

Implications for the Australian Business Number

8.1 The Australian Business Number has primarily been introduced to simplify businesses' dealings with government. As advised by the Treasury:

The ABN was introduced to reduce the number of separate registrations enterprises have with government and the number of interactions needed to make alterations to registration details.¹

8.2 In addition, the ABN is expected to provide a mechanism for improving compliance with tax obligations and reducing the cash economy².

8.3 'The Commissioner of Taxation has estimated that \$3.5 billion over three years in additional income tax revenue will be generated as a result of these collective impacts'³ – being the impacts of the whole tax reform package, including the introduction of the ABN.

8.4 While the Committee did not specifically investigate the Australian Business Number, a number of the findings in relation to the TFN system have potentially significant implications for the ABN. The Committee considers that these implications warrant closer consideration in order to ensure the effective implementation of the ABN.

1 Treasury, Submission No.35, p.3.

2 ATO, Submission No.30, p.8 and the Honourable Peter Costello M.P., Treasurer of the Commonwealth of Australia. 1998. *Tax reform: not a new tax, a new tax system - The Howard Government's Plan for a New Tax System*. Canberra, AGPS, p.150.

3 The Honourable Peter Costello M.P., Treasurer of the Commonwealth of Australia. 1998. *Tax reform: not a new tax, a new tax system - The Howard Government's Plan for a New Tax System*. Canberra, AGPS, p.150.

ABN Registration

8.5 Ensuring correct registration of genuine businesses is an important basis for ensuring that the new ABN system has high integrity. To this end the ATO has implemented a number of quality assurance measures for ABN registration, including having:

‘taken special steps to validate the authenticity of each business from the outset including through a complete cleanse of the database of business records such that only ‘active’ businesses were included in the ABN initial database for registration purposes. In this way the existence of a genuine enterprise has been confirmed and will continue to be monitored via the ongoing transactions with the ATO’⁴.

8.6 There is a concern that these efforts may be undermined by the reliance on the TFN system as part of the ABN registration process. The ATO have advised the Committee that ‘quotation of an individual TFN is ... required for those wishing to register an ABN’⁵.

8.7 Through failing to properly address the large numbers of duplicate and excess TFNs and the poor quality of TFN data, the ATO have created a situation where it may be possible for individuals to take advantage of the weaknesses in the TFN system in order to falsely obtain an ABN.

8.8 In this regard, newspaper comments on the ABN registration process are also of concern. In particular, the press has reported that:

The Tax Office has been issuing Australian Business Numbers (ABNs) without properly checking applicants’ details and in some cases issuing two numbers to the one person in its haste to meet the GST start date, tax experts have warned.⁶

8.9 In addition to using false information to obtain an ABN, the press has also raised the possibility that individuals can use the ABN algorithm to fraudulently obtain an ABN⁷.

8.10 The ABN algorithm has been published by the ATO on their website⁸. In comments reported in the press, the ATO have claimed that the ABN

4 ATO, Submission No.30, p.8.

5 ATO, Submission No.30, p.8.

6 Toni O’Loughlin, ‘ABN errors claimed as GST nears’, *Sydney Morning Herald*, 8 May 2000.

7 Stewart Carter, ‘Tax office allays fears of ABN rot’, *The Age*, Tuesday 23 May 2000.

8 Australian Taxation Office. 1999. ‘The format of the Australian Business Number (ABN)’. *TAXfacts*. Nat 2956. 4p.

algorithm has been released to enable development of software so that businesses can check that they have been quoted a legitimate ABN⁹.

- 8.11 The concern is that people will be able to use the ABN algorithm to generate ABNs that will not be detected by the software as fraudulent. This will 'enable companies operating in the black economy to continue to do so and to continue to evade tax'¹⁰.

Data and systems quality

- 8.12 High quality data and systems will be important in ensuring the integrity of the new tax system and delivery of the full benefits of tax reform. Limitations in ABN data and systems quality may impact on expected revenue gains.

- 8.13 There are two key concerns in relation to data and systems quality:

- that the link between the TFN system and the ABN system will mean that the known TFN data and systems problems are transferred to the new ABN system; and
- that ATO management will repeat the pattern of crisis management for the ABN system that it has adopted with the TFN system, rather than taking a long term view in its decision making.

- 8.14 Treasury has advised the Committee that:

... we expect that the experience gained administering the TFN will assist in ensuring that circumstances that have resulted in these kind of difficulties [with the TFN system] are avoided¹¹.

- 8.15 The ATO expects that the mandatory use of the ABN will improve compliance and yield additional revenue as a result. This will be a component of the \$3.5 billion additional income tax revenue that the Commissioner of Taxation estimated would be collected over the next three years as a result of the introduction of the new tax system¹². As has been demonstrated with the TFN, the size of this component will depend on the quality of ABN/TFN systems and data.

9 Stewart Carter, 'Tax office allays fears of ABN rollout', *The Age*, Tuesday 23 May 2000.

10 Stewart Carter, 'Tax office allays fears of ABN rollout', *The Age*, Tuesday 23 May 2000.

11 Treasury, Submission No.35, p.3.

12 The Honourable Peter Costello M.P., Treasurer of the Commonwealth of Australia. 1998. *Tax reform: not a new tax, a new tax system - The Howard Government's Plan for a New Tax System*. Canberra, AGPS, p.150.

- 8.16 The Committee feels that the ATO must demonstrate that the quality of the systems and data associated with the ABN is higher than those associated with the TFN. However, as the TFN is the critical matching key for ABNs, the quality of TFN systems and data currently places a limit on what might be achieved from the ABN.
- 8.17 In order to achieve the full benefits of the new tax system, modifications to relevant Commonwealth systems and data may also be required. As noted in paragraphs 3.76 to 3.78, modifications may be needed to ensure that ABN information is recorded in a way that facilitates the requisite ABN/TFN data matching.
- 8.18 The established shortcomings in the quality of the ATO's data and systems and the long history of the ATO's weaknesses in this area are a cause for concern in the ATO's administration of the ABN. In order to ensure that the full benefits of the new tax system are achieved, the ATO must make sure that systems and data are improved along the lines that the Committee recommends and that necessary enhancements are made to relevant APS systems and data to retain ABN relevant information.

Privacy

- 8.19 Mr Crompton, the Federal Privacy Commissioner has advised the Committee that:

The ABN will be a publicly accessible number and will not have any of the privacy protections that are attached to tax file numbers. There is no intention for the ABN to be used by individuals to identify themselves, although administrative arrangements will have to be carefully devised to meet this objective in the case of sole traders or professional practitioners that operate businesses¹³.

13 Federal Privacy Commissioner, Submission No.19, p.7.

- 8.20 Privacy issues associated with the ABN were also raised during the House of Representatives Standing Committee on Legal and Constitutional Affairs' recent inquiry into the *Privacy Amendment (Private Sector) Bill 2000*. In their advisory report of June 2000, the Legal and Constitutional Affairs Committee note:

The significance of privacy issues in the community was highlighted during the course of the inquiry by reports that the Australian Taxation Office intended to make personal information from the Australian Business Register available for sale to the public. The information included the names and addresses of individuals who, for example, owned a rental property and were therefore required to obtain an Australian Business Number (ABN).

The Committee invited officers of the Australian Taxation Office to give evidence to the inquiry on 8 June 2000. The Committee notes that following its involvement and discussions between the Australian Taxation Office and the Privacy Commissioner, the original proposals have been altered. On 20 June 2000, the Assistant Treasurer, the Hon Rod Kemp MP, issued a press release stating that in response to concerns raised over public access to the Australian Business Register, the information to be made available on the register was to be limited. Under the new arrangements, only information necessary for the functioning of the new tax system will be publicly available. Postal and email addresses will remain part of the Register, but will not be able to be accessed by the public. In addition it is proposed that individuals be able to request in certain circumstances that their information be removed from the Register as is permitted in relation to electoral roll information.¹⁴

- 8.21 The Committee considers that there is a need to continue to monitor the privacy implications of the ABN. In particular, there is a need to ensure that the new ABN arrangements protect personal information and to consider whether there is a need for a complaints mechanism for cases where it is considered that there has been a breach of privacy.

14 House of Representatives Standing Committee on Legal and Constitutional Affairs. 2000. *Advisory Report on the Privacy Amendment (Private Sector) Bill 2000*. Canberra, CanPrint Communications Pty Limited, p.4.

8.22 The need for a complaints mechanism was supported by Mr Langford-Brown, from the Institute of Chartered Accountants, during the Committee's roundtable discussions. Mr Langford-Brown stated that:

I think as we have more or less collectively said, we anticipate the potential for greater problems with the ABN and if we are looking for a solution, a possible part of that solution would obviously be – whether it is the Privacy Commissioner or some other appropriate party – there needs to be the capacity for that to have some rigorous support¹⁵.

Recommendation 25

8.23 **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.**