Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

16 February 2012

Question No: **AET 23**

Topic: Audits – number commenced

Hansard Page: 93

Senator CORMANN: Can you provide us on notice with the number of audits the ATO has commenced in the last three financial years and has the time taken for audits increased over time?
Mr D'Ascenzo: Is that across the board or for a particular segment? We break our compliance work into a range of different segments. One segment is large, some segments are small and medium enterprises and other segments are micro and so the dynamics will be different across the spectrum.
Senator CORMANN: Let us just talk about the small to medium size and the micro level. Has the number of audits and the time taken for audits increased in recent times?
Mr Quigley: I did not say that they had increased. I would have to check the exact figures. As well as what Mr D'Ascenzo said, there are different segments and also different products. We have audits, which would be a full audit. They would obviously take a lot longer than, say, a review, which is just an analysis of an early stage. We have interaction with the taxpayers there.
Senator CORMANN: In order to facilitate things for the committee, maybe you could provide us on notice with a breakdown of audits commenced this year of small businesses, large businesses and individuals and the average length of time to audit small businesses, large businesses and individuals over the last three years. If you are able to, could you also provide us with a breakdown of audits commenced by states. That would also be very much appreciated. Moving to one last issue in the final bit of time—

Answer:

The ATO's annual compliance program highlights areas of focus across all markets. Table 1 details the number of audits commenced in each of the last three financial years and Table 2 provides a break up of these figures by state.

Table 1: Audits commenced by year

	2008-09	**2009-10**	**2010-11**
Audit cases commenced[1]	504,106	471,136	527,951

[1] These figures represent the ATO's best approximation of audit numbers across all markets and focus areas.

Generally, the ATO audits cases across Australia based on specific discrepancies or risk, not by where staff are based, nor by any state-by-state formula.

Table 2: Audits commenced by state[1]

	COMMENCEMENT YEAR		
	2008-09	**2009-10**	**2010-11**
Australian Capital Territory	1,607	1,187	1,284
New South Wales	32,429	28,784	28,045
Northern Territory	743	653	683
Queensland	19,266	15,800	14,821
South Australia	5,839	4,637	4,923
Tasmania	1,693	1,316	1,411
Victoria	24,167	20,529	20,624
Western Australia	11,068	8,631	8,402
Micro enterprises and individuals (income tax high volume focus areas)[2]	407,195	389,510	447,709
Not aligned by state	99	89	49
TOTALS	**504,106**	**471,136**	**527,951**

[1] The ATO's high risk, business activity statement refund audits can be reported on a state-by-state basis for the number of cases completed but not for the number of cases commenced. Therefore, case completion numbers have been used as approximate commencement numbers.

[2] Micro enterprises and individuals high volume case work cannot be reported on a state-by-state basis.

The ATO's audit activity is one part of the annual compliance program activity. Tax and superannuation system risk focus areas, within that program, change from year to year. As tax risks emerge and are better understood by the ATO, attention and resourcing are shifted to manage those risks accordingly. Following assessments of relative risk, these shifts can result in both decreases and increases in audit numbers over time. In some cases, audits are not the optimum activity to adequately address a tax risk. Strategies to manage tax risks include law clarification, education, industry and stakeholder liaison, risk reviews, audits, investigations and prosecutions.

In some markets, the ATO has increased attention on instances of fraud and suspect transactions. This can result in increased intensive audit activity aimed at managing fraud across the tax and superannuation systems.

Completed case numbers and time taken to complete

The data provided on completed cases in Tables 3 and 4 below relates only to audit activity and reflects elapsed time to undertake an audit, not actual time. The ATO had approximately 120 different classes of audit activity operating across all markets and focus areas in each of the three years to 30 June 2011. Most ATO audit cases undertaken are completed within internal benchmark cycle times (which differ according to the audit type).

Table 3: Audits completed

	2008-09	**2009-10**	**2010-11**
Large business and international[1]	37	40	61
Small to medium enterprises[2], highly wealthy individuals and wealthy Australians[3]	405	419	295
Micro enterprises[4] and individuals	407,456	329,103	477,162
Indirect tax – goods and services tax (GST) and excise audits [5]	10,701	7,148	3,139
Indirect tax - high risk business activity statement refunds[6]	50,837	39,075	39,843
Other GST and cash economy audits (undertaken by Tax Practitioner and Lodgment Strategy business line)[7]	2	6	7,179
Superannuation audits[8]	26,263	27,162	21,448
Serious non-compliance	307	188	310
Aggressive tax planning	342	254	145

[1] Large market groups have a turnover greater than $250 million.

[2] Small to medium enterprises have an annual turnover of between $2 million and $250 million.

[3] A highly wealthy individual is an Australian resident who, together with associates, effectively controls $30 million or more in net wealth. Wealthy Australians control net wealth of between $5 million and $30 million.

[4] Micro enterprises have an annual turnover of less than $2 million.

[5] Includes cash economy work in 2008-10. There was no reduction in this ATO audit activity across the three years. The work transferred to another area of the ATO as reflected in figures for "Other GST and cash economy audits (undertaken by Tax Practitioner and Lodgment Strategy)".

[6] This reduction in audit activity reflects improved case selection processes to focus on higher risk cases.

[7] This increased audit activity reflects a transfer of the work within the ATO. See note 5 above.

[8] The reduction in completed Superannuation audits in 2010-11 reflects: (i) 'early exit' from older, lower risk cases to enable focus on more current and higher risk cases and; (ii) switch to risk reviews as the better mechanism to examine most excess contributions tax matters**.**

Table 4 – Average elapsed cycle time in days to complete audits

	2008-09	2009-10	2010-11
Large business and international (income tax audits)	1,120	615	806
Small to medium enterprises, highly wealthy individuals and wealthy Australians (income tax audits)	435	342	492
Micro enterprises and individuals (income tax audits)	49	53	59
Indirect tax - GST and excise audits	144	158	156
Indirect tax - high risk business activity statement refunds	22	34	44
Other GST and cash economy audits (undertaken by Tax Practitioner and Lodgment Strategy business line)	15	135	103
Superannuation audits	90	90	105
Serious non-compliance	584	636	461
Aggressive tax planning	240	367	296

Over the three year period, a number of factors led the ATO to taking more elapsed time to complete some audits. These factors included:

- increased complexity in transactions and the relevant technical areas of the law
- increased focus on fraud activities
- increased communication and consultation activities in some audits, to better understand the audit issues through closely working with the taxpayer and their tax practitioner
- increased time to gain relevant audit information from taxpayers and their representatives
- increased effort to resolve issues during the audit phase, aimed at minimising disputes
- allowing taxpayers time to recover from the immediate impact of natural disasters.