

Data matching

- 3.1 'Information matching is the comparison of any one information set with other information sets for the purpose of producing or verifying information'¹.
- 3.2 The primary reasons for the ATO to conduct data matching are:
- to improve the quality of data held on their database;
 - to uncover and reduce fraud; and
 - to encourage better compliance.
- 3.3 As part of the performance audit, the ANAO reviewed TFN information matching. This included conducting a number of special data-matching studies carried out under section 32 of the *Auditor-General Act 1997*². These studies obtained information otherwise not obtainable about:
- quality of the ATO's data bases;
 - likelihood of fraud against Commonwealth law;
 - value of the TFN as a matching key; and
 - scope for additional savings to the Commonwealth's income support payments by extending the use of the TFN as a matching key.³
- 3.4 The Committee commends the ANAO on their initiative in performing these studies in order to provide government with a more complete picture of these policy options.

1 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.76.

2 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.36.

3 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.36.

Data matching and privacy protections

- 3.5 The adequacy of current privacy protections are an important factor when considering any changes to data matching. Legislation stipulates certain limitations over the use and distribution of the TFN and the information attached to it.
- 3.6 The *Privacy Act 1988*, regulates the collection, storage, use and security of TFNs by Commonwealth agencies through its information privacy principles. The ATO's compliance with privacy legislation was examined by the ANAO in the audit of the ATO's management of TFNs. The Auditor-General reported that 'the audit team found no systemic failures in relation to ATO's management of TFN privacy issues'⁴. Similarly, the Federal Privacy Commissioner advised the Committee that he considers privacy protections regulating the use of the TFN are working well⁵. This is demonstrated by the low level of TFN complaints investigated by the Privacy Commissioner, namely only 72 complaints investigated since the commencement of the privacy legislation through to 1998-99, and numbering one, zero and one for each of the years 1996-97 through to 1998-99 respectively⁶.
- 3.7 TFN-based data matching is regulated by the *Data-matching Program (Assistance and Tax) Act 1990*. All agencies authorised by this Act to carry out TFN-based data matching must report to Parliament annually. The Privacy Commissioner monitors compliance with the Guidelines issued under the Act, and reports annually on 'the extent of the program's compliance with the Act, the Guidelines and the Privacy Act 1988'⁷. Data matching is also supervised by the Auditor-General who may conduct audits of data matching and report these findings to Parliament.
- 3.8 In his *1998-99 Annual Report*, the Privacy Commissioner stated that:
- The Data-matching program has continued to operate under strict conditions and has been closely monitored by the Privacy Commissioner. The participating agencies have complied with the requirements of the Act and the Guidelines.⁸

4 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.92.

5 Transcript, p.44.

6 Transcript, p.51.

7 Privacy Commissioner. 1999. *Eleventh Annual Report of the Operation of the Privacy Act: For the period 1 July 1998 - 30 June 1999*. Sydney, Human Rights and Equal Opportunity Commission, p.74.

8 Privacy Commissioner. 1999. *Eleventh Annual Report of the Operation of the Privacy Act: For the period 1 July 1998 - 30 June 1999*. Sydney, Human Rights and Equal Opportunity Commission, p.76.

- 3.9 The Committee considers that the privacy framework established by Parliament to regulate data matching, the use of the TFN and protect personal privacy has been a highly successful policy and well administered by all concerned, and in particular by the Federal Privacy Commissioner.
- 3.10 Current privacy protections provide a strong accountability framework for the use of personal information. The Committee considers that the opportunity exists to build on this foundation in order to improve the effectiveness of data matching. In particular, the Committee considers that there is scope to consider extending data matching provided that the successful privacy protection arrangements are extended in a commensurate way.

The systemic use of external data bases

- 3.11 The ATO has access to a range of government agency databases that it data matches against on a case by case basis, for example 'as a vehicle to find a more up-to-date address'⁹. This includes databases of the AEC¹⁰ and the CSA¹¹.
- 3.12 Given the usefulness of data matching in improving compliance, uncovering fraud and improving data quality, there may be benefits from data matching more systemically against these databases. For example, the fact that the CSA is able to obtain client information from a range of sources means that its data may be higher quality than the ATO and hence may be worth matching against.
- 3.13 The Committee is concerned that the ATO appears to have failed to fully investigate the data matching capacities of the data sources it currently has access to. This failing reinforces the concern of the TIA that the ATO does not fully utilise the range of personal and business information that it collects and has access to.

9 Transcript, p.188.

10 Transcript, p.188.

11 CSA, Submission No.24, p.3 & Transcript, pp.160 & 188.

Recommendation 6

- 3.14 **That the Australian Taxation Office or an appropriately qualified consultant review the databases and information sources the ATO currently has access to in order to determine the value of systemic data matching against this information.**

Extending data matching to additional data sets**Improving data quality**

- 3.15 As outlined in Chapter 2, poor data quality has significant implications for the ATO and across the Commonwealth in terms of fraud prevention, effective decision making, client service and revenue collection. It also limits the effectiveness of data matching, resulting in a cost due to 'loss of revenue; additional administrative costs; and loss of savings to income support payments'¹².
- 3.16 The ANAO's report clearly demonstrated significant failings in relation to data quality in the TFN system. In addition to the large number of duplicate and excess TFNs, the audit also found a large number of TFNs that were not recorded with the correct status. **For example, the ANAO found 62 per cent of deceased clients not recorded as deceased on the ATO client data base in a sample match against Fact of Death records; and 40 per cent of deregistered companies still recorded as active on the ATO client data base in a sample match against records of deregistered companies.**
- 3.17 Increased data-matching can improve the quality of information held on the ATO databases by ensuring that the information is up-to-date and correct. Data matching to test data quality will also provide valuable information about the quality of the information that the ATO is receiving and the possible need for addressing sources of poor quality information. It may also increase respect by tax practitioners leading to better compliance, further increasing collection of data and revenue.

Reducing fraud

- 3.18 Data matching is an important tool for uncovering and preventing fraud both within the ATO and across other Commonwealth agencies. The fraud uncovered by data matching includes individuals who are not meeting their tax obligations, for example by not lodging a tax return; individuals who are falsely claiming Commonwealth government benefits; and identity fraud.
- 3.19 Data matching can also reduce fraud by increasing voluntary compliance. Ensuring that people meet their tax obligations increases community confidence in the tax system as a fair system, which is an important component of voluntary compliance. The known existence of mechanisms to detect fraud will also have a deterrent effect and hence increase voluntary compliance with tax obligations.

Strategies

Data cleansing

- 3.20 The ANAO have suggested that ‘an organisation faced with data integrity problems might periodically clean up data sets’¹³.
- 3.21 The ATO have advised the Committee that they are ‘in principle in favour of having at least a once off and maybe a regular identity data match effort with other government agencies’¹⁴, and have had preliminary discussions with other agencies and the Privacy Commissioner about conducting such an exercise¹⁵.
- 3.22 The Committee notes that a data-match cleansing project is identified as one of the components of the ATO’s hierarchy of options for improving PoI processes¹⁶. While data cleansing will have the benefit of identifying cases of identity fraud, this is only one aspect of the benefits that would result from such an exercise.
- 3.23 The Committee is strongly of the view that the ATO must consider the full range of benefits that would flow from data cleansing when investigating this option. The Committee considers that there would be significant value in the ATO undertaking a data cleansing exercise on its data base, including in terms of identifying better practice for future data recording.

13 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.80.

14 Transcript, p.8.

15 ATO, Submission No.17, p.19.

16 ATO, Submission No.17, p.12.

Matching with Fact of Death data

- 3.24 As noted in Chapter 2, data quality could be improved by data matching against additional external data sets, and in particular by matching against Fact of Death data from State Registrars-General of Births, Deaths and Marriages. This category of inactive TFNs is considered by the ANAO and the ATO to account for a large number of the excess, inactive TFNs.
- 3.25 The ATO agreed with the value of matching against Fact of Death data¹⁷.
- 3.26 The ATO have advised the Committee that they have been receiving quarterly Fact of Death data since April 1999, and that they have matched the data with ATO records and have gotten 'a fairly high quality match'¹⁸. However, the ATO's client register has not been updated with this information due to a lack of systems resources. In particular, the ATO have advised that:
- Our client register needs to be modified in order to create an indicator that we can store this information in and that is the work that needs some priority.¹⁹
- 3.27 This is an example of a proposal that will have clear benefits for the quality of TFN data, where there are no legislative impediments to data matching and where the ATO has had access to the required data for over a year. While the ATO have stated support for this proposal²⁰, they have failed to act on this support by not allocating systems resources. This simply means that ATO management considers that improving the quality of data by this means (and thereby reaping the benefits from doing so) is low priority.
- 3.28 In addition, it is of significant concern that the ATO appears unable to mark as inactive TFN records for deceased clients.
- 3.29 The ATO's failure to implement matching against Fact of Death data stands in stark contrast to Centrelink²¹ and the AEC²², which have been matching against Fact of Death data for several years. The AEC have, in fact, made use of information on recorded deaths provided by State Registrars-General 'since the turn of the century'²³ and currently match against these records on a monthly basis for those aged over 17, as well as

17 ATO, Submission No.17, p.32.

18 Transcript, p.189.

19 Transcript, p.190.

20 ATO, Submission No.17, p.32.

21 Transcript, p.114.

22 AEC, Submission No.39, pp.2-3.

23 AEC, Submission No.39, p.2.

monitoring 'death notices in newspapers'²⁴ and having recently purchased the Fact of Death File for 1999 and 2000.

Matching with movements records

- 3.30 The Committee notes that the ATO is currently discussing the issue of access to movement records with the Department of Immigration and Multicultural Affairs (DIMA).
- 3.31 Under 'section 488 of the Migration Act ... [DIMA is] unable to provide movements data to the ATO for this purpose at this time'²⁵. In this regard, DIMA has advised the Committee that:
- ... we are seeking legal opinions and we are looking for an administrative solution. If necessary, we will go down the path of legislative amendment to address the issue.²⁶
- 3.32 In more recent advice to the Committee, the ATO have noted that :
- DIMA have responded positively to the proposal [of ATO access to movements data] and are currently reviewing their legislative timetable. The relevant Section (s488) of their Act is included in this review for potential amendment²⁷.
- 3.33 Data matching against movement records would enable identification of inactive TFNs that were issued to short term visitors who have since left Australia. This would improve data quality and reduce the possibility of the fraudulent use of these TFNs following the non-residents departure from Australia.
- 3.34 As discussed in Chapter 5, TFN information for short term visitors that accurately records whether or not they are currently in the country may also open up additional mechanisms for addressing some of the problems with establishing working rights of non-residents.
- 3.35 The Committee supports the amendment of legislation to allow the ATO to data-match against DIMA's movement records. The Committee notes that allocation of appropriate resourcing by ATO management will also play a significant part in the effective implementation of this strategy.

24 AEC, Submission No.39, p.3.

25 Transcript, p.119.

26 Transcript, p.122.

27 ATO, Submission No.30, p.6.

Matching with HIC data

- 3.36 The ANAO support ATO data matching with the HIC, noting that this 'would give the ATO access to more current, almost real time data and enable the ATO to conduct more detailed cross referencing of its data'²⁸.
- 3.37 The ANAO report identifies \$180 million of additional revenue as a result of data matching ATO and HIC data²⁹. This figure is based on 1986-87 research by the ATO. The ANAO have advised the Committee that this figure consists of \$140 million due to the under-reporting of income received from patients in the annual income tax returns of medical doctors and practitioners, and \$40 million through uncovering Medicare recipients who are not lodging tax returns or are committing identity fraud³⁰.
- 3.38 In addition, the ANAO conducted two special data-matching studies that matched those in receipt of Medicare benefits and those in receipt of Commonwealth Childcare Cash Rebates (CCCR) against the ATO's main client data base³¹.
- 3.39 In the sample match against Medicare benefits:
... 4.07 per cent of the Medicare records could not be matched to an existing tax record. **More than 5 per cent of males and females between the ages of 21 and 30 who receive Medicare benefits could not be matched to an existing tax record.**³²
- 3.40 The sample match against CCCR resulted in a much better match, with only around 2 per cent of CCCR claimants being unable to be matched against a tax record. However, 'the approximate value of the unmatched CCCR claims was \$2.8 million'³³.
- 3.41 As noted by the ANAO, an analysis of the reasons for these unmatched Medicare and CCCR cases was beyond the scope of their audit. However, what this evidence does indicate is that there may be a compliance problem. The ATO and the HIC could do a study to establish the magnitude of this problem, however this may require special legislation. Alternatively, the Auditor-General could be asked to do the detailed study in order to provide a measure of the size of the problem.
- 3.42 The Committee notes that the ATO has formally approached the HIC to seek their views about the potential for a data match of identity

28 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.83.

29 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.85.

30 Informal advice from the ANAO.

31 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.85.

32 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.86.

33 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.86.

information³⁴. Such matching will not uncover under-reporting of income by medical doctors and practitioners. This would require the matching of ATO records with rebates received from the HIC by doctors and medical practitioners.

- 3.43 The Committee notes that the ATO had access to HIC data under *the Data-matching Program (Assistance and Tax) Act 1990* up until 1995, when the HIC and AEC were removed from the program. The Committee notes Centrelink advice that AEC and HIC 'data had been used as an additional check on the validity of identity data matched under the Program, but improvements in the quality of data provided by the assistance agencies and the ATO by 1995 meant that the AEC and HIC identity data was no longer required'³⁵ In light of the significant limitations in ATO data quality and the potential for uncovering fraud, the Committee considers that data matching between the ATO and HIC is worth pursuing.
- 3.44 In addition, any decision to proceed with data matching will need to consider the protection of individuals' privacy, particularly given the sensitivities associated with medical records.
- 3.45 The Australian Privacy Foundation noted significant concern about the privacy aspects of ATO-HIC data matching:
- ... What would be even more alarming , and totally unacceptable is the use of the TFN as the matching key for ATO-HIC matching.
... We call on the Committee to firmly rule out any suggestion that the TFN should be used in the health care administration arena.³⁶
- 3.46 The Committee agrees that it would be unacceptable to allow the ATO access to individuals' medical records. However, the benefits of data matching in the case of individuals could be achieved by isolating individuals' medical records and claims histories from the data matching. Similarly, there would be no need for the ATO to access details of individuals' medical records in matching rebates received by medical practitioners.
- 3.47 The Committee also notes that, since 1 January 1999, the HIC has been providing the ATO with information in connection with the Private Health Rebate Scheme, including provision of information that can be used to verify claims on income tax returns.

34 ATO, Submission No.30, p.6.

35 AEC, Submission No.39, p.8.

36 Australian Privacy Foundation, Submission No.16, p.7.

Matching with AEC data

- 3.48 The ATO has access to AEC data under the *Commonwealth Electoral Act 1918*, including information that is not publicly available, provided that this information is used for purposes permitted by the *Privacy Act 1988* (note the qualification in paragraph 3.50). The ATO have advised that they get regular updates of the electoral information, and that this information 'largely would be used on a case by case basis or for tracing purposes where we perhaps were unable to locate a particular client.'³⁷
- 3.49 AEC data is likely to be higher quality than TFN data for a number of reasons. This includes the fact that AEC has a continual turnover of data due to the range of elections that are conducted throughout the country using the electoral role, as opposed to the ATO where clients are only required to provide a once a year update at the point of lodging a tax return. The AEC also has a range of quality assurance mechanisms in place to ensure the quality and veracity of electoral role applications and changes, such as monthly (and at times more frequent) matching against Fact of Death data received from the States, an Address Register 'against which all enrolment transactions are matched' and a range of Continuous Roll Update activities³⁸.
- 3.50 On the basis of legal advice at the time, the AEC had been providing information to the ATO in both electronic and microfiche format. The AEC have advised the Committee that:
- On 8 June 2000 the Solicitor-General advised that section 91(10) of the Electoral Act did not allow the AEC to provide prescribed authorities with enrolment information in electronic format, but could provide in electronic format under paragraph 91(4A)(e) of the Act. However, the supply of enrolment information in electronic format under paragraph 91(4A)(e) will require regulations under section 91A of the Electoral Act, in order for prescribed authorities to make use of the information.³⁹
- 3.51 The ATO needs to investigate the benefits of more comprehensively data matching against electoral data. In light of the AEC's recent legal advice, this will also require consideration and development of regulations under section 91A of the Electoral Act.
- 3.52 The Committee notes that in reporting on the 1996 Federal Election, the Joint Standing Committee on Electoral Matters recommended that the

37 Transcript, p.188.

38 AEC, Submission No.39, pp.5-6.

39 AEC, Submission No.39, p.6.

AEC investigate options for expanding data matching of enrolment data⁴⁰. The Committee notes that the AEC wrote to the ATO regarding this issue and that the AEC has had 'no response to date'⁴¹.

Use of the TFN in Employment Declaration Form (EDF), Prescribed Payments System (PPS) and Reportable Payments System (RPS) data matching with Centrelink

3.53 In their report, the ANAO identified \$28 million through 'expenditure savings on income support payments from the use of the TFN in Employment Declaration Form (EDF), Prescribed Payments System (PPS) and Reportable Payments System (RPS) data-matching with Centrelink'⁴². The Committee notes that the Government introduced this measure in the 1999-2000 Budget⁴³.

TFN trust data

3.54 As part of their report, the ANAO considered the level of TFN quotation in relation to Partnership and Trust Income Tax Returns. The ANAO found:

Nearly half of the 430 572 Trust Returns received by the ATO during 1997 do not list the TFNs of all beneficiaries. About 18 per cent of the two million trust beneficiaries do not have their TFN affixed to the distribution information recorded about them on Trust Income Tax Returns.⁴⁴

3.55 This contrasted markedly with TFN quotation rates by taxpayers generally. Taxpayers are requested to provide their TFNs for a wide range of tax systems and the ANAO reported TFN quotation rates in relation to them. TFNs were quoted on 96 per cent of EDFs and on almost 90 per cent of financial transactions reported to the ATO by financial institutions. The lowest rate was 89.3 per cent for the Prescribed Payments System.⁴⁵

40 Joint Standing Committee on Electoral Matters. 1997. *Report of the inquiry into all aspects of the conduct of the 1996 Federal Election and matters related thereto*. Canberra, Australian Government Publishing Service, Recommendation 4, p.xviii.

41 AEC, Submission No.39, p.9.

42 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.95.

43 The Honourable Peter Costello, M.P., Treasurer of the Commonwealth of Australia and the Honourable John Fahey, M.P., Minister for Finance and Administration. 1999. *Budget Measures 1999-2000: Budget Paper No.2*. Canberra, CanPrint Communications Pty Limited, p.86.

44 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.84.

45 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, Table 9, p.118.

- 3.56 The Government has since addressed this compliance problem through introducing a measure:
- ... to ensure that income tax is paid on all net income distribute [sic] through chains of trust. This is done by establishing a tax liability in cases where closely held trusts distribute to other trusts and the ultimate beneficiary of the distribution is not accurately and sufficiently identified.⁴⁶
- 3.57 The effect of this measure is to require that names and TFNs for ultimate beneficiaries of certain classes of trusts are identified, with income subject to Ultimate Beneficiary Non-disclosure Tax at 48.5 per cent, this being the highest marginal rate plus Medicare, in cases where this information is not provided. Benefits identified from this new measure include increased integrity of the tax system, improved tax compliance and collection of additional revenue of '\$30 million in each of 1999-2000 and 2000-2001'⁴⁷.
- 3.58 The Taxation Institute of Australia advised the Committee of their concern in relation to ultimate beneficiary statements, particularly in respect of certain charities and low-income beneficiaries. This is because income received by beneficiaries which has been subject to the 48.5 per cent tax is classified as exempt income, rather than income with an attached tax credit. Hence, if a beneficiary is subject to an income tax rate lower than 48.5 per cent, they are unable to claim back the difference between 48.5 per cent and their tax rate.
- 3.59 Mr Cooper, President of the TIA acknowledged that this measure 'has merit and was a crucial anti-avoidance measure'⁴⁸ but is concerned that:
- ... it is a way in which effectively the tax file number system is being made compulsory. You can still say there is a choice but the choice in not quoting is that you lose 48.5 per cent.⁴⁹

46 Parliament of the Commonwealth of Australia. House of Representatives. 1999. *A New Tax System (Closely Held Trusts) package: Explanatory Memorandum*. Circulated by authority of the Treasurer, the Hon Peter Costello, MP. p.27.

47 Parliament of the Commonwealth of Australia. House of Representatives. 1999. *A New Tax System (Closely Held Trusts) package: Explanatory Memorandum*. Circulated by authority of the Treasurer, the Hon Peter Costello, MP. p.30.

48 Transcript, p.70.

49 Transcript, p.70.

Recommendation 7

- 3.60 **That the Australian Taxation Office implement data matching strategies aimed at improving Australian Taxation Office data quality and reducing tax fraud, including in the areas of:**
- **Data cleansing;**
 - **Fact of Death data matching;**
 - **Department of Immigration and Multicultural Affairs movements records data matching; and**
 - **Investigating the reintroduction of Health Insurance Commission data matching for purposes of compliance with Tax File Number identification.**

The quality of data received

- 3.61 The quality of data received by the ATO will affect the quality of data matching that can be performed. The ATO must continually review options for working with other agencies and organisations to improve the quality of data received and hence enhance ATO data matching capacity.
- 3.62 An area of particular concern, as highlighted by the ANAO⁵⁰, is the reporting by financial institutions, particularly with regard to the Annual Investment Income Reports (AIIR) that financial institutions must provide to the ATO. The extent to which AIIR data can not be matched to the ATO's data bases could be indicative of compliance problems amongst those with accounts in financial institutions or of shortcomings in the quality of the AIIR data.
- 3.63 In particular, the ANAO found:
- 'instances of non compliance of remitters with the quarterly and annual reporting requirements' that extended over several years⁵¹;

50 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, Recommendation 5, pp.23-24.

51 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.71.

- that 'the ATO has been unable to reconcile the accounts of almost all investment bodies for each of the eight years that the TFN withholding tax arrangements have been operating'⁵²;
- using 1997 AIIR data, the ATO could not match 12.7 per cent of AIIR transactions to an ATO taxpayer. This represents 3 730 000 transactions with a total value of over \$14 billion⁵³; and
- using 1997 AIIR data there were 186 049 valid AIIR transactions that did not have a TFN, that the TFN withholding tax was withheld from and that the ATO could not match to a taxpayer. These transactions had a total value of almost \$70 million and the total amount of TFN withholding tax withheld was \$30.5 million⁵⁴.

3.64 The problems with reporting by financial institutions is an ongoing problem. In 1984, the Auditor-General reported that banks had not provided the ATO with satisfactory information since 1936, when the statutory requirement for them to do so was first promulgated⁵⁵.

In Audit's view the ATO has not shown evidence of a firm and consistent approach in this area. This has resulted in significant deficiencies in information submitted by the banks. Consequently revenue that might have been collected has not been. The receipt of complete statements of interest from the banks as required by Income Tax Regulation 11(2) since 1936 has yet to be achieved.

Using ATO estimating techniques and the results of research which the ATO had carried out in respect of the 1978-79 income year, Audit concluded that the amount of tax evaded in respect of undisclosed dividends and interest (mainly the latter) could be currently up to some \$500 million per annum. Because of various deficiencies in the ATO checking system and its failure to utilise all available information, it also appeared to Audit that there was little prospect of remedying the situation without significantly greater efforts by the ATO.⁵⁶

3.65 In response to ANAO's findings in relation to AIIRs, the ATO have advised the Committee that the number of financial institutions which do not comply with these reporting requirements is very small and limited to

52 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.71.

53 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, Table 5, p.117.

54 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, Table 11, p.119.

55 *ATO Data and Systems Quality - An ANAO Discussion Paper*, p.6. - based on *Checking of Dividends and Interest Disclosed in Income Tax Returns by the ATO*, AGPS, 1984, p.33.

56 *ATO Data and Systems Quality - An ANAO Discussion Paper*, p.6. - quoted from *Checking of Dividends and Interest Disclosed in Income Tax Returns by the ATO*, AGPS 1984, pp.33 & 28.

smaller financial institutions⁵⁷. This corresponds to comments by the Australian Bankers' Association (ABA) that the majority of their members comply with reporting requirements⁵⁸.

- 3.66 The Committee is concerned that the ATO has not further investigated these findings. In particular, the ATO needs to investigate why these institutions are not reporting and whether, based on a risk assessment, the reporting requirements are too onerous for smaller institutions. Less detailed but more accurate reporting is likely to be more useful to the ATO than no reporting at all. In addition, the ATO should investigate the ANAO's concern that non-compliers may be obtaining a competitive advantage over investment bodies that do comply by avoiding investment in the IT systems required for reporting.
- 3.67 The ATO has advised the Committee that 52 per cent of the unmatched transactions have a dollar value less than \$100. However this would appear to suggest that there are a small number of high value AIIR transactions that are unable to be matched. This would suggest that even if it is not cost effective for the ATO to achieve a perfect matching of AIIR reports, that it is worthwhile for the ATO to undertake work to detect these particular high value transactions.
- 3.68 In addition to compliance problems and poor data quality associated with AIIR information, there is also the additional issue that ATO is not remitting withholding tax in all cases where it should be remitted. The ANAO estimate that 'the total amount of the TFN withholding tax collected that was not returned to taxpayers since the scheme began [in 1992] is at least \$200 million'⁵⁹. The ANAO considered that non-remittance was a concern, particularly in relation to exempt investors such as income support recipients, and recommended that the ATO review its processes to ensure that this tax is remitted⁶⁰. The Committee notes ATO action in response to these recommendations, including:

... a legislative proposal [that] is included in a bill currently before parliament to enable exempt investors to claim refunds directly from financial institutions. This will considerably simplify [sic] the refund process for exempt investors. In addition, via the joint consultative forum, the ATO has liaised with financial institutions and recommended steps to minimise refund claims by

57 ATO, Submission No.30, p.10.

58 Transcript, p.99.

59 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, p.73.

60 ANAO Audit Report No.37 1998-99, *Management of Tax File Numbers*, Recommendation 6, p.75.

encouraging investors to notify their exempt status to the financial institution when opening accounts⁶¹.

- 3.69 There is scope to consider further simplifying processes in relation to exempt investors. For example, it may be possible for Centrelink to code exempt status into the information that they provide to financial institutions which could then not deduct withholding tax from these accounts.

Recommendation 8

- 3.70 **That the Australian Taxation Office focus on steps to improve the quality of data it receives in order to improve its data matching capabilities, including through working with other agencies and organisations. A first priority for the Australian Taxation Office in this regard should be to review and improve reporting in Annual Investment Income Reports by financial institutions.**

Extending data matching to additional transactions

- 3.71 In addition to extending current data matching by increasing the number of external data bases that the ATO matches against, it is also possible to enhance data matching by widening the types of transactions that can be data matched.
- 3.72 For example, if the withholding tax system were expanded in the way that the ANAO has recommended, so that TFNs were recorded for a range of additional transactions such as AUSTRAC and real estate transactions, one of the flow-on effects would be the ability to data match these transactions against other data sets. This additional information would have benefits for transaction matching within the ATO. It would also enhance the information that the ATO makes available for data matching against external data sets, such as through the Data Matching Program, and hence improve the ability of this data matching to uncover fraud committed against other Commonwealth agencies.

61 ATO, Submission No.17, p.31.

- 3.73 The Committee notes the concerns raised by Mr Johnston⁶², the Taxation Institute of Australia⁶³ and at the roundtable hearing of tax practitioners⁶⁴ that data matching and ATO access to additional information should not be extended until the ATO better utilises its existing sources of data.
- 3.74 The Committee agrees that it is a significant concern that the ATO has failed to make full use of existing information sources through either not fully investigating potential uses of the information and/or failing to make resources available to allow the use of information. However, the Committee still considers that there is value in considering the potential use of additional data sets due to the range of benefits this can bring, as noted above and highlighted in the ANAO's report. In particular, additional data matching may improve the integrity of the tax system by improving data quality and detecting tax evasion.

Data matching with the ABN

- 3.75 It is important to note that data matching using the TFN is not the only approach to uncovering additional fraud. While matching against the TFN has been shown to be a successful method of achieving a high quality match, it may be possible that there are alternative means of uncovering or preventing fraud that are less obtrusive, more cost effective and which make better use of existing processes or information collections. Alternative approaches will not have a comparable success level with data matching using a unique numeric identifier such as the TFN, but may be considered a more appropriate approach based on a cost-benefit analysis. Alternative approaches focussed on uncovering fraud are also unlikely to have the flow-on effects for data quality that result from matching with the TFN.
- 3.76 For example, the introduction of the ABN and the new GST fraud control mechanisms offers the opportunity to review data matching opportunities, including a number of the proposals included in the ANAO report, such as data matching against AUSTRAC transactions and HIC data. Any data matching with the ABN is likely to require systems enhancements amongst Commonwealth agencies so that the requisite data is actually captured and rendered matchable. In addition, data matching using the ABN will have little impact if tax evasion in the particular area is

62 Mr Johnston, Submission No.20, p.3.

63 Transcript, p.65.

64 Transcript, pp.65-82.

primarily being committed by individuals, as these transactions will fall outside ABN data collections.

- 3.77 In the case of data matching with HIC data, the Auditor-General reported the results of ATO research completed in 1987 that, at that time, the ATO had identified \$180 million in potential revenue savings from this matching, with \$140 million of this directly attributable to under-declaring of income by medical practitioners.
- 3.78 The introduction of the ABN will require medical practitioners to quote their ABN to the HIC for payments or face the deduction of withholding tax from HIC payments. At face value, this approach appears to provide an alternative means of ensuring collection of the \$140 million identified by the ANAO. However, there is still scope for fraud if medical practitioners understate their income to the ATO. To successfully address this issue, the ATO would require access to the HIC data which contains the rebate records in order to verify the income declared in medical practitioners' tax returns.
- 3.79 ABN quotation and data matching also has the potential to improve revenue collections across Commonwealth administration. As detailed in Chapter 7, current administrative arrangements do not guarantee that correct tax is paid on all taxable payments and like benefits made by the Commonwealth. A large number of these transactions relate to business and hence will be subject to ABN quotation and withholding arrangements. This means that many of the benefits achievable by extending TFN quotation to these arrangements can be achieved through the ABN.

Recommendation 9

- 3.80 **That the Australian Taxation Office evaluate and act on data matching opportunities provided by new Australian Business Number arrangements, including putting in place mechanisms to ensure that relevant data is captured and able to be used for data matching purposes.**