then essentially pay you an annualised payment then I am complying with what you have written here on your web site, what was said at the Treasurer's press conference and the press release. There is no suggestion anywhere in any documentation that you have currently provided. There is nothing other than your testimony a moment ago. There is nothing in writing from the Treasurer on this—

Mr Matthews—The press release says that there will be a detailed information and education campaign. I think it would be reasonable for you to expect that there will be some details about other aspects of this system that are not mentioned as yet in the documentation.

Senator CONROY—I am sorry, but interest charge provisions—I am not trying to be pejorative or to trap you in an argument about that—according to the Treasurer's press statement and your web site, only apply if the total GST paid by the fourth quarter is less than 85 per cent.

Mr Matthews—That is what it says, yes.

Senator CONROY—There is no other documentation, suggestion or anything to do with an education campaign. As long as they are within that tolerance by the end of the fourth quarter, then there is no interest charge, according to all the documentation available to anybody at the moment?

Mr Matthews—That is correct.

Senator CONROY—So a business could pay zero, zero, zero and pay 90 per cent and avoid an interest payment charge?

Mr Matthews—We will be providing further guidance on this area. Consistent with the message that is in the documentation, the variations are there to enable people to make variations that fit with their current sales pattern. We will be expanding our guidance in line with both those principles.

Senator CONROY—Expanding your guidance or expanding the Treasurer's guidance, or possibly even changing the law?

Mr Matthews—We will be providing further guidance consistent with those principles.

Senator CONROY—But further guidance consistent with your statements that you only incur a penalty after you have effectively—

Mr Matthews—The guidance will be consistent with those statements.

Senator CONROY—Yes, and if that guidance is consistent it will say, 'If the total GST paid by the fourth quarter is less than 85 per cent of the actual GST for the year, then interest charges will apply.' There is no suggestion that if you pay zero, zero, zero—

Mr Matthews—The guidance will be consistent with what is written, yes.

Senator CONROY—Which means that you can essentially get away now with making an annual payment.

Mr Matthews—The guidance will be consistent with what is written in the two principles.

Senator CONROY—If I pay zero, zero, zero and then pay 90 per cent in the fourth quarter—which is, in effect, an annualised payment—I will have been complying with this statement plus any other guidelines you promulgate which are consistent with this statement?

Mr Matthews—All I can tell you at the moment is that we will be providing further guidance on this area—

Senator CONROY—Consistent with?

Mr Matthews—Consistent with those two principles that are outlined. We would expect variations, if there are variations, to accord with current sales patterns. That is the principle.

Senator CONROY—Are guidelines a legal requirement?

Mr Matthews—That remains to be seen.

Senator CONROY—I would have thought that a legal requirement was a legal requirement and a guideline was an opinion.

Mr Matthews—As I say, we will be providing further guidance on this and the status of those, therefore, will be apparent when the further guidance is provided.

Senator CONROY—You would agree that there will be some fairly dramatic consequences for the states if the cash flow coming into the Treasury—

Mr Matthews—I think you are leaping ahead. That is hypothetical until one sees the further guidance.

Proceedings suspended from 12.27 p.m. to 1.20 p.m.

CHAIR—The committee will resume. Minister, just to confirm for the record that I think Senator Watson said we would seek advice about those particular words—before lunch—and the advice is that with reference to resolution 9, there is no problem with them.

Senator GEORGE CAMPBELL—I have been trying to get to the tax office for two estimates, but because you have been preoccupied about other issues that has not happened. It is a question you will probably have to take on notice, Mr Jones and Mr Matthews. In questions on notice the department of industry has informed me that there were 117 syndicates—that is, R&D syndicates—that were wound up early on the R&D tax concession and that significant savings were made to the taxpayer, but they have gone on to say this is a matter for the ATO. Can you tell me, or can you take on notice, what increase to tax revenue was resulting from the savings made by the early wind-up of these syndicates, or have they, in fact, been a cost to the taxpayer?

Mr Jones—I will take the question on notice, Senator, because I do not have the information with me, nor do I think anyone here could specifically help you now. We will see what we can do.

Senator CONROY—Mr Matthews, to go back to the education program. The people who were previously using the accounts methods are probably not going to—I do not know, but maybe they will take up the new method—but for those who are going to go down the path of the annual reconciliation, doing the variation—

Mr Matthews—That is the instalment method, yes. That is one and the same, as you have announced it.

Senator CONROY—So they are already filling out—did you say only five boxes?

Mr Matthews—I think you need to help me here.

Senator CONROY—I think you were saying that when it came to filling out these forms they only had to fill out G1, G2 or about five boxes.

Mr Matthews—Businesses who choose the accounts method instead of the calculation sheet method are only required to fill out turnover, exports, GST-free, capital acquisitions and other acquisitions.

Senator CONROY—That is G1, G2—

Mr Matthews—G1, 2, 3, 10 and 11, as necessary. Many of them, of course, will fill out less than that. That is the current schedule.

Senator CONROY—How many people are using that method now? Have you got a rough figure?

Mr Matthews—I cannot give you the answer to that, Senator, sorry.

Senator CONROY—But the overwhelming majority will be using the calculation sheet.

Mr Matthews—I think a majority, but I am not sure if it is overwhelming.

Senator CONROY—A majority. You were collecting G1 to 20.

Mr Matthews—Not in every case.

Senator CONROY—Not in every case?

Mr Matthews—Sorry, if they were using the calculation sheet?

Senator CONROY—Yes.

Mr Matthews—As those boxes related to them. It is quite possible to successfully—

Senator CONROY—A couple of the boxes.

Mr Matthews—They could successfully complete the calculation sheet method with only two boxes completed on there. Two or three anyway, yes.

Senator CONROY—But most of the people would have been filling in most of the boxes, do you think?

Mr Matthews—No. As I think I mentioned earlier, the position would seem to be that a very high proportion only found it necessary to fill in four or five of the information boxes in total on the back of the BAS to complete their GST. I exclude from that, of course, what I call the subtotal boxes which are just there to help people step forward. But they are substantive information boxes.

Senator CONROY—I am not trying to trap you on that one.

Mr Matthews—The reason is that only a small proportion of the business population, for example, would have exports, so that box would not be relevant to them and so on.

Senator CONROY—Let's say I want to adopt the variation method. I am a small business.

Mr Matthews—The instalment method?

Senator CONROY—Instalments. You write to me. I get your letter and say, 'Right, I've only got to fill in 1A, and here's my cheque.' Then, at the end of the year, can you take me through, or can I take you through which boxes I have to fill out?

Mr Matthews—Yes.

Senator CONROY—So 1A presumably for the reconciliation.

Mr Matthews—They would do an annualised reconciliation. It is annualised because, for them, it is a reconciliation as, at that point, one would only have an approximation of their liability. We need to do a reconciliation of that and they would complete, on an annualised basis, G1, which is their total sales. Again, G2, exports—if they have them; G3, GST-free sales—if they have them; G10, capital acquisitions—if they have them and G11, other acquisitions. On an annualised basis 1A and 1B would also be there. I think that makes a total of seven boxes.

Senator CONROY—Thank you for that. Why did you put all the other boxes on then if now everybody is going to move into this system—G4, G5, 12, 13, 14, 15, 16, 17?

Mr Matthews—Many of the other boxes are, as I have pointed out—when you talk about the 20—many of those are actually what I call subtotal labels. They are there to help through the arithmetical progression. As I said last night this is really a matter of what is kept within the business records or what is put on the forms. If you take a box like G15, that is private use. There is an allowance for the use of purchase for private use. It needs to be made under the law. You need to take that into account when calculating one's credits. That is still relevant but will now be a matter of record, in the business records and will not be reported to the tax office. That was already the case under the accounts method. That is an example but it does not mean—

Senator CONROY—It is appreciated that the accounts method is where the real breach of integrity took place.

Mr Matthews—I am sorry?

Senator CONROY—I appreciate that the accounts method is where the real breach of integrity was.

Mr Matthews—Not in my view.

Senator CONROY—Can I quote you from estimates last year, 24 November, pages 146 and 147, where I was asking you if you could run me through what labels G1 to G20 were.

Mr Matthews—Yes.

Senator CONROY—And why they were necessary.

Mr Matthews—Yes.

Senator CONROY—I think you said, 'I believe that I supplied you with not just my view but also that of the IMF about what is necessary.' We were talking about world's best practice. Then you continued, 'I actually think that those who advocate that you could run the system on a few basic boxes are frankly ill-informed about the system.' You are down to just a few basic boxes.

Mr Matthews—I do not think so, Senator, because as we have just been through, either on a regular basis where we will still continue to get some of the information, or on an annual basis, we will still be supplied with the information.

Senator CONROY—Some of the information on an annual basis is not the same as getting all the information.

Mr Matthews—I think the only ones that will not be supplied are likely to be adjustments.

Senator CONROY—Which box would that be?

Mr Matthews—There are adjustments on both sides—I do not have the form in front of me, so forgive me for not having all the labels—but adjustment boxes, private use boxes,

input tax supplies. There are some of those which will be retained in records. The proposals also suggest and make sure that people can continue to use the full calculation sheet, if they so choose.

Senator CONROY—I hope everyone does.

Mr Matthews—We will be supplying that and we will be requiring them to keep it within their own records. Those information requirements will still be in the system, although not all of it will be on the form. The essential ones—

Senator CONROY—How are you collecting this information? It is in their system, but it is no longer in your system.

Mr Matthews—As I say, the essential ones will still be reported to us, either on a regular basis or annually.

Senator CONROY—But you argued strongly on 24 November and I actually got you to go through, box by box, that each of these is necessary.

Mr Matthews—Yes. I am saying that each of them will still be within the system and the essential ones will be coming through to us.

Senator CONROY—But in November you said they were all essential.

Mr Matthews—And I am still saying that. All of those labels and information items are the product of the legislation.

Without them, without taking all of them into account, it is not possible to correctly calculate GST liability, with the exception potentially of exports as a subset of GST-free and capital acquisitions as a subset of total acquisitions. The information of those items will still be in the overall system.

Senator CONROY—So those calculations will still need to be made?

Mr Matthews—The critical ones to maintain the integrity of the system will still be coming into us, and others will be available to us in the records of the business.

Senator CONROY—So the information that is written down on these forms will still have to be calculated for the purposes of getting to your five or six boxes, but businesses are still making the same calculations. The only difference under this new system is that they do not write it onto the sheet. Is that what you are saying?

Mr Matthews—The answer to that depends on which method they choose because if they do use the instalments method they will not have to do those calculations. They can take assistance, as we covered in answers to Senator Cook earlier, that that can be done with their income tax return at the end of the year rather than on the regular calculated basis.

Senator CONROY—But they will still have to do these calculations at the end of the year if they are going down the instalment method?

Mr Matthews—And when they will be going through their records, as they always have done, the same records for their income tax purposes.

Mr Jones—For example, Senator, private use is a classic issue to be—

Senator CONROY—I was actually going to ask you where you make the adjustments on the annual reconciliation to cover such items as G15?

Mr Matthews—Private use will be one of those items that will be taken into account by businesses, as it is now for the accounts method, rather than reported on the form. It is also, as

I think Mr Jones was about to say, an item which accountants would be considering for income tax purposes at the end of the year. Similarly, capital purchases would be something that businesses would be doing with their annual income tax return at the end of the year, so these proposals bring those to a once only option where you can do those in a combined sense annually.

Senator CONROY—I just want to make sure I have got this completely clear in my head, and I appreciate that you are being very helpful. So say I am a small business, I am going down the instalment method and I do not have to complete anything other than 1A, but at the end of the year I can still complete the form which is going to be the 1A, 1B and then the numbers that you are requiring from me are G1, 2, 3, 10 and 11.

Mr Matthews—Yes.

Senator CONROY—And the subpara boxes.

Mr Matthews—Which you will be doing at that time of year, either yourself or with your accountant, for income tax purposes.

Senator CONROY—But the information that was written into the other boxes that I do not need to is still being calculated, you are telling me.

Mr Matthews—I am sorry?

Senator CONROY—I am still calculating that for the purposes of getting to those five boxes.

Mr Matthews—Do you mean that they would still need to work out their private use and those sorts of things?

Senator CONROY—Yes, those sorts of things.

Mr Matthews—Yes.

Senator CONROY—I am trying to work out how much less work I am doing. I appreciate that I am no longer filling in 10 boxes or 12 boxes or whatever, and that takes a lot of time, all 10 boxes, but the argument that the business community seem to be having—and I am sure you heard it much longer and louder than I did—was that it is actually producing the information to fill into the box. Their argument was it does not take long to fill the form out. It is the underlying valuations and additions and mathematics and calculations that were actually taking the time.

Mr Matthews—And that is the essential benefit, I think, and flexibility of the instalment option that that activity would be done—

Senator CONROY—Yes, it is now consolidated to just once a year.

Mr Matthews—With the income tax return, so that you are going to do a large part of that, anyway, and already do, either yourself or with your accountant, and so I would say there is a substantial saving in that sense, because you are doing it when you would be doing most of it anyway for your annual income tax.

Senator CONROY—Are you able to collect any of that other information from me—who is doing the instalment method?

Mr Matthews—We would collect that with your annual—

Senator CONROY—I am remembering that discussion we had and I said, ‘What’s G13 for? How does that help you? Why do you need it?’ and you told me why you needed it, and now you are not getting G13 on a quarterly basis.

Senator WATSON—Could you say what G13 is, because anyone reading the *Hansard* wouldn’t know what it was. I think it is acquisitions—

Senator CONROY—Yes, acquisitions for making import tax sales and income and other supplies. I am just randomly picking them and I am just trying to go fast. So I have calculated it, I do not have to fill it in the box any more. You do not have it—

Mr Matthews—We will have it towards the end of the year.

Senator CONROY—So I will be required to supply it but maybe not on the BAS form. Is that what you are telling me?

Mr Matthews—I am sorry, which box? G13?

Senator CONROY—G13 as an example.

Mr Matthews—G13 will be something that we would expect to see in the business’s records if it is relevant to their accounting. They will be required to keep the information that is necessary for them in their records. What was G13 again, if you would just remind me?

Senator CONROY—G13 was the acquisition for making input tax sales and income and other supplies.

Mr Matthews—For a large number of people, of course, that will not necessarily be relevant, but it is for some, and one would expect to see that, as we would with private use and input tax supplies, those would be taken into account in the business records, including on calculation sheets where businesses were using that method.

Senator CONROY—Because you told me it was so important last time, I am just trying to find out how you actually gain this information, then feed it into your necessary matrixes that you were telling us last time you needed it for. I am just trying to work out how I actually get—

Mr Matthews—Yes, I understand. Some of those items are more important than others in that sense, when we are developing norms across industries, and some of that information we already have from the first two quarters.

Senator CONROY—But the data from the first quarter, I think everyone concedes, was a bit distorted for a variety of reasons to do with the old system going out. The Treasurer said that. I do not think I am being controversial saying that. The first quarter is not a great quarter to try and draw a lot of info from.

Mr Matthews—That would be true for some of the boxes.

Senator CONROY—You have really only got, in a pure sense, this one quarter.

Mr Matthews—Some of that information, if we wished to check some of those boxes—the ones which are of lesser importance but still important in terms of calculating liability—we will actually be able to access directly through the business records.

Senator CONROY—We have now got boxes that are of greater importance and lesser importance as opposed to in November when they were all important.

Mr Matthews—I still maintain that they are all relevant to calculating liability. That was the point I was making in November. That is still the case because they are a product of the legislation.

Senator CONROY—No, but it was the reporting to you so that you could use them for your integrity measures that made them important to you, not the fact that they still need to do them. I am accepting they still need to do them. What I am trying to get to the heart of is that you needed them, you told us you needed them for the integrity of your calculations and industry profiles and those sorts of things.

Mr Matthews—Yes.

Senator CONROY—So without some of these boxes it is going to be harder to construct your industry profiles or whichever other of those methods. By definition it has just got to be a little bit harder.

Mr Matthews—No, the industry profiles tend to work off the ones that we will still be getting, in particular the turnover boxes and the acquisitions boxes.

Senator CONROY—You can say you will still be getting them, but 95 per cent may choose to go down this path.

Mr Matthews—We will still be getting that information on their annual reconciliation, Senator.

Senator CONROY—G13, for instance?

Mr Matthews—No.

Senator CONROY—I do not have to do G13.

Mr Matthews—I said the ones that are important to the industry profiling are the those that we will still be getting.

Senator CONROY—But that can only by definition be G1, 2, 3, 10 and 11.

Mr Matthews—That is correct. Those are the ones that are for that particular type of profiling the most important.

Senator CONROY—But you indicated each of the boxes had a purpose.

Mr Matthews—Indeed.

Senator CONROY—I am just trying to make sure that you are collecting the same amount of information.

Mr Matthews—They are two separate things, I think, Senator.

Senator CONROY—I am a small business. I am still calculating all the same amount of things. I think we have agreed that I have still actually got to make all these calculations.

Mr Matthews—Well, I do not think I have agreed to that. If you choose the instalment option you will have a good deal less to calculate. I think that is the point I have been trying to make.

Senator CONROY—I am not talking about the number of times I have got to make the calculations. I am just talking in terms my annualised one. I am still trying to ensure that you are getting all the information you need. You would still be getting the same amount of information as you were getting before, I have still got to be doing all the same calculations, because you can't not be getting information that you were getting before if I am no longer doing a calculation.

Mr Matthews—You have to bear in mind that we will be getting all of that information on a monthly basis for those who are required to lodge monthly.

Senator CONROY—No. I think the government has made some important steps on this, but if it is as universally welcome as everyone seems to be telling us and you are telling us, then presumably a lot of people will switch to this new simplified system.

Mr Matthews—I think that remains to be seen, but possibly.

Senator CONROY—A lot of people may want to stay, I accept that. I am not trying to say it is everybody. I am just saying a lot of people will make a switch and therefore if you are not getting all the boxes, I am still making the calculation but you are not getting as much information as you were previously.

Mr Jones—Senator, we may not be getting, for that subset of people who take that on, that information in the tax office. The first thing from a tax administration point of view is it is important it is available should the issue ever arise. That is the first benchmark.

Senator CONROY—Sure, important it is available.

Mr Jones—Yes, it is important it is available.

Senator CONROY—No, I appreciate I am still making that calculation, and if you ever phone me and say, ‘Come on down. You got lucky today. Bring your books,’ I will be able to bring it in and sit down, so from my small business perspective I have actually—albeit only once instead of four times—still got to make all the calculations that were previously required, albeit only once.

Mr Matthews—And with your income tax. I think it is an important point, Senator, for the overall effort required.

Mr Jones—So it is important that it be available. The question then is, as administrators, do we have enough information in the system that will allow us to reach a view about whether a thing is good or bad or whatever.

Senator CONROY—And previously the argument was that you needed all the information contained in all the boxes, and Mr Matthews has articulated that in many places, and now you believe you can do it, and the Treasurer was on the television saying, ‘No, it’s the tax office that have told us that we can move to this system because we can maintain the integrity by going to this system.’

Mr Matthews—It is a point you made earlier and a fair one, I think, that while all of those boxes have a contribution to make there are some that are certainly more important in the system than others. The proposals now retain those most important systems and therefore we can confidently say that these proposals are workable and do not threaten the integrity of the system.

Senator CONROY—This quote is just staring at me on my computer screen here, when you said, ‘I actually think that those who advocate that you can run the system on a few basic boxes are frankly ill-informed about the system.’

Mr Matthews—But we are not running the system on a few basic boxes.

Senator CONROY—Five down from 20. If five is still enough, what did you mean by a few basic boxes?

Mr Matthews—There were proposals at that time appearing in, among others—

Senator CONROY—They wanted you to abolish the entire second page?

Mr Matthews—Well, not only that; they simply wanted us to get simply boxes 1A and 1B. That was it.

Senator CONROY—They have succeeded.

Mr Matthews—No, I am sorry, Senator, that is not the case.

Senator CONROY—For the instalment method, for three quarters, they only have to do 1A and 1B.

Mr Matthews—But on an annual basis they will be supplying the data which we believe to be essential to maintain the integrity of the system.

Senator CONROY—But you are not collecting all of the information that I am now calculating. It is available, as Mr Jones said. It is important that I do make the calculations and it is available if you phone and ask, but you are not collecting it any more.

Mr Matthews—As I said before, you are correct, but we believe that the system as now proposed gives us those that are the most important to maintain the integrity of the system and, as Mr Jones has said, the other ones are available.

Senator CONROY—Thank you for that.

Senator WATSON—When you introduce these new changes, would it be possible to send the taxpayer a piece of paper showing what the refund is going to be when the amount is lodged on the bank statement. A number of people find the refund is on the bank statement but it does not necessarily tie up with their calculation because there is an interest component. Because the interest component is taxable, I think it would be desirable to send a piece of paper to show, ‘We have remitted to your bank today the sum of \$730, which includes \$20.35 interest.’

Mr Matthews—This is in the case where there is a refund, but also where, for whatever reason, the refund has been delayed by more than 14 days and therefore there is an interest component?

Senator WATSON—Yes.

Mr Matthews—Senator, I did think that we did make a notification. It may not be at the same time as the refund is paid—I will need to check this—but I did think we did send some note, but I will check that, and certainly we can take that on board.

Senator WATSON—I say that because not everybody gets a monthly bank statement, and we have had cases where people have said, ‘I haven’t got my refund.’ It has been on their statement but they have had no notification of it. I just ask if it would be possible as part of these changes to send a piece of paper from the tax office to the taxpayer, notifying them of the components of the amount credited to their bank statement on a certain date.

Mr Matthews—We will take that suggestion on board, Senator.

Senator WATSON—Thank you.

Senator CONROY—I just want to change the topic completely, Mr Matthews, so you can probably put up your feet for a second. I would like to chase up with the minister or Treasury some overdue questions on notice. Senator Faulkner asked—

Senator Abetz—We will take them on notice as well.

Senator CONROY—I appreciate that we are not going to go far because Senator Kemp is not here. These questions date back as far as 29 August last year and are therefore fairly late. I

am trying to avoid mentioning the case involved because I do not want to drag it in. I am just chasing the answers. I am trying to avoid that aspect of it. When can Senator Faulkner expect these answers? It is a five-year-old case. Mr Smith may know the one I am referring to. As I said, I am trying not to go to the issue.

Senator Abetz—I am sorry. We cannot assist. We will take that on notice, and your reference was to questions—

Senator CONROY—I think they date back as far as 29 August.

Senator Abetz—2000?

Senator CONROY—Yes. I am looking at a copy of them here, 29 August or 31 state—

Senator Abetz—Of August?

Senator CONROY—September some of these would be.

Senator Abetz—It would not be 31 September.

Senator CONROY—No, October, sorry. The first one was 29 August.

Senator Abetz—So there are a number of outstanding—

Senator CONROY—And then there is one on 20 December. They start on 29 August. Unfortunately, I do not think they are numbered for my purposes but they relate to the case of the tax agent outlined at pages 42 and 43 of the Commonwealth Ombudsman's 1998-1999 annual report. It is that issue which, as I said, I am trying to avoid getting—

Senator Abetz—I am advised they are in the pipeline somewhere but I cannot give an assurance as to time.

Senator CONROY—There is a fairly lengthy delay here. This is not an unwillingness by the ATO or the minister's office to live up to accountability? We are expecting to get them.

Mr Jones—That is not our approach, sir.

Senator Abetz—You would not expect us to say yes to that question, surely?

Senator CONROY—I live in hope. You are in the chair. Anything is possible. I want to go back to an issue which we have covered at some length to do with your taxation advertising campaign, and I will come to your new advertising campaign, probably at the end, because I am reading that it is going to be a very substantial one. No chains ads, Mr Matthews?

Mr Matthews—I apologise in advance if I cannot answer some of your questions because, in the expectation you would not be going back over that ground, I have sent one of my key people away, but we will do our best and, if necessary, make some calls.

Senator CONROY—I am happy to come back to this in an hour if you are able to. I just want to get an update.

Mr Matthews—Would you like me to recall him?

Senator CONROY—Yes, if that is not too much trouble.

Mr Matthews—We can certainly do that.

Senator CONROY—We are wanting to run down the previous expenditure and any additions to that expenditure.

Senator Abetz—They will be high quality advertisements. I can assure you of that.

Senator CONROY—No doubt. Hopefully they are chains ads because they worked a treat for you.

Mr Matthews—I will seek to ask Mr Taylor to come back.

Senator CONROY—No. I have my obligations to my leader. No matter how much fun I think I am having, he still requires me to do some things for him.

Senator Abetz—I did not know Senator Ray was interested in this.

Senator CONROY—No. Senator Faulkner is—

Senator Abetz—Senator Faulkner you are talking about?

Senator CONROY—Senator Faulkner and Senator Ray, seeing as you want to mention Senator Ray, have taken a very healthy interest in the Taxation Office expenditure in this area. So it was to do with the CERP campaign, ATO campaign, GST component. I just wanted to run through where we got to previously and whether there had been any new expenditures. Are you in a position where you can talk about the your education campaign that was announced yesterday?

Mr Matthews—I think that is still a matter of design and discussion at this stage, Senator.

Senator CONROY—Is there a budget?

Mr Matthews—Not settled, no.

Senator CONROY—Minister, are you aware of that?

Senator Abetz—No, but we will take that on notice.

Senator CONROY—I am happy for you to consult with anyone behind you that you need to, to see if the government have made a decision.

Senator Abetz—No, I will take that on notice.

Senator CONROY—You are not going to check with the minister's staff sitting behind you—

Senator Abetz—No, I will take that on notice, thanks.

Senator CONROY—to see if a decision has been made?

Senator Abetz—I will take that on notice.

Senator CONROY—Even you couldn't muck that one up, Eric!

Senator COOK—Can the tax office confirm that \$9.4 million was spent in placing ads during the cricket and tennis season just recently promoting the most recent BAS deadline?

Mr Matthews—Could I hold off on a response there until Mr Taylor arrives with that detail, if you wouldn't mind, Senator?

Senator COOK—Yes, okay.

Mr Matthews—I am sure we will be able to clarify that, but I do not have that personally to hand.

Senator COOK—Can you—and if you cannot, say so—say whether it will be the tax office that will be managing the advertising campaign, or some other agency of government?

Mr Matthews—We, like other agencies of government, of course fit in with and are subject to the processes of the Ministerial Council on Government Communications for

advertising campaigns. So we will be going about our role in that in the context of the guidelines and the processes of the MCGC.

Senator COOK—I am never quite sure how this arrangement works, but can you settle my mind on this point: the government does have a central agency, as you mentioned.

Mr Matthews—Yes.

Senator COOK—Who controls the content? Do you get a chance to veto or vet or approve the content of the ads as directly reflecting what the changes represent, or is that taken out of your control?

Mr Matthews—Certainly the technical accuracy of those advertisements is something that we would be responsible for.

Senator COOK—Are you going to hit the radio talkback circuit again, Mr Matthews?

Mr Matthews—If the occasion arises, Senator.

Senator CONROY—Is the Treasurer or the Assistant Treasurer going to be involved in the advertising campaign? Maybe Senator Kemp will be on the radio instead of Mr Matthews.

Senator Abetz—Or, indeed, Mr Beazley's staff member ringing up talkback pretending to be somebody else. You know, we can all play this game. Let's ask the questions and get on with it.

Senator CONROY—I think in actual fact he was not pretending to be anyone other than himself. That was the problem!

Senator Abetz—That was the problem—it finally comes out!

Senator CONROY—He was pretending to be himself!

Senator Abetz—It was a good call!

Senator COOK—The penetration, in which markets they are placed, what the campaign intensity might be, and those issues, are handled by the central body, are they? They are not up to you?

Mr Matthews—But we do, as you know, have professional advisers and agencies providing advice on how to get the impact and reach the audiences that we are seeking to reach.

Senator COOK—Yes. I will be interested when your staffer is available.

Mr Matthews—Mr Taylor should be here pretty shortly.

Senator CONROY—Has the ATO commenced any GST or BAS related audit activity?

Mr Matthews—We are certainly undertaking follow-up work to check issues that have arisen out of the first months and quarters. That is being done in the context not really of audit but in assisting to be sure that taxpayers are getting it right in the first stages of the tax. A large proportion of that is actually done by telephone, but there certainly have been some visits. Of course if you are including compliance—that kind of compliance or audit work following up on lodgments—then that is also under way. We are keeping an eye out, as we have indicated at previous meetings, for things that are deliberately being done incorrectly but the audit program as such will be commencing when the system is more mature.

Senator CONROY—So in other words, after nine months there has not been a single audit?

Mr Matthews—No. I have said we are undertaking a range of compliance work, but for more detailed audit programs you need in some ways a good stock of records. We are doing checks. We have done thousands of compliance verification calls and visits to check issues of compliance.

Senator CONROY—If you have not got enough information yet to do an audit—

Mr Matthews—We have a long-standing commitment, Senator, to be out there providing assistance and giving taxpayers the benefit of the doubt in these phases—

Senator CONROY—No, I appreciate that.

Mr Matthews—but we have very much a weather eye out for anybody doing anything wrong, and we are active in that area, too.

Senator CONROY—I am sure if we put you on radio and telly and billboard saying, ‘We’ve got a weather eye out watching you,’ that would cause enormous compliance. What I am asking you is, you just said a moment ago that you did not have enough information yet—

Mr Matthews—What I meant by that, Senator, was that we actually have some active cases in that area.

Senator CONROY—Right, but you said you do not have enough information yet for the audit program to commence.

Mr Matthews—We have never had the intention—

Senator CONROY—The system is not mature enough.

Mr Matthews—to be starting to carry out full-blown audits at this stage. Our people are out there providing assistance and advice and, where necessary, checks to be sure that things are okay. That is, I think, consistent with a transitional stage.

Senator CONROY—I am sorry, can I just come back to this question of whether you have enough information to conduct any audits. You said you did not and, notwithstanding that you are keeping a weather eye out and having enough information are two different things.

Mr Matthews—I have explained what I meant by ‘weather eye’. I guess in a sense I apologise—

Senator CONROY—I am not fussed about the weather eye; it is the ‘not enough information’ I am fussed about.

Mr Matthews—No, I apologise if that was too subtle. What I meant was that we are actively pursuing some cases which we have identified where there are clearly some compliance issues. There are quite a number of those, and we are doing it, but we do not have a general audit program out there as such at this stage. We have always said that we will not be doing that until such time as we believe we have made all the necessary effort for the general community’s comfort.

Senator CONROY—You indicated when you were saying that earlier that the reason you could not do it was that you did not have enough information; the system was not mature enough, and you did not have enough information. Those were I think the words you were using.

Mr Matthews—I think audit programs tend to be done on an annual cycle. One would normally go into that mode when you have a full year of training and information but, as I say, that has not prevented us from getting out there and taking a look and acting on some compliance issues where we have reason to do so.

Mr Jones—I offer this as help, Senator, to this particular question: we do see compliance in that wider sense, so in fact having active contact with the taxpayers that we have through our advisory visits is—

Senator CONROY—I am totally relaxed about the aspect of how much help you are giving in terms of the inadvertent mistakes to people who just clearly do not understand what they are doing. I am totally relaxed about that. I am just trying to get down to this question of your audit program, whether you have sufficient information, when the system becomes mature enough for you to have sufficient information, and whether or not yesterday's changes are going to mean that it will take you a little bit longer for the system to mature.

Mr Jones—Senator, I would like to add that when people are out there—I know you say in terms of help but it also is a question of contact between the tax office and those taxpayers which we have a strong view about—the fact is that that does lead to compliance. It actually adds to compliance, which is the purpose of an audit program.

Senator CONROY—Sure, but even if the budget for Tax was trebled you could not possibly talk to enough people. You can only get the ones that you have talked to, and maybe word of mouth spreads it a little bit. It is just that I do not think you could physically, even if your resources were trebled, get the word of mouth spreading quite fast enough. As I said, I am more keen to sort out whether or not you think that the changes yesterday will mean it takes longer for this system to mature to enable you to get under way.

Mr Matthews—No, I do not believe so, Senator. My apologies if I gave you the wrong impression there, but really all we are saying is, in terms of information, we have enough information now to be making many thousands of telephone checks and other visits to check that everything is okay. That is simply our strategy at the moment, and we will move to other strategies later.

Senator CONROY—What is the planned program of audit activity for 2001-02 for GST audits?

Mr Matthews—We will be continuing to make judgments about the shifts of our compliance capability progressively towards audit programs. We will be balancing that with our views about where the community is at with understanding the system properly and being bedded down, but we are progressively moving people into that. We currently have about 500 staff—of that order—who are involved in making compliance checks.

Senator CONROY—But there is a difference between a compliance check and an audit. They are not the same thing.

Mr Matthews—There are different taxes involved here too.

Senator CONROY—I am talking about GST.

Mr Matthews—I know you are but perhaps you are using the term 'tax audit' in the sense that the tax audit might have been for income tax purposes, which is quite different. A compliance check is a very important strategy used right around the world as a major part of the compliance program. Because this is a transaction based tax, you tend to go out and follow the transactions as part of the compliance program. In-depth audits are usually reserved for different strategies and different issues.

Senator CONROY—I agree they are entirely different things.

Mr Matthews—Compliance checks will always be an important part of the strategy.

Senator CONROY—Compliance checks are an important part of what you are doing at the moment.

Mr Matthews—And will always be.

Senator CONROY—In terms of trying to get the system bedded down.

Mr Matthews—And will always be.

Senator CONROY—I am not suggesting you are going to stop them. What I am trying to ascertain is when you plan to kick off your audit activity, as opposed to your compliance activity. I have asked you whether you are doing any this financial year or next financial year. At this stage the answer appears to be ‘No’, unless you can tell me otherwise.

Mr Jones—I will try to assist on this point. First of all, the tax office as a whole is in the process of planning its work for next year. Working out overall compliance programs is part of that. Within the compliance activities we have, in any one year for all our taxes, a whole range of different strategies which we believe give us the best leverage against what we see as the risks in the system. The approach that Mr Matthews is outlining is that what we have titled in this conversation ‘compliance checks’ are ongoing valuable audits. To get to some common ground here, they are the audits or the way we look at whether a taxpayer is conducting their affairs properly in relation to GST.

Senator CONROY—Are no audits going to take place in this financial year at all?

Mr Jones—There are some audits already in progress.

Senator CONROY—Is there organised audit activity in terms of a plan for this 12-month period?

Mr Matthews—The level of audit activity is now going according to the plan, which was that we would reserve those activities for where we thought them necessary, rather than have a program. That will come later. I would be happy, if you would like me to take it on notice, to give you an outline of those intentions.

Senator CONROY—I appreciate that. I have asked for a planned program of audit activity for this financial year and a planned program of audit activity for next financial year. You have indicated you are in the process of possibly formulating a plan but there is not a planned program.

Mr Jones—Senator, this time of the year is our normal planning period, so we are doing our planning. Secondly, both the plan and the strategies that we are pursuing now are the plans and strategies that we have had in place for this cycle. I am fearful that we are creating misunderstanding, which is what I have tried to work my way past, about ‘audits’ conveying the notion of someone attending to a taxpayer’s premises to do a full and complete audit of all their books and records against what they have lodged with the tax office.

Senator CONROY—It appears there is none of that going on.

Mr Jones—It is going on where we have identified cases that we believe need that attention.

Senator CONROY—But not under a planned program of audits.

Mr Jones—The cost and the benefits of that activity are such that we have tended to make sure we only use it in places where we have reached a view that it is actually necessary. That is the general thrust.

Mr Matthews—That is the plan.

Senator CONROY—Is the ATO worried about fraud activity, particularly in regard to claiming of WST credits, based on overseas experience?

Mr Matthews—Yes, we have kept a close watch on those issues. Particularly with the WST credits we have had a major exercise to ensure that there has been compliance. It is a good case in point. It does not necessarily involve an audit, Senator, but it does involve some checks to make sure that those particular issues of risk are kept under observation.

Senator CONROY—Has there been a specific response? You say you are keeping an eye on it and I am not trying to downplay that.

Mr Matthews—We have done thousands of checks and kept an active program of contacts on claims for WST credits.

Senator CONROY—Has any taxpayer been caught trying to overclaim WST credits?

Mr Matthews—The overall picture from that program is the compliance levels have been very high and adjustments have been very low. By far the majority of those adjustments have been because of mistakes.

Senator CONROY—So you have caught some people whether inadvertently or deliberately?

Mr Matthews—We have made some adjustments when we have gone out, again in the mode of first saying, ‘We’re out here to try and help.’ A lot of the people claiming these credits are having their first exposure to WST. Many of them are retailers so they were never familiar with the WST system. We have been out there when we have picked up that there might have been some problem or just general questions of classification: rates, rebates and discounts, all of which are part of a reasonably complex assessment. We have made some adjustments but those have been relatively small both in number and in dollar value. The reasons behind them have overwhelmingly been because of mistakes and errors, rather than any mischief.

Senator CONROY—Has any information garnered by your ATO officers, on their pre-GST field visits to help businesses become GST ready, been used to audit businesses?

Mr Matthews—No.

Senator CONROY—What has the ATO done with the information gathered from these visits where that information showed the business was not properly complying with tax laws, including income tax laws?

Mr Matthews—We have given a guarantee that no information coming out of those advisory visits would be used in any way to go back to the taxpayer and follow up in any compliance mode. The commissioner has personally guaranteed that. We have adhered to that. That remains the case.

Senator CONROY—So you have got tax officials wandering the country, possibly discovering tax avoidance or tax evasion and you are not allowed to do anything with it.

Mr Matthews—As Mr Jones was saying, we are there by invitation. We undertake those visits by request and we have done over 350,000 of them. They have been extremely positively received and are a very important part of our implementation program. That is partly why those guarantees are there. The big picture here was to help people get ready for the new system and that has been a very successful part of that program.

Senator CONROY—Does the tax office have any responsibility to chase tax avoidance?

Mr Matthews—We have a range of obligations, Senator.

Senator CONROY—Does the tax commissioner have the power to give a guarantee like that; where you find tax avoiders to just say, ‘Oh, I’ll look the other way’? Does the tax commissioner have that power? I wonder if you could point to the legislation where he can choose not to prosecute or follow up if he is aware of illegal activity. Could you point to the section of the Tax Act? I understand he can vary penalties and go from \$1 million to zero, but is there a section that allows the tax commissioner to ignore illegal activity?

Mr Jones—Not to my knowledge, Senator. I will need to make sure that—

Senator CONROY—Does he have some statutory responsibilities to chase people in those circumstances?

Mr Jones—Yes, he does, Senator, and during this period there has been a range of activities going on elsewhere in the office.

Senator CONROY—What does that mean?

Mr Jones—We have been doing a range of other audit enforcement compliance work.

Senator CONROY—So the tax commissioner has taken it upon himself to make an announcement that he will not prosecute anybody that he finds has been avoiding tax previously or is still avoiding tax?

Senator Abetz—No, that was not said, Senator.

Mr Matthews—He has not. He just made it clear that that advisory visit program, in connection with the implementation of the new tax system, would not be used in a compliance sense. That is the guarantee. He also said, at that same time, that other—

Senator CONROY—But we have agreed he does not have the power.

Senator Abetz—Wait a minute.

Senator CONROY—He has no legal power to do that.

Senator Abetz—Mr Matthews has not been able to finish a question for some time.

Mr Matthews—He also said that other audit and compliance activity in relation to the income tax system would continue during that period as a separate program.

Senator CONROY—That has nothing to do with it. I have asked what legal power you can point to—

Mr Matthews—I think we have taken that on notice, Senator.

Senator CONROY—I thought Mr Jones said there was no legal power.

Mr Jones—To the best of my knowledge. I would need to check.

Senator CONROY—I do not think he said he would take it on notice. In fact, I think he said there is no legal power. I would be fairly confident he is right on that. I am just looking to see what power Mr Carmody used to tell his officers not to use information they have uncovered. It may only be one case; it may be no cases.

Mr Matthews—Indeed.

Senator CONROY—It is possible they found that nobody was doing this and so it is a moot point. What I am seeking to establish is the legal basis on which the tax commissioner directed his officers to ignore breaches of the law, when there is a statutory obligation on officers and the commissioner to do the exact opposite.

Mr Jones—The commissioner is required to take on the general issues of administration of the tax law.

Senator CONROY—Yes, but that is administration of the tax law. That is not enforcing it. I am talking about the enforcement of tax law. The commissioner could convict everybody and then give them no penalty. I accept that he has the power to do that but I did not know that he had the power to direct officers to not enforce the law.

Mr Jones—The commissioner has used his general administration powers here, which I will follow through on, to say that in order to establish this new system in the community, he will give a particular undertaking to make available resources, on request, to assist people with their transition into the new tax system. In doing that, he has said to them, ‘I will do that on the basis that I will not use the information in that case to take further action.’ In essence, that is what I understood he said and did.

Senator CONROY—I am just asking you for the legal foundation. The administrative powers are not a legal foundation to waive enforcement.

Mr Matthews—It also does not mean that no action was taken, because anything that was discussed in those meetings would have been drawn to the attention of taxpayers and left at that. That is what the advisory visits were for. The commissioner did not say that we are not going to say anything about it or draw it to attention. He said that we are not going to use those visits to follow up, because the primary intent is to assist people to get ready for the new taxes.

Senator CONROY—I understand that. I am just looking to find the legal basis.

Mr Matthews—Enforcement can mean pointing out that something has not been done the right way. That is part of our compliance program: providing advice on how to do it. What the commissioner said was that these will not be—and they have not been—used to gather information which will be then used to follow up and take further action with the taxpayer.

Senator CONROY—Did you seek legal advice as to whether the tax commissioner had a power to do that?

Mr Jones—I do not believe we had a need to, Senator.

Senator CONROY—You think that a directive from the commissioner to his officers not to enforce the law, not to use information—

Mr Jones—That is not what was done, Senator.

Senator Abetz—No, you are twisting it again.

Senator CONROY—that they had gathered in the course of their duties, to inform the enforcement division. They may not be enforcement officers, maybe they have gone out, they have had a meeting, decided, ‘Oh, that guy is avoiding his PAYE. He’s doing this, he’s doing that.’ They come back to the office. He has basically instructed his officers not to pass this on to the enforcement division. That is how it works, isn’t it? You have gathered information and now you are actually saying, ‘Don’t give it to the people who may then go and enforce the law.’

Mr Jones—But people did not go out there to gather that information, Senator.

Senator CONROY—I am not saying they did go out to gather it. I am saying in the course of their duties did they uncover any information like this? The answer is, ‘Possibly.’ But then

to the question, ‘What did they do with it?’, the answer is, ‘Nothing, because the commissioner has told people that they’re not allowed to do anything with it.’

Mr Matthews—No. As I explained earlier, they may well have drawn that fact to the attention of the taxpayer and left it at that. The guarantee was not to take that information and use it to follow up in subsequent activity, and that is what they have done.

Senator CONROY—That is what I am saying. They may have said, ‘Oh, by the way, you shouldn’t be doing that, tut tut.’ They go back to the office and do nothing. I thought there was a statutory responsibility on each tax officer in the same way there is on the tax commissioner. I am staggered that you think the tax commissioner can issue a directive that overrides the statutory responsibility of his officers.

Mr Jones—I do not believe that is what he has done.

Senator CONROY—And you did not even bother to get legal advice.

Mr Matthews—I think we should take on notice, Senator, to get back to you with the framework that surrounds this issue so that we can explain it more clearly to you, which we are clearly having difficulty doing here, without the benefit of the technical side of it.

Senator CONROY—How many entities have applied for deregistration?

Mr Matthews—The application number, of course, is something of a moving feast.

Senator CONROY—My next question is: how many have been granted deregistration?

Mr Matthews—I think I might be able to give you the latter. My advice is that the cancellations we have processed to date have been around 147,000.

Senator CONROY—Have any been granted deregistration retrospective to 1 July 2000?

Mr Matthews—I would say a small number may have been. I would need to take it on notice to answer that. The only reason I am saying it would be a small number is, of course, that the provisions enabling that were only passed through the parliament just before Christmas and, shortly after Christmas, the public were informed of the instructions as to how we go about that. There has only been a short window for people to apply for that.

Senator CONROY—Can those people—and it may be a small number—get a refund on the GST they paid when they have not charged GST to their clients?

Mr Matthews—You mean if they have paid GST to us and then it is cancelled?

Senator CONROY—Yes.

Mr Matthews—I think we have put out some information on that, Senator. I apologise. I may have to take some advice on that.

Senator CONROY—I am happy for you to take it on notice.

Mr Matthews—We have some fact sheets out around that.

Senator CONROY—Has any tracking research been done in relation to that last round of ads?

Mr Taylor—Yes, there has been research done. We have only just received the results and we are analysing them at the moment. We also combine that with anything that the processing of the forms coming in could tell us, and use that to determine our future direction. Yes, there has been.

Senator CONROY—Who was that done by?

Mr Taylor—Worthington di Marzio did qualitative research. Quantum Market Research did the quantitative research for us.

Senator CONROY—How much did it cost for the pair of them?

Mr Taylor—I would have to take that on notice, Senator. I do not have that figure here.

Senator CONROY—There would be two figures, wouldn't there—one for each?

Mr Taylor—Those two figures I do not have here, sorry. I have an aggregate figure in terms of the advertising production costs, which would include the research, but I do not have that broken down at this stage.

Senator CONROY—Could I get that aggregate figure?

Mr Taylor—In respect of the BAS 2 campaign, a total of \$4.9 million, close to \$5 million.

Proceedings suspended from 2.18 p.m. to 2.31 p.m.

Mr Matthews—Senator, I wonder if, following your question about cancelling the GST registration, I could table the tax fact sheet on that matter.

Senator CONROY—Thank you. I was just asking about that tracking research before. When did you receive it exactly?

Mr Taylor—Within the last fortnight, Senator. We do, as I said, use it to help us determine which—

Senator CONROY—Was that used, Mr Matthews, to prepare a brief for the Friday of last week meeting? Was that fed into the system?

Mr Matthews—No, not to my knowledge. This is the consultation meeting you referred to on—was it 16 February?

Senator CONROY—Yes. I think it was last Friday.

Mr Matthews—No.

Mr Taylor—It may well have been in the last week. I would have to check that for you.

Senator CONROY—Was the brief passed on to the Treasurer's office? I apologise—it may have gone there first and then come back to you. I do not know. You have received it. Has the summary been passed on to the Treasurer's office?

Mr Taylor—Again, I do not know whether it has been passed on yet. We receive it and we analyse it and we feed it into our processes. We quite often use it to prepare for the next MCGC, and we have not had an MCGC for a while yet.

Senator COOK—This is tracking research you do regarding advertising, isn't it? Is that what it is?

Mr Taylor—It is more than that. It includes that, to see whether the messages have been received and understood, but it also involves questioning as to any difficulties that they had in preparing the BAS—any issues that we need to understand in terms of levels of understanding and preparedness so that we can feed that into future communications. So it is a range of things.

Senator COOK—How do you do this? How do you conduct tracking research that checks all these things out? What is involved?

Mr Taylor—We develop a line of questioning in association with the research company. That line of questioning follows the terms that I just mentioned. Then they go ahead with it.

Senator COOK—And this company goes out and, what, randomly calls on people?

Mr Taylor—Yes, I am not quite sure of the technique that they use, but the quantitative do a range of telephone calls, the qualitative do a range of focus groups, usually in an attempt to get a group of micro businesses, a group of medium businesses, and even groups of tax agents, et cetera. They get together to test these things out.

Senator COOK—Do you know the size of the sample for the quantitative research?

Mr Taylor—No, but I can certainly get that for you.

Senator COOK—I would be interested to know.

Mr Taylor—I would be quite happy to do that.

Senator COOK—How many focus groups would have been held for the qualitative work?

Mr Taylor—Again, I can get that for you, and I may even get it for you this afternoon. There are people watching who can dig that up. I am sure we could get that very quickly for you.

Senator COOK—You have probably answered this question, but who is the consultant that is engaged here?

Senator Abetz—That was already mentioned in relation to Senator Conroy's questions.

Mr Taylor—The quantitative research is Quantum Research, the qualitative is Worthington Di Marzio, whom we have used for 18 months, two years.

Senator CONROY—You have certainly looked after them for a while. You were going to come back to me, and I just want to make sure you have taken it on notice, as to when you received the research, when it was passed on to the Treasurer's office.

Mr Taylor—Yes, Senator. Once you have finished the questioning I will go outside and get on the phone.

ACTING CHAIR—Senator Conroy, can you withdraw the comment, 'I think you've looked after them pretty well for a while.' It brought a frown to one or two faces.

Senator CONROY—I was just acknowledging that the tax office has a good, healthy contract with—it was not a personal imputation.

ACTING CHAIR—If that was the context in which it was made, I think that is important.

Senator CONROY—That was the context. I am sorry if there was any imputation, and Mr Taylor felt bad.

Mr Taylor—Not at all.

Senator CONROY—The tax office has a good long-term contact that has been very profitable for a couple of companies. So you were going to take that on notice—

Senator Abetz—You don't know that, do you, Senator? That is just another cheap comment with no factual foundation.

Senator CONROY—I think the amount of money spent on that contract is very factual.

ACTING CHAIR—You have explained yourself sufficiently.

Senator Abetz—Yes, but you don't know about the profit, do you? It is just absolute supposition.

Senator CONROY—Do you always take yourself this seriously, Eric?

ACTING CHAIR—Question, Senator Conroy?

Senator CONROY—Because no-one else does.

ACTING CHAIR—Next question?

Senator Abetz—Just get on with it.

Senator CONROY—Then stop interrupting. You gave me a figure before of \$4.9 million for BAS 2. In evidence earlier this week from PM&C they indicated that the BAS program as a whole—I think it was the GCU people—was \$9.4 million.

Mr Taylor—Yes. I actually looked at what they said. ‘In the order of \$9.4 million for the period January to December 2000, and 5 point something million for the period January and February 2001 (BAS 2).’ That is actual expenditure, not budget. That is what they said.

Senator CONROY—So the \$4.9 million is within the \$9.4 million? I am trying to match up expenditure and—

Mr Taylor—No, the \$4.9 million which I mentioned which is in respect of BAS 2 would fall within the \$5 million, I believe.

Senator CONROY—And the \$5 million was which time frame?

Mr Taylor—That is the latter, January onwards. But we count things that they do not particularly count. They are quoting gross media buy, et cetera, and we have other things in there. But it seems to me to fall within the ballpark; the figures are approximately the same.

Senator COOK—Mr Taylor, what was budgeted for BAS 3 before you changed the system?

Mr Taylor—I cannot specifically say for BAS 3. I can say what we have budgeted for for the whole year.

Senator COOK—Yes.

Mr Taylor—Are you talking advertising or total?

Senator COOK—Total.

Mr Taylor—Total budget: total admin expenditure for the whole year is \$53 million, which includes advertising, printing and production, postage and distribution, consultants, et cetera.

Senator COOK—Can I ask you what the advertising component of that \$53 million is.

Mr Taylor—That is \$17.7 million.

Senator COOK—And when you say for the whole year is that the calendar year 2001, or is that the financial year?

Mr Taylor—That is the financial year, Senator.

Senator COOK—So that budget expires at the end of this financial year?

Mr Taylor—That is correct.

Senator COOK—Was there any provision made for the next financial year?

Mr Taylor—No. There is a figure provided for the next financial year, I think, but I don’t know that I have it here. I do not have it here but it is certainly a lot less than we have had in the last couple of months.

Mr Matthews—The figure of somewhat less than \$10 million comes into my recollection from the original regulatory impact statement and budget statement. We need to check that but I do not think that figure has been updated or changed and it was of that order, I recall. It is a matter of fact, it is on record and we can certainly get that for you.

Senator COOK—If it is \$53 million overall, how much of that have you spent and how much is unspent? Can you take me through those figures.

Mr Taylor—It has just been pointed out to me that the year to date figure is \$53 million, but the overall budget is \$80 million.

Senator COOK—So the year to date, which is 31 January, is \$53 million.

Mr Taylor—Of which advertising was \$17.7 million.

Senator COOK—What is the whole of the year budget then?

Mr Taylor—\$80.1 million.

Senator COOK—That is a \$27 million unspent allocation for this year. Am I correct? Or \$26.9 million.

Mr Matthews—Yes.

Senator COOK—Presumably that is now available for the education and publicity campaign.

Mr Taylor—Yes, but it goes further than that. It includes salary expenditures and things like that.

Senator COOK—It is available for the holistic expenditure.

Mr Taylor—Yes, the \$80 million is for the whole of my area, including advertising, but also including salary, et cetera. I can tell you that of that we have spent \$53 million. There is an element in there for advertising.

Mr Matthews—While there is \$27 million or thereabouts still unspent it is there, of course, as part of the follow through on the rest of the year as originally planned. That would include, for example, any further arrangements for BAS 3, as you have noted, but also keeping our publications up to date, further mail-outs, web site up to date and salaries continuing. It is the balance of the continuing planned administration.

Mr Taylor—Advertising is only part of what we do, of course.

Senator COOK—So that I understand this, is the \$17.7 million that has been spent so far this financial year on advertising money that you have spent, or is that money that has been spent on your behalf by an agency?

Mr Taylor—On our behalf in the main. We use Mitchell Media, for instance, to buy the media space, to place the advertising. We use an advertising company for production of those ads, et cetera.

Senator COOK—It is the creative side of it.

Mr Taylor—The creative side of it, yes.

Senator COOK—I assume therefore that the actual advertising purchased is less than \$17.7 million, because they have their own overheads and production costs.

Mr Taylor—That is correct. The advertising purchase, in terms of the placement of the advertising, is a substantial part of it. Obviously it is a fairly expensive business, but certainly it is less than the \$17 million. It is included in that \$17 million.

Senator COOK—Do you know what the actual advertising cost is as part of that \$17.7 million?

Mr Taylor—No, but I can get that and I will take that on notice.

Senator COOK—Thank you. Of the remaining roughly \$35 million, that goes to salary and running expenses, but it also goes to a lot of other publicity and education which you produce, does it not?

Mr Taylor—Correct.

Senator COOK—Is there some sort of split between how much goes to material, or the production of information and educational programs, and what the salary component is?

Mr Taylor—It is quite flexible. We know that we have salary expenditure which is an ongoing thing but in terms of what we spend on advertising and the like it depends on what we do as a result of our research, et cetera. If our research, at a particular time, shows us that everything is going well and all issues are being confronted, or there is a level of issues, or that it actually calls more for a public relations approach than an above the line approach through direct advertising, it could well entail a lot less in terms of expenditure. There are times when we believe the way to go on some things is to reduce the advertising and raise the below the line type activities. Again, it really does formulate—

Senator COOK—There is no fixed formula?

Mr Taylor—Not really, no. That is why we do this research and keep our eyes on a whole lot of other indicators, to give us direction and an understanding of how best to reach the audience with the message we want to reach them with. Again, some audiences receive information in different ways; non-English-speaking background as opposed to mainstream, et cetera.

Senator COOK—Do you know, in looking back over the \$53 million that has thus far been spent on this program, what went to salaries and what went to other costs?

Mr Taylor—It was \$3½ million to salary. That is year to date. Is that what you are talking about—year to date?

Senator COOK—Yes.

Mr Taylor—And \$1 million in internal user charging—that is, other overheads. The rest is, as I said, on advertising, printing, postage, et cetera.

Senator COOK—Thank you. The tracking research is embedded in these costs.

Mr Taylor—It is.

Senator COOK—Is that a separate element to the \$17.7 million on advertising, or is that part of the advertising?

Mr Taylor—I am getting that checked now, at Senator Conroy's request. My belief is that it is part of that \$17.7 million which I quoted, but I would like to just make sure.

Senator COOK—I am sorry. I didn't realise Senator Conroy had asked that question.

Mr Taylor—That is okay.

Senator COOK—He is usually ahead of me—and he is again.

Mr Taylor—Once you have finished your line of questioning I will be happy to charge out and get as many answers for you as you like.

Senator CONROY—I wanted to go over a little bit of old ground and find out if there have been any changes, updates or deletions on the information we have been able to put together on your different programs. The BAS campaign, the 4.9 or the 9.4, whichever you are talking about, is that included in the \$46 million for the campaign or program called organisation delivered assistance? Is that where the BAS campaign is listed?

Mr Taylor—No, organisation delivered assistance I think is part of the GST start-up assistance program.

Mr Matthews—It was a component of the \$500 million which Mr Bailey gave a breakdown of last night. It was not part of the tax office work.

Senator CONROY—So BAS 1, BAS 2 and whatever is going to become BAS 3 is not part of—

Mr Matthews—Organisation delivered assistance.

Mr Taylor—It is part of the ATO communication education program. But the \$46 million organisation delivered assistance is GST start-up assistance.

Senator CONROY—Okay. ATO campaign, GST component, 1999-2000, \$54 million. No change?

Mr Taylor—Let me check. That is for GST?

Senator CONROY—Yes, GST.

Mr Taylor—You are after 1999-2000, community awareness?

Senator CONROY—We had \$54 million.

Mr Taylor—I beg your pardon. The GST component is \$54 million, yes.

Senator CONROY—For 2000-01 I have a figure of \$30 million.

Mr Matthews—Where is that \$30 million?

Senator CONROY—I understood that in 1999-2000, \$54 million was allocated and spent for the ATO campaign GST component. 2000-01 was \$30 million; 2001-02 is \$7 million; 2002-03 is \$7 million. I am looking to make sure that those numbers have not changed.

Mr Matthews—I am not sure where those are coming from. The \$7 millions are the out years, which I have mentioned to Senator Cook were the longstanding original allocations.

Senator CONROY—They have not increased?

Mr Matthews—No, as far as I am aware, those have not increased. However, the \$30 million I think has been changed to the figures we have already given Senator Cook.

Senator CONROY—That \$30 million has gone up? ATO campaign GST component has increased from \$30 million to \$80 million?

Mr Matthews—It is \$80 million, but you have extracted GST. Correct me if I am wrong, Chris, but I think there are other elements, such as pay as you go and ABN elements, that are in there which are now all in that \$80 million. I am not sure that we can distinguish for you the equivalent of the \$54 million last year. It will be a component of the \$80 million.

Mr Taylor—\$80.1 million is the budget for the whole of the year.

Senator CONROY—My next column was ATO campaign PAYG component; 1999-2000 was \$9 million.

Mr Matthews—That is correct.

Senator CONROY—And you are now saying that you are not able to break out an individualised figure. The \$80 million covered the GST component?

Mr Taylor—Yes.

Senator CONROY—The PAYG component?

Mr Taylor—Yes.

Senator CONROY—And any other component? ABN?

Mr Matthews—To the extent that we do, it would be ABN as well.

Mr Taylor—ABN would be negligible.

Mr Matthews—But a lot of those things have now dropped down to a lower level of activity, of course.

Senator CONROY—Are diesel fuel and WET included in the \$80 million?

Mr Taylor—I do not know about diesel fuel. Certainly WET and LCT.

Mr Matthews—All of those things that would have been under the heading of ‘Other’ in the 1999-2000 would be in there.

Senator CONROY—There are now four components that total the \$80 million, which are the GST, PAYG, ABN and Other.

Mr Taylor—Yes.

Senator CONROY—And that totals \$80 million now.

Mr Taylor—That is correct, yes.

Senator CONROY—Out years for them?

Mr Matthews—I am not aware that they have been reviewed, so they still, to my knowledge, remain at the \$7 million and \$7 million as outlined, and I think that is the answer to Senator Cook’s question.

Senator CONROY—Previously, we thought the \$7 million only applied to the GST component. You are now saying the \$7 million and the \$7 million cover all four of those?

Mr Matthews—As far as I am aware, the \$7 million and the \$7 million are all that was originally foreshadowed for those out years, and they have not been reviewed.

Senator COOK—Given that dissection of the \$80.1 million for the full financial year, is that \$17.7 million that has been spent on advertising—that breakout figure you gave us—just for BAS or is that for each of the headlines that Senator Conroy has read out?

Mr Taylor—It is difficult to separate them, given that BAS was covering PAYG and GST, so it would cover those things at least, and the IAS, including PAYG. Because of the integrated nature of these measures, when you are giving messages out, it is difficult to separate them.

Senator COOK—I can be satisfied that that \$17.7 million is essentially for what colloquially we might regard as promotion of the BAS form?

Mr Matthews—I do think it goes beyond that.

Senator COOK—Beyond that, so that is too narrow a draw?

Mr Matthews—It would certainly include elements of the pay as you go system that are not on the BAS form, for example. We may be able to give some breakdown, but it is the totality. I do not think there is anything else that has been done.

Senator CONROY—Community information and awareness campaign, Chains. The figures we had for 1999-2000 were \$20 million. The following year, 2000-01, was \$26 million. No change to those figures?

Mr Taylor—No change.

Mr Matthews—I am sorry, Senator, I just want to be sure. Can you give me the two figures you gave me again.

Senator CONROY—Twenty million dollars and \$26 million.

Mr Matthews—That is the total, yes.

Senator CONROY—Any out years for Chains?

Mr Matthews—As I say, the only out years are the \$7 million and \$7 million, that I am aware of at this stage.

Mr Taylor—That was a specific campaign.

Senator CONROY—Can I go back just one step. I want to confirm that the 1999-2000 ATO campaign ABN component was \$27 million still.

Mr Matthews—Yes.

Senator CONROY—And the ATO campaign 'Other' for 1999-2000 was \$10 million.

Mr Matthews—The 'Other' was \$6 million.

Senator CONROY—In 1999-2000?

Mr Matthews—In 1999-2000, yes, the balancing item was \$6 million.

Senator CONROY—Could I just run down then, because I do not want to get this wrong. It is \$54 million for GST.

Mr Matthews—Yes.

Senator CONROY—Nine million dollars for PAYG.

Mr Matthews—Yes.

Senator CONROY—Twenty-seven million dollars for ABN.

Mr Matthews—Yes.

Senator CONROY—And you are now saying \$6 million for 'Other'.

Mr Matthews—Yes.

Senator CONROY—I had a figure of \$2 million. It is \$6 million for 'Other'.

Mr Taylor—That is a total of \$142 million.

Mr Matthews—One hundred and forty-six million dollars for the consumer awareness.

Senator CONROY—I will take your word for that total. Thanks. Organisation delivered assistance, 1999-2000?

Mr Matthews—That is where you are moving into the Start-up Assistance Office.

Senator CONROY—I am happy to ask Mr Smith.

Mr Matthews—Mr Bailey broke those down last night, I think.

Senator CONROY—Was I asking the questions? I do not remember getting this particular breakdown.

Mr Taylor—It is all so blurry now. It might have been Senator Cook. I cannot remember who it was.

Senator COOK—I was me? What am I the culprit for?

Senator CONROY—You asked for a breakdown of the organisation delivered assistance last night that Mr Bailey apparently ran through, but I do not remember asking those specific questions—certainly not in this form.

Senator COOK—If you say we have the information on the *Hansard*, can we come back to you?

Mr Taylor—Certainly.

Senator CONROY—It is Mr Smith's program?

Senator Abetz—Yes.

Mr Smith—Which program is this?

Senator CONROY—We are talking about the organisation delivered assistance and I just wanted to tick off on a couple of figures. Apparently I ticked off on them last night, but we are all a little hazy about whether it was me or Senator Cook possibly who was asking the questions, or Mr Bailey or Senator Kemp who was giving them. I have a figure of \$104 million for 1999-2000.

Mr Smith—I do not have the figure for that year. I have a total figure for funds spent, which is less than that, of \$100,527,000. That may be explained by refunds from organisations, which are running at over \$5 million.

Senator CONROY—That sounds close. For 2000-01 I have a \$46 million figure.

Mr Smith—The quote that I just gave was for phase 1 of the organisation delivered assistance. Phase 2, which is essentially in that second year, the total spent to date I have for that program is \$16.9 million. There just a question of whether we are talking about exactly the same categorisations, I must say, but they are the figures I have.

Senator CONROY—You have just got a spent figure. What I think I am quoting is the estimate.

Mr Smith—Yes, that could be it.

Senator CONROY—A budget figure of \$46 million.

Mr Smith—Okay, that could be it.

Senator COOK—Which is part of the \$500 million GST start-up assistance fund.

Mr Smith—Yes. All of these are within that \$500 million.

Senator CONROY—I have a program called adviser education, a figure for 1999-2000 of \$7 million.

Mr Smith—I do not have the annual breakdowns, I am afraid, but I can get them confirmed if you wish.

Senator CONROY—I was just hoping to get that \$7 million confirmed. I think it is confirmed and I wanted to double-check it had not changed.

Mr Smith—Yes, I think that has not changed.

Senator CONROY—I was hoping to get the 2000-2001 figure.

Mr Smith—No, I do not have that figure.

Senator CONROY—And the 2001-2002 figures if they are available in the out years.

Mr Smith—I do not have those figures I am afraid, but I can get them for you.

Senator CONROY—Take them on notice.

Mr Smith—Yes.

Senator CONROY—Business skills program.

Mr Smith—I will have to get to those for you.

Senator CONROY—Just for you information, I have a \$38 million figure.

Mr Smith—Basically since our last estimates—these programs have virtually come to an end—there would be very little change in them.

Senator CONROY—I am not anticipating that there will be any great changes, particularly in the 1999-2000 figure, I would hope. But then any figures for 2000-2001, 2001-2002 and 2002-2003—though, as you say, it is unlikely, given the programs are wound up or winding-up, that there will be such figures. Start-up units, I have a \$5 million figure for 1999-2000 and a \$1 million figure for 2000-2001 and any information on out years, 2001-2002, 2002-2003. Customs—some of these Customs I do not think would be you, Mr Smith, unless you have enhanced your empire yet again. Mr Matthews or Mr Taylor, are you aware of any figures that the other departments and agencies are involved in Customs.

Mr Matthews—No, not at all.

Senator CONROY—Family and Community Services.

Mr Matthews—No.

Senator CONROY—Veterans' Affairs.

Mr Matthews—No.

Senator CONROY—DEETYA.

Mr Matthews—No.

Senator CONROY—Ag Fisheries and Forestry and the ACCC.

Mr Taylor—No, sorry.

Senator CONROY—Where does the BAS 2, BAS 3 funding come from? ATO? Which program?

Mr Matthews—It is within the \$80.1 million that we have been talking about.

Senator CONROY—The ATO campaign GST components.

Mr Matthews—As I say, we have not really differentiated because some of those other campaigns are still very active, but ABN has not really differentiated along those same lines. It is all coming out of that \$80.1 million.

Senator CONROY—BAS 1, 2 and 3 is incorporated in the \$80.1 million.

Mr Matthews—And because BAS and those products associated with it are very much across PAYG and GST product.

Senator COOK—It is my understanding that there is, thus far, no new allocation to supplement the \$26.9 million that remains unspent from this year's budget for promoting the new system as announced yesterday.

Mr Matthews—We have not received any notification of any, no.

Senator COOK—Have you made a bid for some?

Mr Matthews—That would be part of the advice we have given to government.

Senator COOK—One imagines you have. The next quarterly BAS lodgment from now is due in July, I think, is it not?

Mr Matthews—No, there is BAS due on 28 April. The third quarter.

Senator COOK—When is the following one due?

Mr Matthews—That is now due on 28 July.

Senator COOK—The third one would be in September, then, would it?

Mr Matthews—That will be 28 October. That is the July quarter.

Senator COOK—Yes. 28 October might be an interesting time, but I leave that aside.

Mr Matthews—That is the first quarter next year.

Senator COOK—In the next financial year.

Mr Matthews—Yes.

Senator COOK—Just looking at this logically, what you would want taxpayers to be aware of is what the options of your new system offer them ahead of the lodgment.

Mr Matthews—Yes.

Senator COOK—So one would reasonably expect that the information would peak in the lead-up to these dates, rather than at the time.

Mr Matthews—Yes.

Senator COOK—And the first date in April is probably the most critical in the lead-up to April in order that the changes have sunk in and people are fully aware of the option.

Mr Matthews—Yes.

Senator COOK—Has there been any preliminary work done on this yet?

Mr Matthews—We are in the intense throes of planning that now because, as you point out, there needs to be a fairly intense period and the lead time is fairly short.

Senator COOK—Do you think that means that by October it will have trailed right off?

Mr Matthews—I think that is a bit of speculation in a sense. I would think so. Let me put it this way: we have the obligation, as you have pointed out, to get that information out now in time for the next quarter and, to the extent it is necessary, we are obviously on record as saying we will continue to provide whatever support the community seems to need for the ensuing quarters as well. It is a bit hard for us to judge, in anticipation, what the position might be that far out.

Mr Taylor—Traditionally, to date, we have deliberately not planned too far in advance because each quarter in a new system will reveal its own needs so we have actually left it to the last minute.

Senator COOK—When it comes to advertising I am a bit of a novice but I have been around long enough to pick up a few of the jargon elements. It seems to me it relies for its effectiveness not only on how well the message is produced and explained, but also on the intensity of the number of spots you have booked to deliver that message—the spread or the placement, where that message goes in Australia, which networks you choose and so forth; the mode—do you choose radio, television, newspapers, magazines, business journals and periodicals from industry groups; and the duration over which you conduct this hit. Are all of those issues decided by you, or are they approved by you and recommended by someone else?

Mr Taylor—It is a mixed process. We take advice from the media placement company. We take advice from the researcher. We take advice even from the advertising company in terms of their experience. Using all that sort of information and our own experience, which is growing, we make a determination and we make recommendations to the MCGC.

Senator COOK—So it is to the Commonwealth—

Mr Taylor—And the GCU, of course, the government communication unit.

Senator COOK—Where does the decision get made finally?

Mr Taylor—MCGC.

Mr Matthews—I could add one other element that perhaps you did not mention. The effectiveness is also determined by the extent to which advertising, which is in a sense just the leading edge, is supported by other publications and information supplied directly which is certainly part of our strategy.

Mr Taylor—We try to integrate it as much as possible.

Senator COOK—My feeble grasp of all this tells me at least you have a sort of general style of presentations so that if people see the ad and they see a booklet they can relate the two and that sort of thing.

Mr Matthews—One supports the other.

Senator COOK—Do you maintain control over the intellectual content in terms of its technical accuracy and so forth.

Mr Taylor—Certainly. Everything is very thoroughly checked for accuracy.

Senator COOK—Does that mean you are able to say, ‘No, that ad oughtn’t run because it doesn’t necessarily present the issue. It might be a neat ad, it might be an eye grabber, but it doesn’t actually present the issue properly.’ Do you have that sort of control, or do you say, ‘Here’s the content,’ and pass it over and then someone else packages it?

Mr Taylor—No. At the time we are saying, ‘Here’s the content,’ we are sitting with the creatives, et cetera. It is a very joint exercise, if you like.

Senator COOK—You guys workshop this together?

Mr Taylor—Yes, exactly. Well said, yes. We certainly provide the content, they provide creative, and it is jointly workshopped, so there are no surprises at the end of a process.

Senator COOK—Do you envisage the campaign that now lies ahead of you, the one that you have to conduct to educate and inform people about the new options available, as being a large campaign?

Mr Matthews—Significant, certainly.

Senator COOK—A significant campaign. Equal to what you have done in the past?

Mr Matthews—I think there is still a base to build on, which we have already created, but it will certainly be significant, as we have pointed out, and some of the stories that you have put on the table yourself to me are a salutary reminder that you can almost never do too much to get this out, and a change of this kind affecting so many people. I do think it will be a significant campaign and a significant effort.

Senator CONROY—I want to just double-check one figure. You said in 2000 and 2001 that \$80.1 million figure was the total, and I think in earlier discussions you have spent \$53 million of that already, which leaves, I think, \$27 million to spend between—

Mr Matthews—Yes, as we have already established with Senator Cook.

Senator CONROY—And do you believe you will go beyond that to promote this new BAS system?

Mr Matthews—As I mentioned to Senator Cook, that budget was intended for the continuation of an existing program and an existing infrastructure in the ATO. So while there could be some drawing and rescheduling, I do think we are talking essentially about an add-on to some extent.

Senator CONROY—At the moment there is \$27 million to spend of the old program, and you believe, because it is significantly redesigned streamlining, that there could be more money than that \$27 million?

Mr Matthews—I mentioned earlier we are still in the planning processes, and in the end that probably will be a matter for government.

Senator CONROY—Senator Kemp, is \$27 million enough to sell a new streamlined system?

Senator Kemp—Well, the government always takes appropriate professional advice on these matters.

Senator CONROY—The tax office is saying it is your decision.

Senator Kemp—In that case we will be looking at the professional advice we receive.

Senator CONROY—Mr Matthews, you cannot give us a guarantee that \$27 million will be the remaining money or, more importantly, that \$80.1 million will be the final outcome? You suspect it may be more?

Senator Kemp—No, Senator, you have just put some words in someone's mouth. These are matters for the government to consider.

Senator CONROY—Sorry, Mr Matthews. You said you have made recommendations for more?

Mr Matthews—I said that this area would be subject to our advice to the government, yes, and their decision.

Senator CONROY—And then it is of course in Senator Kemp's hands.

Senator Kemp—Senator, I must say I do like the way you like to elevate my status in the world. It is one of the particular aspects of you that I actually like.

Senator CONROY—On my rough maths and adding up all the figures we have received across all the different departments and the programs and the new figures you have given us today, the last table we had after the last estimates was \$431 million, but adding in the new amounts we have been able to confirm today, the new grand total for the tax system is \$485.1 million, with an expectation that there will actually be more because of the new streamlined system, so we are rapidly closing on that \$500 million. Does that sound familiar? That is all the figures we have run through.

Mr Taylor—That is right across government, including—

Senator CONROY—Right across government, yes.

Mr Matthews—Including all of Mr Smith's figures and the ones we—

Senator CONROY—\$485.1 million with more to come?

Senator Kemp—I do not want to sound cynical, Senator, but I have been caught out a couple of times by statistics and quotes you have made, so I reserve the right to check any of this information.

Senator CONROY—Senator Kemp, in May 2000, indigenous artists in the Kimberley represented by Warmun Art Centre sent a letter to the Treasurer, which was also sent to the Prime Minister, the minister for Aboriginal and Torres Strait Islander affairs and the minister for the arts, detailing their concerns and problems with implementing the GST in Aboriginal communities, and in particular the problems in collecting the tax and filling out the BAS. Are you aware that they have received no response from any of these ministers?

Senator Kemp—Senator, I would have to check. You said that something was sent to me, did you?

Senator CONROY—No, it has been sent to the Treasurer, the PM, the minister for Aboriginal and Torres Strait Islander affairs and the minister for the arts.

Senator Kemp—And what date was that, Senator?

Senator CONROY—According to the press release, it arose out of a press release on 29 May 2000, so it is some time ago, but I am not saying it was right on that date. It arose out of a press release issued by the tax office about ABNs, et cetera. It is just a question of trying to get some assistance and work through the issues.

Senator Kemp—Obviously we do not have the information on hand.

Senator CONROY—Will you be responding? Will you be able to chase it up for us?

Senator Kemp—I will see what I can do. As you know, my main aim in life is to assist people, therefore I always start off from that particular position. We may be able to fix it up right now. Have you got the specific—

Senator CONROY—I do not have the letter.

Senator Kemp—We have such a expertise and a range of talent at this table, which is exceptional—

Senator CONROY—If it could not be fixed at this table, then it could not be fixed. I have no doubt about that.

Senator Kemp—It is a pity you did not bring it along and we could have dealt with it forthwith.

Senator CONROY—I refer to the Treasurer's claims that the implementation of the GST has proceeded smoothly and ask what arrangements have been made to refund the GST paid by the estimated 360,000 people who visited the Melbourne museum, Scienceworks and the immigration museum prior to the tax office deciding these museums should not be collecting GST.

Mr Matthews—It is not our practice to talk about the affairs of individual taxpayers. What I can say is that before the media or anybody else concludes that a supply is GST free, particularly in this charitable sector, the organisations do need to be sure that that is the case. They do need to be sure that the supplies they are making satisfy the non-commercial supply tests in the legislation. It is my knowledge that in some cases there were claims of some organisations that supposedly had charged GST when they should not have done, but subsequently found that in fact they had charged it correctly.

Senator CONROY—Are you aware of any instances where museums particularly but other organisations have charged GST and found that they should not have? And how will you respond to that to make sure the money goes back?

Mr Matthews—The situation there is one where the ACCC has worked out programs with those organisations to satisfy the outcome. It has not so much been one for us but for the ACCC, and they have worked out arrangements, sometimes on a case-by-case basis and sometimes with the industry.

Senator CONROY—Have any of these organisations claimed that they have received advice from the tax office that they should be collecting it? Are they basically saying, 'We do what we were told'?

Mr Matthews—They have correctly said that they would have received some advice from us on what to do in the lead-up to the final position being worked through at an industry level, and then when rulings are issued as final. They certainly would have had some advice from us on what to do from 1 July while advice was being finalised. The law, however, was there for them to apply in this commercial or non-commercial supplies of charities area, all the way through.

Senator CONROY—Some organisations were given advice, albeit maybe incorrectly?

Mr Matthews—They would have been advised of the way the law worked, but there were some areas of complexity, not so much in museums and zoos but in other areas of entertainment, where extensive consultations were necessary and undertaken after 1 July. I think rulings were issued some months later.

Senator CONROY—Were state governments consulted over the changes to BAS?

Mr Smith—They have not been consulted on the detail, Senator. There have been meetings with the states over the last year and we foreshadowed that these changes were being considered.

Senator CONROY—This would be that state tax?

Mr Smith—The obligations under the legislation are to obtain their agreement to changes in the base.

Senator CONROY—It is a state tax, isn't it?

Mr Smith—The Commonwealth has the unilateral right to make changes, other than those that are set down in the legislation. They are the arrangements which are in place and we have an administrative arrangement in place too.

Senator CONROY—Does the Commonwealth have unilateral power to vary a state tax?

Mr Smith—As you know, the requirements that are set down in the legislation in section 11 of the arrangements with the states are basically to consult with the states on changes to the rate and the base to obtain unanimous agreement for changes, other than some specific exclusions for administrative changes.

Senator CONROY—Are there any other state taxes that you have the power to unilaterally amend?

Mr Smith—Senator, this is a tax which, of course, has been passed by the Senate and the House of Representatives. It is a tax for which the Commonwealth has passed a law, setting out arrangements for agreement of the states and the territories for changes to the rate or the base.

Senator CONROY—I will take that as a no. Is it true that the 21-day payment date after the end of a month or quarter is designed to facilitate the agreed payment regime for the states for the GST revenue?

Mr Smith—The legislation does not set down a prescribed requirement to make particular payments in particular months.

Senator CONROY—That would fall under the administrative changes where you can make a unilateral change without getting the agreement of the states?

Mr Smith—The arrangement we have in place with the states this year is that we are making payments to them on a schedule. It is not linked directly to the receipts of the Commonwealth in any particular month.

Senator CONROY—Mr Matthews, could you please detail additional administrative costs that have been put in for the new tax system in the tax office?

Mr Matthews—Starting from where, Senator?

Senator CONROY—My memory is that ANTS allocated about \$300 million a year for the GST in additional funding and the Democrat deal added a further \$60 million per year because of the added complexity and the MYEFO has added another \$183 million this financial year. Does that sound familiar?

Mr Matthews—It sounds familiar.

Senator CONROY—It is about \$543 million in additional outlays for the GST this financial year on top of whatever was transferred from existing ATO staff. Does that sound about right when you add all of them up?

Mr Matthews—Did you say 'for' the GST?

Senator CONROY—For the GST, yes.

Mr Matthews—The budget allocation to the ATO for GST expenditure for 2000-2001 now totals \$638 million.

Senator CONROY—My next figure is probably slightly underdone then. On that \$543 million, to collect \$26 billion it looks like an administrative cost of around two per cent.

It is probably a little bit higher, given the extra figure that you have. That is a very high ratio. Minister, do you still claim the GST is an efficient tax?

Senator Kemp—Yes, it is an efficient tax, Senator.

Senator CONROY—When its administrative cost is over two per cent?

Senator Kemp—Senator, we have had the discussion here. I do not want to start a big debate here, but my understanding is that the Labor Party proposes to keep the GST, if by chance it gets into government.

Senator COOK—No, it does not.

Senator Kemp—It does not? That is probably a big news item.

Senator COOK—No, it is not a big news item. Every time you say that we tell you you are wrong, and you keep repeating it.

Senator Kemp—If you are not going to keep the GST, you are going to have a completely new tax system.

Senator COOK—We are going to roll it back.

Senator CONROY—There is not much left to roll back, you have to be honest.

Senator Kemp—You are going to have a completely new tax system and that is pretty big news, Senator.

Senator COOK—No, we are going to roll it back.

Senator Kemp—That just about trumps any comments that have been made here today. That is a big one.

Senator CONROY—The ATO data shows—

Senator COOK—You always say that.

Senator Kemp—If you say you are not going to keep it, you are going to have a completely new tax system.

Senator CONROY—The ATO data shows—hello, is anyone paying attention?

CHAIR—Order!

Senator COOK—You cannot seem to grasp, Minister, the idea of rolling it back.

Senator CONROY—They have grasped it pretty big in the last couple of days, Cookie.

CHAIR—Senator Conroy.

Senator COOK—Yesterday there was a spectacular roll back.

Senator CONROY—It was a spectacular roll back. The ATO data shows that the average cost of collection under the old tax system was much less than one per cent of the revenue collected, compared to what is more than two per cent now. I think the figures speak for themselves, Minister. In question on notice No. 2943 from Senator Cook, my colleague, dated 20 September, we asked for the number of GST registrations. It is said that 715,200 out of 1.9 million quarterly GST payers have an annual turnover of less than \$50,000. Is that correct?

Mr Matthews—I am sorry, Senator. You are rattling through those a little too fast for me. I want to be sure I give you the right answer here.

Senator CONROY—The number of GST registrations.

Mr Matthews—Yes.

Senator CONROY—I think it was 715,200 out of 1.9 million quarterly GST payers who have an annual turnover of less than \$50,000.

Mr Matthews—That is still approximately right. I think it is probably somewhat closer to 780,000 at this point.

Senator CONROY—That is about one in three quarterly registrations that do not need to be in the GST system.

Mr Matthews—That is correct. They are voluntary registrations.

Senator CONROY—How does that compare with the original model?

Mr Matthews—My recollection is that was higher.

Senator CONROY—That is higher than the model?

Mr Matthews—I could get some details on that for you.

Senator CONROY—No, it is okay.

Mr Matthews—The general point is I think that was a higher than expected voluntary GST registration.

Senator CONROY—Are you able to tell us how much GST the businesses are paying?

Mr Matthews—I am not in a position to give you that information, no.

Senator CONROY—Mr Smith?

Mr Smith—I cannot give you any breakdown, Senator.

Senator CONROY—Does anyone know what the aggregate compliance costs for these 715,000 businesses in respect of the GST is, as a percentage of their total GST that they remit?

Mr Matthews—I do not think we would be in a position to respond, although noting again that they are voluntarily in the system.

Senator CONROY—Do you think taxpayers know that they do not necessarily have to be part of the GST system?

Mr Matthews—It was certainly a major part of our education and information campaign in all the months leading up to that. Clearly there have been a number of people who have chosen, and continue to choose, to deregister. By the same token, we are still receiving a significant number of new ABN and GST registrations as new businesses start and so on. But the information was certainly there.

Senator CONROY—Given that you have captured 715,000 businesses voluntarily, which is much higher than you anticipated, do you think there is a need to add into this new advertising campaign a bit of a reminder that you do not have to be if you are less than \$50,000?

Mr Matthews—We can take that notion on board and test whether that information is there.

Senator CONROY—The question also asked for a breakdown of GST collected by industry group and through a range of GST taxpayer turnovers. The answer said that the turnover ranges were unavailable when the question was asked. Could these figures now be provided?

Mr Matthews—This is turnover range by—

Senator CONROY—It was question No. 2943 on notice.

Mr Matthews—I would be happy to review the answer to that question, Senator, and see whether we can provide what was sought.

Senator CONROY—You have collected all the information you are going to collect. I would have thought it would all make logical sense.

Mr Matthews—I have made a note of the question number. I will go to the specifics of it and see if there is anything further.

Senator CONROY—The question on notice also asked for aggregate data on labels G1 to G20 on the BAS. This was not provided on the basis that aggregate data from labels G1 to G20 will not be available until data quality checks and consolidations are complete. Have these checks and consolidations now been completed? If so, are we able to get the information?

Mr Matthews—No, they have not been completed, Senator.

Senator CONROY—Any indication?

Mr Matthews—I am not sure when they will be completed.

Senator CONROY—Is there a reason it is not available yet? Is there a problem?

Mr Matthews—You have outlined the reason there: to provide aggregate level data will require those data quality checks.

Senator CONROY—You have most of the information now, given your changes. You have got a good sample, you are saying, to allow a variety of other things to happen. I would have thought you would have got a good enough sample to come back to us on that one now.

Mr Matthews—The sample is there. We need to go through the quality processes to ensure that an aggregate level—

Senator CONROY—It would be a worry, surely, given that you are not going to be collecting G1 to G20 in many cases.

Mr Matthews—It is not a worry. It is simply a matter of time and priority.

Senator CONROY—How many public and private rulings have now been issued on the GST?

Mr Matthews—I would have to take that on notice, Senator. I do not think I have the grand total, certainly not of private rulings. It would run into the very many thousands.

Senator CONROY—I think it was 7,500 six or eight months ago, last time I asked that question.

Mr Matthews—Every piece of correspondence that we issue in respect of the GST is a binding ruling. I can gather and provide some statistics for you. We may check now to see if we have that sort of information here.

Senator CONROY—Thank you. Are many still outstanding?

Mr Matthews—No. I would say any backlogs we have are now quite small. They are of the order of what I call normal throughputs, compared to some of the situations we were in before.

Senator CONROY—That should be a relief!

Mr Matthews—Yes. That is not to say it is not still a significant workload for us.

Senator CONROY—A report on 29 January 2001 in the *Sydney Morning Herald* stated that there were still 3,600 private rulings outstanding. Is that an accurate report?

Mr Matthews—I would need to go back and check what the position was at that time to test that. That number may also be not unlike the normal work-on-hand figure.

Senator CONROY—Would 3,600 be a normal one?

Mr Matthews—That is what I would need to go back and check. The volumes tend to be something of that order. Are you asking me to validate the figure at 29 January?

Senator CONROY—29 January 2001, *Sydney Morning Herald*.

Mr Matthews—If we can pinpoint that.

Senator CONROY—I appreciate that.

Mr Matthews—I am not sure what the source was.

Senator CONROY—Has the replyin5 service been a success?

Mr Matthews—It was a success, Senator. I would be the first to say that we stuck our necks out to promise as much as we could in the time frame. I will be quite frank: the figures are there to say that we did not deliver entirely on replyin5. Nevertheless, we improved very significantly on the standards that were required of us under the taxpayer charter. I believe that all the people involved pulled out every stop they could to deliver as close as we could to replyin5. Even though we did not achieve it, I believe it was a success.

Senator CONROY—Are there any statistics regarding replyin5 service; for example, average time until reply, percentage completed within five days, et cetera? Is there any information like that available to the committee?

Mr Matthews—I will see what I can get for you to review that, and what we are presently doing.

Senator CONROY—Thank you. Spectrum sales, Mr Smith; are you still with us?

Mr Smith—I am here.

Senator CONROY—The Treasurer announced on the—

Senator Kemp—Just a little bit of housekeeping. Is that the end of the GST? Why don't we finish the GST?

Senator CONROY—WET, luxury car tax, new tax system issues, Privacy Commission's finding into breaches of taxpayer privacy and the GST Start-Up Office—that is probably you—GST refunds delay.

Senator Kemp—Why don't we finish off the tax office and then we will have the final sprint with Mr Smith?

Senator CONROY—He is looking very relaxed there. I am not sure he is up for a quick sprint.

Senator Kemp—He is a man of enormous capacity.

Senator CONROY—You can blame the minister for this, Mr Smith. Moving on to refunds delayed. In an *AFR* article on 25 September, Assistant Commission Mr Andrew Waite basically stated that taxpayers were unaware that the ATO was allowed to offset GST refunds against other tax bills. Is that correct?

Mr Matthews—If you are reading from an *AFR* report, I assume the fact that there was an *AFR* report would say that that is correct, Senator.

Senator CONROY—I am sure it is back there somewhere. I was not trying to represent that those were Mr Waite's exact words; there was a paraphrasing of his words but I was not seeking to him a disservice. I am sure the article is somewhere in—

Mr Matthews—I was not sure. I thought you were asking—

Senator CONROY—But is that the case?

Mr Matthews—Is what the case?

Senator CONROY—Is it the case that the tax office can offset?

Mr Matthews—Yes.

Senator CONROY—Do you believe taxpayers were aware of it?

Mr Matthews—I believe they were aware of it in the context of the way the whole activity statement works; that it reaches net amounts, offsetting credits and amounts payable against a range of taxes. They may not have been aware of what happened if they had an old debt with us from some previous activities—and some were clearly not aware that the system did provide for that. This is not a new situation but a longstanding one.

Senator CONROY—So it is true that the ATO was withholding GST refunds from businesses to meet their company tax liabilities?

Mr Matthews—Yes, the system would have provided for that.

Senator CONROY—It would have done that automatically.

Mr Matthews—But following that report we may have made some adjustments to the system.

Senator CONROY—What adjustments would they be?

Mr Matthews—I am just checking that.

Mr Jones—It would have been in relation to other new tax system liabilities, Senator. This is a hypothetical case but someone might have sent in a business activity statement and not sent us sufficient money, for example. Then they would have a debt. The next month may have been a refund but we would have—

Senator CONROY—You went from actively taking company tax liabilities to just other GST liabilities. Is that what you are saying there?

Mr Jones—Yes.

Senator CONROY—Mr Matthews said you made some adjustments. I was trying to find out whether what you said was before or after the adjustments.

Mr Jones—There are a couple of finer points to this. There is the issue of offsetting in the sense of those month-to-month or, alternatively, old existing debts. I will introduce Mr Neil Mann, Deputy Commissioner, Small Business.

Senator CONROY—I was asking whether the ATO was withholding GST refunds from businesses to meet outstanding company tax liabilities.

Mr Mann—The offsets would apply to obligations under the new tax system or on the activity statements, not other legacy debts that might have accrued in earlier years.

Senator CONROY—I thought Mr Matthews indicated that you were at first, then the article appeared and you made some changes and that is now the system.

Mr Matthews—The timing of what the situation was when that article came out is I think where we are having trouble adjusting ourselves back to that situation.

Senator CONROY—But that was a situation where you said it was normal, that that was practice. Then around the time of the article a change was made, so you were only netting out against GST. Is that what happened?

Mr Jones—And other new tax systems. And then I think there were issues about due dates, Senator. I think it would be wise, in order to make sure that we did not mislead you, to go back to that point.

Senator CONROY—Let me give you my other question. It was also claimed that the ATO was withholding GST refunds to meet these tax liabilities, although they had not yet become payable.

Mr Jones—That is the point I am raising, Senator.

Senator CONROY—Are there legal grounds for the ATO withholding GST refunds to meet other tax liabilities that have not yet become payable? I am happy for you to take that on notice as part of that answer.

Mr Jones—Thank you. That is probably the best way, Senator.

Senator CONROY—I think, Mr Matthews, you stated that it was fairly standard practice by the ATO to withhold a tax refund—not a GST, necessarily, but a tax refund—to meet another tax obligation, even when that other tax obligation was not yet payable. Have I unfairly characterised you there?

Mr Matthews—I think the law provided for that—

Senator CONROY—I thought that was what you said. I thought that that was possible.

Mr Matthews—and that was the adjustment that we made to change that situation.

Mr Jones—Senator, we do need to just check out some of the particular points of that story.

Senator CONROY—Minister, there was a lot of advertising about the GST: lots of publications, booklets and billboards, as we have talked about before. Did the ATO indicate that they had the right to withhold the GST refund to meet other tax obligations? Do you think they should have?

Senator Kemp—Senator, that matter has been addressed before the table here. I have nothing—

Senator CONROY—They said it was legally available; I am just asking you whether it should have got a higher profile in the advertising campaign.

Senator Kemp—Senator, a great deal was done in the advertising campaign, which you are aware of. A great deal of information was provided to people. You are now arguing that perhaps even further aspects should be added in. That is always a matter of opinion. In the end, the government has made judgments on these things.

Senator COOK—Can we get the rights to those ads? We would like to run them in the election campaign, to remind people what you promised them.

Senator Kemp—Senator Cook, let me say that there are many things that are going to be run in the advertising campaign in the election. You will obviously be focusing on particular aspects and, let me assure you, we will be focusing on other aspects of it.

Senator CONROY—I can promise you one thing, Senator Kemp: you will not be in your ads—notwithstanding the *Financial Review* today indicating that you are one of the heavyweights in this country.

Senator Kemp—I noticed that. It was a very fine portrait of me, too, which Senator Cook was kind enough to draw to my attention.

Senator CONROY—You have obviously not had a lot of portraits done if you think that.

Senator COOK—Sadly, you are from the ideologically unsound faction, though.

Senator Kemp—You always said to me you were a bit of a free marketeer, Senator Cook.

Senator COOK—I am not a member of the New Right, thank God.

Senator Kemp—You are probably a bit old.

Senator CONROY—Does the government agree with the chairman of the board of taxation, Mr Dick Warburton, who warned in the AFR on 21 November that the delays in issuing GST refunds are placing businesses under significant cash flow pressure. Is Mr Warburton right, Minister?

Senator Kemp—Senator, you will have to repeat what he said. I was somewhat distracted by the discussion.

Senator CONROY—He was warning that delays in issuing GST refunds are placing businesses under significant cash flow pressure.

Senator Kemp—Senator, I think it is important that the refunds be delivered on time. I do not think there is any argument on that.

Senator CONROY—Why has it taken so long to address this issue then?

Senator Kemp—Senator, as far as the specifics of the case, the government position and the tax office position is that the refunds have got to be issued as expeditiously as possible, and there are guidelines which govern that. I will count on my tax office officials to provide some details, but the overall record on the refunds has been good.

Mr Matthews—We have issued now nearly 875,000 refunds and over 90 per cent of them have been within 14 days.

Senator CONROY—How many taxpayers have been denied a refund on the basis of it being kept to meet a future tax liability? I am happy for you to take that on notice, unless you know the answer.

Mr Matthews—As I say, that situation no longer pertains, to my knowledge.

Senator CONROY—I am seeking to know how many taxpayers were denied, or are you saying that you have now forwarded it to every single one of them?

Mr Matthews—That would certainly have worked its way through the system now because they were only withheld when the due date was I think within a certain range. Most of those would now have been worked through the system. I think that is the position.

Senator CONROY—What about high wealth individuals? It is Mr Killaly) usually, isn't it?

Mr Jones—Mr Killaly is in transit. I am happy to take the question on notice, if that would assist, depending on what it is—

Senator CONROY—No, I was just trying to make sure that Mr Matthews could go. I just wanted to make sure he was not in charge of high wealth individuals as well, for his sins.

Mr Jones—He does a great job.

Senator Kemp—Mr Matthews, thank you for your appearance before this committee.

CHAIR—Thank you, Mr Matthews, on behalf of the committee.

Senator CONROY—I was going to slip back to Mr Smith.

Senator Kemp—Could we finish with Mr Jones, given that Mr Jones has been here for a very long time.

Senator CONROY—I probably would like to ask a couple of questions of Mr Smith. I am just conscious that we have only a few minutes left.

Senator Kemp—I think you are worried that Senator Lundy will be coming back too.

Senator COOK—Our impression was that Mr Jones was enjoying himself.

Senator CONROY—He is having a ball up there. He has you for company, passing notes to him. It is heaven. The Treasurer announced that on 24 January that the purchasers of datacasting transmitter licences will be able to depreciate them over their life. What will be the cost of this tax concession?

Mr Smith—I do not have that figure with me, I am not sure if we have one. I will have to take that on notice, Senator.

Senator CONROY—The Treasurer has announced they can do it, so I am presuming there is a costing.

Mr Smith—I think it may depend on the value of the licences but I will certainly—

Senator CONROY—But you have to have a guess.

Mr Smith—I will take that on notice. I just do not have the figure.

Senator CONROY—Sorry, one of your informed choices. Thank you for taking it on notice. Why wasn't this budgetary cost disclosed in the Treasurer's press release?

Mr Smith—As I say, I do not know the situation. I will take that on notice.

Senator CONROY—Minister, do you think ordinary taxpayers should have to subsidise this purchase via the depreciation write down for big business?

Senator Kemp—Senator, we have a tax system which has been developed over a considerable period of time. There have been a great deal of reforms which have been brought into that system.

Senator CONROY—I am just asking whether you think taxpayers should subsidise—

Senator Kemp—I do not accept the way in which the question is framed. If you look at the tax system, it is there, as we discussed yesterday, to achieve particular goals. I understand the particular issue you are worried about is accelerated depreciation, is it?

Mr Smith—Senator, the general principle of providing for a write-off, an amortisation, of these types of expenses is fairly well established, and in fact was a matter that was addressed

quite extensively in the Ralph inquiry. The government has in principle made it clear that it will deal with the provision of a uniform treatment of write-offs of capital expenditures.

Senator CONROY—Do you know why this was not addressed in the Ralph Review of Business Taxation?

Mr Smith—As I say, I am not familiar with the background on the specific item. I will have to check that for you. The Ralph inquiry generally expressed this principle. It is often referred to as black hole expenditure. It dealt with it in general terms rather than in specific terms.

Senator CONROY—Minister, I refer to reports in January that the government was considering introducing a no tax returns policy for some groups of taxpayers. Can the ATO provide some detail on how this would work?

Senator Kemp—Senator, there was a statement that was made at the time, I thought a rather good press statement, which clarified the issue rather well. I think it settled things down but there is in the ATO a range of research which continues to see to a variety of things.

Senator CONROY—I am allowed to ask Mr Jones about it, though, aren't I?

Senator Kemp—Yes. It can be simplified. What I want to do is to refer people to the excellent statement that I made at the time, but I think you have read that. We will hear from Mr Jones now.

Senator CONROY—How much work has been done on this idea?

Mr Jones—Senator Kemp's statement covered the principles of what we tried to achieve there. It was based back on the new tax system package. The work that has been done has largely been researching with taxpayers in what ways we could simplify interaction between the tax office and those taxpayers. There is some research in on that being analysed and considered that, ultimately, may or may not form some advice to government, depending on what comes from it.

Senator CONROY—Are there any papers that have been prepared that could be given to this committee?

Mr Jones—Not that I am aware of, Senator.

Senator CONROY—There are no papers that have been prepared or none that could be given to this committee?

Mr Jones—The first part I would have to take some counsel on. While I have seen some observations by people, I am not sure that 'papers' would describe what has been happening there.

Senator CONROY—Have you employed focus groups?

Mr Jones—Yes, we have.

Senator CONROY—Are you doing testing and tracking?

Mr Jones—No, not testing and tracking—purely focus groups to give us some feedback on how we might improve that interaction between the tax office and the taxpayers. It is not tracking anything in particular.

Senator CONROY—Who are you employing to do that?

Mr Jones—Could I take that on notice, Senator?

Senator CONROY—Yes. Do you know how much it is costing?

Mr Jones—No, I do not, but I will add that to the questions on notice.

Senator CONROY—Is this for something that the minister has calmed down or hosed down?

Senator Kemp—No. There were some press reports, Senator.

Senator CONROY—Did somebody leak what you were up to?

Senator Kemp—No, I am not alleging that there was a leak. Some of this information may have been misplaced or may have been an entirely accurate interpretation of questions on notice which were responded to. That is the basis, I suspect, of the articles which appeared. The purpose was just to clarify the position.

Mr Jones—The basis of this work, Senator, was in the original ANTS documents, where it was indicated that this work would be undertaken over this period.

Senator CONROY—How many taxpayers could such a scheme affect?

Mr Jones—This is not answering the question, but that would be relevant to what the solution was and what the opportunities were. This could range across many things, but I draw your attention to the fact that this year we have an e-tax process for people lodging tax returns over the Internet, which was a substantially simpler way of people dealing with the tax office, for those people who wanted to take up that facility. That is just an example of the direction things may go in. It may be as simple as simplifying the way they interact with us.

Senator CONROY—An exposure draft of legislation establishing your entities regime was recently released by the Treasurer and this was different from the government's announced policy on taxing trusts.

Mr Smith—When you say 'recently', it was released in October last year.

Senator CONROY—And it was different from the original government policy position.

Mr Smith—When you say 'the original position', what happened was—

Senator CONROY—Fixed trusts were in and they are out in the legislation.

Mr Smith—That was the principal amendment that was made in the exposure draft to the in-principle position that was recommended by the Ralph inquiry. I am just clarifying what the basis of that was.

Senator CONROY—Yes. Could you please explain the cost of this backdown by excluding all fixed trusts?

Mr Smith—The cost was set out in MYEFO. If you will bear with me, all I have to do is find it.

Senator CONROY—While you are doing that, my next question is: what is the revenue estimate now for the taxation of trusts for the years 2001-02, 2002-03 and subsequent years?

Mr Smith—I can answer the first of your questions, but those numbers will not be in MYEFO so I will have to get them for you on notice. The figures for the entity taxation are on page 61 of MYEFO. There was a revenue gain of \$10 million in 2001-02, a loss of \$60 million in 2002-03 and a loss of \$25 million in 2003-04.

Senator CONROY—Therefore, by not taxing these trusts we gain \$10 million?

Mr Smith—As you know, the exposure draft had a range of changes and there are some behavioural assumptions in there. I will not be able to give you the details for that but all of the changes combined have that net effect. The exposure draft, of course, was quite different

from the Ralph position on the one that you have referred to, and there are one or two other minor variations. As to what that breakdown is, I do not have that with me, but that was the total. As for the remaining revenue effect of that, I did not bring that with me, but we certainly have that.

Senator CONROY—The original entity regime has pretty much been abandoned by the government. There is now simply a proposal to tax some discretionary trusts. When was this decision formally announced?

Mr Smith—No, the position there is that, in fact, the vast majority of the revenue relates to the trusts which are still the subject of that measure. As it turns out, the fixed trusts proportion of the total revenue gain from that measure was only the small part. The larger part is, in fact, non-fixed trusts. Non-fixed trusts were defined in the exposure draft to include trusts which have discretionary beneficiaries, trusts which have fixed entitlements, and trusts which have a mixture of fixed entitlements and discretionary beneficiaries, so that it covers the vast majority of trusts by number and by revenue effect.

Senator CONROY—Given the time, I am happy to pull stumps, unless Senator Cook has any questions.

Mr Smith—With indulgence, Senator, I would like to add to an answer I gave yesterday on the board of taxation, if that would suit the committee. The number of meetings was not four, it was five, and the allowances paid include per diems of \$420 a day and an additional \$150 for the chairman. I wanted to complete that answer because I said I would be checking on those.

Senator Kemp—Can I further add to the discussion that we had a little bit earlier? There was some discussion regarding Heather Ridout of the Australian Industry Group as to what she said and what were her views on the world. I have a press report here that says, ‘Ridout is welcome to change the BAS, which is a real vote for commonsense.’ It says that she congratulates the government for acting on the BAS promise.

Senator COOK—Is that the extent of what she said?

Senator CONROY—You are not selectively quoting, are you, Minister? It is something I have a very strict view on.

Senator Kemp—These are selections. You can obtain the full report, but that is a fair selection—

Senator CONROY—That is a fair selection?

Senator Kemp—unlike the selection that we have sometimes.

Senator CONROY—Minister, I am disappointed that you have chosen to stoop to selectively quoting Ms Ridout.

CHAIR—Order!

Senator COOK—Now that she has said that, the tax office may well, in fact, consult her.

Senator CONROY—She may actually get some more money.

Senator Kemp—Thank you, Mr Chairman.

CHAIR—Thank you, Minister. Thank you, officers, for being so patient for the last three days. Thank you, Secretary. Thank you, Hansard.

Committee adjourned at 3.59 p.m.

