



Ms Sharon Grierson MP
Chair
Joint Committee of Public Accounts and Audit
Parliament House
CANBERRA ACT 2600

Dear Ms Grierson

I am pleased to provide you the Tax Office's report to the JCPAA for discussion at the public hearing on Friday 23 October 2009.

Our report covers our performance in 2008-09, particularly focussing on performance against our outcome and *Corporate plan 2008-09*, specific commitments to Government and corporate survey findings.

Overall, we performed well against a backdrop of extraordinary events.

The economic downturn presented us with a delicate balancing act of supporting those in genuine financial difficulties while maintaining a level playing field. We were called on to administer the Tax Bonus which involved payment of around \$8 billion to over 8.5 million taxpayers. We responded to the natural disasters in Victoria, Queensland and New South Wales earlier this year by providing comprehensive and coordinated services to communities in a state of emergency. We have taken on board a large amount of work such as the tax and superannuation-related matters announced in the May Budget.

Our budget position continues to present difficulties as we respond to existing and additional commitments to both government and the community. To manage this, we continue to find savings through thrift together with our ongoing search for productivity improvements and innovation.

Once again, I look forward to benefiting from the Committee's insights on our performance and input on our priorities for the coming year.

Yours sincerely

Michael D'Ascenzo
Commissioner of Taxation
19 October 2009

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Report on Tax Office performance in 2008-09

23 October 2009



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Attachment 1: Corporate plan 2008-09

Attachment 2: Draft Strategic Statement 2010-2015

Attachment 3: Corporate plan 2009-10

Attachment 4: *Business Review Weekly* article of 15 October 2009, 'Tax Office goes easy'

Attachment 5: Tax Office Management Arrangements

CHAPTER 1: INTRODUCTION

This is our sixth submission to the Committee for its biannual hearings with the Commissioner of Taxation and Registrar of the Australian Business Register.

This report is based on the Tax Office's *End-of-year performance report 2008-09*, a copy of which was sent to the Committee in August 2009. The report covers, for the 2008-09 year:

- performance against our outcome
- performance against our Corporate plan 2008-09 (Attachment 1)
- delivery of specific commitments to Government, and
- corporate survey findings.

It also contains a brief discussion of emerging issues in tax and superannuation administration and information about progress in implementing the Committee's recommendations from *Report 410: Tax administration*.

A full assessment of our performance for 2008-09 will be included in the Commissioner's 2008-09 Annual Report. The report is currently scheduled to be tabled in Parliament on 28 October 2009.

CORPORATE STEWARDSHIP

As part of our governance arrangements, we are pleased to share with the Committee our *Report on Tax Office performance in 2008-09* and draft *Strategic statement 2010-2015* (see Attachment 2) and welcome the Committee's feedback on our performance and on the directions and strategies we have set for ourselves for the coming year.

AN EXTRAORDINARY YEAR

2008-09 was marked by extraordinary events.

The global economic downturn has presented us with a delicate balancing act between supporting those in genuine financial difficulties and maintaining a level playing field.

As part of the Government's Stimulus Plan, we were required to administer the Tax Bonus – the biggest single payment ever made through the tax system – involving around \$8 billion and over 8.5 million taxpayers.

Although many parts of Australia remained in drought, the scale and tragedy of the Victorian bushfires was a shock to the nation, and the flooding in Queensland and NSW was another cruel blow affecting many communities.

Fiscally, we knew that we would be in for a difficult year in relation to our budget, and that we had to be responsive to existing and new commitments to both government and the community. Thrift was, and continues to be an important consideration for us.

Since May, we have taken on board a large amount of work arising from a range of tax and superannuation-related matters announced in the Budget. While these measures reflected the Government's confidence in our ability to deliver, and some came with extra funding, they also added to our workloads and commitments. For example, the 2010 tax time system changes were six times bigger than the previous year's commitments.

These challenges gave us opportunities to think about how we could do things differently and more efficiently.

CHAPTER 2: REPORTING ON OUR PERFORMANCE IN 2008-09 (REPORTING AGAINST OUTCOME)

OUR OUTCOME

The Government requires agencies to measure intended and actual performance in terms of outcomes. Government outcomes are the results, impacts or consequences of actions by the Government on the Australian community. The Tax Office outcome for the 2008-09 year was:

Effectively managed and shaped systems that support and fund services for Australians and give effect to social and economic policy through the tax, superannuation, excise and other related systems.

EFFECTIVENESS INDICATORS

Four effectiveness indicators measure the most significant contributions towards achieving our outcome:

- Deliver to Government
- Maintain community confidence
- Improve ease of compliance, and
- Efficient, ethical and adaptive organisation.

Deliver to Government

We worked closely with Treasury to implement a range of tax policy initiatives in 2008–09, including initiatives associated with the Government's stimulus package. These included the Tax Bonus and the one-off 20 per cent pay as you go (PAYG) instalment reduction for small businesses. Work was also done to put in place tax cuts due to commence on 1 July 2009.

Administration and support products were in place on time for all new measures that began during the year or on 1 July 2008, except one. The exception was due to an information technology problem that caused a delay to the implementation of superannuation guarantee measures.

Our policy implementation forum oversees all new policy projects to ensure they are implemented effectively and in line with the legislative intent. The forum provides high level input to the design of administrative systems for new law, including informing the community about tax or superannuation changes. The forum also endorses risk mitigation strategies where changes apply retrospectively.

At the end of 2008-09, there were 140 projects reporting to the forum.

In addition, we provided significant input into design of new laws covering a wide range of measures, including taxation of financial arrangements, the tax consequences of the carbon pollution reduction scheme, consolidation rules, private health insurance incentives and the national rental affordability scheme.

Our commitment of resources to this category of work is increasing as we provide more interpretive and administrative input in the preparation of drafting instructions by Treasury.

This aspect of our work is discussed in more detail later in this report.

Maintain community confidence

External survey results

The latest professionalism survey, in May 2009, reveals that the overall professionalism score for the Tax Office is 4.1 out of 5.00. The overall score is unchanged from the previous survey in November 2008.

See Chapter 5 for more information on surveys.

Service standards

We managed to meet our commitments to the community in 22 of our 27 service standards and achieved an overall index of 1.34 on a benchmark of 1.0. This is the same as last year's index performance of 1.34, but it has occurred in a context where we lowered some benchmarks and some expected impacts from business systems did not arise.

In 2008-09, we continued to balance acceptable service standards against the effect of our changing business and the continued implementation of new change program systems.

Some service standards continued to be affected by pressures such as increased work loads, budget and resource constraints, and extra work involved in delivering government initiatives. It is noted too that work outside service standards is taking longer to complete but that increased workforce flexibility is assisting in better management of this work.

We lowered the benchmarks for telephone general enquiries and paper amendments service standards this year. These adjustments were balanced against a number of initiatives to improve taxpayer service, including the introduction of an auto call-back service and increased benchmarks for electronic lodgements.

The service standards where we did not achieve benchmarks were:

- paper tax returns for non-individuals (6.6 per cent below benchmark)
- paper amendments (3.4 per cent below benchmark), and
- audits finalised advice (2.2 per cent below benchmark).

We also failed to meet the benchmarks for both our complaints service standards.

We received over 1.4 million calls on the Tax Bonus hotline, equivalent to 11 per cent of the annual call load. Despite this, 87 per cent of Tax Bonus calls were answered within service standards, whilst overall business as usual service levels remained high, even though we were and remain severely stretched.

Technical quality

A review of interpretative decision-making indicated that our 'A' and 'pass' rate percentages have improved since our last process.

Our centres of expertise (specialists in particular areas of tax law such as losses and capital gains tax or excise and GST) maintained their 100 per cent 'A' rating for providing

consistently clear, complete and accurate advice and guidance. Our other interpretative assistance areas fell slightly below the benchmark, achieving an overall annualised result of 84.4 per cent against a benchmark of 85 per cent.

Complaints

In 2008-09, we received 27,942 complaints and 2,672 items of feedback. This represents an increase of approximately 80 per cent in complaints received from the previous year.

The most significant factor in the increase in complaints was taxpayers wanting to expedite the processing of their income tax returns to access the tax bonus payment. The most common reasons for lodging a complaint included delays in receiving income tax refunds (27.2 per cent) and in processing income tax assessments and amendments (24.4 per cent). The number of complaints needs to be considered against the broader context of the 15,981,103 returns and the 572,489 amendments that were processed in 2008-09.

Improve ease of compliance

New or improved products, services and channels

Our 'community first' approach means we continue to emphasise early intervention and engagement where taxpayers are at risk of falling behind with their obligations or are experiencing hardship. Contact with the Tax Office can help taxpayers organise their affairs so that the problem does not become unmanageable.

In response to government initiatives, we have improved our online and interactive voice recognition services, which helps taxpayers to quickly and easily update their details with the Tax Office.

We also introduced 'Auto Callback', which gives callers the option of a return phone call if waiting times are expected to be longer than usual.

SMS to mobile phones is now used to remind clients of lodgment and payment dates.

We have continued to expand pre-filing of returns, accompanied by a very strong uptake on both e-tax and portal channels. 1,755,789 taxpayers used e-tax from 1 July to 31 September 2009 (up 8.46 per cent on the same time in 2008) and pre-filing was used by taxpayers and tax agents 4,871,302 times from 1 July to 31 September 2009 (up 36.12 per cent from the same time in 2008).

We have improved our web-site by adding a Google search engine, completing a visual refresh and making some of the content structure simpler and more intuitive.

Taxpayers have responded positively to several initiatives aimed at encouraging more electronic transactions, including pre-filing, early lodgment of payment summaries, BPAY® and credit card payments (pilot). However, while lodgments and payments show a clear trend towards dealing electronically, we continue to receive large volumes of paper.

Efficient, ethical and adaptive organisation

Manage the ATO within budget

Midway through 2008-09 we were projecting an overspend of \$140 million, mainly as a result of projected pressures in employee long service leave provisions, IT and legal costs. We took immediate action to reduce the forecast overspend and sought an operating loss of \$80 million. In April 2009, the Minister for Finance and Deregulation approved our request. The final operating loss was \$24.8 million (before income tax) and represents a 0.8 per cent overspend against our final operating budget. The reduction in the anticipated loss is mainly attributable to lower than expected long service leave costs and thrift strategies.

A key factor continuing to impact on our ability to manage our total operating budget is the extraordinary pressure on our ICT expenditure with the transformational change program and ICT sourcing program running concurrently. The change program is largely self funded and underpins future service initiatives for taxpayers and provides a platform for ongoing productivity initiatives. Some delays have been experienced in finalising this program largely as a consequence of integrating new legislative requirements including significant reforms to the Superannuation system. This has required us to maintain legacy systems for longer than anticipated. The sourcing program is putting to tender the ICT infrastructure services for the office providing telecommunications, end user computing and central computing services into the future. While every effort is being made to find savings we expect to be under pressure to operate within our budget for the next few years until these programs are finalised.

Sound governance system

We have a well developed governance and integrity framework. This includes a range of reporting mechanisms to Parliament and to Ministers. We complement this with better practice internal processes. For example, in 2007-08 we received SAI Global's Australian Business Excellence Award for governance, as well as recognition by the Corruption Prevention Network.

More recently, an international benchmarking report noted that our fraud control arrangements continue to rate highly against our overseas counterparts in promoting high ethics and integrity.

Capable and engaged workforce

In this area, our efforts have been directed at a number of initiatives to improve workforce availability, capability, and sustainability.

Workforce planning is now better integrated with overall business planning and our approach has been showcased globally by the Corporate Leadership Council.

The implementation of e-Recruitment means that we can bring people into the organisation faster and more efficiently.

The Tax Office was recognised as the 4th preferred graduate employer in 2008 within private and public sectors.

In continuing work on our leadership and management framework, we mapped out the full range of leadership-building opportunities that are available and our employees are now able to choose the best option to meet their development needs. We have made team leader training mandatory.

Early intervention has been effective in managing our health and safety; there was a 46 per cent decrease in the number of accepted compensable claims and a 54 per cent reduction in the length of absences from compensable injuries over the period 2005 to 2007. The Comcare premium was reduced by \$6 million in 2008-09 and is expected to fall by a further \$6 million in 2009-10, reflecting our improvement over many years in the prevention and management of workplace injury. However, our per capita costs are still above Australian public sector averages.

CHAPTER 3: REPORTING OUR PERFORMANCE IN 2008-09 (REPORTING AGAINST THE CORPORATE PLAN)

The Tax Office outcome is delivered through five outputs, described below.

Outputs are supported by enablers – the skills or capabilities necessary to give effect to the outputs.

OUTPUT 1: SHAPE, DESIGN AND BUILD ADMINISTRATIVE SYSTEMS

Policy projects

We managed approximately 140 new policy projects in 2008-09. This compares to 166 projects under management by our Policy Implementation Forum last year.

We are currently on track to implement a range of funded and unfunded new policy initiatives, with our attention focussing on a range of reforms proposed in the recent budget.

We continued to provide advice on new policy proposals and any problems in existing legislation to Treasury.

We worked with the Board of Taxation on reviews of specific areas of the tax law, such as managed investment trusts, GST, and foreign source income rules.

The Treasury/Tax Office managed Tax Issues Entry System is now up and running. It allows the community, particularly tax practitioners, to raise issues regarding the care and maintenance of Australia's tax and superannuation systems.

Litigation

Litigation is one form of dispute resolution and is also used to clarify aspects of the law. Around 90 significant cases were heard in 2008-09 (a number of which are subject to appeal). Of these cases, 25 were test cases funded by the Tax Office.

In the 2008 Australasian legal business law awards the Tax Office was recognised as government in-house legal team of the year. We continue to make improvements. For example, Federal Court cases are now better supported through the implementation of Ringtail document management software.

Change program

We see ourselves as an innovative organisation.

For example, the change program is a very significant information technology and business process improvement program. Together with major enhancements of our tax agent and business portals, this change program will replace with a single system all of our behind-the-scenes processing systems, some of which are over 30 years old. It is already delivering improved client service and experiences and improving the way we manage our work across the Tax Office – allowing us to maintain the high levels of community satisfaction reflected in our surveys.

Benefits of our new systems were demonstrated earlier this year when we were able to quickly identify individuals and businesses affected by the Victorian bushfires and Queensland floods. This is something we would not have been able to do in our legacy systems and enabled us to respond more effectively, by suspending correspondence, accelerating refunds and extending due dates.

During the last 18 months we have implemented the following: Fringe Benefits Tax, Lost Members Register, Interpretative Assistance, Superannuation (Superannuation holding account special account, Co-contributions, Excess Contributions Tax, and the First Home Saver Account.

Due largely to legislative changes, such as Superannuation Simplification and First Home Saver Accounts, the scope and delivery schedule for the change program has changed a number of times since the program commenced in December 2004 and will take longer than was originally planned. This has presented a number of challenges and contributed to increased costs as efficiencies are pushed back and we continue to rely on legacy systems for longer than planned. However, we continue to progressively deliver the intended outcomes adapting and refining our approaches to ensure scheduled outcomes are met (see our '*Making it easier to comply 2007-08*' publication on: <http://ato.gov.au/corporate/content.asp?doc=/content/00117356.htm>)

We are currently testing for the Income Tax Release which is our most complex release to-date. A pilot for the Income Tax Release commenced in September 2009 and will continue until the end of 2009. This and subsequent releases remain high risk.

We have made improvements to our design, testing and program management processes, however, meeting the schedule for such a large program of work will be a complex challenge. Currently, we have limited capacity to implement further new policy that requires major systems support. We are currently reviewing the scope of the Business Activity Statement release which will be the final release for the change program.

In parallel with the change program, we are also committed to driving and supporting various whole-of-government initiatives. We have continued to contribute to the Standard Business Reporting initiative including a co-design role on the development of the Multi-agency Registration Authority to support the role of the Australian Business Registrar with an agreed authentication solution. The authentication solution for the Standard Business Reporting program has been designed in a manner that will readily allow it to have a wider application than the agencies involved.

Our role in the Standard Business Reporting program continues to grow as we provide further input into the whole-of-government taxonomy (set of business terms to be used

for reporting) and undertake quality assurance consultation with software developers and independent advisors around reporting taxonomy requirements and implementations.

OUTPUT 2: MANAGEMENT OF REVENUE COLLECTIONS AND TRANSFERS

Collectable debt

The impact of the economic downturn on business and the general community will continue to present challenges for our debt collection activities in 2009-10.

The value of collectable debt grew 11.6 per cent (to \$12.2 billion) up from 1 per cent in 2007-08 (\$10.9 billion). At 30 June 2009, the main components of collectable debt were \$7.72 billion in activity statement debt (63.5 per cent) and \$4.09 billion in income tax debt (33.7 per cent).

At 30 June 2009, collectable debt compared to total collections increased to 4.59 per cent from 4.02 per cent at 30 June 2008.

In addition to impacts of the economic slowdown, a substantial amount of debt was due to the deferral of payment dates from 15 May to 5 June to help tax agents manage the extra commitments associated with the tax bonus. \$1.5 billion of debt crystallised in late June, leaving little time for debt collection action before the end of the year.

In 2008-09, we negotiated 682,201 payment arrangements to the value of \$14.2 billion. This represents a 6 per cent growth in the number of payment arrangements compared to the prior year, reflecting our policy of assisting viable businesses with short term cash flow difficulties.

There was an increase in insolvency tax debt, which rose 26.8 per cent over the past twelve months, although Tax Office initiated wind-up actions only represent 5.6 per cent of total wind-up actions and 2% of total bankruptcies.

For the first time we have engaged the assistance of an overseas revenue agency in the collection of tax debts. We utilised the new 'mutual assistance in collection' provision in our bilateral tax treaty with New Zealand in taking this innovative approach.

Assisting taxpayers in the economic downturn

In response to the economic downturn, the Tax Office introduced a number of additional measures to assist taxpayers, especially small businesses, experiencing financial difficulties: see also Attachment 4, article from *Business Review Weekly* of 15 October 2009, titled 'Tax Office goes easy'.

Two key measures available to businesses with an annual turnover of less than \$2 million were introduced on 1 June 2009:

- twelve-month general interest charge-free payment arrangements
- deferred activity statement payment due dates.

The GST up-lift amount for quarterly instalments was also reduced from 9 per cent to 2 per cent for 2009-10, to better reflect the economic conditions.

To further assist taxpayers meet their obligations we piloted a credit card payment option in February 2009. In 2008-09 taxpayers made 12,219 payments worth \$42.7million.

Generally, feedback has been positive, particularly from small business representative bodies.

Also during 2008-09 we improved our response to people in serious hardship, providing them with greater access to relief (eg release, penalty and interest remission, payment arrangements, waiver recommendations, compromises and non pursuit).

During 2008-09, we received 3,281 release applications, a 37 per cent increase from the prior year. We granted full or partial release in 1,820 cases to the value of \$46.2 million, a 58 per cent increase in value compared with the previous year.

We advanced our research in the micro enterprise segment to help us understand how micro enterprise taxpayers come to have a tax debt and how they manage the situation.

We will continue to balance the need to support a level playing field by firmly dealing with taxpayers who are not engaged in the tax and superannuation systems, and providing support to taxpayers facing genuine hardship, especially viable businesses.

OUTPUT 3: COMPLIANCE ASSURANCE AND SUPPORT FOR REVENUE

Phoenix activity

In 2008-09, we maintained a focus on those who engage in Phoenix activities, and intervened earlier to ensure the liabilities of current entities were kept up to date and paid on time. We ran a targeted letter/phone campaign directed to those who appeared at risk for repeat Phoenix behaviour.

The Tax Office, the Australian Securities and Investments Commission and the Treasury are working together to identify a range of potential legislative remedies that could help us better address fraudulent phoenix behaviour.

Since 2000, ten company directors have been prosecuted for phoenix-related offences, arising from Tax Office referred matters. An additional four briefs of evidence are currently with the Commonwealth Director of Public Prosecutions (CDPP), with charges laid in relation to three matters. There are currently five potential prosecution cases in the pipeline for referral to the CDPP.

During 2008-09, 124 phoenix cases were finalised raising \$83.3 million in tax and penalties.

High wealth individuals

At 30 June 2009, there were 102 high wealth individual audits in progress and a further 25 are about to commence. Collections over the three years to 2006-2009 exceeded commitments made to government, \$568 million against a target of \$506 million.

As at early October 2009, we have issued 2,786 letters to potential high wealth individuals to confirm information and gain an understanding of their individual circumstances.

From the responses received to date, we have so far identified 250 new high wealth individuals: that is, individuals that control wealth over \$30 million. A total of 4,000 letters will be issued by the end of June 2010 and we expect to identify around 2,000 new high wealth individuals from this process.

Currently there are 1,817 high wealthy individuals who control wealth over \$30 million.

Cross-border tax avoidance and evasion

We have been targeting cross-border tax avoidance and evasion, paying particular attention to the impacts of the global economic downturn and the anticipated escalation in risks related to transfer pricing behaviour.

Annual compliance arrangements

Annual compliance arrangements are designed primarily for large corporates and provide them with reasonable levels of practical certainty.

We currently have four annual compliance arrangements in place, all of which have been signed since October 2008. These include:

- the ANZ Bank (for income tax)
- the Commonwealth Bank (for income tax)
- Integral Energy (for GST), and
- Origin Energy (for GST).

Cash economy

We better integrated our strategies to treat a range of risks across the cash economy including identifying unexplained conspicuous consumption and unrealistically low income levels, as well as following up on reports of tax evasion from the community.

We are continuing to develop benchmarks to assist with these strategies. We recently expanded our range of benchmarks by releasing 58 small business benchmarks based on information supplied in the income tax returns of particular groups. Small business benchmarks provide a snapshot of what, on average, is happening in a particular industry by looking at various business costs in relation to turnover. These benchmarks include existing input benchmarks which we have developed in conjunction with the relevant industry associations. Small business benchmarks contribute to voluntary compliance and are a case selection tool for us.

We also sent 50,000 letters to people at risk of understating their income.

Engagement with the tax profession

We improved access to technical experts for the profession with over 500 agents gaining more direct access in 2008-09.

We paid particular emphasis on the more serious non-compliant behaviours of registered practitioners and the activities of unregistered or ineligible agents.

There was a strong take-up rate of pre-filing by tax agents (as well as individuals lodging their own returns).

Public rulings and priority technical issues

We issued 74 public rulings and determinations (22 drafts and 52 finals) on income tax, GST, fuel tax (including capital gains, international tax and administration), and petroleum resource rent tax. We have reduced the number of public rulings that are outside the originally notified timeframe. However, we remain concerned that the tax

profession is not bringing to our attention practices that are prevalent or emerging in the market that do not have a Tax Office view.

During 2008-09, we settled the Tax Office view on 95 priority technical issues. There are now just 16 priority technical issues aged over six months without a Tax Office view. We continued to allocate our senior technical staff to our highest priority technical issues to resolve those issues in a timely manner.

During 2008–09, we implemented a number of process improvements for resolving priority technical issues. These included earlier involvement of senior officers and formal case call-over procedures where resolution of a complex issue is taking longer than expected.

OUTPUT 4: COMPLIANCE ASSURANCE AND SUPPORT FOR TRANSFERS AND REGULATION OF SUPERANNUATION FUNDS

First Home Saver Accounts

During 2008-09, we worked on the implementation of the First Home Saver Accounts measure. Initial system functionality was implemented in July. As part of the implementation process, we consulted extensively with the Child Support Agency, Centrelink, Treasury and Department of Families, Housing, Community Services and Indigenous Affairs.

Superannuation guarantee

We had 8,490 cases on hand as 30 June 2008. We had 17,123 employee complaints referred to us and finalised 20,199 cases. As at 30 June 2009, there were 5,414 employee notification cases on hand, representing a reduction of 36 per cent during the year.

In 2008-09, from all of our case work including cases relating to employee complaints, we raised \$277 million in superannuation entitlements and around \$100 million was received from statements lodged voluntarily by employers. During the year, around \$230 million was collected and \$292 million placed in employees' superannuation accounts (this amount includes collections from previous financial years).

Other superannuation issues

With approximately 97 per cent of funds now lodging through an agent, we simplified reporting for superannuation trustees and implemented relationship manager visits and phone calls to tax agents to facilitate timely lodgments of fund returns.

On time lodgments in 2008-09 were up 5 per cent from the previous year (ie. 71 per cent as compared with 66 per cent the year before).

Our work with the Australian Prudential Regulatory Authority to develop new products and improve access to superannuation experts is progressing. We have new processes for providing interpretative advice on superannuation issues. A draft practice statement on Superannuation Industry Supervision Act advice was published in June 2009, explaining the technical assistance available from the Tax Office.

Assistance to self-managed superannuation funds

We provided guidance to new self-managed superannuation funds and trustees through industry publications and broadcast messages; as well as direct contact with new trustees to outline their obligations.

A new suite of publications for self-managed superannuation funds was developed. These are tailored to specific self-managed superannuation fund life events and cover: *Thinking about self-managed super* (for those considering establishing a self-managed superannuation fund); *Setting up a self-managed superannuation fund: Running a self-managed superannuation fund* (with everything trustees need to know when running a self-managed superannuation funds); and *Winding up a self-managed superannuation fund*.

We worked with the superannuation industry to improve the professionalism of approved auditors, including a project in conjunction with the Auditing and Assurance Standards Board which resulted in the development of Guidance Statement GS009 Auditing Self-managed Superannuation Funds issued in October 2008.

Detecting and deterring illegal early release schemes for superannuation

During 2008–09, we improved our practices for managing illegal early release schemes for superannuation, including co-ordinated efforts with the NSW Police Force, sharing intelligence as allowed under the law. The results being better detection and close down of suspect finds and improved inter-agency support to the work of addressing this illegal behaviour.

Significant work was undertaken to deter new schemes, including the publication of a taxpayer alert outlining our concerns and advising of possible actions against participants and promoters.

During 2008-09 we suppressed from public view on the Australian Business Register and Super Fund Lookup, the details of 509 self-managed superannuation funds suspected of having links to illegal early release schemes. Suppression of such funds on Super Fund Lookup is a preventative measure so that the self-managed superannuation fund cannot receive rollovers from Australian Prudential Regulatory Authority funds.

We have strengthened our intelligence networks with a new hotline available since 20 April 2009. We are also consulting with the superannuation industry about strengthening the rollover process and introducing a new registration risk review process.

Superannuation co-contributions

In all, some \$1.13 billion in co-contributions were paid on behalf of approximately 1.26 million people. We deployed new technology to support the administration of superannuation co-contributions in February 2009. A number of issues were encountered with the new system that caused delays in some payments.

We contacted all individuals eligible for a direct payment (approximately 7,500 people who had retired and no longer had superannuation accounts), to advise them of the delay and to make arrangements to pay urgent hardship claims. Additionally, arrangements were put in place to pay the balance of entitlements for all those affected, with interest as prescribed by law, as early as possible in the 2009-10 year.

Lost Members Register

A review of information on the Lost Members Register was undertaken during the year. This significantly improved data on the register and resulted in the total number of reported lost accounts reducing to 4.8 million (from 1.6 million on 30 June 2008), with only a relatively minor increase in the reported value of the amounts involved to \$13.6 billion (up by \$0.7 billion on 30 June 2008).

OUTPUT 5: SERVICES TO GOVERNMENT AND AGENCIES

Memoranda of understanding

The Tax Office signed 11 new Memoranda of understanding (MOUs) in 2008-09 (not including MOUs relating to the Australian Business Register).

We continue to meet commitments under various memoranda of understanding (MOUs). A high-level review assessed reputation, revenue and information security risks arising from all 57 current Tax Office MOUs and developed strategies for dealing with any risks.

We provide significant assistance to Centrelink, the Child Support Agency and the Australian Bureau of Statistics, amongst others, under our MOUs.

Carbon Pollution Reduction Scheme

We have good working relationships with partner agencies in relation to the Carbon Pollution Reduction Scheme, exploring the potential design of registration schemes and other administrative requirements.

The Tax Office continued to provide assistance to Treasury and others on a wide range of fuel assistance schemes.

Working with advisory bodies and scrutineers

We have welcomed the advisory role of the JCPAA in relation to the stewardship of the Tax Office.

We have also worked closely with the Ombudsman, the Australian National Audit Office and the Inspector-General of Taxation to identify further practical improvements to tax administration.

The Chief Internal Auditor reports to the Tax Office's Audit Committee on the timeliness and quality of the implementation of agreed recommendations from others.

Australian Business Register

We progressed a number of projects to establish the Australian Business Register as the Government's business register, including:

- replacing the 'registered superannuation entity' identifier issued by the Australian Prudential Regulation Authority with the Australian Business Number;
- contributing to the design of the Multi-agency Registration Authority legislation establishing the Registrar's formal role in whole-of-government authentication processes;
- continuing engagement with partner agencies to further refine the COAG-endorsed Australian Business Number – Business Names implementation plan; and

- establishing an inter-agency advisory group.

There was a 72 per cent increase in partnership agreements with Commonwealth, State and Territory and local governments wishing to use Australian Business Register data and we now have 136 partner agencies involved in data sharing.

Working with overseas tax administrations

We are an influential member of a number of international tax bodies such as the OECD's Forum on Tax Administration, and co-sponsored a number of international studies.

We have also supported the Joint International Tax Shelter Information Centre's commitment to continue collaborative efforts to curb abusive tax avoidance arrangements and schemes.

We worked with revenue agencies from Canada, France, Italy, New Zealand, Sweden, UK, and US, all member countries of the OECD's Forum on Tax Administration, to reduce the abusive use of tax havens. This included the development of a joint media response to work being undertaken across the world in relation to the abusive use of accounts held in Liechtenstein.

We have continued to work with other jurisdictions such as the Internal Revenue Service in the United States on common operations.

CHAPTER 4: SPECIFIC COMMITMENTS TO GOVERNMENT

NEW COMMITMENTS IN 2008-09

Income Tax Investment Initiative

During the 2007-08 Additional Estimates process, the Tax Office received funding of \$496.2 million (including \$8.6 million in capital) over years commencing in 2008-09 to expand our income tax compliance program. In May 2008, an additional \$277.9 million over four years was provided to the Tax Office, bringing our total funding for income tax compliance activities to \$774.1 million.

Based on the best available preliminary end-of-year estimates, income tax liabilities exceeded our base commitment by \$568 million. Furthermore, cash collections are likely to be about \$50 million ahead of expectations. However, we have seen some push back from those affected, particularly in relation to what are often contentious issues.

Superannuation – Temporary Residents

We consulted with industry to lessen the impact of the changes, offered pre-lodgment assistance to some funds and developed guidelines for the remission of penalties in the first year.

In May 2009 we notified 436 super providers that 366,965 individuals were eligible departed temporary residents.

At 30 June, around \$160 million had been collected. There were 95 funds that had not complied, mostly smaller Australian Prudential Regulation Authority funds. After follow-up, this number has reduced to two. Action is continuing with the two outstanding funds.

COMMITMENTS FROM PREVIOUS YEARS

Superannuation Guarantee enquiries

Changes to our processes meant that we were (and are) able to prioritise and action complaint cases more effectively.

In May 2009, we did a pilot involving pre-audit checks on employee notifications. This has been very successful as it has resulted in all the cases in the pilot being commenced within 28 days. Early commencement is important to the ultimate success of any superannuation guarantee compliance action.

As at 30 June 2009, all employee notification cases on hand had been commenced. We are confident that we will be able to commence 100 per cent of employee complaint cases with the 28 day service standard from 1 July 2009.

There had been problems with the system, giving rise to delays in issuing regular advice to employees inquiring about their superannuation. From 12 June 2009, all such letters are issuing correctly through both the audit and debt stages.

Project Wickenby

Project Wickenby is a cross-agency operation targeting tax arrangements involving tailored offshore schemes established by domestic and overseas promoters, aimed at creating fictitious deductions or concealing income.

Project to date, the original commitment was \$290 million in collections, made up of \$167 million in cash collections from Wickenby action and a further \$123 million in expected tax collections in subsequent years from people subject to Wickenby action (compliance dividend). Wickenby agencies are exceeding the original commitment, with collections of \$352 million, comprising \$129 million cash collected from Wickenby action and \$223 million compliance dividend.

Our main commitment to Government for 2008-09 was to collect \$132 million cash, consisting of \$86 million in cash collections from active compliance interventions and \$46 million compliance dividend.

In 2008-09 actual collections totalled \$199 million, comprising \$40 million from our audit program and a further \$159 million paid in subsequent years from people who have been subject to Wickenby action (the compliance dividend).

As you will note, the compliance dividend has been higher than forecast while cash collections are currently less than planned. In addition, to the end of August 2009, 46 people have been charged with indictable offences.

CHAPTER 5: SURVEY RESULTS

OVERALL PERFORMANCE

Our surveys show that our relationships with the community, businesses and tax professionals remain strong.

Business and community perceptions surveys suggest that the vast majority of people are of the view that the Tax Office does a good job. We use these surveys to target areas where we can improve. For example, the Legal Practitioner Services Survey provided the lowest level of satisfaction, with legal practitioners wanting the same level of services and tools that we make available to tax agents.

Some key survey results are provided below:

Businesses

According to the Business Perceptions Survey (May 2009):

- 90 per cent of businesses said, overall, we are doing a good job
- 17 per cent of businesses believed we were doing a good job and felt the Tax Office was helpful
- 11 per cent felt the Tax Office is efficient and effective, and
- 10 per cent of businesses disagreed with the statement that we were doing a good job; of these 19 per cent mentioned bad customer service as the main reason for dissatisfaction, and 15 per cent said they found it difficult to contact people or find information. 50 per cent of these businesses provided reasons for dissatisfaction that are outside the Tax Office's control, including 'The tax system is not fair' (18 per cent) and 'The system is too complex/not clear' (13 per cent).

Businesses - compliance experience – businesses

Results about the compliance experience include:

- 87 per cent agreed they are coping well with meeting all business tax obligations
- 77 per cent agreed the Tax Office tries to make complying with business tax obligations as easy as possible
- 62 per cent agreed the Tax Office tries to make complying with business tax obligations as inexpensive as possible
- 60 per cent agreed it is easier now than in the past to deal with the tax system
- 57 per cent agreed the Tax Office values feedback from businesses about the way the tax system is run.

Individuals - compliance experience

According to the Tracking the Individuals Segment Survey 2009:

- 71 per cent said that they collected information needed to complete a tax return themselves. 25 per cent said they gathered information from an accountant or tax agent or spouse (8 per cent).
- 60 per cent said their accountant or tax agent lodged their last income tax return, followed by themselves (35 per cent).
- 64 per cent agreed that the Tax Office treats them in a fair and impartial manner and provides the needed information to manage tax affairs (61 per cent)

- 57 per cent agreed the Tax Office provides consistent advice and information
- 55 per cent agreed the Tax Office tries to make complying with my personal tax obligations as easy as possible
- 54 per cent agreed the Tax Office tries to make complying with my personal tax obligations as inexpensive as possible.

Service delivery

Satisfaction with calls to Tax Office call centres continues to be relatively high, with over 83 per cent of respondents reporting that the call met or exceeded their expectations.

Overall, complaints about telephony were down 29 per cent in 2008-09.

The proportion of businesses using the Tax Office Business Portal increased significantly from 18 per cent in the November 2008 Business Perceptions Survey to 23 per cent in the May 2009 survey. This is the highest reported usage of the Business Portal since the survey's inception.

Evaluation of the Tax Office website was conducted with four groups: employees, students, retirees and investors. The majority agreed that the website provided relevant information at the right level, resulted in less need to contact the Tax Office, and made information easy to find. The website performed most strongly in providing relevant information and most weakly in making the required information easy to find.

Legal practitioner services survey 2008

Results from this survey were:

- 18 per cent were satisfied with the relationship between the Tax Office and legal profession, while 35 per cent were dissatisfied and 48 per cent were neutral
- 45 per cent were satisfied with the overall service they received from the Tax Office in the past 12 months, while 29 per cent were dissatisfied
- The issue considered most important for the Tax Office to address was the provision of products and services to legal practitioners that will assist them when representing clients (92% rated this important). The services considered to be the highest priority were:
 - direct access to Tax Office legal professionals (65 per cent), and
 - a priority telephone service to access relevant Tax Office staff for urgent matters (62 per cent).

CHAPTER 6: LOOKING FORWARD

We had the benefit of the Committee's views in finalising our *Corporate plan 2009-10* (provided at Attachment 3). The Plan identifies our corporate priorities for the coming year, and our cascading line plans build a clear and strong sense of direction for our people. We have also released our *Compliance Plan 2009-10*, which also benefited from the views of the Committee, with a view to encouraging high levels of voluntary compliance.

The Government continues to rely on us to deliver major outcomes for the community. In maintaining our reputation we need to deliver on additional commitments in a very difficult economic environment, guided always by our corporate values. Times of change require strong leadership and I am looking to our team leaders, managers and senior executives to step up in their roles, to be role models for others, to manage performance including the development of talent, to encourage ideas and to look for continuous improvement.

Through Federal Budget and other processes the Government has asked us to take on extra responsibilities to assist taxpayers through our debt work and to deal with increased risks to the revenue in a variable economic climate.

For example, we received a funding increase of around \$719 million over four years for a demanding range of help and compliance activities, including the delivery of an additional \$5.7 billion in revenue over those years. The program will cover all of our markets, with a particular focus on large businesses and high wealth individuals. However, delivery will be based on a holistic approach that emphasises early intervention, prevention over cure, coupled with firm but fair action where necessary.

Notwithstanding this additional funding, given the extra workloads we will still be required to do more with less overall. We must continue on our thrift pathway, and continue to look for productivity improvements. We cannot afford to take our eyes off our efficiency and effectiveness.

We are also using some of the additional funding to build our capabilities in areas such as data-matching, and in the identification and timely resolution of complex tax and superannuation issues.

Our Change Program and the need to deliver a range of new legislative measures will stretch us again this year. While we are putting in a lot of effort to make good progress with the delivery of our Change Program, until we finalise the program we will have little capacity to implement any new major changes to our systems.

Given the current review of the tax system by Treasury and others, one particular area of focus will be early consideration of potential new tax and superannuation policy changes – particularly from the perspectives of our business and interpretative acumen and of administration and compliance cost impacts. For example, the timing of major new initiatives may be influenced by our capacity or the capacity of others to implement the change within a certain timeframe.

The effects of the economic downturn translate to more taxpayers experiencing financial hardship and having difficulty in paying tax and superannuation debts. The timing of recovery will vary for different people, particularly as there is often a lag with levels of employment. We need to continue to be fair and reasonable with people in these situations, while being fair but firm with businesses that are not viable, or those who seek

to abuse the system. In everything we do, we have to be guided by our corporate values.

Rapid change will continue to be the norm. We need to continue to adapt to, and anticipate, this changing environment.

Our Strategic statement 2010-15

Our draft *Strategic statement 2010-15* (provided at Attachment 2) outlines our initial thinking about our longer-term strategic direction.

We have framed our draft statement from the perspective that all Australians, whether they are individuals or corporate enterprises or representative bodies, have a shared ownership of their tax and superannuation systems and therefore have a mutual interest in the effective and efficient functioning of those systems.

We welcome your insights and comments on our proposed strategic directions for the future.

We hope to finalise and release our new statement in 2010, our centenary year.

CHAPTER 7: JCPAA REPORT 410: TAX ADMINISTRATION

PROGRESS ON IMPLEMENTATION OF RECOMMENDATIONS IN JCPAA REPORT 410: TAX ADMINISTRATION

In our March 2009 report to the Committee, we reported on the progress of implementation of the 11 administrative recommendations contained in the Committee's *Report 410: Tax Administration*. We reported that we had implemented seven recommendations (recommendations 1, 9, 10, 11, 15, 16 and 17) and were progressing the completion of a further four recommendations (recommendations 12, 13, 14 and 18).

Since then, we have implemented a further three recommendations and are progressing the completion of the final outstanding recommendation. The status of these four recommendations is described below:

Recommendation 12

The ATO develop a policy to support decisions involving periods of grace where it changes its view of the law. Unless there are exceptional circumstances, no period of grace should exceed 12 months.

Completed: The recommendation was implemented by inserting the following paragraph into the Practice Statement Law Administration - *PSLA 2008/12: Public advice and guidance products: selection, development, publication and review processes*, in June 2009:

38. Where a public advice or guidance product changes the Commissioner's view on how the laws administered apply (or would apply), it may sometimes be appropriate to give taxpayers time to comply with the new view. Unless there are exceptional circumstances, the time given to taxpayers to comply should not exceed 12 months. For example, if a change in the Commissioner's view on the application of the law to an industry would require the taxpayers in that industry to make changes to their accounting systems and business practices to ensure that the required information was captured from the date of the change of view, it may be appropriate to give them a period of time to make the required changes.

Recommendation 13

The ATO establish and monitor compliance of protocols for determining when an investigation is an audit, when the audit commences, and when the ATO should inform the taxpayer of the audit.

Completed: We have drafted new content into our publicly available Taxpayer Charter booklet: *If you're subject to enquiry or audit* to cover investigations and the other matters in this recommendation. We will continue to enhance these protocols over time through gaining input from tax professionals to update them for other matters including voluntary disclosures and the proposed safe harbour on penalties. Our monitoring of these protocols will occur through the Integrated Quality Framework - our new case-based quality assurance processes.

Staff have been directed to advise taxpayers that a tax audit has commenced in all appropriate cases. Our voluntary disclosure shortfall penalty ruling MT 2008/3 was

published in November 2008 and sets out clearly the interpretative matters relating to notification of the commencement of tax audits.

Recommendation 14

The ATO amend its policies to limit the practice of issues assessments that are contingent on each other, and specify in what circumstances such assessments may be validly issued. In the absence of administrative change, the Government introduce legislation to this effect.

In progress. We are currently undertaking a review of our Practice Statement Law Administration *PSLA 2006/7: Alternative assessments*, to ensure we limit the use of alternative assessments to appropriate circumstances. We expect to finalise the document towards the second half of 2010.

Recommendation 18

The ATO include in its annual report performance information about the amount of revenue collected through penalties and interest and the amount of revenue (divided between penalties and interest) remitted back to taxpayers. Where appropriate, this should be accompanied by discussion.

Completed: The Tax Office 2008-09 Annual Report includes a table that records the value of penalties and interest imposed, revenue collected through penalties and interest and the value of penalties and interest remitted for the 2007-08 and 2008-09 years.



Our corporate plan for 2008-09 provides a multi-year view of our corporate priorities in the lead up to our centenary in 2010. It is not intended to include everything we do, but to outline our corporate priorities for 2008-09.

The plan focuses on strategy and capability, consistent with our *Strategic Statement 2006-10*. The plan underpins and supports the delivery of our priorities for 2008-09, guides our ongoing change agenda and assists us to identify opportunities for productivity improvements.

Our priorities are presented in terms of the outcome outputs framework to assure government and the community that Australia's tax and superannuation systems will be effectively and efficiently managed and administered.

Our values

Our values are:

- being fair and professional
- applying the rule of law
- supporting taxpayers who want to do the right thing and being fair but firm with those who don't
- being consultative, collaborative and willing to co-design
- being open and accountable, and
- being responsive to challenges and opportunities.

TAX OFFICE OUTCOME

Effectively manage and shape systems that support and fund services for Australians and give effect to social and economic policy through the tax and superannuation systems

STRATEGIC AREAS OF FOCUS

To give the Government and the community the very best tax and superannuation administration, our strategic areas of focus for 2008-09 across all outputs are:

- delivering the Government's agenda in terms of our outcome, outputs and effectiveness
- differentiating our responses to encourage high levels of voluntary compliance and to reduce compliance costs
- tailoring business processes to make the taxpayer experience timely, easier and more personalised
- promoting and assisting a capable and well-regulated tax profession, and
- optimising opportunities for productivity improvements to ensure an efficient, effective and adaptive organisation.



Supporting the delivery of our Strategic Statement 2006-10

OUTPUT 1

Shape, design and build administrative systems

All sub-plans

- Implement the Government's legislative program, including the Government's pre-election and budget commitments
- Provide quality and timely advice to Treasury and Government on policy proposals, law design and revenue forecasts
- Work with Treasury and others in complex and new areas of the law, such as trusts, consolidation and taxation of financial arrangements
- Consider withholding arrangements for high risk industries
- Manage litigation to meet new Federal Court procedures and better address legal risks
- Deliver our change program as outlined in *Making it easier to comply* 2002-10
- Extend our differentiation capability by enhanced use of analytics and risk profiling techniques 2007-10
- Support the standard business reporting initiative 2007-10

OUTPUT 2

Management of revenue collection and transfers

Operations sub-plan

- Maintain our current focus on reducing the rate of growth of collectable debt including:
 - superannuation guarantee charge debt
 - enhancing our debt collection activity through the debt collection enhancement project 2007-11
- Implement our change program while maintaining a primary focus on the delivery of Government priorities
- Maintain acceptable service standards, recognising we expect some standards will be lower than usual for a period, reflecting the impact of our change program 2007-10
- Develop and commence implementing a new business model to capitalise on our change program and to achieve a more client-centred approach 2008-10

OUTPUT 3

Compliance assurance and support for revenue collection

Compliance and Law sub-plans

- Support new measures and deliver on commitments to government, including:
 - Income Tax Investment 2008-12
 - Project Wickenby 2006-10
 - GST commitments to states and territories
- Promote and assist a capable and well-regulated tax profession
- Make it easier to comply, including:
 - expanding pre-filing of returns
 - providing assistance on corporate governance and increasing certainty, for example, annual compliance arrangements
 - assisting small business
 - improving ato.gov.au
- Use appropriately differentiated strategies to address key strategic risks, including:
 - cross-border tax avoidance/evasion and transfer pricing
 - abuse of the tax system, including phoenix arrangements and promotion of schemes
 - cash economy
- Provide high quality and timely advice through the public and private rulings programs and resolve the highest priority technical issues

OUTPUT 4

Compliance assurance and support for transfers and regulation of superannuation funds

Compliance and Law sub-plans

- Support new measures, including:
 - the First Home Saver Accounts 2008-12
- Support an effective superannuation system for Australia, with a focus on:
 - improving compliance with superannuation obligations, including employer obligations such as superannuation guarantee liabilities
 - detecting and deterring schemes to illegally access superannuation monies
 - ensuring regulatory and income tax compliance of self-managed superannuation funds, focusing on trustee and auditor obligations
- Promote and assist a capable and well-regulated tax and accounting profession, including auditors of superannuation funds
- Provide high quality and timely assistance, including the public and private rulings programs, on tax matters and guidance on the Superannuation Industry (Supervision) Act
- Resolve the highest priority technical issues

OUTPUT 5

Services to governments and agencies

All sub-plans

- Meet our commitments under our various memoranda of understanding with other departments and agencies, for example:
 - working with the Australian Bureau of Statistics to reduce the reporting burden on business
 - working with Centrelink to enable the effective operation of the welfare and taxation systems, including exchanging information and data matching
- Manage our relationships with external stakeholders, including Government, Treasury and scrutineers
- Provide quality valuation advice and services to government agencies
- Work with other agencies and intermediaries to position the Australian Business Register as the government's business register
- Work with other agencies on the emissions trading scheme
- Work with overseas tax administrations to counter avoidance and evasion and to avoid double taxation

CAPABILITY FOCUS AREAS

- Policy development and implementation
- Change and enterprise-wide approaches
- Security management
- Process and productivity improvement
- Tax and superannuation interpretative expertise
- Sourcing
- Analytics and intelligence
- User-centred design

ENABLING OUTPUT 1

Plan and manage

People and Place and Law sub-plans

- Streamline and integrate our governance processes with a focus on developing better effectiveness measures
- Implement a strategic program of internal audits, fraud control planning and internal fraud investigations and reviews
- Identify cost and productivity savings so as to be responsive to challenges, for example, efficiency dividend and absorption of new policy
- Integrate consultation from our forums into our ongoing change agenda and corporate directions
- Enhance the financial management framework to support financial integrity 2005-10
- Develop the new strategic statement and ongoing change agenda 2008-10

ENABLING OUTPUT 2

People

People and Place sub-plan

- Continue to develop and deploy innovative strategies and programs that enhance our leadership capabilities
- Build on productivity through the diversity of our workforce, including Indigenous employment
- Complete the integrated curriculum and skilling framework
- Deliver enterprise-wide, co-ordinated and innovative recruitment processes
- Build workforce plans and develop integrated workforce strategies to ensure workforce availability and improved productivity 2006-10
- Build a values-based, engaged organisation of high integrity 2007-10
- Drive innovation through front-line continuous improvement 2008-10

ENABLING OUTPUT 3

Workplace

People and Place and Law sub-plans

- Implement enhancements to the accommodation management framework and processes
- Maintain and enhance a positive organisational culture, including at the site level
- Ensure a safe and healthy workplace free from harassment and discrimination
- Further develop and implement the place plan and strategies that align with our development of workforce plans 2007-10
- Modernise our information research capability by further developing our eLibrary 2004-10
- Develop an enterprise-wide environmental policy and framework 2008-10

ENABLING OUTPUT 4

Information technology services

Information Technology sub-plan

- Provide IT tools and support for our people working collaboratively, including more use of video conferencing
- Enhance technologies that allow people to work across distance and time with others inside and outside the Tax Office 2006-10
- Ensure IT solutions are consistent with our IT strategy to deliver tools that manage large volumes of information, such as data matching and intelligence 2007-10
- Develop and manage ICT infrastructure service contracts, in particular, managed network services, end-user computing and centralised computing 2007-10
- Increase awareness of IT security requirements for our people, external stakeholders and tax agents 2007-10

Framework

Vision

Australians see their tax and superannuation systems as community assets, where willing participation is recognised as a hallmark of good citizenship.

We work with the community to ...

ENCOURAGE

ENABLE

SUPPORT

IMPROVE

CHAMPION

Strategic outcomes

Australians support and understand the benefits of voluntary compliance - they willingly participate.

Australians understand their rights and obligations and are able to comply easily and at minimal cost.

People are helped and assisted.

Non-compliance is deterred, detected and dealt with in partnership with the community.

We are passionate about improving our capabilities to be more agile and responsive to challenges and opportunities.

The ATO is valued by the community as world's best tax and superannuation administration.

We bring to the attention of Government the impacts of others as well as where the intent of the law is not achieved.

Business model

WE PROMOTE VOLUNTARY COMPLIANCE USING A RISK MANAGEMENT APPROACH BY:

HELPING PEOPLE AND THEIR ADVISERS UNDERSTAND THEIR RIGHTS AND OBLIGATIONS

MAKING IT AS EASY AS POSSIBLE TO COMPLY

DETERRING, DETECTING AND DEALING WITH NON-COMPLIANCE TO PROMOTE A LEVEL PLAYING FIELD

WE ANTICIPATE AND ADAPT TO CHANGES IN OUR ENVIRONMENT

WE CONSULT, COLLABORATE AND CO-DESIGN WITH THE COMMUNITY

WE FOSTER AND PROMOTE INTERNAL AND EXTERNAL CAPABILITIES

FROM THE COMMISSIONER



Our corporate plan for 2009–10 sets out the ATO's priorities moving into 2010, our centenary year. It is complemented by the *ATO plan 2009–10* which details all of our work. Both plans are presented in terms of the *ATO program framework*.

Looking forward, in this dynamic and challenging economic environment, we will provide practical assistance to individuals, businesses, and their agents, to help them comply with their obligations and receive their benefits.

As always, we will ensure we deliver our commitments to the government and remain vigilant to emerging risks.

Our corporate values guide our behaviours as fair and professional administrators of Australia's tax and superannuation systems. We strive to demonstrate our corporate values when doing our work and continue to build the community's trust and confidence in our administration.

Integral to delivering our plan is the valued contributions of our own people. We will continue to invest in shaping their skills, attitudes and capabilities to ensure we are a well equipped, world-class tax administration.

ATO OUTCOME

Confidence in the administration of aspects of Australia's taxation and superannuation systems through helping people understand their rights and obligations, improving ease of compliance and access to benefits, and managing non-compliance with the law

STRATEGIC AREAS OF FOCUS

The strategic areas of focus relate directly to our *Strategic statement 2006–10*, identifying the top strategic shifts being progressed during 2009–10. These shifts will improve our ability to give the government and the community the very best tax and superannuation administration. The strategic shifts we are focussing on in 2009–10 are:

- helping the community in practical ways to meet their obligations or receive benefits
- demonstrating ethical behaviour through effective corporate governance
- improving compliance in a way that promotes a level playing field for all
- building organisational agility to position ourselves for future opportunities and challenges.

PROGRAM 1

Shape, design and build administrative systems

- Implement the Government's legislative program
- Promote the integration of policy, legislation and administration so it works for the community
- Actively contribute to key reforms to shape our tax and transfer systems, including:
 - Australia's Future Tax System Review
 - the Board of Taxation's reviews
- Manage litigation strategically to better address legal risks and increase certainty
- Resolve the highest priority tax technical issues and inform the Government (through Treasury) of defects in the law
- Complete the scheduled change program deliverables..... 2002–10
- Improve our ability to differentiate by enhanced use of analytics and risk profiling techniques..... 2007–10
- Support the standard business reporting initiative..... 2007–10

PROGRAM 2

Management of revenue collection and transfers

- Continuously improve our ability to treat taxpayers according to their particular circumstances, including:
 - managing our debt collection activity with individuals and businesses in the current economic environment
 - providing practical assistance through our client contact services
- Maintain acceptable service standards, recognising we expect some standards will be lower than usual for a period, reflecting the impact of our change program and the current economic environment..... 2007–10
- Develop a new business model for our operational activities which is more efficient, flexible and client-centred in its approach
- Deliver on budget measures supporting small business

PROGRAM 3

Compliance assurance and support for revenue collections

- Support the community and protect Australia's revenue base, including:
 - supporting viable businesses and other taxpayers in genuine financial distress
 - promoting a level playing field for business
 - addressing risks associated with large business and the wealthy
 - managing risks related to international dealings
 - maintaining a highly-visible deterrent to abuse of the tax system, including the abusive use of tax havens and the cash economy
- Deliver on commitments to government, including delivering on specific compliance commitments, for example:
 - the expansion of income tax coverage
 - GST commitments to the states and territories
 - budget measures
- Improve access to our services and provide practical guidance, including:
 - pre-filing of returns
 - improving www.ato.gov.au
- Leverage our relationship with the Tax Practitioners Board to improve community and tax agent compliance
- Provide services that support a capable and well-regulated tax and accounting profession

PROGRAM 4

Compliance assurance and support for transfers and regulation of superannuation funds

- Support an effective superannuation system for Australia, including:
 - dealing firmly with promoters of schemes aimed at the illegal early release of superannuation, and provide information on the available hardship and compassionate grounds for release
 - ensuring that employers meet their superannuation obligations, including payment of superannuation entitlements and offering choice of super fund
 - appropriately regulating self-managed superannuation funds, with particular focus on helping new trustees comply with their obligations
- Support transfer and social welfare measures and other commitments to government, including:
 - implementing policy initiatives such as the Education Tax Refund, First Home Saver Accounts and Reform of Income Tests
- Provide services that support a capable and well-regulated tax and accounting profession, including auditors of self-managed funds

PROGRAM 5

Services to government and agencies

- Meet our commitments under our various memoranda of understanding with other departments and agencies, for example:
 - working with Centrelink to enable the effective operation of the welfare and taxation systems, including exchanging information and data matching
 - working with the Department of Climate Change on the Carbon Pollution Reduction Scheme
- Strengthen the value of our relationships, including with government, Treasury and scrutineers to better service the community
- Provide quality valuation advice and services to key government agencies
- Position the Australian Business Register as the Government's business register
- Provide logistical support to the Tax Practitioners Board in implementing the new tax agent services regulatory framework

ENABLING PROGRAM 1

Governance and stewardship

- Embed the ATO's enterprise governance framework in our business to ensure a high standard of public administration
- Release the ATO's new *Strategic statement 2010–15* and ongoing change agenda
- Improve the focus on strategic risks in the current business environment and the capability of our staff to apply the ATO's enterprise risk management framework
- Identify sustainable cost and productivity savings to meet our commitments within budget
- Enhance the financial management framework to support financial integrity and a balanced budget..... 2005–10

ENABLING PROGRAM 2

People

- Shape the culture of our organisation by embedding our corporate values, including targeted initiatives for increasing engagement and discretionary effort
- Implement workforce management strategies, including the new agency agreements, to enable flexibility in undertaking work and workforce shifts and achieve the optimum workforce mix
- Equip our leaders and managers to enhance productivity through performance management, continuous improvement and innovation
- Implement enterprise-wide, integrated learning and development approaches to enhance organisational capability and agility, including better integration of business and people systems
- Refine prevention and early intervention strategies and implement the redesigned people case management system to maintain a safe and healthy work environment and productive workforce

ENABLING PROGRAM 3

Workplace

- Settle the ATO location strategy
- Investigate opportunities to better use accommodation holdings to reduce overall costs
- Modernise our information research capability by expanding our eLibrary resources..... 2004–10

ENABLING PROGRAM 4

Information technology services

- Provide enterprise solution and technology services to ensure our systems meet ATO business needs
- Provide enterprise solution and technology services to ensure the completion of change program deliverables
- Provide enterprise solution and technology services to support tax time
- Manage ICT infrastructure service contracts, in particular, network services, end-user and centralised computing..... 2007–10
- Balance IT security requirements with business needs and implement recommendations of external reviews, such as improved information security... 2007–10
- Deliver the ATO's aspects of whole-of-government initiatives, including the recommendations from the Review of the Australian Government's use of Information and Communication Technology

VALUES

- Being fair and professional
- Supporting people who want to do the right thing and being fair but firm with those who don't
- Being open and accountable
- Applying the rule of law
- Being consultative, collaborative and willing to co-design
- Being responsive to challenges and opportunities



TAX OFFICE GOES EASY

Many SMEs are enjoying a new partnership with the ATO as payment obligations are ameliorated.

Report: Agnes King

- The Australian Taxation Office is honouring its promise to go easy on businesses unable to meet their tax obligations as a result of the global financial crisis. Accountants cite several cases of general interest charges being reversed over the phone or on the tax office portal, and it has never been easier for a small or medium enterprise to get a payment arrangement with the tax office, Kelly + Partners senior client director Brett Kelly says.

In June, when sentiment was low and the financial crisis was pinching SMEs in particular, tax commissioner Michael D'Ascenzo went to great lengths to show the business community an understanding and co-operative face. The focus was on early intervention strategies to stop businesses slipping into unmanageable debt because of tax bills.

"This will mainly involve flexible payment arrangements, together with remission of penalties and interest where appropriate," D'Ascenzo said at the time. Accountants say he's been true to his word.

"In many instances, the ATO is pro-actively advising us of the interest-free integrated client account arrangements that can be made, and the reversal of prior general interest charges made on these accounts," managing partner Anthony Pickham of AndrewsJakeman Bartlett & Cachia in Wollongong, south of Sydney, says.

"ATO officers have the ability to immediately reverse interest charges up to a limit of \$10,000 over the phone while you wait. Larger refunds must be made in writing, but we have had experience of the ATO reversing the first \$10,000 immediately and allowing the balance to be dealt with via correspondence."

Tax debts are being forgiven based on reasons that in the past would not have sufficed, HLB Mann Judd business services partner Matthew Gardiner says. One client, a recruitment agency that overlooked interest charges on its June 2008 activity statement during a takeover, had a \$6500 interest charge remitted in full, he says.

\$1.9b

The value of interest-free payment arrangements since June 1

85,000

The number of interest-free payment arrangements since June 1

6%

The increase in new payment arrangements compared with 2007-08

16%

The increase in new payment arrangements in the first two months of 2009-10

1500

The number of activity statement payments deferred since June 1



“In days gone by, the client would have probably gotten 50 per cent remitted – the ATO would meet you halfway. Now they are coming all the way,” Gardiner says.

In another case, interest had been accruing on a glass manufacturer’s tax bill for two years. The ATO wiped the \$2500 charge completely. “We were surprised given how long the debt had been mounting,” he says.

The ATO is also willing to accept longer payment arrangements as long as terms are reasonable and the debt is seen to be reducing. “We got arrangements up that we didn’t really have much hope for,” Pickham says.

One HLB retail client experienced

a sharp drop-off in sales during the economic downturn and ran up \$600,000 worth of GST and pay-as-you-go withholding tax, Gardiner says. The ATO entered into a payment arrangement allowing the company to pay \$20,000 a month until March 2010 and larger repayments after that.

ATO figures show a 6 per cent increase in the number of new payment arrangements in 2008-09, compared with the previous year. The ATO registered a 16 per cent increase in new payment arrangements in the first two months of 2009-10 compared with the same period last year. “If SMEs knew [about the scheme] they probably would use it but they need to be informed and they are

probably too scared to ask,” Kelly says.

But businesses should not get carried away by the ATO’s friendly face, PKF Australia director of taxation Lance Cunningham says. No love is extended to taxpayers aggressive about their tax planning, and those begging for payment arrangements must have a reasonable chance of making the payments.

“If the business is irrecoverable,” Cunningham says, “the ATO is lining up with the other creditors to get as much as they can as soon as they can.” BRW



BRW.COM.AU

To learn more about tax arrangements and the ATO, go to BRW.com.au



Good will provider: Australian Taxation Office commissioner Michael D'Ascenzo

OVERVIEW

EXTERNAL

23 SEPTEMBER 2009

UNCLASSIFIED

FORMAT

AUDIENCE

DATE

CLASSIFICATION

ATTACHMENT 5



Australian Government

Australian Taxation Office

FILE REF: 05/8799

Australian Taxation Office management arrangements

This document is approved by the Commissioner.

This document sets out the high level management arrangements of the Tax Office, providing a high level view of the ATO Executive, ATO Program Framework, sub-plan executives and business and service lines which support the Tax Office governance arrangements.

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THE COMMISSIONERS



Commissioner of Taxation Michael D'Ascenzo

The Commissioner of Taxation is responsible for the administration of aspects of Australia's taxation and superannuation systems and is also the Registrar of the Australian Business Register. The Commissioner also works with appropriate departments on policy matters.



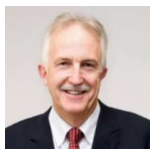
Second Commissioner Bruce Quigley

Second Commissioner Bruce Quigley leads our compliance program which develops and implements strategies to ensure individuals and businesses comply with their tax and superannuation obligations.



Acting Second Commissioner Kevin Fitzpatrick

Acting Second Commissioner Kevin Fitzpatrick has overall responsibility for the interpretation of tax and superannuation laws and oversees the implementation of relevant new policy. He also has a leadership role for our people, financial, governance and integrity activities and the Australian Valuation Office.



Second Commissioner David Butler

Second Commissioner David Butler leads the business operations, technology and knowledge management functions of the Tax Office.



Second Commissioner Jennie Granger

Second Commissioner Jennie Granger is on secondment with the Department of Prime Minister and Cabinet.

THE ATO EXECUTIVE COMMITTEE

To assist in managing the Tax Office the Commissioner has established a senior leadership group known as the ATO Executive Committee. The Committee is made up of the Commissioner, three Second Commissioners and other senior executives nominated by the Commissioner.

The ATO Executive Committee has been established to assist the Commissioner of Taxation to:

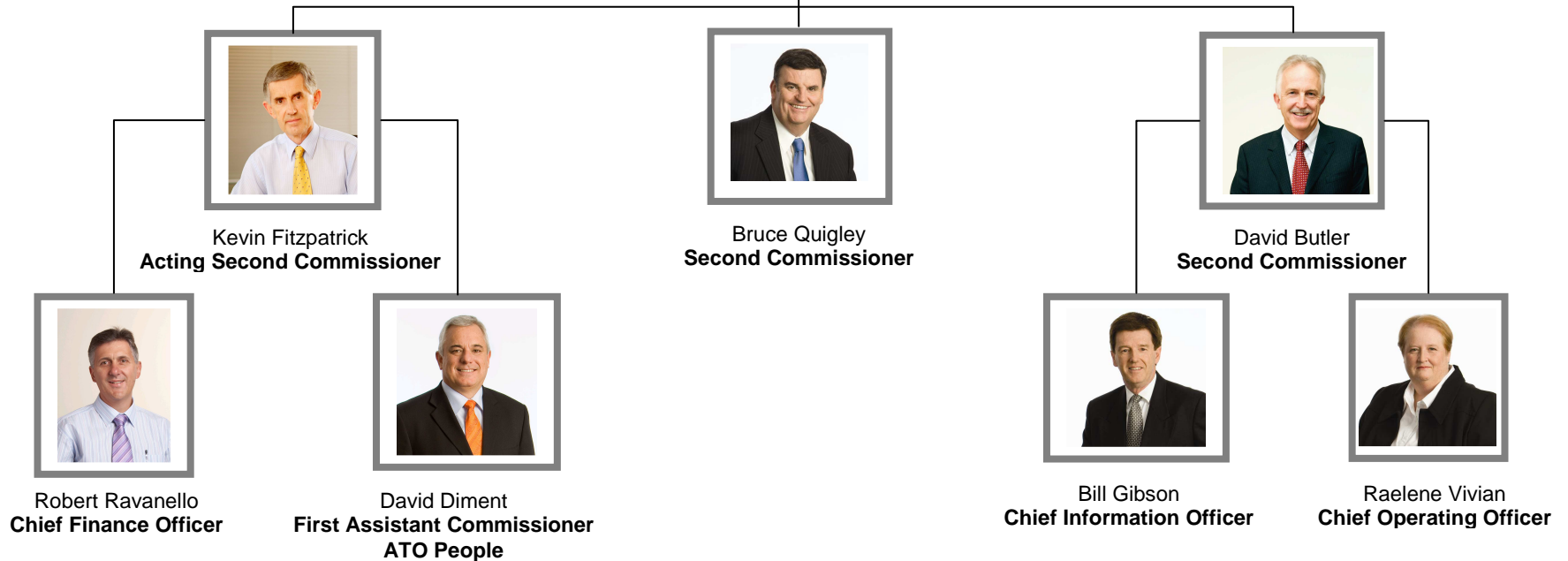
- a. set the longer term direction for the Tax Office, and
- b. execute his responsibilities:
 - to undertake the 'administration of aspects of Australia's tax and superannuation systems'
 - for the overall delivery of the Tax Office commitments to government
 - to manage the Tax Office as an agency.



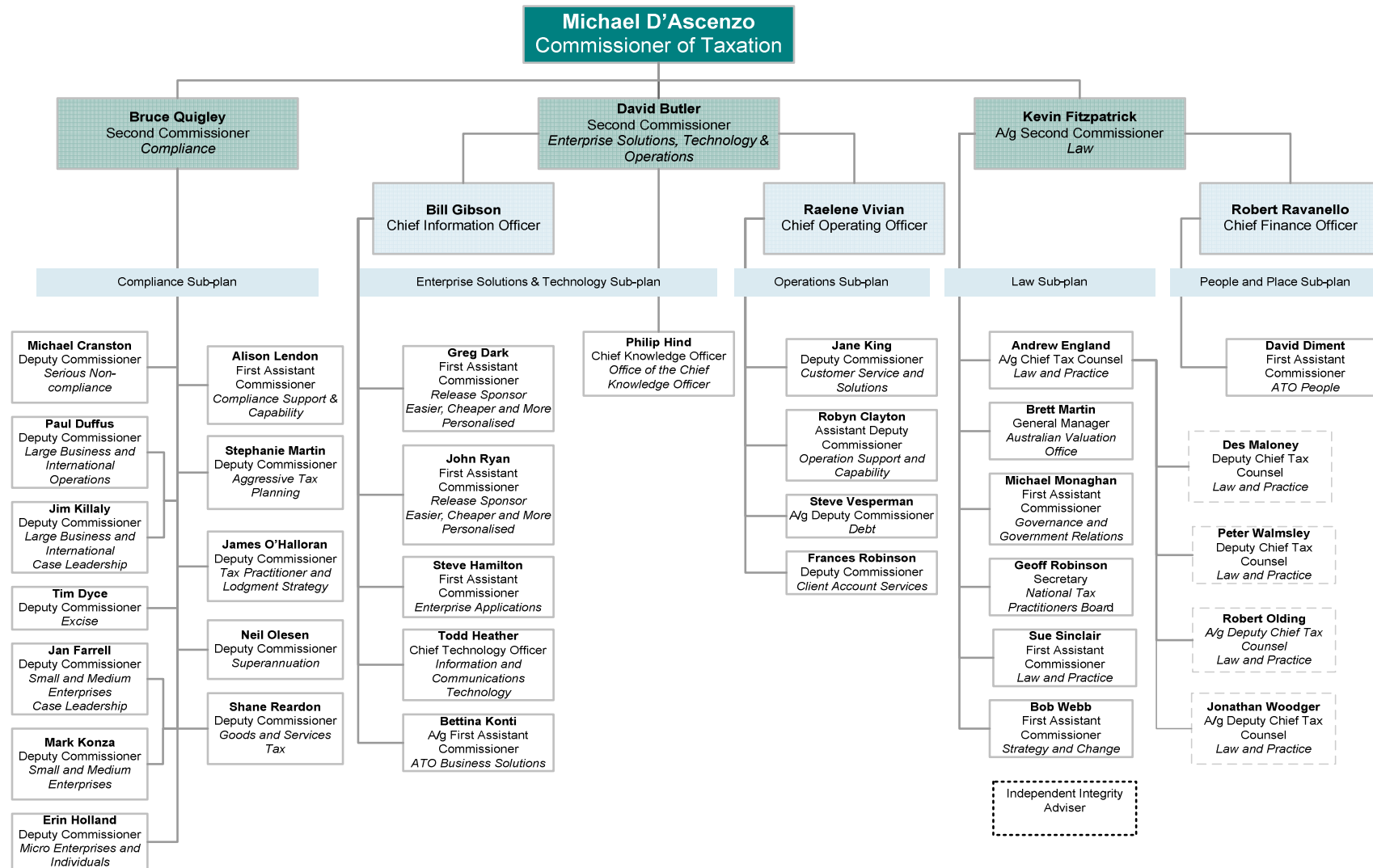
Michael D'Ascenzo
Commissioner of Taxation

The ATO Executive Committee's corporate strategic areas of focus are outlined in the annual ATO Corporate Plan. The ATO Executive Committee oversees the implementation of key activities in relation to these areas of focus, ensures assurance is delivered through governance processes and leads measurement of effectiveness of the activities.

The Second Commissioners are included given their responsibilities under Taxation Administration Act 1953. Other members cover areas of focus for the organisation at particular points in time. Currently these are Finance, Human Resources, Information Technology and Operations.



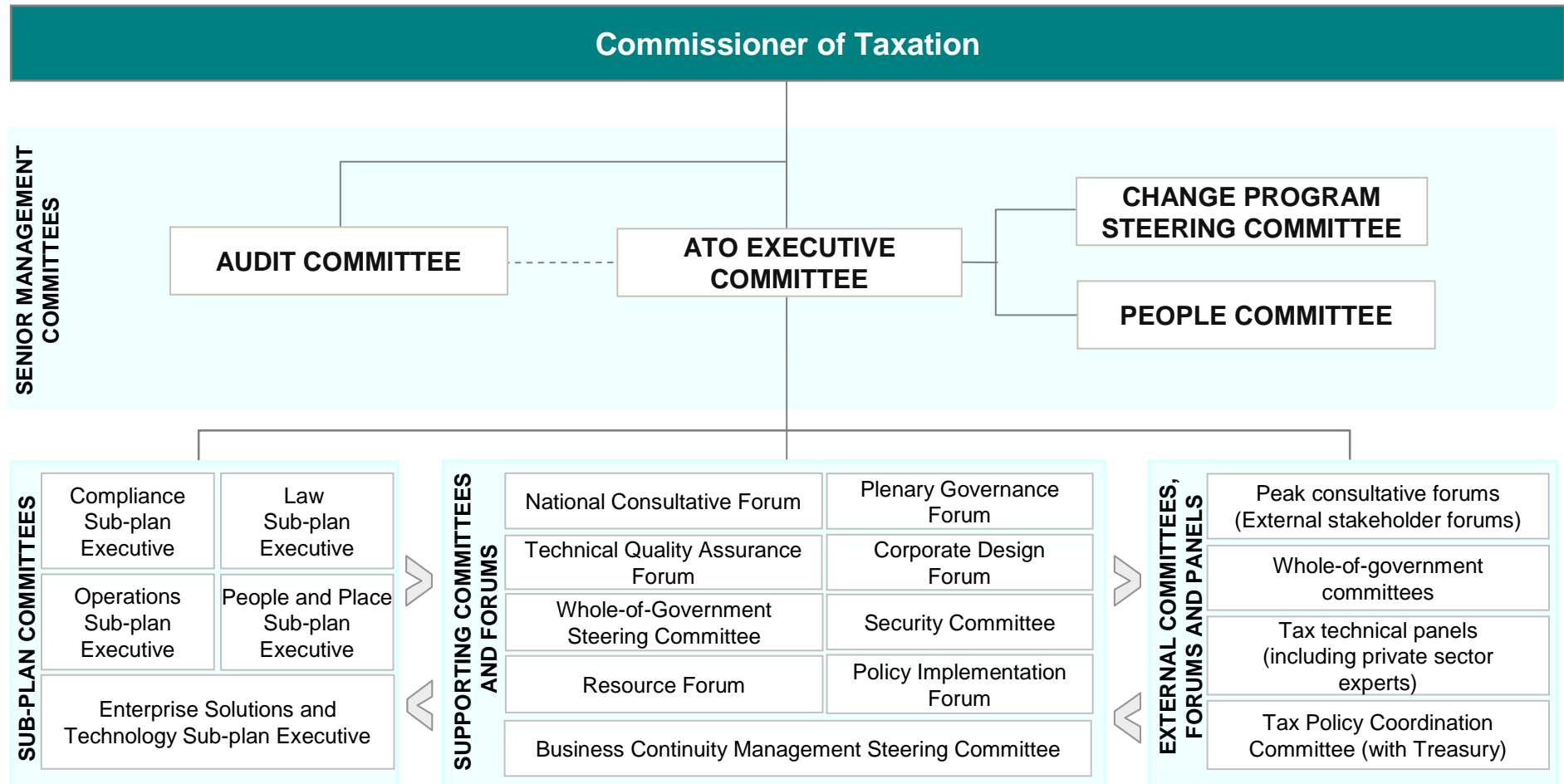
TAX OFFICE SENIOR EXECUTIVE REPORTING STRUCTURE



Senior Executives represented as A/g are undertaking higher duties.

TAX OFFICE KEY CORPORATE COMMITTEES AND FORUMS AND PEAK CONSULTATIVE FORUMS

Corporate committees and forums support the ATO Executive Committee, sub-plan executives and business and service lines by providing an enterprise-wide strategic focus on issues and fulfilling assurance roles. The Tax Office also convenes external stakeholder consultative forums to facilitate consultation, collaboration and co-design in administration of aspects of Australia’s taxation and superannuation systems.



ATO PROGRAM FRAMEWORK

Deliverables in the ATO Program Framework align work to achieve the Tax Office outcome.

OUTCOME

Confidence in the administration of Australia's taxation and superannuation systems through helping people understand their rights and obligations, improving ease of compliance and access to benefits, and managing non-compliance with the law.



ADMINISTERED PROGRAM

Tax bonus payments, Product stewardship waste (oil) scheme, Cleaner fuels scheme, Refundable film and television tax offset, Research and development tax offset, Private health insurance rebate, Superannuation co-contribution scheme, Superannuation guarantee scheme, Fuel tax credits scheme, Interest on overpayment and early payments for tax, Education tax refund, National urban water and desalination plan, National rental affordability scheme, First home saver accounts, Baby bonus, Bad debts and remission.



DEPARTMENTAL PROGRAMS

1 Shape, design and build administrative systems	2 Management of revenue collection and transfers	3 Compliance assurance and support for revenue collections	4 Compliance assurance and support for transfers and regulation of superannuation funds	5 Services to governments and agencies
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DELIVERABLES

1.1 Policy advice and revenue forecasting 1.2 Design and build administrative systems 1.3 Input to law design 1.4 Legal services 1.5 Law assurance	2.1 Registrations 2.2 Processing and accounts 2.3 Client contact 2.4 Debt collection and lodgment reminders	3.1 Marketing communications 3.2 Interpretative assistance 3.4 Active compliance 3.5 Compliance risk identification	4.1 Marketing communications 4.2 Interpretative assistance 4.4 Active compliance 4.5 Compliance risk identification	5.1 Valuation services 5.2 Cross-agency support 5.3 Government relations and issues management 5.4 Australian Business Register
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ENABLING PROGRAMS

E1 Governance and stewardship	E2 People	E3 Workplace	E4 Information technology services
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DELIVERABLES

E1.1 Corporate governance and stewardship E1.2 Financial management, procurement and assurance E1.3 Sub-plan and line governance and stewardship	E2.1 Employment framework E2.2 Workforce strategy E2.3 Workforce development E2.4 Performance and integrity E2.5 Safety and health E2.6 Internal communications E2.7 sub-plan and line people	E3.1 Physical workplace and administration E3.2 Information services	E4.1 Strategy, architecture and futures E4.2 Infrastructure provisioning and service delivery E4.3 Alignment and design E4.4 Application development E4.5 Applications management E4.6 IT system security, compliance and assurance
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Note: Non-sequential numbering for deliverables under programs 3 and 4 is due to the movement of the legal services and law assurance deliverables to program 1 in 2009-10. Numbering has been retained to align with that used in business systems.

The Tax Office has established formal enterprise planning and reporting processes to provide a clear line of sight from the Tax Office outcome to departmental and enabling program deliverables. Reporting against planning documents enables the Tax Office to monitor progress on delivering the Tax Office outcome to community and government.

TAX OFFICE SUB-PLANS AND BUSINESS AND SERVICE LINES

The sub-plan structure supports the delivery of the ATO program framework.

ATO EXECUTIVE COMMITTEE					
Compliance Executive		Enterprise Solutions and Technology Sub-plan Executive	Law Executive	People and Place Executive	Operations Executive
Compliance Sub-plan		Enterprise Solutions and Technology Sub-plan	Law Sub-plan	People and Place Sub-plan	Operations Sub-plan
Sub-plan Role	The Compliance Sub-plan monitors emerging risks, marshalling expertise from across the office and forging effective strategic partnerships with other key stakeholders, to best position the Tax Office to manage and respond to challenges and opportunities. The sub-plan creates an environment that promotes high levels of voluntary compliance with tax and superannuation laws and supports other government initiatives.	The Enterprise Solutions and Technology Sub-plan enables the Tax Office to achieve its outcomes for community and government through understanding how the Tax Office operates today and into the future by promoting agreed enterprise-wide standards and approaches to legislative, business process and systems design. The sub-plan creates optimises and leverages enterprise technology, systems and process, actively incorporating innovation and new ideas and educating tax office staff in the enterprise solution.	The Law Sub-plan establishes and maintains the Tax Office's view of existing tax laws and ensures integrity in our administration. The sub-plan oversees the design and implementation of administrative systems to support new laws. It also enhances, facilitates and promotes effective enterprise-wide governance, and provides a mechanism for the community to raise issues about current tax and superannuation laws.	The People and Place Sub-plan delivers financial management, procurement, people and workplace services and programs that enable the Tax Office to achieve its business outcomes and meet its legislative obligations.	The Operations Sub-plan provides a cost-effective, efficient service which promotes self-service and voluntary compliance. The Sub-plan makes it easier and cheaper for Tax Office clients to do business and helps them to remain engaged with the tax and superannuation systems.
Business and Service Lines	<ul style="list-style-type: none"> • Aggressive Tax Planning • Compliance Support and Capability • Excise • Goods & Services Tax • Large Business & International • Micro Enterprises and Individuals • Serious Non-Compliance • Small and Medium Enterprises • Superannuation • Tax Practitioner and Lodgment Strategy 	<ul style="list-style-type: none"> • ATO Business Solutions • Change Program • Enterprise Applications • Office of the Chief Knowledge Officer • Service Provider Management • Strategy Planning and Assurance 	<ul style="list-style-type: none"> • Australian Valuation Office • Governance and Government Relations (including Marketing Communications) • Law and Practice • Marketing Communications 	<ul style="list-style-type: none"> • ATO Finance • ATO People • Office of the Commissioners 	<ul style="list-style-type: none"> • Client Account Services • Customer Service and Solutions • Debt • Operations Support and Capability
BSL Role	Business and Service Lines (BSL) plan and manage the delivery of sub-plan priorities, reflecting decisions and directions from executive bodies. They integrate market segment, revenue product and focus area perspectives in the delivery of sub-plan priorities and work with capability and process leaders to identify and address capability gaps and issues.				

TAX OFFICE ANNUAL CORPORATE PLANNING DOCUMENTS

Planning documents provide direction to achieve the Tax Office outcome.

ATO PROGRAM FRAMEWORK

Communications

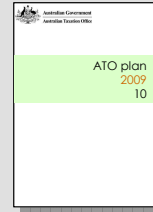
Plans

Corporate / Whole-of-ATO

In our *Corporate plan 2009-10* we communicate our key corporate priorities for the next 12 months and beyond.



Our *ATO plan 2009-10* sets out, in the context of the Strategic statement 2006-10, our strategies for delivering on our corporate priorities and additional business activities.



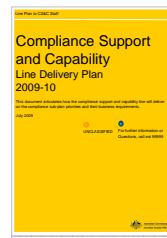
Sub-plan

In the sub-plan overviews, sub-plans outline their key areas of focus for the financial year, key priorities, and key messages from the sub-plan chair.



Line

In the line plans, business and service lines set out their tactics for delivering on strategies outlined in the ATO plan.



Branch and team plans

Branch/team plans – branches and teams set out activities to deliver the tactics outlined in the line delivery plan.



Performance and development agreements

PDA's – are individual agreements between staff and managers that outline tasks to deliver branch or team activities, and measures of performance against the appropriate team, branch or line plans.



TAX OFFICE REPORTING OF THE ATO PLAN 2009-10

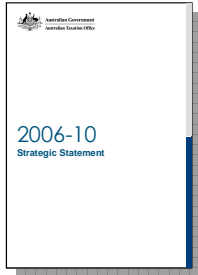
Reporting against the planning documents monitors progress on delivering the Tax Office outcome to community and government.

Planning

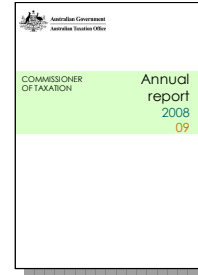
Reporting

Corporate

Strategic statement



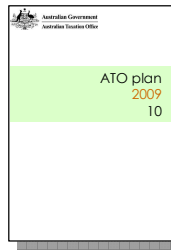
Annual report



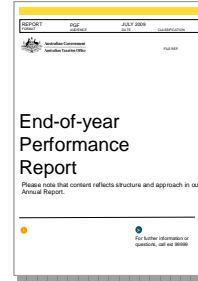
Corporate plan



ATO plan



PGF report

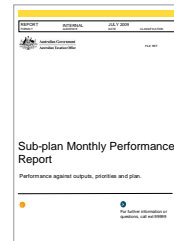


Sub-plan

Sub-plan overviews



Sub-plan governance reports

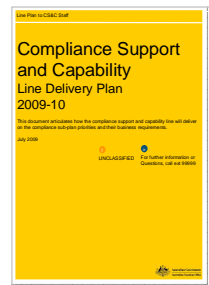


Heartbeat reports



Line

Line plans



Line governance reports

