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Joint Committee of Public

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ANSWERS TO QUESTIONS ON NOTICE

Australian Taxation Office

Bi-annual Hearing – 30 March 2009

Questions: 1a – 1i
Topic: Tax Bonus

Background

The Government's announcement on 3 February 2009 included, in total, five one-off payments for eligible low and middle income households and individuals. The Tax Office was asked to administer one of these initiatives, the Tax Bonus for Working Australians.

The Tax Bonus initiative was introduced as a measure to respond to the current global economic crisis and to provide immediate economic stimulus to boost demand and support jobs. Inherent in the Government's objective was the constraint that payment had to be made quickly for it to have the Government's desired effect and impact.

The administration of this initiative included designing and building the administrative systems to deliver and make the payments to those who are entitled to receive a tax bonus payment. This included the need to quickly undertake considerable logistical planning with the Reserve Bank of Australia, Australia Post, printing contractors and the Tax Profession.

The measure provides a tax bonus payment to 8.7 million people and is expected to cost about \$8 billion.

More than 70% of eligible recipients use a tax agent to prepare and lodge their income tax return. The Tax Office worked with various stakeholders including the Reserve Bank of Australia, Australia Post, printing contractors and the Tax Profession to optimise delivery of payments to people eligible to receive the payment.

The first batch of payments commenced in the week beginning 6 April 2009.

At 11 May 2009, over 7.7 million payments were made with a value of \$6.8 billion. Of this, 3.6 million electronic payments to the value of \$3.1 billion and 4.1 million cheques to the value of \$3.6 billion dollars were made.

The Tax Office is on track to complete the bulk distribution of tax bonus payments by 16 May 2009. We now expect to distribute 7.8 million payments by 16 May 2009, 200,000 more than originally forecast. This reflects an increased rate of returns being lodged.

A small number of people will lodge after 30 June 2009 and will be entitled to the tax bonus payment as a result of the natural disaster class deferral granted by the Commissioner in February 2009.

The Tax Office will continue to promote lodgment of the 2007-08 income tax returns through media. There will be a strong emphasis on encouraging the lodgment of returns before 5 June 2009 to ensure that tax bonus payments can be made by 30 June 2009.

People who lodge after this date, will experience a delay in the payment of the tax bonus due to the Tax Office ceasing processing while the system is shutdown and recommissioned in preparation for Tax Time 2009. When processing resumes in early July, priority will be given to processing of 2008-09 income tax returns during July 2009.

1a. With respect to the tax bonus how many Australians living overseas will receive such a bonus? Where do they live? Can you break down the country of residence to the top ten noting how many Australians in each country?

Anyone who was not an Australian resident for tax purposes for the 2007-08 income year will not be eligible for a tax bonus payment.

Anyone who was an Australian resident for the 2007-08 income year for tax purposes and whose residency status subsequently changed will still be entitled to the tax bonus payment if the other criteria are satisfied.

Generally, you are an Australian resident for tax purposes if you have:

- always lived in Australia
- moved to Australia and live here permanently
- been in Australia continuously for six months or more and for most of the time you have been:
 - in the one job, and
 - living in the same place
- been in Australia for more than half of the financial year, unless:
 - your usual home is overseas, and
 - you do not intend to live in Australia, or
 - you are an overseas student who has come to Australia to study and are enrolled in a course that is more than six months long.

Under these rules Australians may work and visit overseas for part of the year and still be an Australian resident for tax purposes. In these cases the person will be entitled to the tax bonus payment if the other criteria are satisfied. There are also people who come to Australia and work here temporarily that may meet the above criteria and are residents for tax purposes.

The tax bonus payment is based on the 2007-08 income tax return. The income tax return requires a person to indicate whether or not they are an Australian resident for tax purposes. Residency status is self-assessed by taxpayers or their agents, but the Tax Office does not collect information through the income tax return on the actual period of time people spend in and outside Australia.

Under the above rules it is possible for a person to be an Australian resident for tax purposes for the first half of the year, or for the second half of the year, or for some lesser period of the year but contiguous with a period from the previous or subsequent financial year.

When an income tax return is filed, taxpayers report both their current postal and residential address. Reporting a current overseas address does not necessarily mean a person is a non-resident for tax purposes.

To 8 May 2009, of the 11.2 million people that had lodged their 2007-08 income tax return, approximately 99% indicated that they were a resident for tax purposes. Although the remaining 1% indicated they were a non-resident for tax purposes, as noted above they may have been a resident for part of the income year.

The Tax Office is unable to identify the number of Australians who have been paid the tax bonus who have subsequently become non-residents for tax purposes.

The Tax Office does have information on the number of people eligible for a tax bonus payment who have reported an overseas postal or residential address on their 2007-08 income tax return or subsequently. In some cases people contact the Tax Office and advise they are moving overseas during the year.

The analysis has identified that:

- 7,305 people will receive a cheque mailed to an overseas address,
- 2,040 people with an overseas residential address will receive a cheque mailed to a postal Australian address, and
- 17,907 people who have an overseas residential address, will receive a payment by electronic funds transfer (EFT) to an Australian bank account.

There are no EFT payments being made to an overseas account.

Of the payments being made overseas by cheque, the following provides details of the main destinations:

- United Kingdom 20%
- New Zealand 19%
- Ireland 7%
- Canada 6%
- Germany 5%
- France 4%
- United States 4%
- Korea 4%
- Japan 4%
- Brazil 3%
- Other 3%

Note: We are not able to distinguish between Australian citizens and temporary residents.

1b. How many deceased estates will receive the tax bonus? What are the consequences and ramifications for these estates? Do the beneficiaries of the deceased estate receive the tax bonus? Could this include a charity and/or a pet? Are there any other people who have filed a tax return who are not now alive and will receive the tax bonus? If so, how many? (*Questions tabled by Senator Barnett*)

Could you please provide figures for 2006-07 and 2007-08 on the number of deceased estates that lodged a tax return? (*PA 8, Transcript of 30 March 2009 biannual hearing, Senator Barnett*).

If a person dies during or after the 2007-08 income year and an income tax return for that year has been lodged by them or on their behalf before 30 June 2009, a tax bonus payment will be made to the deceased estate provided all of the eligibility criteria are met.

Tax bonus payments will be made to the latest postal address on record for the deceased or to the executor of an estate where the Tax Office has been formally advised of updated details.

It is the role of the executor in administering the proceeds of a deceased estate to determine how the tax bonus payment will be distributed to beneficiaries. The Tax Office does not have any information on how the executor distributes the estate.

The number of deceased estates that lodged an income tax return in 2006-07 was 52,287 with 47,111 deceased estates being lodged in 2007-08.

To date we have identified 15,934 tax bonus payments that will be made to a deceased estate.

1c. How many people in prison will receive the tax bonus? (*Question tabled by Senator Barnett*)

Have some prisoners been excluded from government payments in the past? (*PA 12, Transcript of 30 March 2009 biannual hearing, Mrs Bishop*)

Some people in prison may receive a tax bonus payment if they meet all of the eligibility criteria. The Tax Office cannot identify how many people in prison may receive a tax bonus payment because the Tax Office does not have prison population data and there is no provision in the income tax return for someone to identify themselves as a prisoner.

In addition, the Tax Office is unable to source this information from other data sources such as payment summaries.

Only one tax legislative provision excludes people who are in prison. The senior Australians tax offset excludes people who have been in prison for a whole year. It is administered by the Tax Office on a self-assessment basis.

There are no legal requirements for States and Territories based prison population data to be routinely reported to the Tax Office. The Tax Office can formally request information from particular States and Territories if it is needed to address a particular risk that requires data matching. Such information was requested from two states (Queensland and New South Wales) in 2003 to address concerns of potential refund fraud.

1d. What are the latest figures regarding people who have not lodged a tax return? How many tax returns do you estimate will be filed in April, May and June respectively? (*Questions tabled by Senator Barnett*)

To 8 May 2009 approximately 11.3 million people had lodged their 2007-08 income tax return. Of this, 7,960,382 individual returns have been received from people eligible for a tax bonus payment.

Analysis of 2006-07 lodgments indicates there may be another 740,000 people who have not lodged who may be eligible for the tax bonus payment.

The lodgment forecasts for individual tax returns for May and June 2009 are approximately 500,000 and 300,000 respectively.

1e. Could you please provide figures for 2006-07 on the number of overseas residents who are eligible to receive the Tax Bonus and what the process is to extract this number. Has the Tax Office extracted overseas residents for previous government payments? (*PA 9-10, Transcript of 30 March 2009 biannual hearing, Chair / Mrs Bishop*)

The 2006-07 income tax return data was used by the Tax Office to forecast the 8.7 million people eligible for the tax bonus payment. In undertaking this analysis, about 67,000 people indicated on their 2006-07 income tax return that they were non-residents. They also did not claim a part year tax free threshold as part year residents for tax purposes - which removed their eligibility for the tax bonus.

For the 2006-07 income year, the number of Australian residents or part year residents for tax purposes with an overseas residential address that would meet the Tax Bonus eligibility criteria for that income year is about 35,000.

The Tax Office has not extracted overseas residents for previous government payments.

1f. What is the cost of printing the cheques for the Tax Bonus (PA 15, Transcript of 30 March 2009 biannual hearing, Mrs Bishop)

The Tax Office expects to make 4.6 million of the 8.7 million tax bonus payments by cheque. Recipients of cheque payments will receive their cheque attached to a payment notification in the mail while recipients of EFT transactions will receive a letter notifying them of a payment made to their financial institution or their tax agent.

The estimated cost of printing the cheques is \$249,431 GST inclusive. The supply of the cheque stock and envelopes is estimated to cost \$270,073 GST inclusive.

Printing costs with respect to the EFT notices is estimated at \$271,635 GST inclusive. The supply of stationery is estimated to cost \$200,101 GST inclusive.

The total printing cost is estimated at \$991,240 GST inclusive.

The cost to post all cheques and EFT letters related to the tax bonus is estimated at \$3,610,500 GST inclusive.

The \$4.6 million total printing and postage cost for cheque and EFT letter distribution compares favourably with the original estimate of \$4.73 million.

1g. Of the \$21.4 million spent on the call centre what is the money being spent on? Where is the call centre based? If it is not based in one location, which locations are they based? How many people have been employed? Where have they been employed? What are the terms of their employment? Are they on short term contracts? (PA 16, Transcript of 30 March 2009 biannual hearing, Senator Barnett / Mrs Bishop)

A dedicated tax bonus hotline - 1300 686 636 - was established to provide a single contact point to respond quickly to community enquiries about the tax bonus payment. The hotline is a new line using existing Tax Office Client Contact Call Centres and did not require the establishment of any additional call centres. Tax bonus calls are delivered using current telephony infrastructure to ongoing and temporary Client Service Representatives (CSRs) located in all sites.

In addition to the 1006 permanent call centre staff, an additional 350 temporary labour hire staff were employed. Labour hire staff have been employed in sites where there was capacity to expand accommodation and technology infrastructure. Labour hire staff are engaged on temporary contracts due to expire at the conclusion of the Tax Bonus initiative currently expected to be the end of June 2009.

Tax bonus calls have been and are being managed across the whole Client Contact network. This has allowed the Tax Office to dynamically match resources to demand in real time. Tax Bonus calls are primarily distributed amongst the 350 labour hire staff located in various Client Contact sites. All core Client Contact staff (1,006) have been trained in the tax bonus product and given a secondary skill set. This has enabled the management of any overflow call volumes that exceed the capacity of the primary labour hire group.

At 11 May 2009, Client Contact received 924,044 calls. A total of 90,393 calls were received in February 2009, 459,661 calls in March 2009 and 293,050 calls in April 2009.

Other activities to support the tax bonus initiative included:

- Overall management of the tax bonus hotline including skilling, scripting and resolution of enquiries
- Design and build of 'In Queue Messaging' (IQM) technology allowing people to hear important key messages about the Tax Bonus when waiting on the hotline for their call to be answered
- Design and build for a self help Inbound Voice Recognition (IVR) option that allowed tax payers to update their own bank account details for the Tax Bonus payment
- Quality assurance of data provided by people using self help tools to update their details, and
- Assistance in processing the tax practitioner election options allowing tax practitioners to opt out of distributing the tax bonus payments to their clients.

The Tax Office has 10 call centres and operates as a national network located in Queensland, New South Wales, Victoria, South Australia, Western Australia and Tasmania:

- Upper Mt Gravatt - Queensland
- Chermside - Queensland
- Moonee Ponds - Victoria
- Queen Street - Victoria
- Parramatta – New South Wales
- Penrith – New South Wales
- Northbridge – Western Australia
- Waymouth – South Australia
- Hobart - Tasmania

1h. Is the information the Tax Office provided to Government on how it estimated that \$11.5 million was required for the marketing and communications strategy for the Tax Bonus available under Freedom of Information? (PA18, Transcript of 30 March 2009 biannual hearing, Mrs Bishop)

Information provided by the Tax Office to Government on how it estimated the \$11.5 million required for the marketing and communication strategy for the Tax Bonus is available under Freedom of Information and details have been published and are publicly available in the Treasury Portfolio publication, "*Portfolio Supplementary Additional Estimates Statements 2008-09; Appropriation (Nation Building and Jobs) Bill (No1) 2008-09 and Appropriation (Nation Building and Jobs Bill (No.2) 2008-2009.*"

The only additional information is contained in Question 1i below.

- 1i. Could you please confirm the following: \$21.4 million was provided for a dedicated call centre to assist taxpayers; \$11.4 million for marketing and communications; \$8.6 million to process payments; \$5.2 million for systems changes; \$2 million to support accountants; and \$1 million to manage implementation. Please provide the details and description as the reasons why each of those items was necessary to proceed. (PA 18, Transcript of 30 March 2009 biannual hearing, Senator Barnett)

The costing proposal for the Tax Bonus initiative developed in January 2009 sets out the rationale and reasons why it was necessary to proceed. Table 1 below outlines the functional areas within the Tax Office considered necessary to be involved and the costs attributable to their involvement.

Table 1- Original Bid Costing Proposal

Functional Area	\$m 2008-09	\$m 2009-10	\$m Total
Departmental funding			
Processing and accounts	8.41	0.19	8.6
Client Contact and Supporting Help Tools	21.15	0.25	21.4
Project Team	1.0	-	1.0
Tax Agent Support	2.0	-	2.0
Marketing Communication	0.537	-	0.537
Systems changes	5.2	-	5.2
Sub-total	38.297	0.44	38.737
Administered funding			
Media Campaign	11.5		11.5
Total Funding	49.797		50.237

Processing and Accounts – \$8.6 million

The estimated costs in processing and accounts included work to be undertaken in various areas of the Tax Office:

- A significant workforce reaching over 600 FTE was mobilised including additional staff comprising of non ongoing and a casual workforce.
- In preparation for the tax bonus payments and to enable the tax bonus payments to be made correctly, a reprioritisation of work occurred for many staff. This was necessary to action client requests for change of details and expedite processing of increased lodgments of tax returns.
- An additional 579,000 assessments issued for the period 7th February - 9 May compared to the same period last year (2,039,000 individual assessments for the period compared to 1,460,000 last year).
- In addition, 78,500 additional individual amendments issued for the same period (156,000 compared to 77,000).
- Tax practitioner elections and updating client contact details impacted heavily on workloads with about 6,000 agents electing to have the Tax Office distribute the tax

bonus payments to their clients on their behalf. This resulted in about 2.1 million taxpayer records being updated.

- From 20 February until 8 May 09, about 727,000 client addresses and 115,000 financial institution details were updated.
- To 12 May 2009, 7,915,773 payments have been issued to people.
- After the initial issue of payments there are significant workloads around consequential lodgements, managing unmet expectations with clients around eligibility, and second round of payments for people with returned cheques and mail.

Client Contact and Supporting Help Tools – \$21.4 million

The costs for Client Contact and supporting help tools included the estimates necessary for Client Contact to carry out a range of activities to support the Tax Bonus initiative including:

- Responding to calls received from the community enquiring about eligibility and progress on payment
- Staff skilling
- Construction of call scripts
- Expansion of call handling capacity through:
 - recruitment of a temporary labour hire workforce
 - extension of opening hours (including weekend work) during times of high call demand
 - increased assistance from outsourced overflow call centres
- Establishment of the 1300 Tax Bonus hotline number.
- Design and build of 'In Queue Messaging' (IQM) technology allowing people to hear important key messages about the Tax Bonus when waiting on the hotline for their call to be answered, and
- Design and build for a self help Inbound Voice Recognition (IVR) option that allowed tax payers to update their own bank account details for the Tax Bonus payment.

The populations and response rates used to calculate the expected call volume and required fulltime equivalents are outlined in the table below.

Answering calls:	
• Assume overflow ramped up to take 300,000 calls @ \$6.75 per call	\$2 million (\$1.751m in 08-09 and \$0.190m in 09-10)
• Remainder of calls actioned through recruiting non-ongoing staff	\$13.4 million
Recruitment costs	\$1.0 million
Technology to build Inbound Voice Recognition (IVR) tool	\$1.0 million
Support tools for help and assistance	\$4.0 million
Total	\$21.4 million

Overall, Client Contact received 9,471,859 calls to Monday 11 May 2009 of which 924,037 (9.7%) came through the tax bonus queue. Call volumes have tracked 18.5% above the 2008 volumes to Monday 12 May 2008, when 7,971,035 calls were received.

When examining the period since the tax bonus hotline was launched, February to May (up to 11 May), the per cent increase on 2007-08 figures is significant. Overall calls received in for this period in 2008 were 2,010,725. In 2009, we have received 3,273,584 calls, a 63% increase on 2008.

As at 11 May 2009, 924,044 calls were received by call centres through the dedicated tax bonus hotline.

Project Team Costs - \$1 million

The project team costs were estimated over a five month period and comprised funding for a dedicated project team to oversee the design, deployment and ongoing management of the tax bonus payments. The team has been responsible for having:

- Developed a Quality Assurance Review process based on an integrated quality framework, in partnership with business, to enable us to understand the accuracy and completeness of the payment of the tax bonuses. This will involve drawing a random stratified sample from the individual population whether eligible for the payment or not. The review process is to be run concurrently in May 2009 and June 2009.
- Designed a Risk Management Plan including a Financial Risk Assessment plan identifying high level risks to service delivery and to the community. The plan addressed all risks by identifying mitigation strategies in partnership with business operations and other relevant stakeholders.
- Engaged necessary stakeholders in Law Design and Tax Counsel Network where clarification on tax bonus eligibility has been required to assist business in making tax bonus payments correctly.
- Provided high level advice and information to senior management on matters relating to tax bonus payments. The team met all corporate requirements in relation to the operations of the project scope and deployment.
- Managed the project budget including reports on the progress of expenditure incurred on an on-going basis.

Tax Agent Support - \$2 million

The tax agent support costs were estimated on the following assumptions:

- Population of 22,000 Tax Agent practices
- 5.4 million eligible tax returns lodged
- 3.3 million eligible returns expected to be lodged
- 10% of practices will call directly (majority of other calls will go directly to the call centres)
- 150 – 200 Tax Agent practices will seek assistance with their lodgment programs

It was estimated that about \$1 million would be required to manage calls from tax agents based on a requirement of 20 fulltime equivalents for six months. A further \$1 million was estimated to support the lodgment program and the processing of tax agent elections.

The Tax Office worked closely with tax agents and the industry to design ways to streamline workload impacts.

The suggestions that were taken up by the Tax Office included:

- a deferment to the lodgment of company, trusts, partnerships and superannuation fund returns to 5 June 2009 – allowing practitioners to focus on finalising their individual clients' returns
- providing practitioners with the option for the Tax Office to redirect the tax bonus payments directly to their clients, and
- providing agents who are under a special lodgment program, due to their personal circumstances, with an extension to the lodgment due date.

Some payments have been sent to tax agents who were not expecting them. The process put in place by the Tax Office to assist agents in reducing throughput and managing their workload was to allow them to opt out from bonus payment distribution.

About 6,000 agents elected this option. The Tax Office updated about 2.1 million records between 26 February 2009 and 22 March 2009 before payments began in the week beginning 6 April 2009.

All agents who received a payment they were not expecting because they elected or intended to elect to not distribute the tax bonus payment have been contacted and a resolution put in place. The agent has been offered the option of returning the payment(s) to the Tax Office or redirecting the payment(s) to their client.

At 12 May 2009, a total of 814 tax agents unexpectedly received tax bonus payments. This has resulted in 9,866 tax bonus payments being returned to the Tax Office from tax agents for redirection.

In all instances where payments have been sent back to the Tax Office, they have been reissued to the person entitled to the tax bonus payment.

Marketing Communications – Departmental - \$0.537 million

The estimated costs were revised to \$1.967 million over two years.

This estimate includes staff costs to undertake the following marketing communication activities:

- campaign development and implementation
- media management
- market research
- online marketing – including updating and tailoring the tax agent portal
- design
- special audiences material
- web content development and publishing, and
- direct mail

Due to the tight timeframes to deliver the tax bonus payments to the community the Tax Office developed and implemented this campaign in-house.

Marketing Communications – Administered \$11.5 million

The estimated cost for the tax bonus media campaign was revised to \$15.06 million.

The original estimated cost for marketing and communication of the Tax Bonus payment was \$11.5 million based on previous campaign costs and experience.

After detailed planning was completed, the revised estimate took into account the need for the communication of separate key messages to the community at particular times during

the campaign. Examples of these key messages include the need to advise change of address details, the need to lodge 2007-08 returns by 30 June 2006 and the need to be patient.

Communication activities to support the tax bonus payments are being implemented in five phases.

- **Phase 1** (From Royal Assent to 15 March 2009) – Focussed on getting people to call the Tax Office to update details by 15 March 2009 and included messages around lodgement, eligibility and timing of payments.
 - This includes 1,031 print adds and 12,758 radio slots
- **Phase 2** (From 15 March to early April 2009) – Focuses on eligibility and lodgement and begins to manage expectations regarding payment process and timing.
 - This includes 1,159 print adds and 12,757 radio slots
- **Phase 3** (From early April to 15 May 2009) – Focuses expectations around timing of payment asking people to be patient.
 - This includes 1,190 print adds and 9,124 radio slots
- **Phase 4** (From 16 May to 30 June 2009)– Focuses on lodgement and “Where is my tax bonus payment?” questions.
 - This includes 2,135 print adds and 22, 759 radio slots
- **Phase 5** (From 30 June 2009 onwards) - Focuses on ongoing management of issues as informed by research.

The first four phases of the marketing and communication campaign have been reviewed by the Interdepartmental Committee on Communications (IDCC) and approved by the Australian National Audit Office (ANAO).

System Changes (operating) - \$5.2 million

To enable the payment of the tax bonus a number of products were developed that required significant systems changes.

Design	\$300,000
Mainframe work	\$1,600,000
Solid state memory for peak processing	\$500,000
IVR	\$500,000
WWW	\$300,000
Computer operations (first run April 2009)	\$500,000
Follow-up computer runs (May, June and July)	\$300,000
Contingency for scope/estimation 30%	\$1,200,000
Total	\$5.2 million

A number of self help tools were developed including an interactive voice recognition product to allow taxpayers to change and/or provide their EFT details, a Tax Bonus eligibility calculator - made available on ato.gov.au to enable people to calculate their entitlement and a change of address form - made available on ato.gov.au, to enable people to update their details.

In order to identify and process the tax bonus payments a number of activities were undertaken:

- Identification of the possible tax bonus population based on the 2008 income tax lodgments. This was a three step process involving the:
 - creation of a function to interrogate our information holdings,
 - use of current processes to create an account specifically for the management of the tax bonus payments, and
 - append correct address information the tax bonus payment and related correspondence.
- Creation of processes to identify the eligible population based on the eligibility rules. Subsequently, a data base was developed to store this information.
- Creation of processes to interrogate this information and, based on the eligibility rules, post each recipients entitlement to the special tax bonus account.
- Using existing accounting processes, to generate the refund identifying whether an EFT or cheque payment was required.
- Creation of special Tax Bonus correspondence - either an EFT notice or cheque notice.
- Tax Practitioner support included the creation of:
 - Special client lists identifying their potential tax bonus clients - based on 2008 Income Tax Lodgments
 - Special client lists identifying their potential tax bonus clients - based on 2007 Income Tax Lodgments (in relation to yet to be lodged clients)
 - Provision of secure messaging through the Tax Agent Portal.