

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Budget Estimates

1 June 2010

**Question:**           **BET 406**

**Topic:**               **Tax Refunds (ATO)**

**Hansard Page:**       **Written**

**Senator EGGLESTON asked:**

1. Can the ATO assure people that tax returns would be assessed quickly, as opposed to what has occurred for this year?
2. What has the average tax refund every year for the last five years of people that are likely to take on the single click tax return option as of July 1, 2010?
3. Does the ATO believe that retrospectivity of tax bills could cause problems for some taxpayers when the rulings change?
4. How well has the data matching program been operating? Has this resulted in capturing additional taxes owed?
5. What jurisdictions is the ATO co operating with to ensure a larger tax base?
6. What is the estimated amount of tax that is not paid due to the cash economy?

**Answer:**

1. Performance against service standards for income tax returns has steadily improved since July 2010. Of all returns lodged electronically in the second half of August 2010, 94 per cent were processed within the service standard. Of paper returns lodged since 1 July 2010, more than 94 per cent have received their refund within the 42 day service standard.
2. As this policy has not yet been legislated, we are unable to provide a response to this question.
3. The ATO has published its approach to dealing with changes that have effect before the actual change is made in relevant legislation. It is titled, *The ATO's approach to dealing with retrospective law changes* and is published on its website at [www.ato.gov.au](http://www.ato.gov.au).
4. Each year, the ATO undertakes a data matching program comparing investment, employment and health information reported by third parties against amounts reported by individual taxpayers in their income tax returns.

In both 2008-09 and 2009-10, the ATO data matched and/or analysed over 500 million transactions to support a range of compliance and service activities such as pre-filling of electronic returns and advisory letters. The following are examples of these activities (as at 30 June 2010):

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- investment, employment and health – 103 million transactions
- superannuation – 21 million transactions
- property and share ownership and disposal – 230 million transactions
- indicators of wealth, such as motor vehicle ownership – 3.8 million transactions, and
- partnership and trust income – 2 million transactions.

Additional funding from the Income Tax Investment initiative in 2008-09 and the Strategic Compliance Initiative in 2009-10 has allowed the ATO to increase its focus on data matching with an additional 400,000 cases being reviewed during these periods. This, together with increased volumes of acquired data, enhanced information matching processes and the identification and treatment of new risks, has seen an increase in the revenue raised from data matching:

- In 2009-10, the ATO raised \$960 million.
- In 2008-09, the ATO raised \$907 million.
- In 2007-08, the ATO raised \$606 million.

For example, during 2009-10 data matching resulted in the following liabilities being raised:

- Income matching of tax returns to third party data raised \$241.1 million.
- Data matching conducted to ensure employers met their obligations raised \$666 million.
- Our use of data on real property transactions and share transactions identified capital gains that raised \$50.5 million.

Data matching is also used to encourage voluntary compliance, through education strategies and the use of the pre-filing service. Pre-filing allows individuals (or tax agents, on their behalf) to pre-populate particular fields of their electronic income tax returns, for example dividend and interest income information. Early indications demonstrate improved compliance behaviours as a result of these strategies.

Through ongoing enhancements to the information matching process as well as the treatment of new and emerging risks, the ATO expects to continue to raise additional direct and indirect tax revenue and see sustained improvements in compliance behaviours.

5. Australia has an extensive and expanding network of international taxation and exchange agreements. These allow the ATO to exchange information and work co-operatively with international jurisdictions to assist the ATO in the effective administration of Australia's tax system. The ATO regularly exchanges information on a bilateral basis with our tax treaty partners. The ATO also works closely with its overseas counterparts on compliance risks of mutual concern.

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Attached is a list of countries with which Australia has international taxation agreements (Attachment A).

The ATO is an active participant in a number of international forums that allow us to share experiences and best practice with our international partners.

- The Joint International Tax Shelter Information Centre (JITSIC) was set up in 2004 by the Tax Commissioners of the United States, United Kingdom, Canada and Australia. Since then, Japan has joined and China and Korea have been observers. Germany recently accepted an invitation to be an observer.
- JITSIC was established to deter the promotion of, and investment in, abusive tax schemes. It seeks to enhance compliance through the exchange of information on complex cases that involve cross-border tax avoidance. Members share expertise, best practice, intelligence and experience, identify emerging trends and patterns, and address new cross-border tax avoidance arrangements.
- The Seven Country Working Group, where Australia, Canada, France, Germany, Japan, the United Kingdom and the United States focus on sharing information and best practices on schemes and arrangements utilising secrecy jurisdictions and non-transparent offshore financial centres.
- The OECD Forum on Tax Administration (FTA) where OECD member countries meet to share information and best practices on administration of their taxation systems. A particular FTA focus has been on sharing best practice in relation to offshore disclosure initiatives. Australia is a Vice-Chair of this forum.

The ATO also works jointly on compliance operations with our treaty partners to address risk of mutual concern. In particular, Australia has a close working relationship with New Zealand and regularly meets to discuss and advance issue of concern to both jurisdictions.

6. The amount of tax that is not paid due to the cash economy is a component of the entire tax gap.

The ATO does not formally measure the tax gap due to the difficulty in defining the tax gap, the lack of a universally accepted methodology to measure the tax gap and the resulting difficulty in providing an accurate assessment of the revenue foregone. The ATO has also previously publicly commented on the resource impacts on the office and the burden on taxpayers required in estimating the amount of tax that is not paid as a result of the cash economy. However, the ATO notes that the Australian Bureau of Statistics publication *Measuring the*

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*Non-Observed Economy: A Handbook* released in 2002, estimated the understatement of GDP (tax gap) in 2000-01 was highly unlikely to be more than about 2 per cent.

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#### ATTACHMENT A

#### **Double Tax Agreements (DTAs)**

*Australia has entered into taxation agreements with more than 40 countries. Tax treaties, which are also referred to as tax conventions or double tax agreements, prevent double taxation and tax evasion and foster cooperation between Australia and other international tax authorities by enforcing their respective tax laws.*

Argentina, Austria, Belgium, Canada, Chile (not in force yet), Czech Republic, China, Denmark, Fiji, Finland, France, Germany, Hungary, India, Indonesia, Ireland, Italy, Japan, Kiribati, South Korea, Malaysia, the Netherlands, New Zealand, Norway, Mexico, Malta, Papua New Guinea, Philippines, Poland, Romania, Russia, Singapore, Slovakia Republic, South Africa, Spain, Sweden, Switzerland, Sri Lanka, Taiwan, Thailand, Turkey (not in force yet), the United Kingdom, United States of America, Vietnam.

#### **Tax Information Exchange Agreements (TIEAs)**

*The TIEA outlines the obligation between Australia and the non-OECD participating partner to help each other by exchanging correct tax information relevant to the administration and enforcement of their respective domestic tax laws (civil and criminal). Information may only be provided on request – that is, a jurisdiction is not obliged to provide information it has not been asked for by the other jurisdiction.*

*A TIEA differs from a double tax agreement as it does not contain any provisions concerning the allocation of taxing rights over income.*

<b>Country</b>	<b>Status</b>
Anguilla	signed 19/3/2010
Antigua and Barbuda	in force 14/12/2009
Aruba	signed 16/12/2009
Bahamas	signed 30/3/2010
Belize	signed 31/3/2010
Bermuda	in force 20/9/2007
British Virgin Islands	in force 12/4/2010
Cayman Islands	signed 30/3/2010
Cook Islands	signed 28/10/2009
Dominica	signed 30/3/2010
Gibraltar	in force 26/7/2010
Grenada	signed 30/3/2010
Guernsey	in force 21/7/2010
Isle of Man	in force 5/1/2010
Jersey	in force 5/1/2010
Marshall Islands	signed 12/5/2010

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Monaco	signed 1/4/2010
Netherlands Antilles	in force 4/4/2008
Samoa	signed 16/12/2009
San Merino	signed 4/3/2010
St Kitts and Nevis	signed 5/3/2010
St Lucia	signed 30/3/2010
St Vincent and the Grenadines	signed 18/3/2010
Turks & Caicos Islands	signed 30/3/2010
Vanuatu	signed 21/4/2010