

SENATE STANDING COMMITTEE ON ECONOMICS QUESTION
(Supplementary Budget Estimates 20 October – 21 October)

Question: SBT 224**Topic: Approaches to tackling sham contracting overseas**

Senator Cameron asked:

Senator CAMERON—Could you provide me advice in relation to the legislative process in the countries that you have indicated that provide the taxation offices in those areas with a better approach on dealing with sham contracting?

Mr Quigley—I did not say they had a better approach. I said because they have got reporting and withholding arrangements—and they may or may not be better approaches—

Mr D’Ascenzo—We can provide the information about what we know is happening in other countries.

Senator CAMERON—Yes. I should not have said ‘a better approach’, but you did indicate that there was more information. I would have thought that was a better approach. Thanks, Mr D’Ascenzo. You will provide the information on how this issue is handled in other overseas administrations?

Mr D’Ascenzo—We will do what we can in that regard.

Answer:

A number of member countries of the Organisation for Economic Co-Operation and Development (OECD) have used reporting and/or withholding systems that have proven to be effective in bringing contractors into the tax system and assisting them in meeting their tax obligations.

Table 1: indicates the reporting and withholding systems* that some OECD member countries have in place.

Country	Description of Withholding/ Reporting Regime for Small and Medium Enterprises
Canada	Contract payments reporting regime Annual reporting regime covering construction industry and payments by Government for services
Ireland	Professional services withholding tax Covers prescribed service Relevant contracts tax Withholding/reporting regime for building etc Third party report Reporting regime for prescribed payments.
Japan	Withholding and reporting regime covering ranges of professional remuneration, fees, charges and contract payments.
New Zealand	Schedular payments covers broad range of prescribed contractors
Norway	Various regimes Withholding/reporting covering fishing, agriculture and foreign contractors.
UK	Construction industry scheme Substantial reporting regime for prescribed payment
USA	Information returns program: Substantial reporting regime for prescribed payment categories; recent legislation for expansion affecting Small and Medium Enterprises sector

* International research was centred on small/medium sized businesses and self employed taxpayers

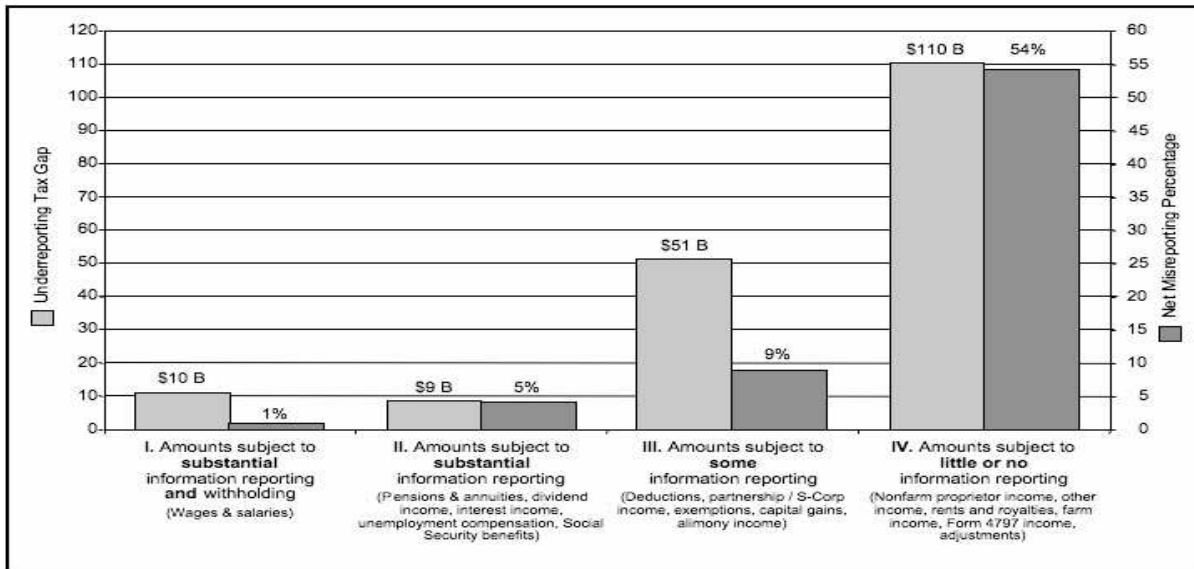
In August 2009, the OECD Forum on Tax Administration released an Information Note Withholding and Information Reporting Regimes for Small/Medium-sized Businesses and Self-employed Taxpayers confirming the value of these systems.

Table 2 summarises research undertaken by the United States Internal Revenue Service and indicates that where amounts are subject to substantial reporting and withholding, there is a 99

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per cent compliance rate, whereas amounts subject to substantial reporting only still achieves a 95 per cent compliance rate.

Table 2: indicates the underreporting tax gap estimate by the United States Internal Revenue Service:



Based on updated estimates derived from the TY01 National Research Program study of individual income tax reporting compliance.

- I-Where amounts are subject to substantial information reporting and withholding, a 99% compliance rate is achieved
- II-Where amounts are subject to substantial information reporting, about 95% compliance is achieved
- III-Where amounts are subject to some information reporting, compliance is about 91%, and
- IV-Where amounts are subject to little or no reporting, compliance is about 46%.

Table 1 and 2 have been sourced from the OECD Forum on Tax Administration: Compliance Subgroup Information Note – Withholding and Information Reporting Regimes for Small/Medium-sized Businesses and Self-employed Taxpayers August 2009. A copy of this report is available on the OECD website at www.oecd.org.

It should also be noted that the United States Internal Revenue Service is in the process of expanding their withholding regime to include payments made by government entities for goods and services. This new withholding will cover all payments from 31 December 2011 and will generally have a withholding rate of 3 per cent.