

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

23 – 24 February 2011

Question No: AET 18

Topic: Letters to Taxpayers

Hansard Page: Written

Senator Williams asked: The Australian tax Office sends out letters to people who they believe have understated their income. The wording generally is – *“we recommend that you take the time now to review your tax reporting. We are writing to you as you have reported taxable income that appears to be lower than required to support your personal living expenses”*.

Basically they are trying to round up people they believe are trading in the cash economy. However, in cases the wrong people are being targetted as indicated below

1. How are taxpayers selected for review?
2. When you review a taxable income of an individual, what do you compare it with?
3. When you review a taxable income, do you do any background work as to the reason why the income may be down?
4. Do you take into account people working in areas of drought such as farmers and those who depend on the rural sector?
5. I have evidence that the Tax Office has sent “please explains” to sheep/wheat farmer in the Tullamore district of NSW which has been in severe drought. Another was sent to a bullozer owner/operator whose work is almost exclusively for farmers and therefore has had little work, and also did some share farming in the drought and lost money. And a second hand machinery dealer whose sales were badly affected by the drought receivedon.

These people are being put through unnecessary stress and shouldn't be targetted. Can this system be reviewed?

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

23 – 24 February 2011

Answer:

1. The ATO uses information from a wide range of sources to develop a picture of the level of risk in businesses that may be participating in the cash economy. These include income tax returns and business activity statements, information gathered from third party data sources, comparison with small business benchmarks and information provided by the community. Depending on the level of risk that the taxpayer may be participating in the cash economy, they may be selected for an advisory letter, review or audit.
2. A consistently low level of reported taxable income is one of a range of indicators reviewed. Other indicators include asset purchases, information from financial institutions and third party information, including information from other Government agencies.
3. We understand that there are many different reasons why taxpayers report a lower than expected income. In reviewing a taxpayer's income, we compare what has been reported with the information from our data sources including small business benchmarks.

The benchmarks take into account that not all businesses are the same. We do not rely on an average, but provide a range of values to account for both high and low margin businesses. When we use the small business benchmarks to assess a business's income we use the figure from the benchmark range that provides the most advantage to the business. While we have seen some differences in the reporting of regional and metropolitan businesses, these differences, in the majority of cases, are within the benchmark ranges we publish.

If a business finds they operate outside the benchmarks for their industry, they need to be able to show they have correctly recorded and reported all their income and deductions for their business. The law requires taxpayers to keep relevant records in relation to their tax affairs. When contacting taxpayers, we will always provide an opportunity for them to explain their personal situation.

In the absence of reliable records, the benchmarks may be used, together with any other information available to us, to make an assessment of their business's taxable income.

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

23 – 24 February 2011

4. In all dealings with taxpayers, including those in rural Australia, the taxpayer's individual circumstances are the primary consideration. Each case is treated on its merits.

5. We are always reviewing our systems and we have received valuable feedback from both taxpayers and tax practitioners about our strategies. While feedback has been largely supportive of our use of benchmarks, we have received a range of suggestions about how we can improve our processes. We are reviewing this feedback with a view to further enhancing our strategies, including reviewing our letters based on the feedback we have received.

Where taxpayers are having trouble meeting their taxation obligations we encourage them to contact us.