Submission Number 7.1

Australian Government
Inspector-General of Taxation

GPO Box 551
Sydney NSW 2001

15 December 2016

Mr Kevin Hogan MP
Chair
Standing Committee on Tax and Revenue
House of Representatives
Parliament of Australia

Dear Mr Hogan,

I refer to our discussion with the members of Standing Committee on Tax and Revenue regarding the nature and quantum of the debt that the Australian Taxation Office (ATO) had written off. Given the Committee's interest in better understanding this area, we gave an undertaking that we would provide further information drawing upon both the ATO's own reporting as well as our taxpayer complaints experience.

The ATO generally categorises debt 'written off' as either *irrecoverable at law* (that is, a 'winding up' through bankruptcy or receivership or legal settlement including compromise) or *uneconomic to pursue* in its annual reporting. A debt which is irrecoverable at law is effectively extinguished legally and cannot be re-raised against the taxpayer. However, if the Commissioner considers a debt uneconomical to pursue, it may be re-raised on the taxpayer's account at a later date should information become available which indicates that recovery action may be viable.[1]

There is limited public reporting of debt 'write off' or relief arrangements in the Commissioner of Taxation's annual reports. The reports also use other expressions such as 'non-pursuit' and 'write-off' interchangeably at times, making it hard to distinguish clearly or otherwise reconcile the underlying character of the debt's status in the primary terms noted earlier, being irrecoverable at law and uneconomic to pursue. Further, these primary terms are not always used consistently as between Annual Reports over the years, examples of which are provided in the next section.

ATO annual write off of debt 2010-2016

The largest ATO write off of debt occurred in the 2012-2013 financial year. As highlighted in the table below, the write off amount was $4.6 billion, which was a $2 billion dollar increase on the prior financial years and has been larger than any subsequent write off.[2]

---

[1] ATO, *Practice Statement Law Administration 2011/17 Debt, waiver and write off* (2016) <
http://law.ato.gov.au/atolaw/view.htm?locid='PSR/PS201117/NAT/ATO'>.
[2] Commissioner of Taxation, *Annual Report 2012-13* (2013) p 40.

Annual Report	2009-10	2010-11	2011-12	2012-13	2013-14	2014-2015	2015-16
Value of debt not pursued ($Bn)	1.7	3.8	2.6	4.6	3.4	1.4	1.7
Increase / (decrease) on prior year ($Bn)	N/A	2.1	(1.2)	2.0	(1.2)	(2.0)	0.3

Source: ATO data.

We note that the 2012-13 and 2013-14 financial years, shaded in the table above, are the only years in which the ATO Annual Reports have provided a breakdown of debts in those primary terms, being irrecoverable at law and uneconomic to pursue. The 2010-2012 and 2014-16 Annual Reports have not provided this breakdown.

Annual Report	2012-13	2013-14
Irrecoverable at law ($Bn)	1.8	2.3
Uneconomic to pursue ($Bn)	2.8	1.1
Value of debt not pursued ($Bn)	4.6	3.4

Source: ATO data.

Figures reported in ATO Annual Reports financial statements 2010-2016

The Australian National Audit Office (ANAO) has reported that the ATO's financial statements allow for the non-collection of revenue amounts by providing for the impairment of taxation receivables. [3] However, although the notes to the ATO's annual financial statements include an 'impairment of taxation recievables' line item, a reconciliation is not provided between this figure and the amount of debt written off as irrecoverable at law or uneconomical to pursue as reported in the ATO's Annual Reports.

The table below outlines the provision for the impairment of taxation receivables as compared to the value of debt not pursued by the ATO in the 2010 to 2016 financial years.

Financial Statement	2009-10	2010-11	2011-12	2012-13	2013-14*	2014-2015*	2015-16
Impairment on taxation receivables ($Bn)	5.5	3.3	4.1	5.3	5.1	3.5	3.4
Value of debt not pursued ($Bn)	1.7	3.8	2.6	4.6	3.4	1.4	1.7

Source: ATO data.

* Restated

Notably, the ATO also produces internal ATO reports, known as 'Debt Knowledge Updates' that report and analyse the level of debt holdings on a monthly basis. These reports are used to monitor the ATO's performance against strategic objectives.[4]

[3] ANAO, Management of Debt Relief Arrangements (2013) < https://www.anao.gov.au/work/performance-audit/management-debt-relief-arrangements>; Commissioner of Taxation, *Annual Report 2013-14* (2014) p 193.
[4] IGT, *Debt Collection* (2015).

Inspector-General of Taxation (IGT) complaints

For the 2015-16 financial year we received a total of 2148 complaints of which over 95 per cent were processed and finalised within the same period. The most common issue that was raised in complaints was the ATO's debt collection action which accounted for 23 per cent of all issues raised. Although this affects is a relatively small portion of taxpayers, the impact that it has on them is significant.

In a typical example, of a re-raising of a debt by the ATO, the taxpayer did not understand the reasons why his debt had been re-raised and was concerned that he was not notified by the ATO of its decision to re-raise the debt. Due to the taxpayer not being aware that this debt would be re-raised, it had a significant impact on his financial situation. My staff engaged with the relevant ATO officers on this issue and focused on ensuring that the taxpayer received an explanation regarding why his debt was re-raised and why he had not received notification from the ATO. As a result, the ATO acknowledged that they had wrongly sent a letter to the taxpayer's accountant rather than to him and undertook to provide him with a detailed explanation of why the debt was re-raised in accordance with ATO policies and procedures.

We trust this assists the Committee by providing additional background to this area of the administration of the tax system.

Yours sincerely,

Andrew McLoughlin
Deputy Inspector-General of Taxation