

Joint Committee of Public Accounts and Audit

ANSWERS TO QUESTIONS ON NOTICE

Australian Taxation Office

Bi-annual Hearing – 30 March 2009

Questions: 1a – 1i

Topic: Tax Bonus

Background

The Government's announcement on 3 February 2009 included, in total, five one-off payments for eligible low and middle income households and individuals. The Tax Office was asked to administer one of these initiatives, the Tax Bonus for Working Australians.

The Tax Bonus initiative was introduced as a measure to respond to the current global economic crisis and to provide immediate economic stimulus to boost demand and support jobs. Inherent in the Government's objective was the constraint that payment had to be made quickly for it to have the Government's desired effect and impact.

The administration of this initiative included designing and building the administrative systems to deliver and make the payments to those who are entitled to receive a tax bonus payment. This included the need to quickly undertake considerable logistical planning with the Reserve Bank of Australia, Australia Post, printing contractors and the Tax Profession.

The measure provides a tax bonus payment to 8.7 million people and is expected to cost about \$8 billion.

More than 70% of eligible recipients use a tax agent to prepare and lodge their income tax return. The Tax Office worked with various stakeholders including the Reserve Bank of Australia, Australia Post, printing contractors and the Tax Profession to optimise delivery of payments to people eligible to receive the payment.

The first batch of payments commenced in the week beginning 6 April 2009.

At 11 May 2009, over 7.7 million payments were made with a value of \$6.8 billion. Of this, 3.6 million electronic payments to the value of \$3.1 billion and 4.1 million cheques to the value of \$3.6 billion dollars were made.

The Tax Office is on track to complete the bulk distribution of tax bonus payments by 16 May 2009. We now expect to distribute 7.8 million payments by 16 May 2009, 200,000 more than originally forecast. This reflects an increased rate of returns being lodged.

A small number of people will lodge after 30 June 2009 and will be entitled to the tax bonus payment as a result of the natural disaster class deferral granted by the Commissioner in February 2009.

The Tax Office will continue to promote lodgment of the 2007-08 income tax returns through media. There will be a strong emphasis on encouraging the lodgment of returns before 5 June 2009 to ensure that tax bonus payments can be made by 30 June 2009.

People who lodge after this date, will experience a delay in the payment of the tax bonus due to the Tax Office ceasing processing while the system is shutdown and recommissioned in preparation for Tax Time 2009. When processing resumes in early July, priority will be given to processing of 2008-09 income tax returns during July 2009.

1a. With respect to the tax bonus how many Australians living overseas will receive such a bonus? Where do they live? Can you break down the country of residence to the top ten noting how many Australians in each country?

Anyone who was not an Australian resident for tax purposes for the 2007-08 income year will not be eligible for a tax bonus payment.

Anyone who was an Australian resident for the 2007-08 income year for tax purposes and whose residency status subsequently changed will still be entitled to the tax bonus payment if the other criteria are satisfied.

Generally, you are an Australian resident for tax purposes if you have:

- always lived in Australia
- moved to Australia and live here permanently
- been in Australia continuously for six months or more and for most of the time you have been:
 - in the one job, and
 - living in the same place
- been in Australia for more than half of the financial year, unless:
 - your usual home is overseas, and
 - you do not intend to live in Australia, or
 - you are an overseas student who has come to Australia to study and are enrolled in a course that is more than six months long.

Under these rules Australians may work and visit overseas for part of the year and still be an Australian resident for tax purposes. In these cases the person will be entitled to the tax bonus payment if the other criteria are satisfied. There are also people who come to Australia and work here temporarily that may meet the above criteria and are residents for tax purposes.

The tax bonus payment is based on the 2007-08 income tax return. The income tax return requires a person to indicate whether or not they are an Australian resident for tax purposes. Residency status is self-assessed by taxpayers or their agents, but the Tax Office does not collect information through the income tax return on the actual period of time people spend in and outside Australia.

Under the above rules it is possible for a person to be an Australian resident for tax purposes for the first half of the year, or for the second half of the year, or for some lesser period of the year but contiguous with a period from the previous or subsequent financial year.

When an income tax return is filed, taxpayers report both their current postal and residential address. Reporting a current overseas address does not necessarily mean a person is a non-resident for tax purposes.

To 8 May 2009, of the 11.2 million people that had lodged their 2007-08 income tax return, approximately 99% indicated that they were a resident for tax purposes. Although the remaining 1% indicated they were a non-resident for tax purposes, as noted above they may have been a resident for part of the income year.

The Tax Office is unable to identify the number of Australians who have been paid the tax bonus who have subsequently become non-residents for tax purposes.

The Tax Office does have information on the number of people eligible for a tax bonus payment who have reported an overseas postal or residential address on their 2007-08 income tax return or subsequently. In some cases people contact the Tax Office and advise they are moving overseas during the year.

The analysis has identified that:

- 7,305 people will receive a cheque mailed to an overseas address,
- 2,040 people with an overseas residential address will receive a cheque mailed to a postal Australian address, and
- 17,907 people who have an overseas residential address, will receive a payment by electronic funds transfer (EFT) to an Australian bank account.

There are no EFT payments being made to an overseas account.

Of the payments being made overseas by cheque, the following provides details of the main destinations:

- United Kingdom 20%
- New Zealand 19%
- Ireland 7%
- Canada 6%
- Germany 5%
- France 4%
- United States 4%
- Korea 4%
- Japan 4%
- Brazil 3%
- Other 3%

Note: We are not able to distinguish between Australian citizens and temporary residents.

1b. How many deceased estates will receive the tax bonus? What are the consequences and ramifications for these estates? Do the beneficiaries of the deceased estate receive the tax bonus? Could this include a charity and/or a pet? Are there any other people who have filed a tax return who are not now alive and will receive the tax bonus? If so, how many? (*Questions tabled by Senator Barnett*)

Could you please provide figures for 2006-07 and 2007-08 on the number of deceased estates that lodged a tax return? (*PA 8, Transcript of 30 March 2009 biannual hearing, Senator Barnett*).

If a person dies during or after the 2007-08 income year and an income tax return for that year has been lodged by them or on their behalf before 30 June 2009, a tax bonus payment will be made to the deceased estate provided all of the eligibility criteria are met.

Tax bonus payments will be made to the latest postal address on record for the deceased or to the executor of an estate where the Tax Office has been formally advised of updated details.

It is the role of the executor in administering the proceeds of a deceased estate to determine how the tax bonus payment will be distributed to beneficiaries. The Tax Office does not have any information on how the executor distributes the estate.

The number of deceased estates that lodged an income tax return in 2006-07 was 52,287 with 47,111 deceased estates being lodged in 2007-08.

To date we have identified 15,934 tax bonus payments that will be made to a deceased estate.

1c. How many people in prison will receive the tax bonus? (Question tabled by Senator Barnett)

Have some prisoners been excluded from government payments in the past? (PA 12, Transcript of 30 March 2009 biannual hearing, Mrs Bishop)

Some people in prison may receive a tax bonus payment if they meet all of the eligibility criteria. The Tax Office cannot identify how many people in prison may receive a tax bonus payment because the Tax Office does not have prison population data and there is no provision in the income tax return for someone to identify themselves as a prisoner.

In addition, the Tax Office is unable to source this information from other data sources such as payment summaries.

Only one tax legislative provision excludes people who are in prison. The senior Australians tax offset excludes people who have been in prison for a whole year. It is administered by the Tax Office on a self-assessment basis.

There are no legal requirements for States and Territories based prison population data to be routinely reported to the Tax Office. The Tax Office can formally request information from particular States and Territories if it is needed to address a particular risk that requires data matching. Such information was requested from two states (Queensland and New South Wales) in 2003 to address concerns of potential refund fraud.

1d. What are the latest figures regarding people who have not lodged a tax return? How many tax returns do you estimate will be filed in April, May and June respectively? (Questions tabled by Senator Barnett)

To 8 May 2009 approximately 11.3 million people had lodged their 2007-08 income tax return. Of this, 7,960,382 individual returns have been received from people eligible for a tax bonus payment.

Analysis of 2006-07 lodgments indicates there may be another 740,000 people who have not lodged who may be eligible for the tax bonus payment.

The lodgment forecasts for individual tax returns for May and June 2009 are approximately 500,000 and 300,000 respectively.

1e. Could you please provide figures for 2006-07 on the number of overseas residents who are eligible to receive the Tax Bonus and what the process is to extract this number. Has the Tax Office extracted overseas residents for previous government payments? (PA 9-10, Transcript of 30 March 2009 biannual hearing, Chair / Mrs Bishop)

The 2006-07 income tax return data was used by the Tax Office to forecast the 8.7 million people eligible for the tax bonus payment. In undertaking this analysis, about 67,000 people indicated on their 2006-07 income tax return that they were non-residents. They also did not claim a part year tax free threshold as part year residents for tax purposes - which removed their eligibility for the tax bonus.

For the 2006-07 income year, the number of Australian residents or part year residents for tax purposes with an overseas residential address that would meet the Tax Bonus eligibility criteria for that income year is about 35,000.

The Tax Office has not extracted overseas residents for previous government payments.

1f. What is the cost of printing the cheques for the Tax Bonus (PA 15, Transcript of 30 March 2009 biannual hearing, Mrs Bishop)

The Tax Office expects to make 4.6 million of the 8.7 million tax bonus payments by cheque. Recipients of cheque payments will receive their cheque attached to a payment notification in the mail while recipients of EFT transactions will receive a letter notifying them of a payment made to their financial institution or their tax agent.

The estimated cost of printing the cheques is \$249,431 GST inclusive. The supply of the cheque stock and envelopes is estimated to cost \$270,073 GST inclusive.

Printing costs with respect to the EFT notices is estimated at \$271,635 GST inclusive. The supply of stationery is estimated to cost \$200,101 GST inclusive.

The total printing cost is estimated at \$991,240 GST inclusive.

The cost to post all cheques and EFT letters related to the tax bonus is estimated at \$3,610,500 GST inclusive.

The \$4.6 million total printing and postage cost for cheque and EFT letter distribution compares favourably with the original estimate of \$4.73 million.

1g. Of the \$21.4 million spent on the call centre what is the money being spent on? Where is the call centre based? If it is not based in one location, which locations are they based? How many people have been employed? Where have they been employed? What are the terms of their employment? Are they on short term contracts? (PA 16, Transcript of 30 March 2009 biannual hearing, Senator Barnett / Mrs Bishop)

A dedicated tax bonus hotline - 1300 686 636 - was established to provide a single contact point to respond quickly to community enquiries about the tax bonus payment. The hotline is a new line using existing Tax Office Client Contact Call Centres and did not require the establishment of any additional call centres. Tax bonus calls are delivered using current telephony infrastructure to ongoing and temporary Client Service Representatives (CSRs) located in all sites.

In addition to the 1006 permanent call centre staff, an additional 350 temporary labour hire staff were employed. Labour hire staff have been employed in sites where there was capacity to expand accommodation and technology infrastructure. Labour hire staff are engaged on temporary contracts due to expire at the conclusion of the Tax Bonus initiative currently expected to be the end of June 2009.

Tax bonus calls have been and are being managed across the whole Client Contact network. This has allowed the Tax Office to dynamically match resources to demand in real time. Tax Bonus calls are primarily distributed amongst the 350 labour hire staff located in various Client Contact sites. All core Client Contact staff (1,006) have been trained in the tax bonus product and given a secondary skill set. This has enabled the management of any overflow call volumes that exceed the capacity of the primary labour hire group.

At 11 May 2009, Client Contact received 924,044 calls. A total of 90,393 calls were received in February 2009, 459,661 calls in March 2009 and 293,050 calls in April 2009.

Other activities to support the tax bonus initiative included:

- Overall management of the tax bonus hotline including skilling, scripting and resolution of enquiries
- Design and build of 'In Queue Messaging' (IQM) technology allowing people to hear important key messages about the Tax Bonus when waiting on the hotline for their call to be answered
- Design and build for a self help Inbound Voice Recognition (IVR) option that allowed tax payers to update their own bank account details for the Tax Bonus payment
- Quality assurance of data provided by people using self help tools to update their details, and
- Assistance in processing the tax practitioner election options allowing tax practitioners to opt out of distributing the tax bonus payments to their clients.

The Tax Office has 10 call centres and operates as a national network located in Queensland, New South Wales, Victoria, South Australia, Western Australia and Tasmania:

- Upper Mt Gravatt - Queensland
- Chermside - Queensland
- Moonee Ponds - Victoria
- Queen Street - Victoria
- Parramatta – New South Wales
- Penrith – New South Wales
- Northbridge – Western Australia
- Waymouth – South Australia
- Hobart - Tasmania

1h. Is the information the Tax Office provided to Government on how it estimated that \$11.5 million was required for the marketing and communications strategy for the Tax Bonus available under Freedom of Information? (PA18, Transcript of 30 March 2009 biannual hearing, Mrs Bishop)

Information provided by the Tax Office to Government on how it estimated the \$11.5 million required for the marketing and communication strategy for the Tax Bonus is available under Freedom of Information and details have been published and are publicly available in the Treasury Portfolio publication, "*Portfolio Supplementary Additional Estimates Statements 2008-09; Appropriation (Nation Building and Jobs) Bill (No1) 2008-09 and Appropriation (Nation Building and Jobs Bill (No.2) 2008-2009.*"

The only additional information is contained in Question 1i below.

- ii. Could you please confirm the following: \$21.4 million was provided for a dedicated call centre to assist taxpayers; \$11.4 million for marketing and communications; \$8.6 million to process payments; \$5.2 million for systems changes; \$2 million to support accountants; and \$1 million to manage implementation. Please provide the details and description as the reasons why each of those items was necessary to proceed. (PA 18, Transcript of 30 March 2009 biannual hearing, Senator Barnett)**

The costing proposal for the Tax Bonus initiative developed in January 2009 sets out the rationale and reasons why it was necessary to proceed. Table 1 below outlines the functional areas within the Tax Office considered necessary to be involved and the costs attributable to their involvement.

Table 1- Original Bid Costing Proposal

Functional Area	\$m	\$m	\$m
	2008-09	2009-10	Total
Departmental funding			
Processing and accounts	8.41	0.19	8.6
Client Contact and Supporting Help Tools	21.15	0.25	21.4
Project Team	1.0	-	1.0
Tax Agent Support	2.0	-	2.0
Marketing Communication	0.537	-	0.537
Systems changes	5.2	-	5.2
Sub-total	38.297	0.44	38.737
Administered funding			
Media Campaign	11.5		11.5
Total Funding	49.797		50.237

Processing and Accounts – \$8.6 million

The estimated costs in processing and accounts included work to be undertaken in various areas of the Tax Office:

- A significant workforce reaching over 600 FTE was mobilised including additional staff comprising of non ongoing and a casual workforce.
- In preparation for the tax bonus payments and to enable the tax bonus payments to be made correctly, a reprioritisation of work occurred for many staff. This was necessary to action client requests for change of details and expedite processing of increased lodgments of tax returns.
- An additional 579,000 assessments issued for the period 7th February - 9 May compared to the same period last year (2,039,000 individual assessments for the period compared to 1,460,000 last year).
- In addition, 78,500 additional individual amendments issued for the same period (156,000 compared to 77,000).
- Tax practitioner elections and updating client contact details impacted heavily on workloads with about 6,000 agents electing to have the Tax Office distribute the tax

bonus payments to their clients on their behalf. This resulted in about 2.1 million taxpayer records being updated.

- From 20 February until 8 May 09, about 727,000 client addresses and 115,000 financial institution details were updated.
- To 12 May 2009, 7,915,773 payments have been issued to people.
- After the initial issue of payments there are significant workloads around consequential lodgements, managing unmet expectations with clients around eligibility, and second round of payments for people with returned cheques and mail.

Client Contact and Supporting Help Tools – \$21.4 million

The costs for Client Contact and supporting help tools included the estimates necessary for Client Contact to carry out a range of activities to support the Tax Bonus initiative including:

- Responding to calls received from the community enquiring about eligibility and progress on payment
- Staff skilling
- Construction of call scripts
- Expansion of call handling capacity through:
 - recruitment of a temporary labour hire workforce
 - extension of opening hours (including weekend work) during times of high call demand
 - increased assistance from outsourced overflow call centres
- Establishment of the 1300 Tax Bonus hotline number.
- Design and build of 'In Queue Messaging' (IQM) technology allowing people to hear important key messages about the Tax Bonus when waiting on the hotline for their call to be answered, and
- Design and build for a self help Inbound Voice Recognition (IVR) option that allowed tax payers to update their own bank account details for the Tax Bonus payment.

The populations and response rates used to calculate the expected call volume and required fulltime equivalents are outlined in the table below.

Answering calls:	
<ul style="list-style-type: none"> • Assume overflow ramped up to take 300,000 calls @ \$6.75 per call • Remainder of calls actioned through recruiting non-ongoing staff 	\$2 million (<i>\$1.751m in 08-09 and \$0.190m in 09-10</i>) \$13.4 million
Recruitment costs	\$1.0 million
Technology to build Inbound Voice Recognition (IVR) tool	\$1.0 million
Support tools for help and assistance	\$4.0 million
Total	\$21.4 million

Overall, Client Contact received 9,471,859 calls to Monday 11 May 2009 of which 924,037 (9.7%) came through the tax bonus queue. Call volumes have tracked 18.5% above the 2008 volumes to Monday 12 May 2008, when 7,971,035 calls were received.

When examining the period since the tax bonus hotline was launched, February to May (up to 11 May), the per cent increase on 2007-08 figures is significant. Overall calls received in for this period in 2008 were 2,010,725. In 2009, we have received 3,273,584 calls, a 63% increase on 2008.

As at 11 May 2009, 924,044 calls were received by call centres through the dedicated tax bonus hotline.

Project Team Costs - \$1 million

The project team costs were estimated over a five month period and comprised funding for a dedicated project team to oversee the design, deployment and ongoing management of the tax bonus payments. The team has been responsible for having:

- Developed a Quality Assurance Review process based on an integrated quality framework, in partnership with business, to enable us to understand the accuracy and completeness of the payment of the tax bonuses. This will involve drawing a random stratified sample from the individual population whether eligible for the payment or not. The review process is to be run concurrently in May 2009 and June 2009.
- Designed a Risk Management Plan including a Financial Risk Assessment plan identifying high level risks to service delivery and to the community. The plan addressed all risks by identifying mitigation strategies in partnership with business operations and other relevant stakeholders.
- Engaged necessary stakeholders in Law Design and Tax Counsel Network where clarification on tax bonus eligibility has been required to assist business in making tax bonus payments correctly.
- Provided high level advice and information to senior management on matters relating to tax bonus payments. The team met all corporate requirements in relation to the operations of the project scope and deployment.
- Managed the project budget including reports on the progress of expenditure incurred on an on-going basis.

Tax Agent Support - \$2 million

The tax agent support costs were estimated on the following assumptions:

- Population of 22,000 Tax Agent practices
- 5.4 million eligible tax returns lodged
- 3.3 million eligible returns expected to be lodged
- 10% of practices will call directly (majority of other calls will go directly to the call centres)
- 150 – 200 Tax Agent practices will seek assistance with their lodgment programs

It was estimated that about \$1 million would be required to manage calls from tax agents based on a requirement of 20 fulltime equivalents for six months. A further \$1 million was estimated to support the lodgment program and the processing of tax agent elections.

The Tax Office worked closely with tax agents and the industry to design ways to streamline workload impacts.

The suggestions that were taken up by the Tax Office included:

- a deferment to the lodgment of company, trusts, partnerships and superannuation fund returns to 5 June 2009 – allowing practitioners to focus on finalising their individual clients' returns
- providing practitioners with the option for the Tax Office to redirect the tax bonus payments directly to their clients, and
- providing agents who are under a special lodgment program, due to their personal circumstances, with an extension to the lodgment due date.

Some payments have been sent to tax agents who were not expecting them. The process put in place by the Tax Office to assist agents in reducing throughput and managing their workload was to allow them to opt out from bonus payment distribution.

About 6,000 agents elected this option. The Tax Office updated about 2.1 million records between 26 February 2009 and 22 March 2009 before payments began in the week beginning 6 April 2009.

All agents who received a payment they were not expecting because they elected or intended to elect to not distribute the tax bonus payment have been contacted and a resolution put in place. The agent has been offered the option of returning the payment(s) to the Tax Office or redirecting the payment(s) to their client.

At 12 May 2009, a total of 814 tax agents unexpectedly received tax bonus payments. This has resulted in 9,866 tax bonus payments being returned to the Tax Office from tax agents for redirection.

In all instances where payments have been sent back to the Tax Office, they have been reissued to the person entitled to the tax bonus payment.

Marketing Communications – Departmental - \$0.537 million

The estimated costs were revised to \$1.967 million over two years.

This estimate includes staff costs to undertake the following marketing communication activities:

- campaign development and implementation
- media management
- market research
- online marketing – including updating and tailoring the tax agent portal
- design
- special audiences material
- web content development and publishing, and
- direct mail

Due to the tight timeframes to deliver the tax bonus payments to the community the Tax Office developed and implemented this campaign in-house.

Marketing Communications – Administered \$11.5 million

The estimated cost for the tax bonus media campaign was revised to \$15.06 million.

The original estimated cost for marketing and communication of the Tax Bonus payment was \$11.5 million based on previous campaign costs and experience.

After detailed planning was completed, the revised estimate took into account the need for the communication of separate key messages to the community at particular times during

the campaign. Examples of these key messages include the need to advise change of address details, the need to lodge 2007-08 returns by 30 June 2006 and the need to be patient.

Communication activities to support the tax bonus payments are being implemented in five phases.

- **Phase 1** (From Royal Assent to 15 March 2009) – Focussed on getting people to call the Tax Office to update details by 15 March 2009 and included messages around lodgement, eligibility and timing of payments.
 - This includes 1,031 print adds and 12,758 radio slots
- **Phase 2** (From 15 March to early April 2009) – Focuses on eligibility and lodgement and begins to manage expectations regarding payment process and timing.
 - This includes 1,159 print adds and 12,757 radio slots
- **Phase 3** (From early April to 15 May 2009) – Focuses expectations around timing of payment asking people to be patient.
 - This includes 1,190 print adds and 9,124 radio slots
- **Phase 4** (From 16 May to 30 June 2009)– Focuses on lodgement and “Where is my tax bonus payment?” questions.
 - This includes 2,135 print adds and 22, 759 radio slots
- **Phase 5** (From 30 June 2009 onwards) - Focuses on ongoing management of issues as informed by research.

The first four phases of the marketing and communication campaign have been reviewed by the Interdepartmental Committee on Communications (IDCC) and approved by the Australian National Audit Office (ANAO).

System Changes (operating) - \$5.2 million

To enable the payment of the tax bonus a number of products were developed that required significant systems changes.

Design	\$300,000
Mainframe work	\$1,600,000
Solid state memory for peak processing	\$500,000
IVR	\$500,000
WWW	\$300,000
Computer operations (first run April 2009)	\$500,000
Follow-up computer runs (May, June and July)	\$300,000
Contingency for scope/estimation 30%	\$1,200,000
Total	\$5.2 million

A number of self help tools were developed including an interactive voice recognition product to allow taxpayers to change and/or provide their EFT details, a Tax Bonus eligibility calculator - made available on ato.gov.au to enable people to calculate their entitlement and a change of address form - made available on ato.gov.au, to enable people to update their details.

In order to identify and process the tax bonus payments a number of activities were undertaken:

- Identification of the possible tax bonus population based on the 2008 income tax lodgments. This was a three step process involving the:
 - creation of a function to interrogate our information holdings,
 - use of current processes to create an account specifically for the management of the tax bonus payments, and
 - append correct address information the tax bonus payment and related correspondence.
- Creation of processes to identify the eligible population based on the eligibility rules. Subsequently, a data base was developed to store this information.
- Creation of processes to interrogate this information and, based on the eligibility rules, post each recipients entitlement to the special tax bonus account.
- Using existing accounting processes, to generate the refund identifying whether an EFT or cheque payment was required.
- Creation of special Tax Bonus correspondence - either an EFT notice or cheque notice.
- Tax Practitioner support included the creation of:
 - Special client lists identifying their potential tax bonus clients - based on 2008 Income Tax Lodgments
 - Special client lists identifying their potential tax bonus clients - based on 2007 Income Tax Lodgments (in relation to yet to be lodged clients)
 - Provision of secure messaging through the Tax Agent Portal.

Joint Committee of Public Accounts and Audit

ANSWERS TO QUESTIONS ON NOTICE

Australian Taxation Office

Bi-annual Hearing – 30 March 2009

Question: 2
Topic: Lodgment of tax returns

- 2a. What is the number of new taxpayers that lodged their first tax return in each of the last 5 income years?
- 2b. What is the age profile breakdown, by number of taxpayers, of the taxpayers that lodged their first tax returns in each of the last 5 income years?
- 2c. What is your latest assessment of the expected tax return this financial year and next financial year. Please provide a breakdown of the major areas of tax return eg corporate, individual.

(Written question on notice tabled by Mr Briggs)

Australian Taxation Office response:

- 2a. and 2b. Number of new taxpayers that lodged their first tax return in each of the last 5 income years with an age profile.

Table: First year lodgments¹

Age range ²	2003-04	2004-05	2005-06	2006-07	2007-08
18 years old or less	205,949	212,810	200,657	208,608	213,386
19 to 24 years old	111,964	118,498	120,499	135,192	155,121
25 to 39 years old	123,839	116,397	122,788	141,854	160,641
40 to 54 years old	51,854	47,885	47,899	49,937	49,995
55 years old or more	24,008	23,408	21,436	19,657	16,997
Total	517,614	518,998	513,279	555,248	596,140

1. First year lodgment is taken as first tax return lodgment since the 1997-98 income year.

2. Individuals age as at 30 June in their first year of lodgment

- 2c. Under the tax laws, most taxpayers are required to self assess whether they are required to lodge a tax return or not. Accordingly, the Tax Office does not make formal estimates of the numbers of income tax returns (ITRs) expected each financial year, but does have regard to the number of tax returns lodged in the previous year.

The number of income tax returns received varies only by a relatively small proportion each year.

As at 2 May 2009, for the 2006-07 and the 2007-08 financial years we have received the following number of income tax returns.

Income tax returns^{1,2}	Number of 2006-07 ITRs received	Number of 2007-08 ITRs received
All taxpayers	14,360,553	12,596,799
Individuals	12,111,752	11,205,439
Companies	785,626	517,749

1. Data is for both years as at 2 May 2009.

2. **NB:** As at 2 May 2009, a significant number of 2007-08 returns are not yet due for lodgment.

Joint Committee of Public Accounts and Audit

ANSWERS TO QUESTIONS ON NOTICE

Australian Taxation Office

Bi-annual Hearing – 30 March 2009

Question: 4

Topic: Project Wickenby / Operation Wickenby

- 4a. There is a current court case testing the legitimacy of the Australian Crime Commission obtaining the laptop that started Operation Wickenby. Will the Tax Office still be able to proceed with Operation Wickenby if the information contained on the laptop is handed back by the courts? Can you explain the possible consequences? (*Written question on notice tabled by Senator Guy Barnett*)
- 4b. Can you please confirm the period of funding received for Project Wickenby and what has been spent to date? (*PA 49-50, Transcript of 30 March 2009 biannual hearing, Chair*)

Australian Taxation Office response:

- 4a. This matter is currently before the Federal Court of Australia in Adelaide. The hearing before Justice Besanko has occurred, and his Honour has reserved judgement. We will need to evaluate any impact once the decision of the court is known.
- 4b. Project Wickenby partner agencies were provided with \$308.8 million from February 2006 until 30 June 2010 with the period of funding for the Commonwealth Director of Public Prosecutions extending to 30 June 2012.

In relation to the total \$308.8 million provided, Project Wickenby agencies have, as at 31 March 2009, spent \$190.6 million.

The Tax Office share of the \$308.8 million was \$160.9 million and as at 31 March 2009 the Tax Office has spent \$107.2 million.

Project Wickenby refers to the broader cross agency taskforce comprised of the Australian Taxation Office, the Australian Crime Commission (ACC), the Australian Federal Police, the Australian Securities and Investments Commission and the Commonwealth Director of Public Prosecutions. The taskforce is also supported by the Australian Transaction Reports and Analysis Centre, the Attorney General's Department and the Australian Government Solicitor.

Operation Wickenby is one operation within Project Wickenby and relates to those criminal investigations being lead by the ACC.

Joint Committee of Public Accounts and Audit

ANSWERS TO QUESTIONS ON NOTICE

Australian Taxation Office

Bi-annual Hearing – 30 March 2009

Question: 6

Topic: Tax Havens

- 6a. In broad terms, could you please update the committee with progress on your investigations following your access to information from LGT Bank in Liechtenstein? *(Note: The response to this question will be the same response to question asked by Mr Bradbury at the hearing – refer PA 44 of the transcript)*
- 6b. A Tax Information Exchange Treaty was signed in October 2007 with Antigua and Barbuda, which is yet to come into effect:
- (i) Is the delay with our laws or with their laws?
 - (ii) Is such a long delay between signing the treaty and it coming into effect normal by international standards?
 - (iii) What effect does this delay have on your ability to undertake compliance activities?
 - (iv) The Tax Office recently signed a Tax Information Exchange Treaty with the Isle of Man. How long will it take to implement this treaty?
- 6c. What effect does the Tax Office believe the global economic downturn will have on the use of tax havens by Australian taxpayers? What strategies are you implementing to combat this effect?
- 6d. Treasury is planning to sign an additional six Tax Information Exchange Treaties this year with tax havens. Can you tell the committee how these treaties allow you to administer the tax laws more effectively?
- (Written questions on notice tabled by Senator Barnett)

Australian Taxation Office response:

- 6a. The Tax Office had 20 Australian audits linked to structures in Liechtenstein. To date, 14 cases have been finalised raising about \$61 million in taxes, penalties and interest. The remaining cases are expected to be finalised this calendar year.

The Tax Office has worked collaboratively with Tax administrations in Canada, France, Italy, New Zealand, Sweden, United Kingdom, Spain and the United States of America and others in relation to this matter.

- 6b(i) Australia has completed all necessary requirements to bring the agreement into force. We are waiting on notification from the government of Antigua and Barbuda that they have completed their requirements. The Australian High Commission sought the reasons for the delay on 11 February 2009, but to date has not received a reply. Further follow-up action is in course.
- 6b(ii) The delay in bringing this agreement into force is unusual compared to the progress Australia has made in negotiating similar agreements with other countries. Generally, it takes between six and twelve months for a treaty to enter into force after signing. However, the delay with Antigua and Barbuda is comparable with the amount of time they have taken to ratify other treaties entered into with other OECD countries.
- 6b(iii) The effect is that we cannot request specific bank account or other tax information until the agreement enters into force. However, the agreement with Antigua and Barbuda, once in place, will apply to transactions occurring on or after 1 January 2007. In the interim we use information sources such as AUSTRAC to support our compliance activities.
- 6b(iv) The Isle of Man notified Australia on 18 March 2009 that they had finalised their domestic procedures to enable the agreement to enter into force. Australia is currently finalising domestic governmental approval processes and anticipates that the agreement will enter into force in mid 2009.
- 6c. The global economic downturn is a factor we consider in the ongoing evaluation of our existing tax haven strategies. One key element of these strategies is monitoring the flow of funds into and out of Australia using Austrac data. Over recent months we have focused on transactions post October 2008. We have not seen an increase in the number of Australian taxpayers sending funds to tax havens since the beginning of the global economic downturn. In fact in October 2008 we saw a large increase in the number of taxpayers repatriating funds to Australia. This appears to relate to factors including concerns about financial institutions failing in some tax havens, any bank guarantees offered in tax havens generally not extending to non-residents and the drop in exchange value of the Australian dollar.

It is expected that the global economic downturn will provide opportunities for the ATO to enhance its ability to address the tax haven risk. Our strategies will benefit from changes in the international environment. For example since the April 2009 G20 meeting, many more tax havens and bank secrecy countries have indicated that they will become more transparent and move to implement exchange of information agreements. Subsequently a number of tax havens and bank secrecy jurisdictions have approached the ATO and Treasury to progress or commence negotiations for a Tax Information Exchange Agreement.

- 6d. These treaties will allow the ATO to request taxpayer specific information from these jurisdictions (eg from financial institutions and in relation to companies, trusts and partnerships). They also provide a deterrent to

taxpayers who were considering entering into arrangements or schemes that take advantage of the lack of transparency and secrecy provided by such jurisdictions. As further agreements are signed, opportunities to hide income and assets are further restricted.

Joint Committee of Public Accounts and Audit

ANSWERS TO QUESTIONS ON NOTICE

Australian Taxation Office

Bi-annual Hearing – 30 March 2009

Question: 7

Topic: Information security

The Price Waterhouse Cooper security review of the Tax Office made eight recommendations that were deemed to be highly beneficial and easy to implement. Can you update the committee on the implementation of these recommendations? Which of the recommendations deemed as complex or of low benefit will you be implementing?

(Written question on notice tabled by Senator Barnett)

Australian Taxation Office response:

1. The PricewaterhouseCoopers (PwC) Information Security Review resulted in a total of 21 recommendations.
2. The Tax Office adopted the review and committed to implementing all recommendations.
3. The Tax Office initiated an Information Security Program of work in April 2008 to address the priority recommendations identified in the report. The program of work also addresses most of the lower priority recommendations.
4. The Information Security Program of work will be substantially completed by 30 June 2010 and now accounts for 19 of the 21 PwC recommendations as follows:
 - i. Security risk management and incident response (Recommendations 1, 19 and 21)
 - ii. Information security policy, communication and governance (Recommendations 2, 3, 4, 5, 6, 7, 9, 14 and 15)
 - iii. Secure technologies and operating procedures (Recommendations 10 and 13)
 - iv. Improved storage of sensitive information (Recommendations, 8, 12 and 16)
 - v. Review of data transfer agreements (Recommendation 18), and
 - i. Information and Communications Technology systems compliance (Recommendation 20).

5. Significant progress has been made with the Information Security program of work and the Tax Office is on track to achieve the 30 June 2010 implementation timeframe for completion of this work..
6. Several key achievements to date include:
 - i. Security Risk Management Plan 2008 - 2009 completed.
 - ii. Provision of biometric encrypted USB thumb drives for staff that need to transfer or transport sensitive information.
 - iii. Extended roll out of encrypted and hardened laptops to 800 staff with a further 2,000 planned for the next financial year subject to funding availability.
 - iv. Development of information security risk assessment tools and processes implemented for strengthened data exchange agreements with third parties.
 - v. Program to improve storage and management of protected holdings for high risk areas initiated.
 - vi. Security Risk Manager Roles defined for implementing across the Tax Office.
 - vii. Compliance assessment plan for Information and Communications Technology systems completed.
 - viii. Enhanced Information Security communication strategy and awareness campaign.
7. Due to funding availability issues, implementation of two recommendations (Recommendations 11 and 17) may extend past the 30 June 2010 timeframe. These recommendations relate to implementing an enterprise wide electronic document management system and the ability for Tax Officers to validate security clearances for those they share information with. These recommendations are expected to be addressed as part of broader enterprise document management and personnel systems upgrade initiatives being implemented over the next two financial years.

Joint Committee of Public Accounts and Audit

ANSWERS TO QUESTIONS ON NOTICE

Australian Taxation Office

Bi-annual Hearing – 30 March 2009

Question: 8

Topic: Information sharing other law enforcement agencies

Assistant Treasurer Chris Bowen has suggested allowing taxpayer information to be shared with law enforcement agencies to help prosecute non-tax related crimes. What effects do you believe this will have on taxpayer compliance?

(Written question on notice asked by Senator Barnett)

Australian Taxation Office response:

The Assistant Treasurer in his press release to accompany the Exposure Draft of the Tax Laws Amendment (Confidentiality of Taxpayer Information) Bill has indicated the Bill introduces some new disclosure provisions, where the public benefit in disclosure outweighs the need to maintain taxpayer confidentiality. Included in this is a change to the restriction on the use of taxation information by authorised law enforcement officers who have lawfully received tax information.

Under the current law information can be disclosed to authorised law enforcement officers for the purpose of:

- establishing whether a serious offence has been, or is being committed, or
- the making, or proposed making of a proceeds of crime order.

However, the current law provides that this information shall not be divulged to a court unless it is in relation to a tax related offence. The Bill proposes that the requirement for the matter to be a tax related offence be removed.

Joint Committee of Public Accounts and Audit

ANSWERS TO QUESTIONS ON NOTICE

Australian Taxation Office

Bi-annual Hearing – 30 March 2009

Question: 9

Topic: Deregistered companies / Superannuation

- 9a. Could you please provide a detailed statement on how the ATO re-instates a deregistered company? *(PA 26-27, Transcript of 30 March 2009 biannual hearing, Mrs Bishop)*
- 9b. How far behind is the ATO in following up super guarantee complaints? *(PA 30, Transcript of 30 March 2009 biannual hearing, Mrs Bishop)*
- 9c. Of the \$385 million collected in audit activities, how many superannuation guarantee audits were undertaken to produce that result? *(PA 30, Transcript of 30 March 2009 biannual hearing, Mrs Bishop)*
- 9d. Could you please provide information on the Commonwealth Ombudsman's report on superannuation guarantee. What was the ATO's response to it or its involvement in it? Was its release advised to you? Why was the report not tabled? *(PA 35, Transcript of 30 March 2009 biannual hearing, Chair)*

Australian Taxation Office response:

9a. The Tax Office is now receiving daily updates from the Australian Securities and Investments Commission (ASIC) on the changed registration status of incorporated entities. This changed status alerts us to the transition of a company from 'registered' to 'strike off pending' or to 'deregistered' status. This update is matched against active superannuation guarantee (SG) cases and after conducting a review, the Tax Office may request ASIC to defer deregistration, or re-instate a company to allow the Tax Office to raise SG assessments if the company is solvent and/or trading.

The Tax Office has introduced a streamlined process with ASIC where we can request the deferral of a deregistration or the reinstatement of a company. This means requests to reinstate deregistered companies or defer or cancel a company's impending deregistration are being actioned by ASIC within 2-3 days. This is important because the Tax Office is legally prevented from pursuing a debt once a company is deregistered.

The Tax Office may take action to defer or cancel the deregistration of a company or reinstate a company to pursue outstanding tax debts where, for example, an avenue for recovery is identified.

There are three types of deregistration: Court Order or creditor's winding up order, ASIC initiated or voluntary deregistration. Generally, we do not request the deferment or reinstatement of a court ordered or creditor's winding up application as an external administrator or liquidator is appointed to control the financial dealings of the company including outstanding SG and we are able to seek the payment of the SG debt through the administrator or liquidator.

It is now part of our procedures for all SG cases that where ASIC have notified us of the employer's change of status to 'strike off pending' to have the pending deregistration deferred for up to 180 days or cancelled altogether to allow the SG audit to be conducted on the incorporated employer entity. This is done by preparing a submission and emailing to ASIC who provide an email response. As of 15 April 2009, the Tax Office has requested the deferral/cancellation of strike off pending status for 20 employers, relating to pending deregistrations notified to us since 6 February 2009.

Active SG cases involving a company that is already deregistered are referred to a specialist team to determine if a reinstatement is appropriate. A detailed review concerning the solvency of the entity, current debt collection activity, previous compliance and SG activity and the date of deregistration are all taken into account before an application for reinstatement is emailed to ASIC.

When a deregistered company is reinstated, it has the effect of bringing the company back into existence as if it had not been deregistered. ASIC will either reinstate the company or reject the Tax Office application. For SG cases the Tax Office has since 6 February 2009 applied to have 13 employers' registration reinstated so as to raise SG default assessments. Of the 13 cases recommended for reinstatement, eight have been approved by ASIC, with the balance of cases under review.

Where the Tax Office believes an employer is seeking to avoid their superannuation obligations through the deliberate, systematic and sometimes cyclic liquidation of related corporate trading entities, the matter is referred to a specialist team which investigates Phoenix activity. Deregistration of a company does not necessarily denote Phoenix activity.

- 9b.** As of 27 March 2009, we had 6,944 active cases of which:
- 60.4% were less than 30 days old
 - 22.9% were between 31 days than 90 days old
 - 16.4% were between 91 days and 365 days old
 - 0.3% were between 366 and 731 days (2 years) old
 - Less than 1 % had no available receipt date.

There were four cases which were over two years old.

Reasons for cases being older than one year include:

- complexity, such as determining whether workers are employees or contractors. These issues often involve large employers with many employees/contractors working under various arrangements, and the information provided requires detailed analysis, and
- delays by the employer in providing all the necessary information.

Timeframes in actioning complaint cases

Completed cases continue to be closed within performance targets from when the case is commenced. However, due to volumes, we have not been successful in meeting our target of commencing all cases within 28 days of receiving a complaint. On average it takes us approximately 10 weeks to commence a case. We expect to meet the 28 day target for all complaints received from 1 July 2009 provided there is not a significant spike in the number of complaints. This expectation is based on improved processes for handling complaints together with other improvements introduced a year ago that have allowed us to reduce the stock of cases on hand.

Once cases are commenced we are exceeding the performance targets of 50% completion within four months of commencement and 90% completion within 12 months; our year to date performance is 71% and 100% respectively.

Status of all superannuation cases relating to complaints (including referrals)

Case status	2005-06	2006-07	2007-08	2008-09 (to 27 March 2009)
Cases on-hand at the start of the financial year	9,114	9,187	7,284	8,526
Cases created	13,450	11,462	18,373	12,869
Total cases closed	13,377	13,365	17,131	14,451
Cases on-hand	9,187	7,284	8,526	6,944

9c. For the 2007-08 financial year, a total of \$385.6 million in SG charge was raised as follows:

- \$254.4 million was raised as a result of 19,619 audits (approximately 48% of these audits resulted in a nil outcome), and
- \$131.2 million was raised from unprompted voluntary lodgments.

The following provides a breakdown of the sources from which the \$385.6 million was raised:

\$228.2m	Complaint cases
\$ 21.7m	Non-complaint cases
\$131.2m	Unprompted voluntary lodgment
\$ 41.2m	General Interest Charge
<u>-\$36.7m</u>	Less credit amendments
<u>\$ 385.6m</u>	

The following provides a breakdown of the reasons why 48% of the audits resulted in a nil outcome:

- The employee is not eligible for superannuation support (11%)
- The employee received adequate superannuation support (29%)
- The employee withdraws the complaint (21%)
- The employer is insolvent and there is no money to pay creditors (22%)

- Other reasons such as incorrect entity, or untraceable employer (17%)

The following table summarises superannuation guarantee liabilities raised and collected over the last four years. The results cover both complaint cases (including referrals) and audits of employers where there has been no complaint.

Superannuation guarantee liabilities and collections:

	2004-05	2005-06	2006-07	2007-08
SGC raised (\$m)*	270.2	352.9	349.8	385.6
Cash collected (\$m)	181.0	228.3	237.8	291.0

**Liabilities raised and amounts collected include all voluntary disclosures, penalties and interest.*

To March 2009, a total of \$251.5 million in SG charge has been raised and \$171.5 million in payments collected.

- 9d.** In 2008, the Ombudsman conducted an inquiry to look at the two core reasons employees complain to them about superannuation guarantee:
- timeliness in collecting unpaid superannuation guarantee, and
 - information provided about the collection of unpaid superannuation.

The Tax Office regularly provided information to the Ombudsman's Office to assist them with their project.

At the end of its inquiries the Ombudsman made four recommendations, two of which were to continue with existing strategies for improvements in our management of employee complaints and pro-active audit and education work. The last two recommendations concerned improvements to our systems for managing employee complaints.

In our response to the Ombudsman on 19 January 2009, we agreed with three of their recommendations and agreed in principle to one recommendation subject to appropriate resources being available through our annual planning process.

We understand that the Commonwealth Ombudsman will also be writing separately to the Committee concerning the reasons why the findings were not published.