**Parliamentary Joint Committee on Corporations and Financial Services**

ANSWERS TO QUESTIONS ON NOTICE

**Australian Taxation Office**

Inquiry into Superannuation Legislation Amendment (Reform of Self Managed Superannuation Funds Supervisory Levy Arrangements) Bill 2013

14 March 2013

**Topic:** **Distinguishing levy revenue from other revenue.**

**Hansard Page:** **10/11**

**Question:** **1**

**ACTING CHAIR:** Okay. Thank you. You mentioned in response to the ANAO in 2007 that you were moving to an integrated core processing system which would allow you to distinguish levy revenue from other revenue. Have you done so?

**Mr Peterson:** We publish levy revenue each year in our annual report, and I saw somebody referring to the page the other day. I have to admit not knowing all the detail of our accounting mechanism, but I would be very surprised if the answer was not absolutely yes.

**ACTING CHAIR:** The other question around that area, of course, is: are you confident that you are distinguishing regulatory costs from administrative costs in terms of levy?

**Mrs Lendon:** We have a process, our strategic costing framework, which gathers all the costs for various activities. It is a disciplined process that is audited by the ANAO. So we are very clear about what costs should go in and what should be our normal business as usual, running the business line.

**ACTING CHAIR:** Is that available to the funds and fund organisations?

**Mrs Lendon:** The information I think that the SPAA people referred to is that sort of level of detail that we have provided. I guess there is always the question about what level of detail you go into in exposing those costs, because we can get down to one FTE on something. There is finding the right balance here.

**ACTING CHAIR:** But it does not sound like you have got the right balance right now, Mrs Lendon.

**Mrs Lendon:** We are hearing that, certainly, from the associations—it is too high level or, if we get into the weeds, people cannot understand that sort of level of detail. We have to find a better balance with that and we are certainly aware of that.

**ACTING CHAIR:** Is the current system you are using to allocate those costings based on some sort of international accounting standard?

**Mrs Lendon:** I would have to take that on notice. I know it is a very vigorous process and it has had a lot of scrutiny, but I cannot answer whether it meets particular accounting requirements. I would expect so, but I would have to check.

**Answer:**

The Strategic Costing Framework (SCF) is a system developed by the ATO to enable costing and reporting of administrative activity on a number of tax and superannuation products and community segments.

The SCF is based on the principles of an Activity Based Costing (ABC) system, which is a well known and understood management accounting concept.

Conceptually, ABC systems define a number of activities and drivers of costs for those activities and are commonly used in manufacturing organisations to determine product costs

The SCF was initially developed in 2004-05 in conjunction with external consultants and has been reviewed, including external review in 2008, updated and refined over time to reflect changes in ATO operations.

**Parliamentary Joint Committee on Corporations and Financial Services**

ANSWERS TO QUESTIONS ON NOTICE

**Australian Taxation Office**

Inquiry into Superannuation Legislation Amendment (Reform of Self Managed Superannuation Funds Supervisory Levy Arrangements) Bill 2013

14 March 2013

International accounting standards and their Australian equivalents prescribe financial accounting treatments - that is, how to account for financial transactions and how they are reported and disclosed in financial statements - and do not directly refer to systems like the SCF.

It is important to note that the ATO's expenses as per our financial statements are allocated to activities, products and segments through the SCF. These expenses are subject to an annual financial statements audit by the Australian National Audit Office. (ANAO)

Administering the SCF is a rigorous and disciplined process within the ATO and the SCF is also the subject of an annual ANAO audit, including the underlying IT systems, processes and controls of the SCF.

**Parliamentary Joint Committee on Corporations and Financial Services**

ANSWERS TO QUESTIONS ON NOTICE

**Australian Taxation Office**

Inquiry into Superannuation Legislation Amendment (Reform of Self Managed Superannuation Funds Supervisory Levy Arrangements) Bill 2013

14 March 2013

**Topic:** **Incremental revenue.**

**Hansard Page:** **14**

**Question:** **2**

**Mr FLETCHER:** Am I right to think that the process of calculating that number—that $88 million—would have been, firstly, to say, 'What would the levy be in the base case?'—let's assume it is a continuation of the current $191—then, 'What will the levy be if the legislation goes through?'—which I think for 2015-16 will be $259, and therefore the increment is $68 per fund. Does that sound a reasonable statement so far?

**Mr Peterson:** In terms of the increment per fund, yes: probably—yes.

**Mr FLETCHER:** I am just interested to know how that $88 million was arrived at. I may be misunderstanding the way it is calculated, but if that is meant to give the incremental impact then $88 million divided by 68 gives almost $1.3 million in funds. I cannot imagine that the tax office is predicting that there will be $1.3 million in funds by 2015-16.

**Mr Peterson:** Yes. Let me give you a couple of things here, if that is okay, and then Ms Lendon can pick some mistakes I make!

Firstly is the Treasury figures, and so I struggle to be able to account for them. Two: what you need to bear in mind is that they represent a bring forward in the payment arrangements as well—

**Mr FLETCHER:** My understanding is that—and perhaps I am wrong—but I thought that was covered in—

**CHAIR:** Perhaps Mr Peterson might finish that explanation?

**Mr FLETCHER:** Sure.

**Mr Peterson:** The reason these figures look so inflated against what I think you are expecting, is that they represent a bring forward in the arrangements. At the present time the levy is paid substantially in arrears. So for the year that ended in June 2012, you have heard me say that lodgement is not until May and then assessment and collection come some time after that. The intention would be that—if I use the same years as an example—in the year when all the changes are implemented the levy for 2013-14 is the one that will be paid with the return lodged for 2011-12. So what you will get over the intervening 2013-14 and 2014-15 years is a bunching up of amounts, where people continue to pay past plus a bit of a future year. You cannot just apply the difference to this particular table is probably the short answer to the question.

**Mr FLETCHER:** Perhaps for the sake of time can I ask you to take on notice to explain the derivation of the $88 million figure that is provided for incremental revenue in 2015.

**Mr Peterson:** Absolutely. It will be a factor of the increased levy;—

**Mrs Lendon:** The phase-in approach.

**Mr Peterson:** the phase-in of the timing of the of the collection of the levy, I believe; and some cash flow related aspects.

**Parliamentary Joint Committee on Corporations and Financial Services**

ANSWERS TO QUESTIONS ON NOTICE

**Australian Taxation Office**

Inquiry into Superannuation Legislation Amendment (Reform of Self Managed Superannuation Funds Supervisory Levy Arrangements) Bill 2013

14 March 2013

**Answer:**

The financial impact section in the Explanatory Memorandum for the Superannuation Legislation Amendment (Reform of Self Managed Superannuation Funds Supervisory Levy Arrangements) Bill 2013 was amended on 21 March 2013 and reads:

***"Financial impact:*** *The reform of the SMSF levy arrangements will have the following impact on the underlying cash balance. The table includes both the increase in levy receipts and additional funding for administration of the change."*

| 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|
| –$0.6m | $66.7m | $137.2m | $53.5m |

The numbers above reflect both the increase in the levy to $259 per fund and the timing impact of the bring forward of collections.

The figures reflect the change in actual cash collections expected in the relevant year, compared to the collections that would have been expected had the levy remained unchanged.

Factors influencing the level of collections expected are:

- the levy increases from $191 in 2012-13 to $259 from 2013-14 onwards.
- payment of the levy will be brought forward so it is levied and collected in the same financial year. The change in the timing of the collection of the levy will be phased in over the two financial years 2013-14 and 2014-15.
- collections for 2015-16 reflect all of the accrued levy in 2015-16 at $259 per fund.

The substantial drop in projected collections from 2014-15 to 2015-16 reflects the impact of the end of two year transitional period over 2013-14 and 2014-15 for the bring forward arrangement.

**Parliamentary Joint Committee on Corporations and Financial Services**

ANSWERS TO QUESTIONS ON NOTICE

**Australian Taxation Office**

Inquiry into Superannuation Legislation Amendment (Reform of Self Managed Superannuation Funds Supervisory Levy Arrangements) Bill 2013

14 March 2013

**Topic:** **Levy proposal.**

**Hansard Page:** **15**

**Question:** **3**

**Senator BOYCE:** I have one more question. Who proposed this increase in the levy? Was it the tax office or the government?

**Mrs Lendon:** It was a bit before my time in the role. What I do know from talking to my predecessor is that for some time there has been concern that our costs are not being covered by the levy. I do not know if Mr Peterson has further insight into that. I would have to take that one on notice.

**Mr Peterson:** I think it is best to take that one on notice. My recollection—but my memory sometimes fails the—is that on this occasion the discussion was probably initiated by Treasury, but I may be mistaken.

**Senator BOYCE:** Okay. Thank you. What about the timing, the shift, in the collection of the revenue? Who initiated that suggestion?

**Mr Peterson:** Same answer, I think.

**Senator BOYCE:** Thank you, I would be very pleased to see that answer on notice. Thank you.

**Answer:**

In recent years, the ATO and Treasury, as part of their regular consultations, have discussed the Self Managed Superannuation Fund (SMSF) levy and whether the levy has been fully recovering the costs of administration.

The increase in the levy to $150 in 2007–08 was largely implemented to enable greater cost recovery for the supervision of SMSFs. The $45 levy had not increased since 1999 and no longer covered the Commissioner of Taxation's costs in regulating SMSFs. The levy increased in 2010–11 to $180, an increase of $30 and again in 2011-12 to $200, an increase of $20, before decreasing for the 2012-13 year to $191. These changes were to offset the costs of implementation by both the ATO and Australian Securities and Investments Commission of the Stronger Super SMSF reforms announced in the 2011 and 2012 Federal Budgets.

In 2012, Treasury asked the ATO to provide updated information about what increase in the levy would be required to fully recover costs of administration. At the same time, Treasury asked the ATO to consider the administrative processes that would be required to bring forward payment of the levy.

The Government considered the proposal as part of the normal process for new budget measures and announced the changes in October 2012 as part of the Mid Year Economic Forecast and Outlook.