

**Senate Economics Legislation Committee**

**ANSWERS TO QUESTIONS ON NOTICE**

**TREASURY**

**Australian Taxation Office**

(Additional Estimates 15 February 2006)

**Topic: Tax return lodgment benchmarks**

**AT83 Hansard Page: E61/62**

Senator Murray asked:

Are you telling me that there are no ready measures such as benchmarks or targets for tax return lodgment that you are able to monitor and see if you are improving?

*Mr Konza—We do monitor on-time lodgments and we do monitor absolute growth in tax returns. We do try and see whether or not the number of returns lodged is keeping pace with the economy, so to speak. But I would be unable to give you any details of those, because we would need to take them on notice, and Mr Reardon perhaps might be able to answer that.*

**Senator MURRAY**—I am not seeking to give you lots of unnecessary work, because I do know that the tax office has been making a genuine effort to lift its game in this area. But it would seem to me that, unless you have some mechanism for monitoring your progress and for ensuring compliance, it is difficult for public policy people such as parliamentarians to properly assess to what extent the tax act—its complexities with tax returns and so on—acts as a genuine impediment to people fulfilling a duty they might otherwise fulfil. I am interested in your answer to me as to what efforts you are going to be making for better reporting to both the executive and to parliament in this area.

*Mr Konza—We could take that on notice and we could see what we can do there. The real lesson, I think, to which the commissioner referred a moment ago, is that in the past our lodgment strategy was to take those who were lodging tax returns and make sure they keep lodging tax returns. What we learnt was that people slipped out of the system or disappeared and then, once they were out of our system, they were out of our monitoring system. We have essentially turned our monitoring system inside out, if you like, to monitor the outside world and to try to keep our systems relevant to what is really going on. That is the type of innovation that Mr Reardon is leading.*

Answer:

The creation of a new business area, Lodgment Compliance, within the Tax Office in January 2005, has enabled the Tax Office to sharpen its focus on lodgment enforcement activities and provide a Tax Office-wide focus across all lodgment obligations and all market segments. This includes responsibility for monitoring lodgments.

One barrier to establishing an accurate methodology for monitoring actual lodgments against expected lodgments is that where an entity does not meet the criteria requiring them to lodge an annual return there is no obligation on their part to advise the Tax Office that they do not have to lodge. (Entities that are required to lodge an annual return are prescribed via legislative instrument each year. This includes for example resident individuals whose taxable income exceeds the tax free threshold of \$6000, those who have had PAYG amounts withheld from their income and persons who carried on a business.)

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The Tax Office's approach to managing the non-lodgers firstly involves refining the population through data matching activities to identify the true non-lodgers as opposed to those who do not have a lodgment obligation.

More and more we are using external data sources to detect entities who have not lodged. For example, as part of a pilot project we obtained information on approximately 350 recipients of low documentation loans from eight different lenders. Around 50 per cent of these people were found to have outstanding income tax returns with an average of three years outstanding. Following the success of the pilot this work was extended and to date a further 20,000 taxpayers—many of whom have more than one income tax return outstanding—have been selected for compliance action. Lodgment enforcement action taken against these taxpayers is differentiated according to the risk they pose.

We are continuing to monitor all practising legal professionals by obtaining updated lists of judges, magistrates, barristers and solicitors from sources such as bar associations, law societies and departments of attorneys general. There are now no members of the judiciary with outstanding returns compared with 50 in June last year. Our continued focus on the legal profession has seen the number of barristers with outstanding income tax returns drop from 718 in June 2005 to only 43 in January 2006 and the number of solicitors with overdue returns drop from 7658 to 3283 over the same period.

Most recently we reviewed the compliance records of 3845 high profile individuals. These individuals were identified largely through information available in the public domain, including media articles and official sporting club and association websites. This activity revealed 405 high profile individuals with outstanding income tax returns. Enforcement action taken by the Tax Office has been successful as less than half of these taxpayers still have outstanding returns.

We have also begun monitoring ASIC media releases to assess the compliance of company directors who fall foul of other regulatory authorities. In one instance this resulted in debit assessments totalling almost \$200,000.

Non-lodgers are followed up according to risk and more information on those individuals and businesses we are examining are identified in the Tax Office's *Compliance Program 2005-06*. We expect more of our successes will be highlighted in the Commissioner's annual report for this year.