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(Supplementary Submission)

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Answers to Questions on Notice

4 May 2000

ANSWERS TO QUESTIONS ON NOTICE

ATO Performance

1. *Is Treasury concerned at the shortcomings of the TFN system that were identified by the ANAO? (eg \$250m at risk from non-resident real estate transactions, \$140m at risk from medical practitioners under reporting income to the ATO).*

What steps is Treasury taking in response to the audit report and its findings?

Treasury's main interest with the issues raised in this question is two fold:

- whether the report raises issues of policy design which require examination to improve the operation of the TFN (as opposed to issues of tax administration, which are the responsibility of the ATO); and
- the extent to which modification to the TFN regime is the best approach to address the revenue risks cited in the report.

The ANAO has not identified any specific action required by Treasury in its recommendations. The recommendations largely relate to the administrative responsibilities of the Commissioner of Taxation. Treasury will liaise closely with the ATO on any action arising from their implementation of the report's recommendations which raise policy issues.

In relation to the two examples cited in the question, Treasury agrees with the ATO's response to the report's recommendations that there is merit in examining whether further data matching and extension of the TFN regime would assist in identifying revenue risks. However, as noted by the ATO in its response, consideration must also be given to the underlying reasons for any revenue risk. Under a self assessment regime, identifying revenue risks and pressures on the tax system requires a mix of risk assessment strategies, only one of which is the TFN. Which of the suite of risk management techniques should be applied in particular circumstances is best handled by the ATO, given their exclusive access to taxpayer records.

2. *To what extent does the poor quality of ATO's data and systems impact on the effective implementation of taxation policy? Do you consider that the ATO should place a higher priority on ensuring the quality of their data and systems?*

Treasury's main concern is to provide advice to government consistent with a tax policy framework which raises revenue according to the principles of equity, efficiency and simplicity. The Treasury has confidence in the ability of the ATO to implement the laws which it is charged to administer, but does not itself undertake evaluations of the data or systems which underpin that capability.

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Policy Advice

3. *Would Treasury comment on the statement in the report that the ATO should have been more proactive in advising government about the problems with the TFN?*

Should the ATO have been more proactive in bringing these issues to the attention of the Government?

As noted in the previous two answers, a self assessment regime must rely on a range of risk management techniques to identify and address revenue risks. The ATO is best placed to determine which technique is suited to particular issues.

Treasury can not comment on whether these concerns should have been brought to the Government's attention earlier without an assessment of whether the TFN was the best policy instrument to deal with the revenue risks that have been raised, or whether these revenue risks were being addressed by other mechanisms considered by the ATO to be more effective.

4. *Can you outline the relationship between the TFN and the ABN? In particular, how significant is a TFN when applying for an ABN; and how significant is a TFN to the working of an ABN.*

From a policy perspective there is no relationship between the TFN and the ABN. The two numbers are designed for different purposes. The TFN is the identification number used by the Australian Taxation Office for the purposes of the income tax system. 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.

In designing the ABN it was not envisaged that the TFN would have any role in determining entitlement to an ABN.

5. *The ANAO audit report into tax file numbers has reported shortcomings in the ATO's TFN system, which have existed for over 15 years. These shortcomings include large numbers of excess, duplicate and inactive TFNs and deficient computer systems in some areas. What implications does this have for the new ABN?*

As the Government has decided to initially locate the Australian Business Register in the Tax Office, we expect that the experience gained administering the TFN will assist in ensuring that circumstances that have resulted in these kind of difficulties are avoided.

6. *In their submission, the Taxation Institute of Australia expressed concern that the problem currently associated with the management of the TFN system will be transferred to the new ABN system, which will have consequences for business. What is your view on this?*

Given the TFN experience gained by the Tax Office we have no reason to believe that this would happen. In addition, the two numbers are designed for different purposes and will operate under different constraints (for example the ABN is not subject to privacy restrictions).

7. *What steps have been taken to ensure the integrity of the ABN? In particular, what principles were put in place in designing the ABN? What design features were included to ensure that the ABN represents the one business, that the business is linked to the correct individual/s and that the ABN is legitimately representing that business and is not a fraudulent number?*

Management of the ABN will benefit from the fact that it is a public register. It will be easily accessible and businesses will be able to identify ABNs that are not bona fide by checking the register, and by applying the ABN algorithm to numbers they are quoted. In contrast, the TFN is subject to privacy restrictions and it is difficult for employers to establish the validity of a quotation.

8. *Will people be able to commit fraud by using ABNs obtained from the public register? What protections are there for businesses in this regard?*

With any system, no matter how well it is designed, it is possible for fraud to be committed if the perpetrator willfully sets out to do so. However, because the ABN register is publicly accessible it will be more difficult to commit identity fraud. Businesses will be able to check the validity of ABNs and this will be able to be automated through the use of computers.

9. *Why do the members of a board of a not-for-profit organisation have to supply their individual TFNs when applying for an ABN for the organisation? For example, is this a systems requirement or will it be used in data matching? Will individual TFNs for board members need to be updated when there is a change of board membership?*

The requirement to supply the TFNs of board members applies to incorporated bodies including companies. The purpose is to identify the natural persons actually responsible for the activities of the organisation. When the members of a board change the information held on the register will need to be updated. This requirement is not associated with any proposals to undertake data matching. It is one of the methods used to verify the bona fides of the organisation.

Extending TFN Quotation to Commonwealth Transactions

10. Can Treasury outline what it considers would be the advantages and disadvantages of the four options to extend the TFN in the ANA 0 report? In particular, how are each of these options likely to impact on tax compliance; fraud against the Commonwealth; and administrative and systems requirements for individuals, business and government? To what extent will the ABN achieve these results?

Treasury has nothing to add to the advantages and disadvantages outlined in the report on these options. Any proposal to extend the TFN will necessarily involve a trade-off between the benefits of better information and the costs of potential privacy issues.

The ABN will assist in achieving some of these objectives. Where an entity makes a supply in the course of conducting its enterprise, it will be required to quote an ABN. Failure to do so will result in a withholding at the highest marginal rate from the payment received for the supply. This does not apply if the entity is an individual who is an employee. For example, a business dealing with government would need to quote an ABN.

The ABN is also relevant to paragraph d), which refers to a client service number to be used as a cross agency identifier. The ABN was designed for the purpose of allowing business to deal with all of government through one single identifier.

However the ABN only applies in circumstances where the two parties to the transaction are carrying on enterprises, that is, activities in the form of a business or the nature of an adventure or trade. ABN does not apply to transactions involving individuals acting in a private capacity, for example, the payment by government of a benefit to a social security recipient.