

Conclusions

Context

- 9.1 The ATO is currently managing major changes to the Australian tax system, including the introduction of a goods and services tax and business tax reform. Its ability to deliver on these reforms and to continue to effectively manage the tax revenue system depends on the ongoing quality of its underlying systems and data.
- 9.2 In identifying the ATO's 'Principles for Success', Mr Michael Carmody, the Commissioner of Taxation has acknowledged 'how important the basics are to our continued success' and the need to ensure 'that our systems provide us with the platform that enables us to continue to deliver for the community'¹.
- 9.3 The TFN system is central to this platform and ensuring effective tax administration. As part of their audit, 'the ANAO has confirmed that the ATO's TFN system has improved the ATO's revenue collection capacity and administrative efficiency'².

1 Australian Taxation Office. 1999. *Supporting the Community – 1999-2002 Plan*. P.1. http://www.ato.gov.au/printcontent.asp?doc=/content/Corporate/ato_plan.htm Accessed on 25 May 2000.

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

Findings

- 9.4 The Committee has examined a system of administration, the TFN system, and found that administration wanting. The impact of the administrative shortcomings is serious because the TFN system is central to the administration of taxation, income support, superannuation and employment generally.
- 9.5 Whilst there have been successes, there are too many serious and continuing problems, some of which go back many years. The problems relate fundamentally to the quality of ATO's systems and information and to a continuing absence of a strategic focus by senior management.
- 9.6 That there are so many surplus TFNs still on issue together with the problems of duplicates and identity fraud point to the need to address the problems identified as a matter of priority.
- 9.7 There are continuing problems of fraud that do not seem to get sufficient attention. There are serious administrative weaknesses associated with the registration and issue of TFNs that continue.
- 9.8 There continues to be serious gaps in the coverage of the TFN system, particularly in relation to real estate transactions and the income-relevant transactions of non-residents. The quality of the information provided to the ATO by financial institutions, as the law requires, continues to be in need of improvement. There are continuing unresolved and serious problems with other agencies (such as DIMA in respect of visas, temporary residents, non-residents, illegals; and AUSTRAC in respect of the attachment of TFNs to the transactions reported by cash dealers). The ATO continues to underutilise valuable information and continues to be unable to match key data sets.
- 9.9 The Committee finds, as well, that although the TFN system is a whole-of-government facility the administration of it is almost entirely subject to ATO internal priorities and that the many problems associated with it invariably are seen, by the ATO to be of low priority.
- 9.10 The impact of these weaknesses has a serious impact because the revenue foregone by the Commonwealth as a result is significant. The impact is serious because the weaknesses undermine the integrity of the taxation system in the eyes of citizens. The impact is serious because the Commonwealth is unable to achieve the true benefits of legislation. The Commonwealth is unable to achieve the gains to efficiency, economy and effectiveness that the legislated TFN system permits.
- 9.11 The recommendations of this report and the ANAO's report go to the issue of ensuring ongoing quality and coverage of the TFN system. This

offers the opportunity for the ATO to improve its performance, to increase revenue collection and to ensure a strong base for its future operations.

9.12 In positioning itself for ongoing success, the ATO must ensure that it has smart systems that use high quality data drawn from across all relevant databases. It must become an organisation that proactively seeks out systems improvements and that is aware of emerging technologies and their implications and potential application to the TFN system.

9.13 ATO management of the TFN system must also continue to include consideration of the issues of staff management and privacy.

Staff management

9.14 Effective staff management will influence organisational culture, including the ability of an organisation to put policy into practice. It will also determine the extent to which an organisation is able to learn from the experience of its staff.

9.15 For an organisation such as the ATO, people are one of its key resources. Comments from the ANAO and ATO staff suggest that there may be a discord between management and operational staff. This discord appears to flow two ways, with limits to the opportunities for staff to input into the formulation of departmental procedures and difficulties in translating management strategies into comprehensive operational implementation.

Privacy

9.16 Ensuring appropriate privacy protections for individuals has been central to the development of the TFN system. Legislation stipulates certain limitations over the use and distribution of the TFN and the information attached to it. The Federal Privacy Commissioner confirmed the effectiveness of these protections, stating that the level of complaints his office receives would indicate that, in terms of both public and private sector use of the TFN, that 'the system is operating pretty well from a privacy perspective'³.

9.17 The Committee found that the privacy arrangements have worked well and that the personal privacy of Australians is protected from government interference. The Committee considers that there is merit in extending the TFN system along the lines recommended by the Auditor-General, provided that there is commensurate extension of the privacy arrangements to ensure continued protection of personal privacy and provided, too, that the desired improvements to the integrity of Commonwealth law and administration, and increased financial benefits to the Commonwealth, can be achieved.

3 Transcript, p.44.

Need for action

- 9.18 Ignoring underlying TFN system problems will lead to a continued weakening of this system and a loss of community and government confidence in the ability of this system to deliver.
- 9.19 The ATO must give a higher priority to TFN resourcing and policy development, including ensuring sufficient staff and systems resources, to reflect its importance to the ATO and more broadly for Commonwealth Government administration. For the ATO, this will guarantee high levels of compliance; increased revenue; reductions in the cash economy; a higher integrity tax system and a lower cost tax administration system. It will also ensure the ongoing contribution of the TFN system to effective public administration.

Recommendation 26

- 9.20 **That the Auditor-General conduct a follow-up performance audit of the Australian Taxation Office's management of the Tax File Number system, and that this audit include, but not be limited to, progress by the Australian Taxation Office against recommendations for improving the Tax File Number system made by the Australian National Audit Office and this Committee.**