



DEPARTMENT OF  
**FAMILY AND  
COMMUNITY  
SERVICES**

**DEPARTMENT OF FAMILY AND COMMUNITY SERVICES SUBMISSION**

**TO**

**THE HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON  
ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION**

**INQUIRY INTO THE TAX FILE NUMBER SYSTEM**

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## **EXECUTIVE SUMMARY**

The Department of Family and Community Services (FaCS) is responsible for a broad range of Government assistance, however the interest of this Department for the purposes of this submission deals mostly with payments under the Social Security Act 1991. FaCS is responsible for the Government's income security policies with outlays of around \$45 billion per annum in administered items.

The business partnership with Centrelink is focussed on ensuring that these outlays are properly administered and control of incorrect payment and fraud is paramount in the agreed business strategy between the two agencies.

Under the business arrangements FaCS is responsible for all policy relating to the protection of program outlays against incorrect payment and fraud. Centrelink provides a range of services for FaCS to ensure that these policies are effectively implemented in the field.

There are two aspects of these services which are considered relevant to this submission, ie data matching and proof of identity (PoI) issues. FaCS recognises the experience of Centrelink in developing and providing such services and welcomes the opportunity for discussion on these matters, in particular with regard to the new model for PoI proposed by Centrelink. These issues are impacted by Recommendations Nos. 2 and 7 of the report.

FaCS supports the general direction of these recommendations but has some concerns surrounding privacy issues with some elements of the recommendations given the sensitive nature of the data held by Centrelink in relation to recipients of FaCS payments and services.

In particular, FaCS:

- supports the ANAO recommendation in relation to data matching (Recommendation No. 7), as this will improve the quality of ATO data, further enhance the role of data matching in ensuring correct payment of social security entitlements and may see efficiencies gained in the data matching process;
- supports the development of a common PoI policy across Commonwealth agencies and also supports the recommendations of the ANAO report (Recommendation No. 2 (a) to (d)) to establish a committee from interested Commonwealth agencies to investigate possible action to improve the veracity of documents commonly used for PoI purposes;
- recognises the efficiencies and client service benefits which may arise through the establishment of a single client service number across Commonwealth agencies (Recommendation 2 (e));
- supports the proposal to develop a process to compare individual PoI details across certain Commonwealth agencies;
- notes that the ANAO highlighted the need to ensure that privacy implications should also be considered as part of any future developments.

## **BACKGROUND**

The introduction of the Tax File Number System via the passage of the Taxation Laws (Tax File Numbers) Amendment Act 1988, and consequential amendments to other Acts produced an immediate effect on recipients of some social security payments.

Under this raft of legislation recipients of Unemployment or Sickness Benefits were required to either provide a TFN to the Secretary of the then Department of Social Security (DSS) or to apply for one from the Australian Taxation Office. The sanction for not complying with such a requirement was that tax would be withheld at the top marginal rate, at that time 50.25% including the Medicare levy.

In 1989 an amendment to the Social Security Act 1947, required claimants for Unemployment or Sickness Benefits to provide a TFN as a precondition to receiving or continuing to receive payment. While there is no compulsion to satisfy such a request, this measure effectively increased the sanctions for not complying with such a request as those claimants and recipients not complying would forfeit their entire benefit.

Since that time the passage of other legislation, in particular the Data Matching Program (Assistance and Tax) Act 1990, has seen the TFN become one of the key identifiers for data matching between ATO and DSS/Centrelink customer records to detect instances of undeclared income. As such, the requirement to provide, or apply for, a TFN has now been extended to recipients of most social security payments.

## **CURRENT USES OF THE TFN FOR FaCS**

### **Data Matching**

Data matching to identify cases of undeclared or under-declared income by social security recipients commenced after the passage of the Data-matching Program (Assistance and Tax) Act 1990. This Act authorised the use of an individual's details held by the then DSS to check identity, payment and income information provided by other Commonwealth agencies, including the ATO. The use of the TFN as a key identifier is limited to data matching with the ATO.

Under the current Business Partnership Agreement between FaCS and Centrelink data matching forms an integral part of the business strategy to ensure the control of incorrect payment and fraud.

Other data matching exercises are also in place, such as the matching of customer data with ATO Employment Declaration Form (EDF) data, however the use of the TFN in data matching is currently restricted to data matching under the Data-matching Program.

In 1998/99 data matching under the Data-matching Program resulted in 178,308 entitlement reviews being conducted, resulting in cancellation or rate reductions in

35,657 cases and 70,141 debts being raised. Direct savings in social security payments achieved from this program totalled \$192.2 million.

As indicated in the ANAO report, the TFN is of great value as a key in external data matching. The Government announced in the 1999 Budget that data matching of social security recipient records with the ATO's EDF, Prescribed Payment System and Reportable Payments System using the TFN as the primary matching key could be expected to produce further savings to social security expenditure estimated at around \$24 million.

Minor changes to this initiative will be required due to the passage of the Government's taxation reform under the "A New Tax System (Taxation Laws Amendment ) Act 1999. Legislation is currently being drafted.

FaCS supports the ANAO recommendation in relation to data matching (Recommendation No. 7), as this will improve the quality of ATO data, further enhance the role of data matching in ensuring correct payment of social security entitlements and may see efficiencies gained in the data matching process.

## **PROOF OF IDENTITY (PoI)**

### **PoI**

Another key focus of the control of incorrect payment and fraud of social security entitlements is the role of PoI procedures to ensure that only those entitled receive payment. TFNs are not used for this purpose. They are used solely as the key identifier under the Data Matching Program, as described above. However, related documents, such as Tax Assessment Notices, are recognised for PoI purposes.

FaCS and Centrelink have a shared responsibility in relation to PoI for payments and services within the portfolio. FaCS develops policy for PoI requirements for each payment or service within our responsibility, while Centrelink is responsible for developing processes and procedures to ensure that the policy is applied appropriately in the field. Effectively, FaCS purchases PoI services from Centrelink to ensure control of incorrect payment.

Under the current arrangements customers must establish their identity by producing a number of documents classified as either primary or secondary documents depending on their reliability as a basis for proof of identity. The classification of documents as primary or secondary primarily lies with Centrelink, however FaCS does require consultation on any proposed changes to current classification arrangements.

This system has proved to be effective in reducing the incidence of fraudulent claims for assistance, however some claimants do experience difficulty in providing such documents and, although alternative measures are in place, Centrelink has proposed a new model of PoI for discussion with FaCS.

This new approach is based on the level of risk to program outlays and seeks to provide improvements to Centrelink PoI processes.

We are aware that Centrelink has provided a detailed description of the proposed model as part of its submission to the Inquiry.

FaCS is, at this stage, supportive of the development of a new PoI model for recipients, however some issues are still to be resolved before implementation will take place. Under the business arrangements Centrelink must provide a level of PoI which is in line with FaCS policy requirements and the new model is yet to be tested by FaCS against those policy guidelines.

FaCS supports the development of a common PoI policy across Commonwealth agencies and also supports the recommendations of the ANAO report (Recommendation No. 2 – (a) to (d)) to establish a committee from interested Commonwealth agencies to investigate possible action to improve the veracity of documents commonly used for PoI purposes. We would be keen to be included in any such discussions.

While FaCS supports the proposal to develop a process to compare individual PoI details across certain Commonwealth agencies, it is noted that the ANAO highlighted the need to ensure that privacy implications should also be considered as part of this investigation. Given the sensitive nature of the data held by Centrelink in relation to recipients of FaCS payments and services, this issue would be a prime concern for this Department.

#### **A common client service number**

While FaCS recognises the efficiencies and client service benefits which may arise through the establishment of a single client service number across Commonwealth agencies (Recommendation 2 (e)), there are issues which would need to be addressed before unqualified support could be given.

These include consideration of the privacy implications, as noted above in regard to common PoI, possible negative community reaction and the administrative costs of introducing PoI procedures for some agencies. A common client service number may be seen by many to compromise confidentiality and therefore lead to some hesitation in acceptance by the community. As such, it is likely that Centrelink would need to retain the current Customer Registration Number in addition to any common client service number. It should be noted that this would have cost implications for Centrelink.

In addition the establishment of a common standard of PoI across agencies would be crucial to the success of a common client service number.

## **THE FUTURE OF THE TFN FOR FaCS**

There is no doubt that the TFN will continue to be of immense value as a key identifier in data matching activities for FaCS payments and services. As such, FaCS will continue to seek authority to extend the use of the TFN for such purposes to other payments and services within its responsibility, both now and in the future.

The recommendations of the ANAO report, if implemented, will also improve the value of the TFN for such purposes.

In addition, should the integrity of the TFN be improved to such a degree that it might be useful as an identifier in its own right, FaCS may then be able to consider the use of the TFN as part of the PoI policy for FaCS payments and services. Our opinion is that this would be possible under both the current and the proposed Centrelink model for PoI.