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Australian Government
Inspector-General of Taxation

STANDING COMMITTEE ON TAX AND REVENUE

Hearing – 28 February 2014

Opening Statement

I thank you for the invitation to attend today's hearing of the Standing Committee on Tax and Revenue (the Committee). The Committee's interest in the improvement of the federal tax system, including key scrutineering agencies such as the Inspector-General of Taxation (IGT), is much appreciated.

As this is my first appearance before the Committee, I would like to provide a brief background on the role of the IGT and some of its more recent work. The IGT is charged with the responsibility of improving the administration of the tax and superannuation systems for the benefit of all Australians by identifying and reviewing systemic issues.

The IGT office celebrated its 10th anniversary last year with the support of a wide and diverse range of stakeholders, including the then Assistant Treasurer, the Secretary to the Treasury, the Commissioner of Taxation as well as many tax professionals and taxpayers who have provided much assistance to the office.

At the 10th anniversary event, the IGT launched a simple motto: Consult – Review – Advise – Improve. The motto reflects the IGT's key functions. We **Consult** publicly to identify areas of concern to stakeholders and where improvements would deliver the greatest benefits. A **Review** is then conducted into those areas to explore the various issues and to **Advise** the Government or the Australian Taxation Office (ATO) on how to **Improve** the system.

The implementation of the IGT's recommendations for improvement is a matter for the ATO and Government. The ATO has agreed and implemented the vast majority of IGT recommendations. A number of recommendations to Government have also been adopted.

The IGT is required to outline, in advance, the reviews to be undertaken in the form of a work program. Following public consultation to identify specific topics for review, the IGT sets his own work program. However, the Minister may specifically direct or request the IGT to conduct a review. Furthermore, the Commissioner of Taxation, either House of Parliament or Committees thereof may request a review to be undertaken. From time to time, the IGT may have to amend the announced work program to take into account matters such as these directions or requests.

Further details regarding my work program consultation process is outlined in a recent submission to the Joint Committee of Public Accounts and Audit, a copy of which is provided for ease of reference.

Following the finalisation of the work program, reviews are conducted into each topic and upon their completion a report is transmitted to the Minister who must release it publicly within 25 parliamentary sitting days.

The most recent IGT reviews to be publicly released were on my previous work program. These are:

- *The ATO's use of benchmarking to target the cash economy.* The review engaged small business taxpayers and their tax agents to address their concerns regarding the ATO's benchmarking-based compliance action. The review marked a strong uptake in the understanding of the IGT's role to an audience whose awareness of the office had been hitherto limited. The feedback on this report has been very favourable and once the recommendations within it are implemented, significant improvements should be realised.
- *Improving the self assessment system.* The review sought to address a very wide range of issues raised by the full spectrum of taxpayers – from individual to the largest business taxpayers. The report contains 33 recommendations which are evenly split between improvements directed at administrative change by the ATO and those for policy consideration by the Government. The review had a number of follow-up points which may be the subject of partial or comprehensive reviews in the future.

On the current IGT work program, there are six reviews which have either been completed and awaiting public release or are nearing completion. These reviews are:

- *the ATO's compliance approach to individual taxpayers.* The review is made up of three discrete sub-reviews with each having a separate report:
 1. *income tax refund integrity program* – transmitted to the Minister on 18 September 2013;
 2. *use of data matching* – transmitted to the Minister on 10 October 2013; and
 3. *superannuation excess contributions tax* – expected to be completed in March 2014;
- *the ATO's use of compliance risk assessment tools* – transmitted to the Minister on 21 October 2013;
- *the ATO's management of transfer pricing matters* – transmitted to the Minister on 16 December 2013;
- *the ATO's administration of penalties* – expected to be completed in February 2014; and
- *a follow up of the ATO's implementation of agreed recommendations from previous IGT reports published between August 2009 and November 2010* – expected to be completed in April 2014.

Another review on the current work program focuses on the ATO's administration of valuation matters which commenced late last year and is in its early stages.

As my current work program is nearing its end, I have recently announced the commencement of public consultation on a new work program and have called for submissions.

I will also seek input directly from other government agencies including the Treasury, the ATO and its other scrutineering agencies as well as the Minister.

The IGT office has a proud history of engaging with a broad range of stakeholders to better understand their concerns with the administration of the tax system. As we are a very small office, consultation also provides an effective sounding board for the deployment of resources in an open and transparent process.

In closing, I would like to invite submissions or input directly from the Committee into my new work program or any other questions that you may have.

Ali Noroozi
Inspector-General of Taxation