The Parliament of the Commonwealth of Australia

NUMBERS ON THE RUN

Review of the ANAO Report No.37 1998-99 on the Management of Tax File Numbers

House of Representatives
Standing Committee on Economics, Finance and Public Administration

August 2000

Canberra

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THE REPORT

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Foreword

The starting point for this inquiry was $460 million in revenue that the Australian Taxation Office is not collecting.

As part of their audit, the ANAO found a Tax File Number system with:

- 3.2 million more Tax File Numbers than people in Australia at the last census;

- 185 000 potential duplicate tax records for individuals;

- 62 per cent of deceased clients not recorded as deceased in a sample match; and

- 40 per cent of deregistered companies still recorded as active in a sample match.

We considered that these findings were so significant that they warranted closer examination. As part of our inquiry, we investigated administrative, policy and client service issues of TFN management. We also considered a number of broader policy issues, and in particular looked at the growing problems of illegal work by non-residents and identity fraud.

As stated in the report, what we found was an organisation that is reactive rather than proactive; where emphasis is placed on strategies that return a short term financial gain rather than ensuring the long term integrity of the system; and where management philosophies are not well translated through the organisation.

This report adds to 15 years of Auditor-General and parliamentary inquiries that have found shortcomings in the quality of ATO's data and systems.

While in a general sense the tax revenue system is working well, each problem we have uncovered is another instance of sand slipping through the cracks - all of which adds up, and in this case adds up to uncollected revenue well beyond the $460 million identified by the ANAO. The implications of these problems are even greater when the flow-on effects to other areas of government administration, including the ABN system, are taken into account.

In our report we have made a range of recommendations aimed at ensuring the ongoing quality and coverage of the TFN system. This is important for the administration of taxation, income support, superannuation and employment generally. It is also crucial for ongoing community and government confidence in the TFN system as a system that treats people fairly.

On behalf of the Committee I thank the members of the public and experts who participated in this inquiry by either making submissions or appearing at public hearings. Their input has provided significant depth to this inquiry.

I also thank the ANAO for the significant support that they provided during this inquiry. In particular I note the support provided by Mr Richard Mackey, who provided valuable expert advice and Ms Anna Przybylski, who played a major role during her secondment to the secretariat.

We also appreciate the cooperation that we received from the ATO during the inquiry, especially from Mr Chris Marsden, the ATO contact officer, Ms Gaida Blenkinsop and Ms Cathy Denino.

Finally I thank all of the members of the Economics, Finance and Public Administration Committee for their contributions to this inquiry.

David Hawker MP
Chair

Membership of the Committee

Chair	Mr D P M Hawker MP		
Deputy Chair	Mr G S Wilton MP (until 14/6/00)	Ms A E Burke MP (from 29/6/00)	
Members	Mr A N Albanese MP	Ms T Gambaro MP	
	Mrs K E Hull MP	Mr M W Latham MP	
	Mr C M Pyne MP	Hon A M Somlyay MP	
	Dr A J Southcott MP		

Committee Secretariat

Secretary	Ms B Forbes
Inquiry Secretary	Ms M Stutsel
Inquiry Staff	Ms A Pryzbylski
	Ms L McIntyre
	Ms S Rogers

Terms of reference

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

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

List of abbreviations

ABA	Australian Bankers' Association
ABN	Australian Business Number
ABS	Australian Bureau of Statistics
AEC	Australian Electoral Commission
AFP	Australian Federal Police
AGP	Assessable Government Payment
AIC	Australian Institute of Criminology
AIIR	Annual Investment Income Report
ANAO	Australian National Audit Office
ATO	Australian Taxation Office
AUSTRAC	Australian Transaction Reports and Analysis Centre
CCCR	Commonwealth Childcare Cash Rebates
CDMP	Corporate Data Management Plan
CGT	Capital Gains Tax
CSA	Child Support Agency
CSN	Client Service Number
CUSCAL	Credit Union Services Corporation (Australia) Ltd

DETYA   Department of Education, Training and Youth Affairs

DHAC   Department of Health and Aged Care

DIMA   Department of Immigration and Multicultural Affairs

DoFA   Department of Finance and Administration

DVA   Department of Veterans' Affairs

EDF   Employment Declaration Form

FaCS   Department of Family and Community Services

FTR   Financial Transactions Reports

GST   Goods and Services Tax

HECS   Higher Education Contribution Scheme

HIC   Health Insurance Commission

IRW   Investment, Royalties and Withholding

NCA   National Crime Authority

OECD   Organisation for Economic Cooperation and Development

PAYE   Pay As You Earn

PoI   Proof of Identity

PPS   Prescribed Payments System

RPS   Reportable Payments System

SEP   Schools Education Program

TIA   Taxation Institute of Australia

TFN   Tax File Number

TFNIP   Tax File Number Improvement Project

List of recommendations

1   Introduction

2   ATO data and systems quality

Recommendation 1

That the ATO place a higher priority on having the strategic capacity to ensure the long term integrity of the Tax File Number system, including through:

■ proactively managing the Tax File Number system and its interrelationships with other systems within the Australian Taxation Office and across government; and

■ ensuring that management philosophies and planning are put into practice throughout the organisation. (para 2.15)

Recommendation 2

That the Australian Taxation Office act as a matter of priority to improve the significant shortcomings with its data integrity. This should include addressing the issue of excess and duplicate Tax File Numbers and archiving of redundant Tax File Numbers. (para 2.46)

Recommendation 3

That the Australian Taxation Office take all necessary steps to improve Tax File Number systems quality to more properly reflect the importance of the Tax File Number system within the Australian Taxation Office and across government. (para 2.50)

Recommendation 4

That the Australian Taxation Office review its current planning mechanisms in relation to the Tax File Number system, with a view to properly upgrading data management practices at both the agency and business line level. (para 2.57)

Recommendation 5

That the Department of Finance and Administration and the Australian Taxation Office review the Australian Taxation Office Pricing Agreement to ensure that it reflects the whole-of-government requirements in relation to the Tax File Number system. (para 2.64)

3   Data matching

Recommendation 6

That the Australian Taxation Office or an appropriately qualified consultant review the databases and information sources the ATO currently has access to in order to determine the value of systemic data matching against this information. (para 3.14)

Recommendation 7

That the Australian Taxation Office implement data matching strategies aimed at improving Australian Taxation Office data quality and reducing tax fraud, including in the areas of:

■ Data cleansing;

■ Fact of Death data matching;

■ Department of Immigration and Multicultural Affairs movements records data matching; and

■ Investigating the reintroduction of Health Insurance Commission data matching for purposes of compliance with Tax File Number identification. (para 3.60)

Recommendation 8

That the Australian Taxation Office focus on steps to improve the quality of data it receives in order to improve its data matching capabilities, including through working with other agencies and organisations. A first priority for the Australian Taxation Office in this regard should be to review and improve reporting in Annual Investment Income Reports by financial institutions. (para 3.70)

Recommendation 9

That the Australian Taxation Office evaluate and act on data matching opportunities provided by new Australian Business Number arrangements, including putting in place mechanisms to ensure that relevant data is captured and able to be used for data matching purposes. (para 3.80)

4 Tax File Number registration

Recommendation 10

That the Australian Taxation Office review its Tax File Number registration processes, including automating checks for duplicate Tax File Numbers, making better use of available software, and improving the format and content of Tax File Number advice supplied to Tax File Number applicants. (para 4.19)

Recommendation 11

That the Australian Taxation Office take steps to improve the coverage of the Schools Education Program, including through working with the Department of Education, Training and Youth Affairs in approaching peak school organisations in order to seek their support for this program. (para 4.34)

Recommendation 12

That Centrelink be able to accept Tax File Number applications from any applicant and not just Centrelink customers as an option for those with limited access to alternatives, and that a system for electronically transferring this information to the Australian Taxation Office be introduced. (para 4.42)

Recommendation 13

That the Department of Immigration and Multicultural Affairs and the Australian Taxation Office introduce automated Tax File Number registration for new arrivals into Australia. (para 4.50)

5 Tax treatment and work rights of non-residents

Recommendation 14

That the Australian Taxation Office introduce systematic data matching against Department of Immigration and Multicultural Affairs visa data in order to identify illegal workers. As part of this process, the Australian Taxation Office has to improve its data quality and data recording processes. (para 5.27)

Recommendation 15

That the Department of Immigration and Multicultural Affairs and the Australian Taxation Office investigate options for addressing taxation and work rights issues in relation to harvest labour, including in relation to known areas of fraud and without overly burdening employers in this industry. (para 5.34)

Recommendation 16

That the Australian Taxation Office:

■ identify the extent of tax fraud being committed by non-residents;

■ review potential vulnerabilities with the current tax treatment of non-residents;

■ propose ways to address this issue, particularly focussing on options within existing laws; and

■ seek to implement these proposals as soon as practicable. (para 5.47)

Recommendation 17

That the Australian Taxation Office more actively work with the Department of Immigration and Multicultural Affairs to implement reforms in the area of work rights for non-residents, including full consideration of possible Australian Taxation Office delivered solutions. (para 5.61)

6 Identity fraud and Proof of Identity processes

Recommendation 18

That the Commonwealth Government work with other levels of government and industry to develop national statistics on the extent and cost of identity fraud in Australia. (para 6.20)

Recommendation 19

That the Australian Taxation Office improve its internal processes for establishing identity and preventing identity fraud. This should include investigation of the extent of the problem within the Australian Taxation Office, including a trial of the New South Wales Registry of Births, Deaths and Marriages' Certificate Validation Service. (para 6.31)

Recommendation 20

That the Commonwealth Government instigate a formal process for assessing Proof of Identity risks and reform across the Commonwealth, drawing on relevant policy and administrative departments and agencies. (para 6.41)

Recommendation 21

That the Commonwealth Government formalise a process for working with other levels of government and industry to develop options for reducing and preventing identity fraud. This should include investigation and development of a national electronic gateway for document verification. (para 6.57)

7   Extending Tax File Number quotation

Recommendation 22

That the Australian Transaction Reports and Analysis Centre and the Australian Taxation Office:

■ analyse the revenue at risk from Australian Transaction Reports and Analysis Centre transactions being outside Tax File Number quotation arrangements;

■ consider the proportion of Australian Transaction Reports and Analysis Centre transactions to which a Tax File Number may be able to be attached; and

■ undertake a consultation process with industry to develop a detailed option for attaching Tax File Numbers to Australian Transaction Reports and Analysis Centre reported transactions. (para 7.27)

Recommendation 23

That, after the proposed business tax reforms have been introduced, the Australian Taxation Office investigate the remaining risk to revenue from real estate transactions being outside Tax File Number withholding arrangements and take appropriate steps to address this risk. (para 7.36)

Recommendation 24

That the Treasury investigate extending Tax File Number quotation and withholding arrangements to include business with the Commonwealth Government, particularly in the case of Assessable Government Payments. (para 7.51)

8   Implications for the Australian Business Number

Recommendation 25

That the Auditor-General conduct a performance audit of the Australian Taxation Office's administration of the Australian Business Number system, and that this audit include, but not be limited to, the examination of the following issues:

■ registration and issue of Australian Business Numbers;

■ data quality/integrity;

■ data matching; and

■ privacy implications. (para 8.23)

9   Conclusions

Recommendation 26

That the Auditor-General conduct a follow-up performance audit of the Australian Taxation Office's management of the Tax File Number system, and that this audit include, but not be limited to, progress by the Australian Taxation Office against recommendations for improving the Tax File Number system made by the Australian National Audit Office and this Committee. (para 9.20)