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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS, FINANCE
AND PUBLIC ADMINISTRATION

Reference: Tax file number inquiry

MONDAY, 6 DECEMBER 1999

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

Monday, 6 December 1999

Members: Mr Somlyay, Dr Southcott and Mr Wilton
Members in attendance: Mr Albanese, Ms Gambaro, Mr Hawker, Mrs Hull, Mr Somlyay and Dr Southcott

Terms of reference for the inquiry:

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 Order (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.

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Committee met at 9.06 a.m.

CHAIR—I declare open this public hearing of the House of Representatives Economics, Finance and Public Administration Committee. At the basis of the committee's investigation is its examination of the Australian National Audit Office's audit report on the management of tax file numbers as part of the committee's examination of audit reports within its area of portfolio responsibility.

The tax file number system plays a central role in facilitating the operations of government. The efficiency and effectiveness of the tax revenue system, regulation of the superannuation industry and the Commonwealth benefits payment system all depend crucially on the integrity of the tax file number systems. In 1997-98, the tax file number system supported the collection of \$110.34 billion in tax revenue by the Australian Taxation Office, regulation of part of the superannuation industry that managed contributions of \$30 billion and distribution of \$50 billion through the Commonwealth benefit payment system.

In light of the importance of the tax file number system, the committee is extremely concerned with the weaknesses and inefficiencies highlighted by the Auditor-General. In particular, this audit has revealed that \$500 million worth of tax is not being collected because of tax file number weaknesses. There are major deficiencies in the quality of the Australian tax office's databases, including that there are 3.2 million more tax file numbers in Australia than people and nearly 200,000 duplicate tax file numbers, and there is significant scope for proof of identity fraud. The committee looks forward to working with the Australian Taxation Office in finding solutions to these serious problems.

[9.09 a.m.]

\DB\WLBLENKINSOP, Ms Gaida, Acting Assistant Commissioner, Individuals Non-Business, Australian Taxation Office

CHAPMAN, Mr Steve, Deputy Commissioner, Small Business, Australian Taxation Office

CROWE, Mr Murray Boyd, Acting Assistant Commissioner, Small Business, Australian Taxation Office

GODDARD, Mr Tony, Acting Assistant Commissioner, Individuals, Australian Taxation Office

HILL, Ms Jean Lesley, Business Unit Director, Account Management, Investments Royalties Withholding Taxes, Australian Taxation Office

CHAIR—I welcome the representatives from the Australian Taxation Office here at today's public hearing. I remind you that the evidence that you give at this public hearing is considered to be part of the proceedings of parliament. I therefore remind you that any attempt to mislead the committee is a very serious matter and could amount to contempt of the parliament. Thank you for all coming. Dr Webb, I understand you would like to make a short opening statement.

Dr Webb—Probably a statement for about 15 minutes, if that is okay. First of all, thank you for the opportunity to appear before the committee to present the views of the ATO regarding the management of the tax file number system and to address any questions you have and issues you would like to raise.

As you know, we provided a fairly detailed submission to the committee on 2 November 1999, and we are of course happy to enlarge on or clarify any of the points we covered in that submission. I do not propose in this opening address to cover most of the issues we raised in our submission. Rather, I would like to say a few words about the Audit Office report into the TFN system and then spend a few moments focusing on some of the issues that you have indicated in recent press releases that you particularly wish to address in the hearings.

I would also like to refer to a few of the issues raised in other submissions that have been put to the committee in the last month. Firstly, as indicated in our submission, the ATO welcomes the Audit Office report because we believe it does add to the community's understanding of taxation issues. Generally, as we indicated there, we also agree with the recommendations of the report. Indeed, whilst clearly independent, the audit was conducted very much as a partnership between our office and the Audit Office as we were equally interested in any additional insights and opportunities.

To put the findings in perspective, it should be noted that the Audit Office acknowledges in its report that significant benefits have been gained through the implementation, the administration and further development of the TFN system throughout the 1990s. Nevertheless, they do also raise a number of areas for possible improvement, and naturally we are taking those suggestions very seriously. Our submission to this committee summarised where we are up to on each of the recommendations. In many cases the Audit Office acknowledged that the ATO was

already working towards improving the TFN system prior to the tabling of its report. Examples of this are in the schools education program assuming auto registration processes and other matters. In other areas, as stated in our submission, tax reform will provide the opportunity to remove some of the reported deficiencies. An example here is in the IRW system. Finally, some of the recommendations require more detailed analysis—for example, proof of identity matters, extension of data matching, extensions of the TFN system—and in several cases will also be subject to government decision.

As indicated in our recent submission, from December 1998, prior to the Audit Office report, we had commenced within the ATO an overall TFN improvement project. Whilst this project incorporated many of the issues that have been raised, there is also no doubt that the Audit Office evaluation very usefully added to the ideas and priorities for action in this project. Further details on this overall project are contained in appendix 3 of our submission. We are going to some lengths to take a comprehensive and integrated approach to the further development and improvement of the TFN system. Many of the initiatives also involve a wide range of stakeholders, and we are taking care to involve them fully in the assessment and development of those initiatives.

I would like to move to comment on some of the issues raised by the committee in recent submissions to the committee. We are of course happy to assist the committee in any areas relevant to the inquiry. However, we would particularly like to comment on some of those priority areas indicated in recent press releases by the committee and, in doing this, pick up on other submissions in the relevant areas.

The first area I would like to comment on is revenue and benefit gains from the TFN system. It is worth reiterating the benefits the TFN system has provided the Australian community. In addition to very substantially assisting compliance within the tax system, other direct benefits include, for example, savings of \$670 million in Centrelink DVA and what was DEETYA benefits paid over the four years to 1998-99. In addition, there is clearly an indirect benefit that is impossible to estimate. The fact is that the very existence of TFN based compliance approaches discourages non-compliant behaviours in the first place.

We would also like to refer briefly to the estimate in the Audit Office report of \$460 million revenue not being collected as a result of deficiencies in the TFN system. This estimate is essentially made up of three factors: \$28 million from using TFN to match employment declarations with Centrelink data, \$180 million from improved cross-agency identity data matching and \$250 million from extension of TFN withholding to real estate transactions.

Firstly, it should be noted that each of these would require legislative change—that is, all but \$2 million of the \$460 million. I believe the government has announced in the May budget its intention to act on the first of these issues—that is, the TFN matching of employment declarations with Centrelink data. As to the second, we support in principle the greater use of identity data matching, although the estimate of extra revenue from this would need to be updated from the 1987 estimate used by the Audit Office before completing the cost-benefit evaluation for government. As to the third area, and as indicated in our submission, the benefits of extending the TFN withholding regime to real estate or other areas would need to be evaluated in the context of a complex range of factors, including the other activities we already have in hand to manage the relevant compliance risks, and I will say a bit more about that in a moment. The evaluations in these areas are part of our ongoing risk and resource and impact assessment approaches by which we progressively adjust our strategies according to overall risk

and return priorities. We are building the above assessments into our current review of compliance and other risks.

The second area I would like to refer to is identity issues, including opportunity for fraud. We clearly acknowledge the risk of identity based fraud. The cost and extent of such fraud are notoriously hard to estimate but we note the views expressed in various submissions to the committee that it is believed to be increasing in both the public and private sectors, and we have no reason to doubt this. We are also conscious of the increasing dependence of electronic service delivery, or e-commerce, on effective proof of identity approaches. We have been active in developing approaches aimed at preventing identity fraud in the first place. In particular, we have convened and participated in a wide range of cross-agency and organisational forums to develop improved PoI and identity authentication approaches. We have developed and included in our submission a hierarchy of possible approaches with a preliminary assessment of advantages and disadvantages. We are continuing to evaluate these options with many other stakeholders. We also continue to upgrade our own risk assessment and internal control procedures—for example, around the avoidance of duplicate TFNs. At the same time, we are actively addressing the issue of inactive TFNs on our registration database.

I would like to move to the area of inactive TFNs. The Audit Office report refers to an excess of TFNs of some 3.2 million over corresponding Australian census figures. At one level, this excess is not hard to explain given the nature of the TFN system, in particular that we do not withdraw TFNs even when clearly inactive and that we have also had limited access to data from which to identify a TFN as inactive; rough figuring of numbers of deaths; resident and non-resident departures from Australia; and other individuals and entities that otherwise no longer need to transact with the ATO. Each of these cases where we have not been notified seems to readily account for at least the difference reported by the Audit Office.

Whilst the difference may in the most part readily be explained by these factors, there are a range of reasons why we would like to have a more accurate picture of inactive TFNs, and we are pursuing a number of options. In particular, we have worked with the various state registrars-general to develop and gain access to a national fact of death database. We are also in discussions with the Department of Immigration and Multicultural Affairs concerning access to visa and movement data in and out of Australia. Such access would require both systems and legislative changes.

I will now refer to the issue of TFN quotation and withholding arrangements. The issue has been raised concerning the possible benefits of extending the TFN quotation and withholding regime to additional transactions—for example, real estate and AUSTRAC—and also of making quotation mandatory for certain transactions where it is currently voluntary. As evidenced in some of the submissions to the committee, there is a range of views on these issues and a number of trade-offs to be considered. While such moves would be helpful purely from a revenue and compliance perspective, this needs to be balanced by consideration of cost of compliance to the community and privacy concerns. Before considering such options, we therefore also consider and implement other strategies to improve compliance. Our submission gives examples of this for real estate transactions.

We never rule out taking a case to government to extend the regime, and indeed have done so in the past where the compliance risk had become excessive, for example, in the PPS and RPS systems. We also take care to weigh up the balance of interests and alternatives and consult the relevant stakeholders before assuming that is the preferred option. We are looking at the various

proposals raised in the Audit Office report in this context and reviewing them in our current overall risk assessment evaluation.

I would like to comment briefly on TFN security and privacy considerations. Following the Australia card debate, the TFN system was introduced in the context of very stringent security and privacy requirements, including new privacy legislation. For obvious reasons, the ATO also has very stringent internal and external procedures to protect the security and privacy of taxpayers' information. We believe we have been successful in meeting the legislative requirements and community expectations in this respect.

As indicated in the discussion on possible extensions of TFN quotation, we also aim to take a balanced view in trade-offs between compliance and privacy considerations. The submission to the committee from the Australian Privacy Foundation acknowledges that they view the ATO as understanding these issues. We also consult the Privacy Commissioner up-front on any actual or proposed developments and have had, for example, two discussions this year in the context of the Audit Office report recommendations.

Another area I would like to comment on is improving client services in respect of TFN. Much of the discussion around the TFN has focused on its effectiveness in combating fraud and non-compliance and on privacy considerations. This is appropriate and, as indicated, we build each of these factors into our strategies. However, we also develop our strategies with a focus on client service and convenience. We meet our publicly set target for turnaround of TFN applications to a level of approximately 98 per cent. We are also continuing to look at upgrading the access and application options, for example, through the schools program, higher education institutions, DIMA, auto registration processes and Centrelink access with a focus on the key life events that typically trigger the need for a TFN.

We are continuing to review our educational advisory material. We note, for example, a submission to the committee from ISANA, the International Student Advisers Network, and we have just recently met with them to consider how information material can be made more useful. Our view is that good service in education is not only important in its own right but also supports and encourages the compliant behaviours that the bulk of the community expect.

The issue of quality and integration of ATO systems and databases has been raised. The Audit Office report and a subsequent Audit Office discussion paper prepared at the request of the committee refer to issues concerning the quality and integration of ATO systems and databases. I would like to be very clear in this area. With the support of the various governments of the day, the ATO has put great effort into continuing to develop integrated systems, with a significant transformation over the last 10 years. Our core and major transaction processing systems covering nearly all revenue lines, referred to as the ATO Integrated System, AIS, and for income tax, the National Taxpayers System, NTS, have a high degree of integration internally and, for example, at the level of client identity, with each other. As a result of this, for example, the ATO is able to link most of the various roles of taxpayers in the tax system.

Our data matching is also much more sophisticated now even than earlier in this decade. Furthermore, for several years we have been making increasingly sophisticated use of data warehouse facilities where data can and is brought together from any of our internal systems for integrated analysis and action. We fully accept that there are some exceptions where our systems are not yet fully integrated with the core systems. As pointed out in the Audit Office report, this applies to the current IRW system.

Our submission indicates the issues and proposed appropriate approach to the IRW system, which includes the need to fit in with the prioritised effort in our overall systems program. This is particularly so in the context of the substantial demands of the tax reform systems developments. We are also using the tax reform changes where possible as an opportunity to incorporate some of the desired improvements. The IRW system of interest royalty withholding is a case in point.

We also acknowledge that the quality of the data on our database needs continuing attention as it is updated and that we must continue our efforts in this respect. We are using tax reform as an opportunity to validate our business information database and, when this is complete, we intend to consider similar approaches to individual databases. As we have mentioned earlier and in our submission, we already have strategies to make greater use of third-party data to corroborate or update our own data.

We would like to make one further comment on the Australian National Audit Office discussion paper prepared at the request of the committee. Whilst we appreciate that the report was prepared in the context of a request to summarise previous Audit Office findings on ATO systems and data quality, we believe it would be very misleading to draw conclusions from reports from the 1980s and early 1990s. There have been enormous changes since then, including the introduction of self-assessment, the very substantial investment systems referred to above, and the introduction of the TFN system itself.

If the committee wishes to make any substantive use of this Australian National Audit Office paper, and could indicate in which respect, we would be willing to put in a separate submission to the committee on that area. With the continuing changes in taxation law and systems and in individual taxation affairs, there will always be new challenges to keep our systems and data up to date. However, we believe we have addressed those challenges in the past and we are now focusing on today's needs.

We also note that the Australian National Audit Office discussion paper states:

... the magnitude of the task of the transformation within the ATO, in terms of administrative management, systems modernisation and strategic direction, over the last 15 years or so, ought not to be underestimated.

The paper says the ATO has 'to strike an appropriate balance between different agendas' and that balance is 'in a continual state of flux, evolving over time'. That is not a bad summary of our reality.

Finally, I would just like to comment on our preparedness to bring new policy options to government. The Australian National Audit Office report indicates that the ATO should be prepared to take certain issues to government. The ATO is certainly not reluctant to take issues to government whenever necessary and has done so on many occasions in the past, including in areas related to TFN. Before doing so, we naturally aim to get as clear a view as possible of the costs, benefits and options, and this requires a decent level of evaluation and consultation with what is very often a wide range of stakeholders.

In this context, I also note that we are guided in our approach by our commitments to the taxpayer's charter and to our graduated compliance approach that we refer to as the ATO compliance model. A key element of these approaches is to ensure that our strategies reflect

community perspectives and are commensurate with the nature and extent of any compliance risk or behaviour. We build these perspectives into our evaluations and strategies.

We expect that our own ongoing evaluations, the Australian National Audit Office and also the work of this committee will assist in identifying proposals worth pursuing. Our aim is to be as open and helpful as possible to the committee. As an indication of this, we drew the committee's terms of reference to the attention of our staff and invited them to provide input if they wished. I understand you have received a few submissions as a result. We would also welcome visits of committee members to view relevant ATO operations. I understand you have already visited an IRW unit. We would also welcome you visiting one of our TFN registration units and our information matching system activities.

Thank you for the opportunity to address the committee. We would certainly welcome any questions you would like to put to us.

CHAIR—Thank you very much, Dr Webb, for that comprehensive introduction. I would like to take up a point. You talked about the Australian National Audit Office discussion paper. I think the concern really is the fact that a repeated number of audit reports have been done and all of them have found some shortcomings. The first question ought to be: given that this has been going on, what is the real problem of not being able to overcome the problems repeatedly identified over at least 15 years?

Dr Webb—The issue really being observed there is that, because there are such enormous changes all the time in the tax system and requirements, there is a constant change in the legislation and the systems that we have to administer, and because of the changes in taxpayers' behaviours, financial affairs and taxation affairs, the issue of maintaining the appropriate systems and databases is always in a state of change. We are never in the position of being able to tackle it as a static exercise. It is always changing.

I think what one sees when there is a report—and we find most of those Australian National Audit Office reports were useful at the time and no doubt quite valid—is that we were addressing those issues at that time. We would believe that we essentially fix the issues of the time, but new issues continue to emerge as the taxation system and the taxpayers' interactions with us change over time. Therefore, it is always an issue to be completely confident of the systems and the data quality, but we always have active programs to do that. For example, in the context of the current range of taxation systems changes, we have active programs that are addressing those needs as they are today.

CHAIR—One of the comments from the Australian National Audit Office was that the quality of your main databases was somewhere between unsatisfactory and average. These are the basic building blocks of your tax system. The tax file number is just part of it. Isn't it a priority to get the basics, the building blocks, right and then you can build the other bits on afterwards?

Dr Webb—To cite a couple of examples, in regard to the business information identification database, there has been a very significant investment in making sure that the quality of the data there is appropriate and adequate for the needs of the new demands coming in from the tax reform changes. That is an area where we have put a priority effort in the last year or so, in particular. We progressively shift our priorities as to where we put the attention on maintaining or improving the data quality, according to where we think the greatest risks are. That is an

example of saying, 'Well, because of the changes in the taxation systems, we saw that as an area where we wanted to make sure we had the best possible data quality.' That is our continuing process of assessing the risks and allocating our resources accordingly.

In regard to the individual client identity database, we clearly are not satisfied with the degree of quality in that. Indeed, that is one reason why we accept and acknowledge some of the issues raised by the Australian National Audit Office report. Strategies we would have to improve that quality do require quite a lot of work in terms of cost benefit because they are not cheap and it is quite expensive to do some of those things, but we acknowledge that the cost benefit has to be done and it is being done.

There are areas where we can do fairly immediate improvements in data quality. I mentioned, for example, that in cooperation with the state registrar-generals we have purchased the fact of death data to make sure that our databases are accurate in that respect. We have acted on those. In other cases, as is acknowledged, the changes would require legislation. As mentioned in the report, we are certainly in principle in favour of having at least a once off and maybe a regular identity data match effort with other government agencies. The key aspects of that do require some legislative consideration.

CHAIR—One of the primary sources of proof of identity for the new Australian Business Number is going to be your tax file number, isn't it?

Dr Webb—Yes.

CHAIR—There are 3.2 million more tax file numbers than there are Australians. I presume that includes men, women and children, and I am sure there is not that many companies, trusts and partnerships to fill in the big gap. If you have that many surplus tax file numbers slicing around somewhere, it means that there is, I would have thought, enormous scope to say that the new Australian Business Number is going to be built on a faulty platform. You talked about purchasing death data and so on. People on this side would get very nervous if the electoral roll were not cleansed pretty regularly, because we get very nervous if we think dead people vote. We would be very nervous, too, if we thought that the tax file numbers of dead people were being used by those with ulterior motives. Isn't it a matter of very high priority to cleanse that tax file number roll pretty quickly?

Dr Webb—First of all, we agree in terms of the very high desirability of cleansing the information, identifying more fully those tax file numbers that are inactive and making sure that they are flagged that way. I might say that 2½ million of our files are already flagged as inactive and, therefore, cannot be used in that sense. So it is not that we have no activity in that area. We would expect the death data matching that we are doing at the moment would obviously add to that. Probably the single biggest breakthrough would be to have the interaction—which requires some legislative change—with the short-term visitor and overseas departures type of information which we cannot get access to at the moment. Those in total, if we were able to get those done, would make a huge impact in terms of making sure that the large number of tax file numbers, the 2½ million already flagged as inactive, could be made much closer to the total level that are actually inactive.

CHAIR—Why do you keep this 2½ million going if they are inactive? Why don't you just scrap them?

Dr Webb—They are retained effectively on our historical records. It means, however, that they cannot be used without being flagged as inactive and therefore raising the question if someone is trying to use them.

CHAIR—So there are still 700,000, plus 200,000 duplicates?

Dr Webb—No. The 2½ million is the total that is flagged as inactive. In the report, 185,000 were identified as duplicates. I quite openly admit that it was in terms of being prompted by the Audit Office report—that was our main focus. We have been aware of the duplicates issue and we have started some work on it, but we certainly accelerated it in the light of some of the issues raised in the Audit Office report. In that respect we have had initial, what looked like prospective duplicates of 185,000. In terms of looking at those with more rigorous selection criteria to identify what are duplicates, that number came down to 23,000. Of those, which were then looked at individually, I believe it is 2,500 that were clearly identified as actual duplicates and they have been followed through individually. So far, we have not identified a fraud case out of those. Most of them are proving to be also inactive. So they are actually adding to our inactive list rather than fraud cases.

CHAIR—Can I just clarify one point? The Audit Office used the figure of 3.2 million. In actual fact, how many more tax file numbers are there than there are taxpayers in Australia?

Dr Webb—In total, the rough figures are like this. We have slightly over 18 million tax file numbers registered on our database. Two and a half million of those are already flagged as inactive, as I mentioned, and between about 11 million and 12 million are clearly active in the sense that they have very current transactions with us. Of the remainder, it is very hard to know at the moment what proportion are still active in the sense that they are likely to lodge still or have other transactions. As you would appreciate, it is not just taxation lodgment activity. It is also used for HECS purposes, for Child Support Agency purposes and a range of other purposes. As you mentioned in the opening comments, it is now used for a wide range of activities.

So it is very hard to judge what proportion of the remainder is truly inactive. We would agree totally that it would be very desirable to get a much better handle on that. We can clearly identify the main components of why that is, in terms of deaths not advised to us, in terms of movements out of Australia that we are not able to have access to, and those are very large numbers which readily make that up. The issue, as you rightly raise, is: to what extent is there a risk of any of those inactive TFNs being fraudulently used by others? At the moment we are finding it very hard to establish exactly what that is. As I say, so far our activity on the duplicates has not actually identified, I think, any fraud cases, but that does not mean that there are not cases out there.

CHAIR—What you are saying then, if my quick off the top of my head calculations are correct, is that there are probably something like six million tax file numbers inactive, of which you have flagged 2.7 million and the others you are not sure whether they are real or otherwise. I would have thought the scope for fraud amongst that, even if it were only a relatively small percentage, would be quite large.

Dr Webb—It is probably quite fair to say that the actual extent of fraud is unknown in terms of its impact. All I can say is that we have not ourselves turned up too many cases of fraud, but we do find them, and obviously we do action them when we do. The investigation into

duplications has not so far indicated a heavy fraud element, but again we have not finished that exercise yet, so we need to continue that and advise further on that. Whilst there is not therefore a lot of heavy evidence of fraud in front of us, we would agree that you cannot rule out fraud of that nature.

I would say also, though, that one of the key uncertainties in the identity fraud area is not so much in whether we have inactive TFNs used but really just people creating false identities, which is quite a different issue. I suppose to some extent we might expect that where there is fraud activity a lot of it may come back really to creation of false identities and false TFNs in the first place. They will not show up as obvious duplicates because they would be identified by someone effectively creating an almost separate identity in a range of ways. That is very deliberately planned fraud. It is very hard to detect. That is where our submission and the work we have been doing with a whole lot of other public and private sector organisations to investigate a range of preventative measures by having better proof identity activities is crucial in the fraud sense, and it may be that that is a bigger identity fraud issue than the question of duplicates, based on what we have seen so far.

CHAIR—With the six million inactive tax file numbers, it seems a fairly easy way to channel in, if you want to avoid the difficulties of proving proof of identity, if you can get hold of some of these inactive tax file numbers. We have had evidence from submissions of this being used, which we may come to. There is an awful lot of numbers just slicing around there in the ether.

Dr Webb—Yes. That is why I would agree that our efforts to actually try to evidence how many of those are clearly inactive is a very desirable thing.

CHAIR—Are you doing a sort of roll cleansing like the Electoral Commission?

Dr Webb—I am not quite sure what the Electoral Commission has done.

CHAIR—They try to, between every election, cleanse their roll to get rid of all the voters who are no longer on that particular roll.

Dr Webb—Yes. We have those various measures I mentioned in hand to try to, first of all, increase the clarity and identity of the numbers that are inactive. In the area of immigration statistics, we are a bit hamstrung at the moment. Therefore, I think it is a priority area. We are certainly trying to get better information on that because that single factor alone, of movements out of Australia, would actually make a huge difference in terms of our ability to identify the inactives, because that is probably the single biggest component, followed by where we have not been notified of deaths.

CHAIR—Couldn't you go back a step and just find out all those people who are inactive? Couldn't you just write them a letter saying, 'Please respond'?

Ms Blenkinsop—I am not sure.

CHAIR—Just write to them and say, 'Please respond. We want to know who you are.'

Ms Blenkinsop—I guess I question how many of those would actually respond and whether that was an indication of them not being active.

CHAIR—Some sort of audit like that would surely reveal an awful lot, wouldn't it?

Dr Webb—Our normal approach would be to try and use existing data, particularly where there are large amounts of data that would actually automatically clarify being inactive, before actually writing to people. That would tend to be more our approach after we had actually done what might be the more obvious data matching. For example, in the duplications that we have identified, and I mentioned the 2½ thousand that we have pursuing individually—and I am not sure whether we are phoning or writing to them—we obviously try to clarify whether there is anything unusual in those.

Mrs HULL—I was astounded at the level of contact that came to the members on the committee—me being one of those—from staff members. Whether they were in an anonymous state or whether they put their names to their submissions—the number of employees that put their names to submissions was surprising—it was quite staggering, the level of dissatisfaction and frustration in tax file number fraud from those staff members, when they said that there was no mechanism by which they felt they were able to feed information and have it taken quite seriously. Or there were suggestions that, with respect to upper management levels, there seemed to be certainly no bottom-up approach at all concerning how people could assist in perhaps rectifying some of these problems with tax file numbers.

I question that simply because I would think that it would be far simpler for those people who are dealing with it every day to have a mechanism which they can feed their process into to say, 'This is what we believe is happening,' and that would be acted upon. A very great shortcoming within the system is that these employees feel they have absolutely no worth in the role that they play and, in fact, they have very large worth because they are your front-line people dealing with this every day, seeing anomalies every day, and not being taken seriously. And they have no mechanism by which to factor in these processes. Can you explain to me why that is so?

Dr Webb—Firstly, I would just agree with you that staff input is a very valuable input, so I do not have any disagreement on that whatsoever. I will ask Ms Blenkinsop, in a moment, to comment on what processes we do or do not have in that respect. I have only seen two or three submissions, I think, from staff, and there may be others—I am not sure. I have seen two or three and they raise issues and, certainly, a couple of those issues are really quite valid ones that we totally share. In fact, in a sense, they often all tend to be valid. This happens very often in a tax office environment where you are constantly balancing resources against risks and having to accept that certain risks we will leave without a specific action for a period of time provided they are manageable and we have resources allocated to other areas that are much higher risks in a compliance sense. The issue we often have is that we are in the mode of making those adjustments to do that. It can often mean that when a very legitimate point is raised by a staff member, we have to say, 'We acknowledge that point but, in terms of our prioritising resource allocations, we are just not going to get round to this issue.'

That may go on for many years, in terms of the nature of that risk. It often does not mean that it is not acknowledged; it rather means that in the prioritising process we have not been able to do that. We should, if we do not, feed back to the staff members the reasons for that when they raise these issues. I will ask Gaida, if you like, to comment upon that, too.

Ms Blenkinsop—There are a number of mechanisms, some formal ones and some informal ones. I guess I am disappointed that staff did not feel as though they could approach us with

those issues. In terms of the registration area, which is my particular area, the staff have a series of meetings with their team managers regularly where they can raise issues and those issues, where necessary, can get escalated either within the region they work in or even nationally if that is the extent of the problem and the need.

The other process whereby those issues can be raised is that each year we carry out a full risk assessment through the business. As well as being a top down approach—that is, looking at the strategic risks and what is happening in the future—we are also getting staff and their team managers to look at and identify the risks from their perspective, and those also are fed up the line. As Bob mentioned, sometimes in that melding some of the lower priority risks may not actually get up to being addressed to the extent that some people might personally like to have those addressed.

We have a number of informal mechanisms through emails, through a thing we call the 'fridge door' where you can raise issues of any sort, and those will come through to the people who are relevant to answer those particular issues. They could be staffing matters or they could actually be business issues. There are other more informal measures that staff can also take. We would be anxious to hear from staff and, in fact, we welcome those sorts of comments. In some cases the people individually may not believe their specific concern has been addressed but where possible we like to give them feedback.

Ms GAMBARO—Dr Webb, just going back to these inactive tax file numbers—and I know that the chairman has gone into that quite extensively with you—do you have a time frame when you deem a number to be inactive—for example, bank accounts that are not being used? The banks write to customers and say, 'Your bank account has not been used. What do you want us to do with it?' If the customer does not respond they then take the appropriate action. If you have low funds in it, or whatever, I do not know where those funds go—probably to bank account heaven—but they go somewhere.

CHAIR—Consolidated revenue.

Ms GAMBARO—You must have some sort of a time frame where a number is inactive. I just wanted to ask you, as well, with large companies where there is a number of tax file numbers within one corporate entity, you said that you had a pretty good data matching system to identify tax file numbers within one corporation. Was that correct

Dr Webb—There are two questions there. Gaida, do you want to answer the first one?

Ms Blenkinsop—Yes. With the time frames, our general rule of thumb is that we look at transactions with the office over about a five-year period as being an indication that someone has dropped out for whatever purpose. The reason we actually maintain some of those records for longer than that is that, even though they may not have a tax obligation, there may be other obligations which require them to keep that tax file number, as Bob mentioned earlier, in terms of child support and Centrelink, and HECS is a good one, too. Some of those there may actually be tax file numbers on our register where people have yet to have a tax obligation. For example, students lodging for HECS may not lodge until they have the requisite income.

Ms GAMBARO—So you cannot put an arbitrary time frame?

Ms Blenkinsop—If you chopped it off without checking the facts, potentially you may actually put them—

Ms GAMBARO—Okay. Let us put aside the HECS students. Let us just say that a person is a taxpayer and you have got a matching process with the Centrelink office. If he or she is not on any form of social security benefit or entitlement, you would have access to that sort of information, from what I understand.

Ms Blenkinsop—Yes.

Ms GAMBARO—What would stop you from putting an arbitrary time frame on just a normal pay-as-you-earn taxpayer?

Ms Blenkinsop—I guess we just have to look at what that time frame might be in a realistic sense. It is certainly something worth considering.

Ms GAMBARO—Just back on the other question about the multiple tax file numbers within corporations and how you cross match those, including the active ones and the inactive—

Mr Chapman—Just to clarify this. In the case of a tax file number for a corporation, there is one number given to each legal entity. The fact that a corporation might have multiple branches does not mean that it will have multiple tax file numbers. There is just one tax file number.

Within a corporate group, where there may be multiple subsidiaries or members of a group, each will have a TFN. It is probably worth mentioning that the government has announced initiatives around the Australian business number. The tax office has been working with the Australian Securities and Investment Commission. I understand it is the government's policy that the Australian companies number will eventually be replaced by the Australian business number. In going through the preparation for those processes, we have been matching ACNs with the Australian business numbers that we will be issuing to corporations because they are administered by the Australian Securities and Investment Commission. Should they go into liquidation or stop trading for whatever reason,

they will generally—

Ms GAMBARO—Do you get notified? Do you have a good system that operates between you and the securities commission?

Mr Chapman—I am not aware that we have an automated system.

Ms GAMBARO—Not like the deaths and the—

Mr Chapman—No, although as we move forward and the Australian business number replaces the ACN, that will obviously change. Often, companies going into liquidation have other sorts of liabilities owing—group tax or other such matters—and we would identify them through those processes.

Ms GAMBARO—I have one other question on DIMA. On page 23 you say that at the moment there is a manual matching of TFNs and people who are here on visas. DIMA legislation does not allow you to have access to movement records. Is that the main stumbling block for you

in this area? I know it was mentioned before; I know it is difficult to put a figure on tax file numbers in this particular area, but how many of the inactive tax file numbers or questionable ones would be in this type of category?

Ms Blenkinsop—The DIMA one is in fact a legislative problem. Their legislation prevents them from giving us what they call movements data. Obviously, it would help us if we had a system whereby we could get access to that and that is something that we are working on. In terms of short-term arrivals and departures, a very rough estimate gives us approximately 2.5 million for the 10-year period from 1976 to 1996. It is actually more than that. It is 2.6 million short term and there are also an additional approximately 900,000 permanent departures.

Ms GAMBARO—In the last parliament I did an inquiry into working holiday visas. How effective are you at ensuring that those people here on a working holiday pay their equivalent amount of tax that they need to pay and what checks and balances have you implemented?

Ms Blenkinsop—For working holiday makers?

Ms GAMBARO—Yes, people who are here for, say, a year. They might go fruit picking in Kay's electorate or engage in any number of activities. It is a lucrative market for us.

Ms Blenkinsop—It is a very contemporary issue given all of the activity that has been happening recently around Immigration as well. We work with Immigration quite closely to make sure that, with respect to our systems in terms of where we register tax file numbers, we only give them to people who have a valid working visa. They are not entitled to a tax file number for work purposes unless they have got that. However, there are obviously some holes through which people can slip, particularly where they have been coached in how to fill in the TFN application form and in what to say to employers. So we work with DIMA in trying to educate the employers as to what to look out for in cases where there might be people who are not entitled to work. However, once they have got the registration, there is the PAYE. The withholding is actually made from their income if the employer is doing the right thing. It is similarly the case with investment moneys. Some overseas travellers do come to Australia and apply for a tax file number—students in particular. Even though they may not want to work, they need to open a bank account here. That is another reason why they may have one.

Ms GAMBARO—Tax file numbers for working holiday makers and visas: if they give the wrong tax file number to the employer, where does the onus of the liability lie?

Ms Blenkinsop—Providing the employee completes what is called an employment declaration form, which they are required to do, they can still choose to quote a tax file number or not. It is not compulsory to quote a tax file number. If they do not quote a tax file number, the employer is required to take out what is called the highest marginal rate of tax from that wage or that salary.

Ms GAMBARO—But what happens if they give the employer the wrong tax file number, which has happened in a case that has been brought to my attention?

Ms Blenkinsop—If they do that, that employment declaration form is processed in our agency and a discrepancy report is provided. Then a letter goes to both the employee and the employer saying, 'This file number doesn't appear to be valid for this particular person, can you please check it.' There is a risk there because of the timing issue; sometimes they will have

moved on. We need to get better at picking that up. Under the new legislation, I understand that the current 28-day period where employers are required to send that in to us is going to be shortened to 14 days.

Ms GAMBARO—You have a better chance of—

Ms Blenkinsop—A better chance of catching them.

CHAIR—With respect to this question of coaching: could you explain that a bit more—how widespread it is and how effective it is?

Ms Blenkinsop—For us it is anecdotal evidence. We understand through Immigration that they have a fairly good idea of industries and locations with respect to the illegals who come in and are shipped around.

Mr SOMLYAY—Shipped around by whom?

Ms Blenkinsop—By people who bring them into the country. I do not have the details of that, but Immigration could certainly provide you with details of it. The anecdotal evidence suggests that in some cases they will rock up at, let us say, a cherry orchard, the employer will give them an employment declaration and they will always give the right answers, even though they may not understand the language very well. They will say, 'Yes, I am a resident,' so they have obviously had some sort of briefing.

Mrs HULL—Is there an ability to enter a passport number on a tax file employment data sheet? If you could correlate your passport number and have your passport for the employer as well, so you have your legitimate passport, then you put a passport number on that tax file number sheet.

Ms Blenkinsop—I agree. What happens is that when someone comes in to request a TFN application and they have an overseas passport, the person looking at it at the counter does check that. What would be really helpful is to have something stamped on it which was really obvious such as 'no work rights'. That does not happen at the moment. They have got this numeric system which is a bit complicated for people to try to work through.

Mrs HULL—If you had, for the employers' protection, an area where you could have a passport number in that employment declaration sheet, that could correlate with it. I have an enormous problem with tax file numbers, with superannuation; it is a constant source of complaint in my electorate of Riverina, and there are an enormous number of complaints with respect to people putting in fabricated tax file numbers. It is probably one of the greatest areas of complaint that I have.

Ms Blenkinsop—The horticulture industry is rife with that.

Dr SOUTHCOTT—When someone completes their final tax return, they tick that their estate would complete it for them, and they indicate that it is their final tax return, what happens to that tax file number then?

Ms Blenkinsop—The record is flagged with what is called a 'further returns not necessary' indicator, and it is inactivated. It is not at the moment archived, although that is something we are certainly trying to work towards doing. We have not had an archive since 1989.

Dr SOUTHCOTT—So the practice in 1989 was to archive those?

Ms Blenkinsop—That was the last archive that we carried out.

CHAIR—Why has it not been done since 1989?

Ms Blenkinsop—It is a matter of other systems' priorities always taking precedence over the archival priority.

CHAIR—Can I take it you are a bit short of resources here? What is the problem?

Dr Webb—On the archiving issue, probably our main emphasis has been on the inactive side of things. The distinction, as I understand it, is that the archiving means we just take it off our main databases and put it up into back-up storage somewhere. As long as we have a file flagged as inactive, if someone tries to access that or a taxpayer tries to use that number or we want to use it for a mail-out or whatever, we know it is inactive. From a business point of view, it is the same effect as though it is archived. That would be my understanding.

The question of archiving, therefore, is one more of records management and computer based approaches and things like that. As Ms Blenkinsop says, the priorities have not got up in a system sense for that step, but we see that as quite distinct from the issue of trying to do something more comprehensive on the inactive side of things.

Dr SOUTHCOTT—I also wanted to ask about the Australian business number. The Australian National Audit Office report did highlight problems with tax office databases and systems. As I understand it, next year you will have the Australian business number aligned with company collections of GST and also the amount they are earning as a company. As I understand it, no other country has done this so far.

This is the most modern indirect tax system we have seen in the world. It will allow the Australian Tax Office to look within industries to see if people are way out of whack. That has very important implications for compliance. You will be able to look at individual businesses and see if their revenue does not tally with the amount of GST they are collecting. You will be able to do some very fancy things in terms of monitoring compliance for collection of the GST and so on. But we would like to have confidence that your data and systems would be adequate for that task.

Mr Chapman—I could respond there. As you have indicated, the government has designed and endorsed a quite innovative and integrated system for business taxation. Just to quickly flow through that overall process, there is a process under way to issue Australian business numbers. There has been significant work done in cleansing our files through matching business records with the Australian Securities and Commission records and also deleting obsolete data. We have issued registration packs to businesses. This is where our records would indicate that those businesses do have some history of business dealing. On the last tax return lodged, they had income returned against the business income labels.

Now we are in the process of issuing the last of those registration packages. That is an opportunity for businesses to then check the data holdings we have, correct them as necessary, and send that registration form back. We will use that information to create the Australian business register which will be a separate database. We would suggest that, through that process, there is a high level of integrity to the system. In the future, as new businesses start up, we will then have processes to verify the integrity of those business entities.

As I mentioned earlier, replacement of the Australian company number by the Australian business number gives us an opportunity to link the registration and ongoing registration of a company with the tax system. That will assist with the integrity of the system. Having registered businesses, we will be issuing what we call a business activity statement to businesses on a monthly and quarterly basis, depending on their size. That business activity statement will be generated by the ATO and will have a unique document identifier number attached to it so business will not be able to swap forms. They will be tailored and personalised to specific businesses.

That form will cover the government's proposed pay-as-you-go instalment and pay-as-you-go withholding systems, the GST system, fringe benefits tax advice and some others such as luxury car tax and wine equalisation tax. There will be a range of information coming from businesses on that single form. It will be a benefit for businesses. They will be able to net off the amounts payable there and in a much more simplified regime.

Where businesses do not send the business activity statement back to us, we will have ongoing follow-up activity and an opportunity through that process to maintain the integrity of the business register. The business register will be a publicly available database, so anyone in the community will be able to access and confirm that the business actually exists. That will assist with some of the GST rules. Similarly, it is linked to the GST.

Any business that operates and wants to claim credits, or avoid withholding in the government's proposed pay-as-you-go arrangements, will need to quote their Australian Business Number on all their invoices, so introducing business trails on various transactions. Having captured that multitude of information on the business activity statement, as you correctly point out, does give the Commissioner of Taxation greater opportunity to make sure there is an internal integrity to the range of liabilities that a business may have. You will be able to link that to industry norms and other sorts of crosschecks.

CHAIR—Dr Webb, with all these problems that have been outlined in the Australian National Audit Office—and some of them are not recent—is there a resource shortage in this area?

Dr Webb—No, I do not think we would say so.

CHAIR—So you have adequate resources to deal with all this?

Dr Webb—Adequate resources is a difficult concept in the taxation business because there are always extra things we can do as we are always in this business of managing risks against resources. We certainly take the view that, with the amount of resources we have totally corporately, we are able to manage the key risks that we think are really important. Of course, we do shift resources quite regularly as well. In other words, it is not a static picture. It is a

combination of the total amount of resources and our capacity to shift it to where emerging risks are. As we get one risk more under control, we are able to be a bit more light in that area and increase in another area. That is something we use all the time. In a total sense, therefore, we feel we are okay in that respect.

In regard to the specific issue you are raising there as to whether there are enough resources applied to this particular issue, that is exactly what we are reviewing at the moment. We are trying to get a proper feel on what are the real risks associated, for example, around the excess TFN issue that you have raised. But we also have to understand what the costs are of making the changes there. I think it is fair to say that the exercise that I and Steve Chapman mentioned of cleaning up the business registration database was not a cheap one. It was quite an expensive one. Nevertheless, given the significance that was just being referred to in the context of the coming tax reform, we felt the investment was absolutely appropriate in that case.

We are finding it more difficult and problematic to get the real cost benefit out in the individual TFN area. We are engaged in trying to get the true cost benefit out. We are trying to do the obvious things. Death data is not an expensive thing to do. Following through on the duplicates was high risk, with the view that there could be some really high risk activity in there, even though we have not identified much yet. It was such that we had no qualms about putting a dedicated effort into that because it looked as though it could be an obvious source of risk.

When you go to the larger excess numbers, I think we feel intuitively that, if we could get a not too costly system operating and the necessary legislation in place for the movements data that we mentioned, it would be good business to use that, even though there will be some cost there. But we do have to do the sums on that. It could be that part of our resource shift needs to take into account reassessment of the risk in the identity area.

CHAIR—Mrs Hull talked about an area of problems in the horticultural industry and I think it is common knowledge to most people that, if an inspector heads for a certain town, there are bus loads of people going out the other side of the town.

Mr SOMLYAY—I find it very difficult to understand, knowing that the tax office is a very efficient organisation. When someone has a late return, they hear about it fairly quickly. I think every one of us has cases where businesses are trying to get penalty widening et cetera. The tax office can chase up those people very quickly. How the heck did we get to a situation where six million tax file numbers are inactive? Some portion of those are illegals; I accept that. Do you know or do you have any figures on what categories make up this six million and the 2½ million and whether or not that number is growing or falling? You said it was dynamic. If it is growing, that links up to David's question on resources. There are no two ways about it.

Dr Webb—I am not sure that six million is the right figure. I know, based on the rough figures that we talked about earlier, it would be close to that. I think it might be a bit less than that.

Mr SOMLYAY—It is still significant?

Dr Webb—It is still a significant number, no doubt about that. Yes, we do have some really rough estimates just based on statistical ideas in terms of the death rate in the country, in terms of some estimates of how many people would have left the country and who would have had tax file numbers for legitimate purposes. So we have some really rough estimates which clearly quite

readily account for the numbers. That is really not the issue in a sense. They are fairly readily accounted for in terms of the dynamics of those who have legitimately got a tax file number but no longer need one because of those reasons.

Mr SOMLYAY—Is that number coming up?

Dr Webb—I would say that, to date, it has been going up because, if you just take the movements data, that obviously is added to every year by the number of people who come in, get a tax file number and then leave. The tax file number is not a system that actually allows us to withdraw formally a TFN. Issues have been raised. For example, for visitors, should the TFN have an expiry date? At the moment, that does not actually happen under the law. But that would be one possible way of looking at stopping the growth of those numbers plus, if we can get access to the immigration movement data, that would give a fairly immediate and real time means of controlling, of not only bringing the numbers down—in other words, adjusting the ones that have accumulated over the years—but also of getting it into a steady state so that we are actually constantly turning TFNs into inactive TFNs as soon as someone leaves the country.

Mr SOMLYAY—So the inactive figures are made up of illegals and legals?

Dr Webb—They are mostly legal TFNs.

Mr SOMLYAY—You do not know how many illegals?

Dr Webb—No.

Mr SOMLYAY—Could you analyse these figures?

Ms Blenkinsop—We do not actually have a categorisation of illegals in the same way that immigration has because, for tax purposes, you can register for taxation purposes. If you have ostensibly opened a bank account and you have the data, we may not know that you are actually not allowed to be legally in the country. So that match is not one that we normally would check. Certainly, if there are working rights on a visa, we will allocate that person with a tax file number. If they do not have the working rights, we will not allocate them with a tax file number.

Mr SOMLYAY—If they go back, that becomes inactive?

Ms Blenkinsop—Yes.

Mr SOMLYAY—What if it is an illegal tax file number?

Ms Blenkinsop—They get a tax file number, but we may not realise that they are illegal. I think that is the issue.

Dr Webb—I think that is where you come back to the—

Mr SOMLYAY—If that becomes illegal, inactive, is there any way of identifying after the event that there are so many tax file numbers inactive that were previously currently held by illegals? There is no way of telling?

Dr Webb—We do not know how to identify the illegals, put it that way. That is where you come back to our submission. We put quite a bit of attention to a hierarchy of approaches for the initial allocation of a TFN as opposed to its possible misuse later. Going back to proof of identity issues, evidence coming before your committee is that other people, too, are saying that there is a fear of increased identity fraud, and we do not disagree with that at all. That is why we put quite a lot of attention into saying, 'What are the various options and what is the hierarchy of options?' Of course, some of them can get quite sensitive in terms of privacy considerations.

Nevertheless, in terms of those trade-offs, what is the hierarchy of options that would allow us to prevent the issue by having much tighter arrangements between agencies and between private and public sector organisations, as well as the use of proof of identity documentation and the possibilities of forging proof of identity documentation? We have all those things up front. We are quite convinced that there must be better ways of organising that end of things. It is up that end, in the illegals category that you were referring to, where you would hope to be identifying somewhere that somebody is actually not a bona fide Australian citizen or granted a visa with TFN rights, as it were, in the country. Obviously, if one had the right procedures there that were tight enough, it would be possible to pick those up before the TFN is issued.

Mr SOMLYAY—You cannot tell me, of the six million, give or take, TFNs how many inactive ones are held by people who have left the country?

Dr Webb—We have some rough figures which were, I think, about half of that number or maybe more than half that number. We are actually doing some estimates to get a handle on that.

Mr SOMLYAY—What makes up the other half?

Dr Webb—A significant number are where people have died, but we have not been notified and that is where we are trying to fix our understanding of that via the fact of death data that we are currently working through.

Mr SOMLYAY—Roughly how many would that be out of the three million?

Ms Blenkinsop—At least another million.

Mr SOMLYAY—And then you have got two million left. What would they be?

Ms Blenkinsop—Of those, 800,000 are the ones I mentioned earlier—sorry, you may not have been here—in terms of people who have registered but not yet lodged. It would be people who are waiting on a HECS debt. The others would be people who have had a previous obligation to have a tax file number but, for current reasons, they do not have a current lodgment obligation but they may have a child support or other agency obligations. So, in effect, those records are sitting on the file but there may be a future tax obligation as well.

Dr Webb—I mentioned that, in order to arrive at that figure, we used as a base the ones who are very clearly active with us at the moment: they are actually lodging; they are actually carrying out other transactions. In that five million or so, there could be a very large number who are quite legitimately not current. As you can imagine, there are large numbers of people who may just drop out of the work force for several years. So there is nothing wrong with them having their TFN there. We certainly do not want to make them inactive because they could become active at any moment. They are still in a sense part of the system. It is just that they are

not currently part of the system. Quite a large component of that number, therefore, is in that category where they are temporarily inactive, but we do not want to strike them as inactive forever in the way that we would the other categories.

Mr SOMLYAY—Is the tax file number then serving its purpose or are there better systems elsewhere in the world? Should we scrap it?

Dr Webb—I certainly do not think we should scrap it. I think the evidence—

Mr SOMLYAY—A new policy?

Dr Webb—There is evidence in the Audit Office report and from our own evaluations—in the more or less 10 years since it has been there—that there have been enormous benefits to the Australian community both in the taxation system and, as the chairman pointed out in the beginning, in other systems as well.

The first point to make, and I think the Audit Office probably acknowledges this, is that, notwithstanding the comments and some of the criticisms they make—and we take them quite seriously—it needs to be put in the context that it has achieved a tremendous amount in the last 10 years. So in a sense, there has been a transformation of the value and the ability to do information matching and get other validity into the system. Obviously, your question about whether we can move to the next step is of interest to us as well. I think one of the interesting things that we noted in the Audit Office report was that they looked at what was going on in other countries.

As far we can tell, it seemed to be the conclusion of the Audit Office study in other countries that, in this trade-off between privacy and, if you like, efficiency of the compliance systems and also service considerations—because service considerations are another reason why one might want to have a more rigorous system, for example, so that people can update their change of address once only to the government; and there are those sorts of things and other factors, which is very difficult to do at the moment under our current identity process—the system is such that other countries seem to have been more prepared to put the emphasis on the compliance and service aspects rather than on the privacy considerations. They seemed to be the conclusions.

Those are community and government choices, effectively, as to whether to trade off those issues, but that seems to be what we were reading into the Audit Office evaluation of what they found out overseas in that respect. There are, obviously, therefore, options to do things. In our submission, where we come back to what we call the hierarchy of options for improving things, we try to pick that up in some of the options. But, as you go to the more extensive change options, things like a client service number at the far extreme, which is very similar to what is used in many other countries, then obviously you get into more complex considerations of costs and benefits to the community.

CHAIR—Just on those points raised by Mr Somlyay, when someone dies, how quickly is that recorded against their tax file number?

Ms Blenkinsop—I think it depends on whether we are advised or not.

CHAIR—If you are not advised, they could be still what?

Ms Blenkinsop—They could still be—

Mr SOMLYAY—Who advises you?

Ms Blenkinsop—Usually the estate, the trustee of the estate or a relative.

Mr SOMLYAY—A tax agent.

Ms Blenkinsop—Or a tax agent.

Mr ALBANESE—Why would a relative have it as a priority doing that?

Ms Blenkinsop—Some are more conscientious than others.

Dr SOUTHCOTT—The estate has to complete a final tax form if they are taxable.

Ms Blenkinsop—A date of death return.

CHAIR—For example, a pensioner probably wouldn't.

Ms Blenkinsop—If they are not lodging, no, you are right, so that is why we would obviously want to run the data against the fact of death data we have just currently purchased.

Mr SOMLYAY—Are you concerned that this figure is likely to grow?

Dr Webb—You are talking here about the number of excess or the ones that we cannot evidence whether they are active or inactive. I think if we were doing nothing, then it would tend to grow automatically. That is why we are actually moving to make sure that we not only stop it growing but actually get a better handle on ones that have accumulated. Normally we have to rely on being notified—the very point that was just raised—in regard to people who have died, for example. We are reliant very much on getting this third party information as the main strategy to get a better handle on how many of those five million are just still active, just not currently active maybe, but we want to hold them in there. The single biggest one, because we have already moved on the fact of death, is again immigration. That is the single biggest component, we believe.

Mrs HULL—Dr Webb, can I just ask a very basic question, and it is really not meant to be frivolous at all, but in an ideal world, what would you need to overcome this problem? David has asked you a number of times about resources. Do you have a lack of resources? In an ideal world, what would you believe would be needed in order to overcome these problems to start to actually get on top of this issue? It is really not meant to be frivolous; it really is meant to be a serious question.

Dr Webb—It is too true that if one threw enough resources at it you could probably fix most of the issues, although there is always, particularly on the identity side of things, people who are determined to make fraudulent activity. Even throwing resources at that can be quite difficult, and that is why we are trying to put in place as smart as possible arrangements to pre-empt that sort of thing by working with other agencies and other organisations. There is probably a certain amount there that you would never get rid of as an issue entirely, but we certainly believe that there are maybe ways of doing better.

When it comes to systems changes, at one level it is possible to say, 'Well, if you put more resources at it, then you have a greater chance of fixing it,' for example, in cleaning up the database. That is a cost factor. I suppose we would always have to do some prioritising on our systems work.

Even if you have an enormous amount of resources available, in terms of making changes to fairly complex systems that are involved and especially because, as I mentioned earlier, these systems are quite heavily integrated as well, there are actually some limits as to how much you can do in changing the systems. In terms, for example, of the current agenda we have and making the necessary redevelopments in our systems to handle tax reform, in a sense, even if we wanted to say, 'Here is another bucket of money to actually fix these additional issues,' it may still have to wait in line to some extent in terms of priorities because of the fact that it is not possible to make too many changes at once in the systems. You have to actually do it in a way that is properly controlled and ensures the quality of the outcome, and that means you cannot necessarily be changing everything at once.

There is no doubt that extra resources can always help in these issues but they are not necessarily the only consideration. Sometimes it is just the priorities of other things, particularly when you are talking about changes to complex and integrated systems.

CHAIR—Could we come to one of the submissions from your office about the fraudulent use of tax file numbers previously allocated to temporary residents and international students that are then used to set up shelf companies for laundering money. What response have you got to that? What are you doing to look at that? To me, that sounds a serious point to be raised. Do you have a handle on it?

Ms Blenkinsop—My understanding of it is that there was a situation in New South Wales that the small business people came upon where people who had left the country had sold their tax file numbers to an agency or a business. I do not know the full details of it. I know it was an SB. It was RPS.

Mr Chapman—Yes. If there is fraudulent intent people are always going to search for ways in which they can avoid the system. I have to say that I am not conversant with the particular example given. If someone is inappropriately using someone else's tax file number to facilitate other transactions, I think it would be very difficult to have any system that would eliminate that. I could only point to the other sorts of checks that exist in the system which might catch those people out—for instance, the regular lodgment or reporting through the income tax return system.

If there are bank accounts involved then there is reporting of interest earned to the Commissioner of Taxation and the AUSTRAC monitoring systems if there are amounts over \$10,000 being sent out of the country. There are other sorts of broader compliance activities where links are sometimes established. If someone is undertaking some profit making activity there is a reasonable chance that they will get caught out at some point. Without details on this specific issue—

CHAIR—This is on the public record. Would you like to respond to us after having a look at it because I think it is serious.

Mr Chapman—Yes.

CHAIR—Related to that is the question of changing residency status by people who should have been non-resident because you can get a better rate of tax.

Dr Webb—On the first issue there, if it is the one that I am thinking of—and we will check that and get back to you with a bit more of a detailed response—I think that again hinges on this issue of the illegal use of TFNs for people who have actually left the country, in other words, their TFN is bought by someone else or used by someone else. In an absolute sense, it does come back to that access to movement information where we could automatically make that TFN invalid and then, if it is flagged as such, as soon as they try to use it in the way that Steve was just mentioning, they would obviously run up against an invalid TFN which would automatically trigger a response from us. In a fundamental sense of getting back to how could we prevent that situation, I think one answer would come back to that.

We will get back to you on the residency one as well. I know that that was raised in a submission. We look at the residency issue as an ongoing risk assessment process. So far we have not assessed it to be a major risk, but I think we are actually reviewing it at the moment, aren't we?

Mr Goddard—Yes, residency is included. I could go into some detail but, as part of a compliance management strategy that we set up in 1997, we now analyse each of the tax return labels in terms of trends and impacts on compliance. Residency income is certainly seen, in comparative terms, as a low risk area.

CHAIR—This submission has been made in the last couple of months so there must be something that is still seen to be a problem.

Mr Goddard—I certainly accept that, in terms of the advice that is available over the inquiry counter—and that seemed to be the issue that was raised in the submission. That requires further discussion, probably with our inquiry areas.

Dr Webb—We will get back to you on that one.

CHAIR—There is another issue in your opening statement which refers to the question of databases. It would appear that the interest royalties and withholding branch does have a system that has been described somewhere as fundamentally defective. You admit in your submission that there are some problems. What time frame have you set to completely solve that problem?

Dr Webb—I will give a primary response and perhaps ask colleagues here to comment as well. In the response to the Audit Office report, and certainly in looking at it in more recent times since then, there are really two issues. One is how big the compliance or service risk associated with that is. Our feeling is that, compared with other things happening, it has not been enormous; it seems to have been fairly modest. Whilst acknowledging the inadequacies of the system, again, the question is whether it is causing a lot of compliance risk or revenue risk, and our feeling has been that it has not been extensive.

The second thing, and this is where I defer also to further comment, is the fact that with the pay-as-you-go system coming in as a result of tax reform, in any event the associated legislation systems are changing significantly in the relevant area. Therefore, we did not view it as a sensible

thing to use money to fix up a system which in any event was going to undergo significant change just from a legislative and policy administration viewpoint. I will ask Steve or one of my colleagues to comment more accurately.

Mr Chapman—Just a brief comment. The interest royalty withholding system has been in place for a number of years. Broadly, it has served us well but it has been listed for redevelopment and improvement for the last couple of years. There have been regular assessments that reviewed competing priorities which meant that the available resources or time have not been available to upgrade that system. However, the government's reform agenda has given us the opportunity to look more broadly at withholding-type systems as such. With the government's proposed pay-as-you-go measures coming in and the need to build systems to support that, it will provide us with the foundation or framework to integrate the interest royalty withholding system onto that platform.

CHAIR—That sounds fine. Is it true to say that banks and other financial institutions are giving you copious amounts of data on interest payments and so on that they are making but mostly you are not able to process that or match it?

Mr Chapman—There are two issues there. This is in situations where banks may provide us with their interest listings each year, which they are required to do under the law. If the customer has quoted their tax file number we can readily match that. In situations where the taxpayer has not provided the bank with a tax file number, the bank is required to withhold tax at the top marginal rate. That is a compliance measure and it is built into the design of the system where it is not compulsory to quote your file number. With the banks, in providing information listings where there is no tax file number quoted, then yes, there is an issue for us in matching that against tax records, but I do make the point that there would have been tax deducted at the top marginal rate.

CHAIR—Supposing someone had quoted one of these five or six million tax file numbers, or the half that are still there but we are not too sure what their status is, would you pick it up?

Mr Chapman—There are matching programs run.

CHAIR—This comes back to the fundamental point that you have all these tax file numbers out there. If someone went and opened a bank account here and used a tax file number that is not their correct one, opened another bank account and used another one that is clearly not the correct one, what are the odds of their being caught?

Mr Chapman—I will defer to my colleagues here. Where there are relatively small amounts of interest being earned on these accounts they may not feature highly on our matching—

CHAIR—What do you define as relatively small?

Mr Chapman—I will need to take advice on that.

Ms Blenkinsop—It depends on what the level of matching—

Mr Goddard—I can probably make some comment in that area and give you some examples. As part of our income matching system, for the balance of the year there will be 80,000 letters that we will issue where we have picked up discrepancies. In terms of potential

revenue gain, the position we normally take is around \$100. Anything that is a potential revenue gain of less than \$100 in terms of priority is unlikely to warrant a letter going out. Anything that is above a potential revenue gain of \$100—and clearly it escalates from there—results in a letter going out to the person where the match has taken place, and as a result of that we seek a response or it generates an automatic amendment of the assessment that is issued.

Dr Webb—When the financial institutions send it in, whether it has a TFN or whether it does not have a TFN quoted—because, as you know, it is voluntary—we still go through a matching process. First of all, if a TFN is quoted then obviously we directly match that with our own TFN in terms of the identity data and the historical records.

CHAIR—Didn't the Audit Office point out that you were not always able to make that matching?

Dr Webb—It is true, but it is a relatively small percentage. Nevertheless, we always like to improve that. That comes to this judgment. The issue is raised as to whether there should be compulsory quotation of TFNs. We have some fairly sophisticated what we call soft matching software that actually uses other than TFN in terms of the identity characteristics of the people to match and actually attach a TFN. So even if a TFN is not quoted at the choice of the taxpayer, when the information is sent in by the financial institution we actually attach a TFN. I have just forgotten what percentage we are not able to match in that sense.

CHAIR—Are you saying the Audit Office really was overstating the case, or not? I thought they see it as a major deficiency.

Dr Webb—We work jointly on establishing what the facts as to the matching rates were and were not in that respect. The question is one of judgment again as to whether the amount is excessive. So far the Australian community has put a heavy emphasis on having the quotation of TFNs as voluntary, as a choice. That was the whole core of the privacy legislation that came in in the late 1980s associated with the TFN number. That is in some of the submissions you have from the privacy commission and from the—

CHAIR—I come back to this audit report. It also talks about the difficulty in aggregating interest payments.

Dr Webb—Yes.

CHAIR—We have legislative changes which apparently you have difficulty complying with because you cannot aggregate these interest payments.

Dr Webb—I am not sure what that refers to, actually.

Ms Blenkinsop—I think there are a couple of things. There is one issue around the rate of quotation. There is a table in the back of the Audit Office report which talks about—

CHAIR—If I had five bank accounts, each one earning, for argument's sake, \$90 interest which I did not declare, what would happen? Nothing?

Ms Blenkinsop—The banks would report that as part of their normal reporting.

CHAIR—Yes, but you said that you would not follow it up.

Dr Webb—Do you mean with different TFNs in each case or with the same TFN?

CHAIR—It does not matter. According to the way I read the audit report, it would still not be aggregated.

Dr Webb—Do you mean in our information? We will need to check on that.

Mr Goddard—You are certainly right. If you went to five bank accounts with five different file numbers that you obtained from different sources and you opened up those bank accounts under, I assume, five different names, at the end of the day what would come into the tax office is five different positions in terms of interest.

CHAIR—Supposing I opened them with five different banks?

Dr Webb—With the same TFN—is that what you are referring to?

CHAIR—Yes.

Mr SOMLYAY—It is not compulsory for the banks to put the TFN on an account. So if there is no tax file number, what are the chances of detecting it?

Mr Goddard—If there is no tax file number, the matching system goes through a number of routines that also do name and address matching and matching against date of birth. As we pointed out before, at the moment the matching rate that we have is 95 per cent. That is against a volume of 100 million transactions at the moment that are coming into our data capture area.

Mr SOMLYAY—What is the cost to the revenue of that five per cent?

Mr Goddard—A lot would depend on whether we are talking about interest or about other AUSTRAC data that might be coming in. We would have those figures as far as an assessed compliance gap goes, depending on whether it is interest, dividend or some other payment.

Mr SOMLYAY—It may be time to revisit the privacy legislation.

Dr Webb—Could I comment on that previous question about the cost to revenue. One of the factors is that, if someone does not declare their TFN, which is where we can have a small percentage where we cannot match, then of course the revenue tax is withheld at the highest marginal rate. It is unlikely that there is a significant revenue impact from people not declaring their TFN—which was, in a sense, the nature and purpose of the TFN withholding legislation. The quid pro quo for giving choice and making it voluntary is, of course, that then the withholding takes place to alleviate the revenue risk.

Mrs HULL—Carrying on from that, is there any likelihood that you are going to be a little bit tougher on the banks? It says here that the limitations of current Annual Investment Income Reports include:

.the large volume of AIIR transactions that cannot be matched with an ATO client registration (12.7 % of AIIR transactions (ie 3,730,000 transactions worth over \$14 million) were unmatched in 1997); and

.cases of investment bodies not reporting for several years.

Are you moving to act on financial institutions in order to get them to comply more readily in order that we can have more success with this?

Dr Webb—I am pretty sure we certainly have and follow up with them the standards of data quality and completeness. We prescribed the form in which the data is provided to us, and therefore we follow up if that is not the case. I am not aware of whether we have a major problem. Tony, do you have anything to add?

Mr Goddard—Yes, I will make a couple of comments. A lot of it does not simply come back to the non-return of the AIIR data. A lot of it also comes down to the quality of the data that might be held on the banking system or other system. We actually have data integrity officers in place who work with the banks and provide feedback trying to improve the quality of a lot of the data that is held on the system.

We also have an enforcement program in place that follows up on the large institutions in terms of the receipt of the annual investment return information that comes in. Part of the problem is getting into an area where, increasingly, there are small players who are taking on the role of investors. A lot of what we have seen is that it is becoming a bit of a growth area. As for us being able to work with an increasing number of institutions or small players that are starting to take on a role, it is an area where—while we are not spread thin—we need to be thinking a bit smarter than just in terms of one-on-one relationships with a bank.

Mrs HULL—That was my question. Banks have been, in history, non-complying in a lot of terms with respect to their reporting. Are you moving to enhance this reporting ability or are you moving to get tough on banks, not just the smaller players—the credit unions and the smaller financial institutions—but primarily banks who have been historically late and slow in financial reporting?

Mr Goddard—I would need to check on that because I am not sure if that necessarily is the case. I did speak to the director of the data capture area this morning around that particular issue and he did not flag the banks, or the large players, as necessarily being a problem area. I would need to take a bit more advice on that.

Dr Webb—You were drawing something from our submission on that. Is that right?

Mrs HULL—Yes.

Dr Webb—Maybe it is a matter of us making sure that we interpret the submission properly. Do you have a page number?

Mrs HULL—No, I am sorry, I do not have a page number on that.

Dr Webb—We would be happy if we could identify it. I noted when you were commenting on that that it was something you had noticed in the submission that had raised a concern.

Mrs HULL—Yes, it is.

Dr Webb—If you can identify what it is, we will get back to you to clarify it. We do not want to confuse the issue.

CHAIR—We have had a fairly good innings. Are there any other matters that the committee wants to raise at this stage? If not, I thank you very much for coming before the committee today. We will certainly appreciate your follow-ups. As I said to you earlier, there may be other matters that we would like to raise with you as the inquiry continues. Thank you for your offer to appear before the committee again if we so need it.

Dr Webb—We would be happy to do anything. Thank you for the opportunity to discuss it with you.

CHAIR—Thank you.

Proceedings suspended from 10.51 a.m. to 11.01 a.m.

[11.01 a.m.]

CHAIR—Welcome. I remind you that the evidence that you give at this public hearing is considered to be part of the proceedings of the parliament. I therefore remind you that any attempt to mislead the committee is a very serious matter and could amount to a contempt of the parliament. I understand you would like to make a short opening statement before members proceed to questions.

Dr Smith—Yes. I will briefly say what I do at the institute. I work in a group which is concerned with sophisticated crime. We do research of a policy nature on economic crime, white-collar crime and fraud. We have done some research recently on telecommunications and computer based offending. I have written a number of papers which, as I mentioned in the submission, have a linking theme of offenders making use of fabricated documents to misrepresent their identity in some way in order to ensure that they cannot be apprehended once they have committed an offence. The work I have done is on the web site of the AIC which is in the submission. There is one paper in particular which has relevance to this inquiry, which is paper No. 129. Do you have copies of those papers? I am not sure whether they have been submitted or not.

CHAIR—Yes.

Dr Smith—It is called *Identity-related economic crime: risks and countermeasures*. A lot of the work we have done recently has looked at some of the risks for the future arising out of electronic commerce and, particularly, government systems of delivery of services electronically. Should I mention some matters about documenting the extent of the problem in Australia?

CHAIR—Yes, please.

Dr Smith—It might be helpful. Generally, the official statistics which are kept by the police do not have enough detail to identify the way in which offences are committed, so there simply is not information kept on the use of fabricated documents, for example, which appears in police statistics. We then have to look at self-reported business victimisation surveys, in which victims tell of their experiences of white-collar offending. A number of surveys have been carried out in recent years by some of the large accounting firms. Ernst and Young, and KPMG, do regular surveys of their clients. They have identified that the use of fabricated documents and so-called false identities is an ongoing problem and concern for large businesses throughout Australia. Their figures are in the paper that I mentioned before.

There are figures from the United States and also the European Union which have documented, more than in Australia, the extent to which false identities are used to commit offences. The General Accounting Office have estimated identity fraud somewhere in the region of \$442 million in 1995 to \$745 million in 1997. With respect to the European Union, I have been doing some research recently on VAT related fraud. One estimate from the European Commission has one billion European currency units being lost a year through VAT related fraud involving a range of strategies. One in particular is the use of fabricated identity documents that enable people to make false claims for input tax and also to simply not remit the value added tax

that they receive, and then disappear without a trace. That is a potential threat for Australia in the years to come.

Probably the simplest way in which these sorts of crimes take place is for offenders to target the simplest document when they are establishing their identity and fabricate that in some way, then use that to obtain a more secure document. You might start with an electricity account, for example—which I think is worth 25 points under the 100 points system of the transaction reports analysis legislation—then use that to work up the chain, to obtain a drivers licence, a birth certificate, a passport and a tax file number. As you are aware, each of those documents relies to some extent on other documents of identity.

One potential solution is to try to solve some of those very simple problems, like people relying on a fabricated electricity account, and that would prevent some of the more wide-ranging events down the track. Most of those documents, I understand, are reproduced illegally through desktop publishing equipment. It is very easy to scan any document into a computer, alter the details and print out, with a colour printer, a very convincing copy. Police services around the country have collections of fabricated documents which are virtually indistinguishable from the real ones.

The most secure devices which are incorporated into documents, including holograms or tamper resistant signature panels and watermarks, can all be reproduced. There are experts out there amongst the criminal fraternity who know how to do that. People specialise in fabricating particular elements within documents—there might be one specialist on fabricating holograms, for example. So attempts at securing basic documents are difficult, but they certainly could be more secure than some of the documents that are out there at the moment.

Another simple check which should be undertaken is for some verification of documents which are submitted to prove a person's identity to be done with the issuing source. If someone relies on an electricity account, a telephone call could be made to the electricity company and a simple check made to try to establish whether that is a true document. There are ways of manipulating that check. People have made use of telephone forwarding arrangements, false businesses have been set up, entirely fictitious enterprises, to establish a false identity. Some people use fabricated referees to obtain business registration, and various ways of disguising the background elements to their identity. But some of those more simple checks are probably worth investigating. I might stop there.

CHAIR—Thank you. You mentioned some figures for the US and Europe. How significant is identity related fraud as an issue for the Australian government and the community, and what scale of costs is involved with this?

Dr Smith—The figures do not exist; the statistics are not collected in that way. So the simple answer is that we do not know precisely.

CHAIR—How significant do you think it is?

Dr Smith—I think it is exceptionally significant. Major fraud groups around the country have indicated that almost all serious fraud in Australia involves the use of false identity documents in some form or another. That confirms the studies from the general accounting offices in the states. They estimated that 95 per cent or more of economic crime in the states makes use of false identity documents. So I think it is a very serious concern for Australia,

particularly if Australia pursues the economic commerce trend which is developing, because that could open up even more opportunities for people to make use of false documents and identities.

CHAIR—I guess people in a public committee like this always feel a bit hesitant. I think in the public interests we do want to hear a bit more. You say it is serious. Can you elaborate a bit further? They are obviously your estimates, and that is fair enough.

Dr Smith—Yes. I do not have monetary figures that you can put on it, other than if—

CHAIR—Order of magnitude?

Dr Smith—No, not really.

Mr SOMLYAY—What about convictions?

Dr Smith—The official statistics from the police, courts and corrections do not all descend to that level of detail to know how offences are committed. All that we can rely on really are cases which come to court, as that gives you some indication of what is happening.

I can recount one case which is a good example of what happened. This was a case in Victoria. It was heard in the Court of Appeal on 1 December 1998. It involved an offender who created 43 separate identities using desktop publishing equipment—41 false birth certificates and 41 false student ID cards. Some of those had photographs. He was eventually able to obtain a photo driver's licence. He then used those to open 42 separate bank accounts. One of the methods of gaining money was to pay business cheques into those 42 separate accounts and withdraw them before they had time to clear. He also obtained sales tax refunds amounting to \$458,000-odd from various retailers. He was apprehended largely because he continued to perpetrate fraud and became obvious.

Overseas there is some evidence that people often commit one or two low value frauds and then move on and create a new identity so that they do not leave a pattern of transactions. That seems to be the effective way of dealing with it. This offender in Victoria was sentenced to five years in prison and ordered to pay compensation and refund the sales tax to the government. If you look through reports of criminal appeals in recent times, there are a number of similar sorts of cases where people make use of false documents to establish an identity.

Mrs HULL—Dr Smith, we had the ATO here this morning giving evidence, and you were able to listen to that. Do you consider that the ATO has been effective and proactive in its activities to prevent tax file number fraud? In your opinion, what would be new and emerging trends that would prohibit the ATO from being able to be proactive or preventative? Also, what are the biggest fraud risks for an organisation such as the ATO?

Dr Smith—As was said in the previous evidence, the ATO has saved the government a very large sum of money by having its data matching program and the ability to match records electronically, which is the principal way in which that sort of fraud can be solved. It is certainly being used in Europe and the United States and Canada—which have a similar tax system to the one which will be starting in Australia next year. So I think the use of data matching is effective.

What perhaps I see as the major area of concern is the initial issuing of tax file numbers and, in fact, Australian business numbers from now on. To obtain an Australian business number, the

organisation or entity will rely on a company number or a business registration number. In fact, they can be obtained relatively easily. Sometimes the checks are not as sophisticated as they are for obtaining a passport, for example. If a tax file number or an Australian business number is issued without proper authentication of the person's identity at that early stage, then that opens the possibility for fraud down the track. So I would suggest that much greater resources be put into the initial analysis of the entity that is getting a registration number in the first place.

In terms of risks for the future, as I mentioned, the move into electronic commerce will create some benefits and also some problems. Now people are able to obtain a business number electronically. That means that they are going to be sending in either their company number or electronic documents as evidence of their identity. They might rely on another government department's registration number, for example, or potentially submit electronic birth certificates or electricity accounts. If documents are sent electronically, unless they are protected by a digital signature or some cryptographic system of protecting the document, they can be altered very easily and checks cannot be made about their background. Electronic commerce, I think, is an area of concern with identity fraud, and I have mentioned that in some of the papers that I have written.

The new tax system potentially will have problems with people fabricating identities and making improper claims for input tax and also not remitting the GST they are collecting. That has been a massive problem in other countries—Canada, New Zealand and the European Union—which have similar systems.

Dr SOUTHCOTT—One of the features of the new tax system is that the tax office will now have access to all the indirect taxes, the pay-as-you-earn and the quarterly return in terms of income of the company. That is something that the European Union does not have with the VAT, and I am not sure if Canada or New Zealand have it either. There was an article in the *Financial Review* the weekend before last featuring this aspect, which will allow the tax office to look very carefully at compliance in terms of people who are not remitting as much GST as they should be. Also, they can obviously follow a production chain and see if there has been a dropout somewhere, and they can look within industries and see if people are not remitting the sort of proportion of tax that they would expect. There still would be opportunities for fraud in that, but it would have to be either very sophisticated fraud or really a fly-by-night operation that is not really operating in business week by week.

Dr Smith—Yes. The main risk I can see is that, if entities are given the opportunity to defer payment of tax, they might, if they have established a false identity, shoot through—to use the colloquial expression.

Mr SOMLYAY—In Canada and Europe, which have a value added tax, how do you judge the level of fraud? Do you judge the level of fraud on the number of prosecutions? If prosecutions are high, how do you know it is not an efficient system of detection that is catching these people? Do we assume that for every one that we catch there are a dozen who get away? The argument in France is that their law enforcement is so good that you cannot get away with it. They will be prosecuted. I do not know which one we should believe.

Dr Smith—From my reading of it, a very large number of crimes do not get reported. It is not even known about. A lot of that is through using false identities.

CHAIR—When you say very large, could you quantify that?

Dr Smith—I mentioned \$1 billion European currency units a year in VAT fraud in the European Union. A lot of that is due to the systems in place moving goods around the European Union. That will not be the same in Australia, but I still think there is a large possibility of risk there.

Mrs HULL—With the advent of e-commerce, and the more powerful aspects of being able to purchase worldwide through e-commerce and portals, do you see a future problem with schemes being set up to evade any sort of GST by using an offshore e-commerce site? Where is the tax generated from? Do you see that as a potential problem for us?

Dr Smith—Importers will have to pay GST when goods come into the country. Australian residents will have a business number so tax can be collected if any goods are recognisable and customs are able to identify them. The risk—and this has certainly happened in New Zealand—is for large quantities of goods to come into the country packaged in small units which are beneath the level of Custom's attention. That could be a problem for Australia.

Mrs HULL—What about if I set up a portal in another site in Vanuatu or somewhere or other, and the order goes through there, but it gets delivered from a site within Australia? It might be my next-door neighbour. The transfer of the goods comes from the site next door. Where does a GST come in and where is it actually paid from? Do you see as a possibility having several sites set out, so that you do not actually import goods into the country and they can be transferred from the place next door?

Dr Smith—Yes. Goods will have to come into the country at some point and Customs will have to have checks in place to know that. There are risks, particularly with mail order. Most Internet transactions would be mail order. If they are relatively small value imports, they could get overlooked. The other large area of risk is importing digital products and buying software on line, which I understand will not be subject to GST. It could be a problem in the future when people will be able to buy very expensive items.

Dr SOUTHCOTT—I would like to ask a question following up from Mr Somlyay's question. What we are really interested in is what evidence there is for tax file number fraud. We know that there are millions of tax file numbers that are not being used and are inactive. We have that court case in Victoria. Are there any more statistics than that? Do the Australian Federal Police have a log of white-collar crime? Are there any sections within the state jurisdictions that do follow this white-collar crime, and specifically tax file number fraud?

Dr Smith—Generally, no. As I mentioned, those surveys by Ernst and Young and KPMG give some indication, although they are fairly general in their figures. The Australian Institute of Criminology is going to embark on a study over the next six months in which we are doing a stocktake of serious fraud investigations around the country, looking at each state and territory. One issue is to see whether identity fraud is a part and to what extent it has occurred in cases which have been dealt with over the last two years. That will provide some information.

The other initiative is the establishment of a fraud database by the Australian Bureau of Criminal Investigation which is going to enable information to do with fraud and economic crime to be shared between police services around the country. I understand that is due to start in one form in January next year. That will really be the first sharing of this information that has taken place in Australia.

CHAIR—You seem to have pinpointed that probably the main problem with tax file numbers is in the initial issue of the tax file number. Various suggestions have been made. Which would be the most effective way of strengthening that issue?

Dr Smith—Ideally, to have a biometric system of identifying people.

CHAIR—Do you mean a thumbprint or something?

Dr Smith—Yes. That may sound like science fiction but it has been used overseas in a variety of contexts already. ATMs in the States operate with iris scanning. That is a simple and effective way of identifying individuals.

CHAIR—That is effective?

Dr Smith—Yes. The cost of that is also reducing dramatically in recent times. There are various social and political issues to do with setting up a system on a national basis like that because every person who now has a tax file number would have to submit a sample of their biometric information. That might be as simple as standing in front of a camera. An education campaign would be needed to explain to people that it is not invasive or dangerous and that there are adequate protections in place.

CHAIR—The committee would not accept that path unless they were convinced that there was a benefit there. This is the problem we seem to keep coming back to. What is the benefit? We cannot measure it.

Mrs HULL—You cannot measure it, but common sense must tell you that, if you have a better personal identification factor in any business, you must reap benefits from it.

Dr Smith—There would not be the problem of the duplication of tax file numbers at the moment.

Mrs HULL—That is right.

Dr Smith—Each individual would have their one identity which is directly related to them and which could not be avoided.

CHAIR—I am surprised that you do not have some sort of handle on this and how big the problem is.

Dr Smith—The research has not been done. There is not a great deal of emphasis in economic crime research of this nature.

CHAIR—So your recommendation to the committee is that it should be pursued as a priority?

Dr Smith—Certainly, yes. I might add that it is an exceptionally difficult task because you have to get data from police services generally, in the first instance, from all of the different jurisdictions. There are different ways of recording crime in each jurisdiction. Victoria, for example, has 104 different offences relating to fraud. They are different in other states, so it is an

exceptionally complicated process to get consistent and reliable information. It is very resource intensive because the data that is collected at the moment would need to be much more fully recorded to know, for example, that a false passport was used in a particular offence. A study like the one we are proposing for next year is a good pilot study to give some idea of what is happening with serious offences.

Mr SOMLYAY—We are talking about legitimate business transactions carried out by illegitimate operators. What about criminal activities like drugs and money flowing out of the country which the transactions authority does monitor? What impact would this have on it? Is the tax file number used to detect criminal activity as distinct from people avoiding tax on legitimate transactions?

Dr Smith—I think it would be necessary to speak with AUSTRAC to find out the extent to which they data match with the tax office and other agencies. All that I know about are anecdotal cases where offenders have made use of false identities. I cannot answer that specifically.

CHAIR—You said that in the United States they use iris scanning. What other countries are developing that type of identification system?

Dr Smith—It has been used in Canada. They have used a number of fingerprint systems—and in Australia as well. Canberra Hospital has access to some of its medical records by fingerprint scanning. In the United States, fingerprint scanners were used to check the identities of people making social security claims. That was said to have saved \$9 million in fraudulent claims.

CHAIR—\$9 million in the United States?

Dr Smith—Yes. That was only one state, Connecticut. In California there is a company which is also starting to have fingerprint scanning used on keyboards and mobile phone key pads. That is also very useful in linking up with electronic commerce technologies. So I think we can say that the technology is now available. The question remains as to whether the public is willing to accept it.

CHAIR—The public would only accept it if they believed that there was a benefit.

Dr Smith—There is a benefit in saving revenue on fraud.

CHAIR—Yes, but we do not know how much.

Dr Smith—No.

Mrs HULL—Isn't there a benefit in having personal identification? We now have more fraud happening between bank accounts where people are raising Visa payments and costs against people's credit cards. Wouldn't that be a great incentive to be able to use identification like that to prevent that fraud from taking place? It has got to the point where there is hardly anybody who has not had a fraud on their credit card. The amount of fraud that is actually taking place on credit cards is quite incredible.

Dr Smith—Through Internet transactions as well.

Mrs HULL—Yes, through Internet transactions.

CHAIR—I was told last week that if someone pinched your Visa card it would be operating in the streets of, say, San Francisco within 20 minutes.

Mrs HULL—Yes, within 20 minutes.

Dr Smith—It is possible to download legitimate card numbers from the Internet. There are a number of sites that have correct numbers that you can then put onto white plastic cards and create a completely counterfeit card.

CHAIR—We are getting off tax file numbers.

Mrs HULL—But could you not use a personal identification such as iris scanning or fingerprinting? Would that not transfer across to those areas which would be preventative?

Dr Smith—Yes. The other great benefit with electronic commerce is when cryptographic keys are issued to people, which is the first step in carrying out a secure electronic transaction. Again, you need to establish the identity of the person that you are giving those electronic keys to. You could use a biometric system to identify people initially for that. The concern of members of the public about the use of biometric systems is something which should not be overlooked. One simple example was a check print security initiative that was established in Western Australia some years ago which required that people provide a thumbprint on the back of a cheque for use in retail contexts. That did not get off the ground simply because of fear on the part of members of the public in using it. They aligned that system with police fingerprinting and were reluctant to use it, but it could have solved a large number of cheque frauds.

Mr SOMLYAY—We might have to go back to cash!

Mrs HULL—That would be handy, wouldn't it?

CHAIR—Do you have any concerns about setting up databases like Acxiom?

Dr Smith—I am not familiar with it.

CHAIR—This is the one that the Packer organisation want to set up for the whole of Australia.

Dr Smith—Yes, I missed the acronym. I think it is a serious concern. The concern arises from inappropriate use of information which is collected by a government agency like the tax office. The privacy legislation that we have in Australia should be able to protect information. But private enterprises who have got a commercial motivation for their activities might be less willing to have the checks and balances that are necessary to protect information. The sharing of information for marketing purposes is a serious concern for the future, I think.

CHAIR—Thank you very much for coming before the committee today.

Resolved (on motion by **Mrs Hull**, seconded by **Mr Somlyay**):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 11.36 a.m.