The Auditor-General

Audit Report No.37 1998-99
Performance Audit

Management of Tax File Numbers

Australian Taxation Office

© Commonwealth of Australia 1999 ISSN 1036-7632 ISBN 0 644 38866 8

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Australian National Audit Office. Requests and inquiries concerning reproduction and rights should be addressed to The Publications Manager, Australian National Audit Office, GPO Box 707, Canberra ACT 2601.



Canberra ACT 29 April 1999

Dear Madam President Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit of the Australian Taxation Office in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Management of Tax File Numbers*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—http://www.anao.gov.au.

Yours sincerely

P. J. Barrett Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

Auditor-General reports are available from Government Info Shops. Recent titles are shown at the back of this report. For further information contact:

The Publications Manager Australian National Audit Office GPO Box 707 Canberra ACT 2601

telephone (02) 6203 7505 fax (02) 6203 7798

ANAO audit reports and information about the ANAO are available at our internet address:

http://www.anao.gov.au

Audit Team

Mark Holmes Richard Mackey Peter White

Contents

Abbreviations/Glossary		8
	nmary and Recommendations	
	mary	13
	Findings	16
Reco	ommendations	22
Aud	it Findings and Conclusions	
1.	The TFN System	27
	Introduction	27
	The Australian Taxation Office	27
	The Tax File Number	27
	The TFN System	28
	TFN Legislation	30
	Penalties and sanctions	30
	The Data-Matching Program	31
	TFN quotation compliance arrangements	31
	Privacy arrangements	32
	Recent developments	33
	The Audit	34
	Purpose and scope	34
	Methodology	35
	Equity	36
	Special data-matching studies	36
2.	Individuals and their TFNs	38
	Background	38
	Application/registration processes	39
	Lodging a TFN application	39
	Individual applications	40
	Overview	40
	TFN management systems	40
	Outcomes and outputs	40
	Cost of service	41
	The ATO Schools Education Program (SEP)	41
	Overview	41
	Access to schools	42
	Department of Immigration and Multicultural Affairs (DIMA) registrations	44
	Centrelink/DVA lodged applications	44
	Proof of Identity (Pol)	45
	Pol documents	45
	Additional areas of interest	46
	Risk management	46
	Proof of Identity fraud	46
	Quantitative analysis of Proof of Identity data	47

	ATO Internal Audit Overseas management of Pol Overview Improved compliance and client service Private sector use of Client Service Number Management of a CSN ATO Management of Pol The validation of TFNs Privacy	48 48 49 50 50 52 52 54
3.	Introduction The TFN withholding tax Overview Administration of the TFN withholding tax arrangements Remittance arrangements Reporting requirements TFN withholding tax credits Client support and public education Scope for improvement Overview Functions spread across organisational units IRW IT system The changing role of IRW Investment bodies subject to the TFN withholding tax Financial transactions and TFN quotation TFN withholding tax and non-residents Extension of the TFN withholding arrangements Non compliance by investors and investment bodies Annual Investment Income Reports (AIIR) Compliance with reporting arrangements Reconciliation of financial transactions TFN withholding tax credits Administration of refunds Equity considerations	57 57 57 58 58 59 59 60 60 60 61 61 62 62 62 63 66 67 69 70 71 71 71 74 74
4.	TFN Information Matching Introduction Overview External data sources Management of TFN information Quality data-matching requires accurate information Measurement of outcomes The administration of data-matching in the ATO Corporate data management strategy Information management strategies and TFN information The quality of TFN information TFN archival TFN Duplications	76 76 76 77 77 78 78 79 79 80 80 81 81

remporary residents and newly arrived residents	83
TFN trust data	84
Interconnectivity between the ATO's data bases	84
Data verification	85
Health Insurance Commission	85
State Registrars-General	86
Australian Securities and Investments Commission	86
Impact of information quality problems	87
Impact on data-matching	87
Revenue potential from better information matching	87
External data-matching with the TFN as the matching key	89
Overview	89
The value of the TFN as the matching key	89
Wider TFN based data-matching	91
Quotation of the TFN	91
Overview	91
Voluntary quotation	92
Non quotation	92
Consequences of non quotation of TFNs	93
Higher compliance costs for clients and the community	93
Revenue collection	93 94
Increased government outlays on income support and other programs Increased administrative costs for government	94 94
Sanctions for non quotation	94 94
Enhanced tax administration	9 4 95
Ennanced tax administration	90
Appendices	
Appendix 1: Relevant Commonwealth legislation	101
Appendix 2: Financial transactions and the TFN withholding tax	102
Appendix 3: Client Identification Compliance	103
Appendix 4: Data-matching	104
Appendix 5: Quotation of the TFN	106
Appendix 6: Steps to improve data quality	107
Appendix 7: Taxpayer identification details for OECD member countries	
Appendix 8: Graphical Appendix	112
Appendix 9: Statistical Appendix	114
Index	120
Series Titles	123
Better Practice Guides	126

Abbreviations/Glossary

ABN Australian Business Number

ABS Australian Bureau of Statistics

AEC Australian Electoral Commission

AIIR Annual Investment Income Report

AIS ATO Integrated System

ATO Australian Taxation Office

AUSTRAC Australian Transactions Reports and Analysis Centre

BEP Business Entry Point

BRS Business Registration Service

CCCR Commonwealth Childcare Cash Rebate

CDMP Corporate Data Management Plan

CIDC Client Identification and Compliance

CSN Client Service Number

DIMA Department of Immigration and Multicultural Affairs

DSD Defence Signals Directorate

DVA Department of Veterans' Affairs

EDF Employment Declaration Form

FRNN Further Returns Not Necessary

GAO General Accounting Office (United States of America)

HECS Higher Education Contribution Scheme

HIC Health Insurance Commission

IMS Information Management System

INB Individuals Non Business

IRW Investments, Royalties and Withholding

IT Information Technology

ITAA Income Tax Assessment Act

LBI Large Business and International

OECD Organisation for Economic Cooperation and

Development

PAYE Pay As You Earn

PoI Proof of Identity

PPS Prescribed Payments System

RBL Reasonable Benefit Limit

RPS Reportable Payments System

SBI Small Business Income

SEP Schools Education Program

SOFI Social and Finance Number (The Netherlands)

SSN Social Security Number (United States of America)

TAA Taxation Administration Act

TFN Tax File Number

TIN Tax Identification Number

WHT Withholding Tax

Summary and Recommendations

Summary

- 1. The Australian Taxation Office (ATO) is the Commonwealth's principal revenue collection agency. In 1997–98 the ATO collected tax revenue of \$110.34 billion, representing approximately 81 per cent of total taxation revenue in that year. The main component of tax revenue is individual income tax, followed by company income tax, sales tax and fringe benefits tax, in that order.
- 2. The ATO was organised into six main business lines, supported by a number of service lines. Three business lines dealt with revenue collection matters and were organised along client lines, that is, Large Business and International (LBI), Small Business Income (SBI) and Individuals Non-Business (INB). Another business line, Withholding Tax (WHT), dealt principally with indirect taxes.¹
- 3. The INB business line is the business line that deals with tax affairs of individual taxpayers. It is the largest business line, with 4033 staff as at 30 June 1998. Until March 1998, that business line had total responsibility for Tax File Number (TFN) registration and related matters. The responsibility is now split between INB (for individuals) and WHT (for other than individuals). WHT also administers the TFN withholding tax arrangements.
- 4. The TFN system is a cornerstone of the tax revenue system as well as regulating part of the superannuation industry that managed in 1997–98 total annual contributions of approximately \$30 billion and Commonwealth benefit payment systems that distributed in 1997–98 about \$50 billion. The efficiency and effectiveness with which these collection, regulation and distribution systems work now depends crucially on the integrity of the TFN system. The legislated incentives and disincentives for the correct use of TFNs in the tax and payment systems, and the strict privacy arrangements provided by legislation, are essential to the maintenance of the integrity of the TFN system.

Audit objective and approach

5. The purpose of the audit was to ascertain and report to the Parliament on how efficiently and effectively the ATO administers the

On 1 March 1999 the SBI and WHT business lines were amalgamated into the newly created Small Business Line. This organisational change came into operation during the final reporting phase of the audit. The report comments on the administrative arrangements that were current during the audit process.

TFN System and to identify opportunities for improvement of that system. The audit focused on the administration of the TFN system by the ATO. The ANAO developed a methodological framework for the evaluation of the efficiency and effectiveness of the ATO's administration of the TFN system. The framework examined the TFN system; individuals and their TFNs; the TFN withholding tax arrangements; and TFN information matching.

Overall conclusion

- 6. The ANAO confirmed that the ATO's TFN system has improved tax effectiveness by enabling the collection of additional revenue. We also confirmed that the ATO's TFN system has improved administrative efficiency by enabling the provision of better services to clients at lower cost. These effectiveness and efficiency improvements have depended on four main factors:
- the extension of the TFN system to include a substantial proportion of financial transactions relevant to the assessment of income;
- a higher level of voluntary compliance in the quotation by taxpayers of the TFN in all cases in which quotation is requested;
- improvements in the quality of the ATO's data; and
- more widespread use of more sophisticated, but user friendly information technology.
- 7. Further gains in the effectiveness and efficiency of the TFN system are achievable. The gap between current and optimal levels of effectiveness and efficiency arise from several factors. These include shortcomings in the quality of the ATO's data bases; weaknesses in the management of the risks associated with the verification of the identity of TFN applicants; and deficiencies in the systems supporting the administration of the TFN withholding tax. The ANAO notes that, in addition, less than full compliance by the ATO's clients with the TFN quotation arrangements has contributed to the gap.
- 8. The scope for improved effectiveness of the TFN system depends as well on the ATO bringing to Government's attention options to improve the system where such improvements require a governmental response. The ATO could have been more proactive in advising government about problems with the TFN system and options to address these. They include extension of the TFN withholding arrangements to certain tax relevant financial transactions currently outside these arrangements.
- 9. The ANAO has identified several ways of enhancing the ATO's capacity to collect revenue by the improved use of the TFN. They are

relatively independent of the legal framework for the determination of tax liability. We suggested a range of initiatives similar to earlier reforms. These initiatives include:

- better risk management of the verification of the identity of TFN applicants;
- bringing all tax relevant transactions within the TFN system; and
- the maintenance and improvement of client data quality throughout ATO's business lines.
- 10. Implementation of these initiatives could result in improved financial benefits, in the order of an additional \$460 million, for the Commonwealth.² Adoption of the measures proposed by the ANAO offers a range of benefits for tax administration just as did the introduction of the TFN and associated measures during the last decade. It should result in the collection of a greater share of the revenue due to the Commonwealth under existing tax law. It could result in a higher quality, but lower overall cost of service to the taxpaying community. And, significantly, it may also result in the fairer and more consistent treatment of all taxpayers. A number of these initiatives can be implemented directly by the ATO: others would require legislative amendment.
- 11. The ATO has advised that the initiatives it has taken, or may in the future take, in the administration of the TFN system has to be tempered, in its view, by several factors. These include the sensitivities that came to the fore at the time the TFN reforms were first introduced; risk management considerations; costs to taxpayers that across the board changes can cause; and the sheer magnitude of the task the ATO now has in the implementation of tax reform. Notwithstanding these factors, the ATO has commented that the ANAO report is timely as it provides an opportunity to take a fresh look at its administration of the TFN. The ATO has further advised that the ANAO's report is a valuable addition to the ongoing discussion of TFN administration and that a comprehensive TFN Improvement Project for individual taxpayers has been initiated. The ATO has stated that ANAO's report will significantly assist this project.

 Additional revenue from the inclusion of certain real estate transactions in the TFN withholding arrangements: \$250 million.

² This amount is calculated as follows:

[·] Additional revenue from ATO/Health Insurance Commission data-matching: \$180 million.

Expenditure savings on income support payments from the use of the TFN in Employment Declaration Form, Prescribed Payment System, Reportable Payment System data-matching with Centrelink: \$28 million.

Expenditure savings on ATO administrative expenses from the maximisation of Year 9 TFN registrations in the Schools Education Program: \$2 million.

Key Findings

The TFN system (Chapter 1)

The Tax File Number

12. The phrase "tax file number" has a specific legislative meaning. It is a number that is issued to a person by the Commissioner of Taxation. Legislation authorises other agencies to use the TFN to verify client identity and establish their income levels. The ATO uses the TFN system to match data in order to detect, amongst other things, non-disclosure of income. It is used as a primary tool for compliance management and as a means of improving internal ATO efficiency.

The Tax File Number system

13. The ATO TFN system consists of the arrangements for all ATO clients (individual and business) for the registration and validation of TFNs; the verification of Proof of Identity (PoI) and the administration of TFN withholding arrangements. There is a wider TFN system in which the TFN is used in the administration of income support and higher education financial assistance.

Privacy

- 14. A range of legislation governs the relationship between the ATO and clients regarding TFNs. One of these, the *Privacy Act 1988*, regulates the collection, handling and use by Commonwealth agencies of information about individuals. The Act empowers the Privacy Commissioner to issue guidelines for the collection, storage, use and security of TFN information. Under the guidelines, which have the force of law and apply generally, the ATO can only use or disclose tax file numbers as permitted by law. That is, TFNs cannot be matched with other records except for lawful purposes. Only authorised staff can have access to TFNs.
- 15. The legislative development of the TFN reflects the tension between maintaining individual privacy while improving the efficiency and effectiveness of public administration. The ATO and other government agencies involved in managing and using TFNs need to be mindful of this tension, as was the ANAO when conducting the audit.

Individuals and their TFNs (Chapter 2)

Proof of Identification (Pol)

- **16.** Correctly establishing the identity of people at the time of applying for a TFN is important as the integrity of taxation administration depends upon the correct identification of individual taxpayers. The Commissioner must be satisfied of the applicant's identity before issuing a TFN and can refuse to issue one.
- 17. The ANAO found that the ATO could better manage the risks associated with the verification of an applicant's claims as to their identity. The ATO might not have sufficient expertise in the verification of the large variety of Proof of Identity (PoI) documents that it may need to examine in connection with TFN applications.

Schools Education Program (SEP)

18. One means used by the ATO to register clients is the SEP. SEP provides a low risk, low cost approach to TFN registration. The ANAO considers that the ATO could make more effective use of SEP as a means for obtaining low cost, high integrity TFN registrations. Additional efficiencies could be achieved by electronic lodgement and by negotiating a systemic agreement for access to schools.

Client service

19. We found other ways to improve client service. For example, there may be merit in Centrelink accepting TFN applications from all ATO clients (currently Centrelink may only receive TFN applications from its own clients); exploring the use of a common client service number across Government agencies; and supplying the TFN to clients in a user friendly, secure medium. There would also be scope for agencies that have a PoI function to combine their expertise from time to time in the conduct of PoI audits within and across government agencies in accordance with privacy guidelines.

Security and integrity

20. A high integrity TFN system is necessary to ensure the security, uniqueness and validity of each TFN. The security of each TFN should be a basic feature of the TFN system. Defence Signals Directorate (DSD) advised that the check digit routine used to generate the TFNs is widely known and could be regarded as being in the public domain. DSD advised of several algorithms that could be used to generate TFNs with high levels of security.

The TFN Withholding Tax (Chapter 3)

Quoting the TFN

21. Investors are requested, but not compelled, to quote their TFN in relation to a range of financial transactions. This request applies to all taxpayers, that is, individuals, companies, partnerships, trusts, and superannuation funds. There is a sanction for not quoting the TFN as requested. This sanction is the TFN withholding tax and it applies to all taxpayers. Taxpayers who have incurred the TFN withholding tax can claim a tax credit equal to the tax incurred when lodging their tax return.

Sanctions for non quotation

- 22. There are other sanctions that apply to the non quotation of the TFN. The sanction that applies to the income support and Higher Education Contribution Scheme (HECS) liabilities is more severe than the other TFN non quotation sanctions. The effect of this particular sanction is to make quotation of the TFN mandatory for the receipt of income support payments and HECS debtors. This affects more than five million people.
- 23. There are a number of consequences arising for the Government from non quotation of TFNs including, higher compliance costs for clients and the community; incomplete revenue collection; increased outlays on income support and similar programs; and increased administrative costs.

Information Technology (IT)

24. There is scope for improvement in the administration of TFN withholding arrangements. The information technology system upon which Investment, Royalties and Withholding (IRW) administration depends is fundamentally defective. ATO has experienced difficulties in the reconciliation of TFN withholding tax shown in Annual Investment Income Reports (AIIRs) with the amounts remitted by investment bodies. The ANAO found instances, extending over several years, of non compliance of remitters with the quarterly and annual reporting requirements. These instances may be exceptions as the ATO has taken steps to ensure that remitters generally comply with TFN reporting requirements. The ATO has been unable to reconcile the accounts of almost all investment bodies for each of the eight years that the TFN withholding tax arrangements have been operating.

Coverage

25. There are gaps in the coverage of the TFN withholding tax. A significant range of financial transactions and investment bodies lies

outside of the TFN arrangements, thereby putting at risk the integrity of the TFN system.

26. The ANAO considers that the lack of coverage of these transactions by the TFN withholding arrangements presents a risk to revenue. This is particularly so for real estate and the Australian Transactions Reports and Analysis Centre (AUSTRAC) transactions which are amongst those outside the TFN system. ATO research estimates that \$250 million is at risk from residential real estate transactions involving non-residents.³ This is but one class of transactions outside the TFN quotation arrangements. In addition, the use of electronic commerce may open up new opportunities for taxpayers to evade TFN withholding arrangements.

Remittances and exemptions

- 27. Tax legislation provides that money withheld under the TFN withholding tax arrangements may be remitted to taxpayers upon the quotation of their TFN. The ANAO estimates that, of the \$650 million collected as TFN withholding tax since the scheme began in 1992, at least \$200 million has not been returned to taxpayers.
- 28. The ANAO found that some investors who incurred sizeable TFN withholding taxes for not quoting a TFN could not be matched with an existing taxpayer. The analysis of the circumstances of investors who have incurred sizeable TFN withholding taxes and who do not claim the amounts in assessments might be of interest to the ATO from a taxation audit perspective. Such an investor, who did not lodge a tax return, might also warrant closer ATO scrutiny.
- 29. Investors who receive certain income support payments are exempt from the imposition of the TFN withholding tax.⁴ The ATO should keep in mind that a proportion of exempt investors may be people who are disadvantaged. The ANAO considered that there is scope for the ATO to provide such investors with a better quality service by seeking to ensure that the latter are automatically exempt from the TFN withholding tax arrangements.

The ATO has advised that this estimate of the possible revenue loss nationally is their extrapolation from a State based study of certain real estate transactions. Until the ATO completes further research there is still significant uncertainty as to the extent of possible revenue loss.

Investors who get part or all of one of the following payments are eligible to claim an exemption: Age Pension; Widow's Pension; Disability Support Pension; Sole Parent's Pension; Wife's Pension; Special Benefit; Carer's Pension; Service Pension; Rehabilitation Allowance received by qualifying for one of the preceding payments.

TFN Information Matching (Chapter 4)

Data quality⁵

30. The ATO has taken significant initiatives that aim to ensure only high quality TFN information is included on its databases. The ANAO found that, notwithstanding these initiatives, there is room for improvement in the quality of TFN information. The ATO was advised during the audit, through its own internal research, that the quality of its main databases was probably somewhere between unsatisfactory and average. The less than satisfactory integrity of the ATO's TFN information is generally acknowledged throughout the ATO. The shortcomings in data quality have limited the effectiveness of information matching by the ATO. This limitation has a financial cost that neither the ANAO nor the ATO was able to estimate on the basis of available information. Prior to completion of the audit, the ATO commenced initiatives to improve the quality of its main databases.

Special data-matching studies

- We performed several data-matching studies that can only be 31. carried out under section 32 of the Auditor-General Act 1997. These included a match of Employment Declaration Forms with TFNs attached against Centrelink databases; a match of Medicare records against the ATO's databases; and a match of Child Care Cash Rebate Claims against ATO records. We conducted these data-matching studies to obtain information otherwise not available to the Parliament. The provision of this information contributes to improving the accountability of Commonwealth administration as it discloses information about the Commonwealth's administrative systems not otherwise available. The information disclosed by these studies sheds some light on the general public's compliance with Commonwealth law. Data was examined generically with no identification or examination of individual records. Further, all parties agreed that no administrative action would be taken against an individual as a result of these data-matching studies. We asked the ATO to conduct other studies, some of which used ATO's data warehouse facility.
- **32.** The ANAO, with the assistance of the ATO, Centrelink, Health Insurance Commission (HIC), States Registrars-General and the Australian Securities and Investment Commission (ASIC), undertook a range of quantitative analyses of data relevant to the TFN system. These analyses showed that:

ANAO audit, Data Management in the APS, Audit Report No. 48 1997–98, provides information on this topic.

- 3.2 million more individual TFN registrations than people in Australia counted in the last census;
- an estimated 185 000 potential duplicate records of individual taxpayers amongst 17.1 million active tax records of such taxpayers;
- based on a match of 107 963 Fact of Death records, 62 per cent of deceased clients were not recorded as deceased on the ATO client data base;
- based on a match of 311 292 records of deregistered companies, 40
 per cent of deregistered companies were still recorded as active on
 the ATO client data base;
- based on a match of 10 072 076 Medicare records and 318 568 Commonwealth Childcare Cash Rebate (CCCR) claims, almost 96 per cent of the Medicare beneficiaries and almost 98 per cent of CCCR claimants have ATO records (ATO estimated an additional revenue of \$180 million due to the Commonwealth could be recovered by matching HIC and ATO data⁶); and
- based on a match of 228 210 Employment Declaration Forms (EDFs) from the ATO (with and without their TFNs attached) against more than 5 million Centrelink records, the TFN improves the efficiency of data-matching by about 11 per cent (Centrelink estimates that the use of TFN in EDF matching could generate an additional annual saving of \$27.6 million).⁷
- 33. The Commonwealth administers a range of revenue collection and income payment systems similar to those that now make use of the TFN. These systems might also be made more effective and efficient by the use of the TFN.

Acknowledgments

34. The ANAO formally recognises the substantial contribution of the ATO officers who assisted in the conduct of this audit. We are grateful for the cooperation of those agencies that provided data and analytical expertise for the audit. We also appreciate the assistance of those agencies which provided data for the information matching exercises.

⁶ ATO research indicated that a portion of the \$180 million would be generated by tax audit work facilitated by the data-matching.

Centrelink routinely matches EDFs without TFNs against its records as a tool of compliance management (legislation requires removal of TFNs). This produced savings of \$25 579 802 in 1997–98. Centrelink also matches Prescribed Payments System (PPS) and Reportable Payments System (RPS) records from the ATO against its databases for the same purpose as the EDF match. The TFN is also removed from these records. Centrelink advises that an additional annual saving of \$235 220 would be achieved by using the TFN as the matching key for this data.

Recommendations

Set out below are the ANAO's recommendations aimed at improving the ATO's administration of the TFN system. Report paragraphs references and abbreviated ATO responses are also included. More detailed responses are shown in the body of the report. The ANAO considers that the ATO should give priority to Recommendations 1, 3, 4 and 7.

Recommendation No.1

Para 2.25

Recommendation The ANAO recommends that the ATO:

- a) examine the cost-effectiveness of offering an electronic service to schools in regard to TFN applications;
- b) maximise the proportion of eligible 15 and 16 year olds enrolled at schools who choose to receive their TFN through the ATO's Students Education Program; and
- c) seek the support of the Department of Education, Training and Youth Affairs in preparing a submission for ministerial consideration about obtaining the cooperation of peak school bodies to the conduct of the ATO's Schools Education Program in Year 9 classes on an annual basis.

ATO Response: Agree.

Recommendation No.2 Para 2.70

The ANAO recommends that the ATO in conjunction with other agencies research and report appropriately upon the privacy considerations, client benefits and cost-effectiveness of:

- a) implementing an effective risk management process, including quantitative analyses of Proof of Identification (PoI) data;
- delivering TFN client services through appropriate alternative means additional to the ATO;
- c) providing a more secure, client focussed and costeffective means of generating/composing TFNs.
 The ATO should have regard to the widespread

use of the TFN (by employers, investment bodies and other government agencies) and to Defence Signals Directorate's advice concerning secure algorithms;

- d) conducting PoI audits within and across government agencies; and
- e) providing the client service number in a format which is easy for clients to access, use and maintain, while protecting their individual privacy.

ATO Response: Agree to (a) to (d). Agree with qualification to (e).

No.3

Para 3.16

Recommendation The ANAO recommends that the ATO ascertain the cost-effectiveness of assigning appropriate information technology resources to Interest Royalties and Withholding Branch.

ATO Response: Agree.

No.4

Para 3.41

Recommendation The ANAO recommends that the ATO examine the risks to the integrity of tax administration and to the collection of revenue arising from transactions (for example, those listed in paragraph 3.30) being outside the TFN withholding arrangements and consider options for addressing these risks, such as their inclusion within the TFN withholding arrangements.

ATO Response: Agree.

No.5 Para 3.56

Recommendation The ANAO recommends that the ATO:

a) seek concurrence of relevant financial institutions regarding the data specification for Annual Investment Income Reports information that provides the ATO with accurate and valid data that minimises compliance costs;

- b) investigate the disparity between the TFN withholding tax collected and the amounts remitted to taxpayers; and
- c) reconcile remitter/investment body payments as appropriate and ascertain the level of tax payable having regard to the quality and timeliness of available data.

ATO Response: Agree.

No.6

Para 3.62

Recommendation The ANAO recommends that the ATO:

- a) examine opportunities for simplifying the refund process for exempt investors who have incurred the TFN withholding tax; and
- b) examine the cost-effectiveness of establishing suitable arrangements to ensure the automatic identification of exempt investors.

ATO Response: Agree.

Recommendation

No.7 Para 4.79 The ANAO recommends that the ATO:

- a) improve client data quality throughout its business lines;
- b) progress strategies for the resolution of duplicate, and the archival of inactive, records;
- c) assess the cost-effectiveness of accessing and using additional data sets, such as those from the State Registrars-General; and
- d) work with strategic partners to ensure that data sets conform to ATO standards before they are provided to the ATO.

ATO Response: Agree to (a), (c) and (d). Agree with qualification to (b).

Audit Findings and Conclusions

1. The TFN System

This chapter provides a descriptive overview of the TFN system, including its legislative framework. The areas of this system examined, together with the purpose and methodology of the audit are described, in this section.

Introduction

The Australian Taxation Office

- 1.1 The Australian Taxation Office (ATO) is the Commonwealth's principal revenue collection agency. In 1997–98 the ATO collected tax revenue of \$110.34 billion, representing approximately 81 per cent of total taxation revenue in that year. The main component of tax revenue is individual income tax, followed by company income tax, sales tax and fringe benefits tax, in that order.
- 1.2 The ATO was organised into six main business lines, supported by a number of service lines. Three business lines deal with revenue collection matters, and are organised along client lines: Large Business and International (LBI), Small Business Income (SBI) and Individuals Non-Business (INB). Another business line, Withholding Tax (WHT), deals principally with indirect taxes.⁸
- 1.3 The INB business line is the business line that deals with tax affairs of individual taxpayers. It is the largest business line, with 4033 staff as at 30 June 1998. Until March 1998 it had total responsibility for Tax File Number (TFN) registration and related matters. The responsibility is now split between INB (for individuals) and WHT (for other than individuals). WHT also administers the TFN withholding tax arrangements.

The Tax File Number

1.4 The phrase "tax file number" has a specific legislative meaning.⁹ It is a number that is issued to a person by the Commissioner of Taxation.¹⁰ The original and main purpose of the TFN was to be a numeric, unique

On 1 March 1999 the SBI and WHT business lines were amalgamated into the newly created Small Business Line. This organisational change came into operation during the final reporting phase of the audit. The report comments on the administrative arrangements that were current during the audit process.

Section 202A of the Income Tax Assessment Act 1936.

Section 202A defines a person for TFN purposes as including a natural individual, a company, a partnership, a trust, a superannuation fund, or a person acting in the capacity of a trustee of a trust estate.

identifier of clients of the ATO. The TFN is also used by other government agencies when there is a legislative need to verify client identity and establish income levels. As soon as a TFN is affixed to a record in a way that connects it to an individual's identity, the record becomes "tax file number information".

1.5 A TFN is a eight or nine digit number without any embedded meaning. It is generated by an arithmetic formula, known as a check digit routine, applied to a seven or eight digit number. This formula produces the last digit of the number which will become a valid TFN. The effect of this procedure is that the check digit calculation will only provide about 100 valid TFNs from each set of 1000 numbers. The ATO allocates TFNs automatically from a national computer based store.

The TFN System

- 1.6 There is a wider TFN system which encompasses governmental arrangements¹¹ for the use of TFNs in the administration of taxes and income support payments.¹² It was only the ATO TFN system which was the focus of the audit and hence the phrase "TFN system" in this report refers only to the ATO TFN system.
- 1.7 The TFN system is a cornerstone of the tax revenue system as well as regulating part of the superannuation industry that managed in 1997–98 total annual contributions of approximately \$30 billion and Commonwealth payment systems that distributed in 1997–98 about \$50 billion as entitlement based payments. The efficiency and effectiveness with which these collection, regulation and distribution systems work now depends crucially on the integrity of the TFN system. The legislated incentives and disincentives for the correct use of TFNs in the tax and payment systems, and the strict privacy arrangements provided by legislation, are essential to the maintenance of the integrity of the TFN system.

Including Government objectives, legislation, administrative policy, procedures and practices and management and information technology systems.

These income support and revenue collection arrangements include:

[·] verify income disclosure and entitlement for Commonwealth income support payments,

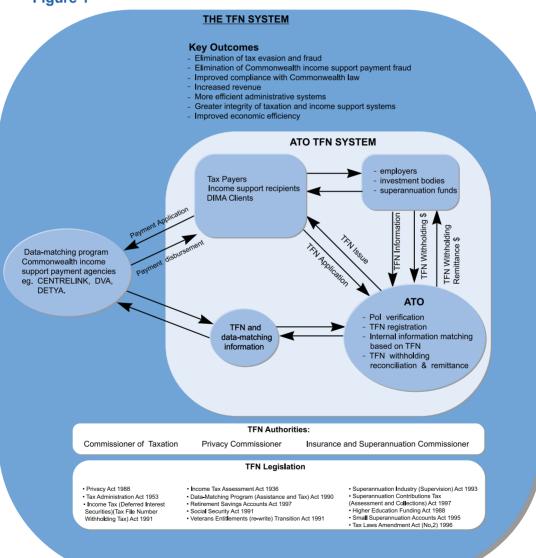
detect inaccuracies in either tax returns lodged with the ATO, applications made for payments to the Commonwealth's income support agencies, or in payments being received from these agencies,

recover income support debt, and

improve the efficiency and effectiveness of tax administration (including the HEC Scheme and superannuation) and the administration of Commonwealth income support payments.

- **1.8** The ATO TFN system consists of the arrangements for all taxpayers (individual and business) for:
- the registration and validation of TFNs;
- the verification of Proof of Identity (PoI); and
- the administration of TFN withholding arrangements;
- 1.9 The ATO TFN system matches data in order to detect, amongst other things, non-disclosure of income. It is a primary tool of compliance management and is a way of improving internal ATO administrative efficiency. For example, ATO systems now automatically cross reference multiple tax debts having the same TFN, making the recovery of such debts more efficient.

Figure 1



TFN Legislation

- 1.10 The Parliament has progressively extended the use of the TFN in Commonwealth administration since the first TFN legislation was enacted in 1988. The Parliament has determined that the use of the TFN as a unique identifier can provide financial benefit to the Commonwealth by increasing revenue, containing income support payments, improving administrative efficiency and client service. There are 13 acts of Parliament which regulate the purpose and use of TFNs.¹³
- 1.11 The legislative development of the TFN reflects the tension between maintaining individual privacy while improving the efficiency and effectiveness of public administration. The ATO and other government agencies involved in managing and using TFNs need to be mindful of this situation, as was the ANAO when conducting the audit.

Penalties and sanctions

- **1.12** The *Tax Administration Act* 1953 (TAA) creates a number of offences relating to the misuse of TFNs including:
- a requirement that a TFN not be quoted that has not been authorised by the Commissioner of Taxation; (penalty \$10 000 or imprisonment for two years or both);
- the unauthorised recording of a TFN; (penalty \$10 000 or imprisonment for two years or both); and
- conducting affairs so as to avoid TFN requirements; (penalty \$10 000 or imprisonment for two years or both).
- **1.13** The sanctions applied for not quoting a TFN in relation to specific financial or administrative transactions do not carry the same impact as the sanction for non quotation in relation to applications for income support or Higher Education Contribution Scheme (HECS) liability.
- 1.14 Since 1990 legislation governing the use of the TFN for the receipt of most Commonwealth income support payments has required that people claiming, or in the receipt of, this assistance have to provide a TFN as a condition of receiving such payments. The legislation governing the use of the TFN for taxation transactions has no comparable requirement. There is, therefore, in tax administration no sanction with comparable impact.¹⁴

¹³ Appendix 1 lists the relevant legislation.

¹⁴ The Higher Education Funding Act 1988, the Social Security Act 1991 and the Veterans Entitlements (Rewrite) Transitions Act 1991.

The Data-Matching Program

1.15 The *Data-Matching Program* (Assistance and Tax) Act 1990 regulates the use of the TFN in the comparison of personal information held by the ATO, Centrelink and other agencies. The then Minister, stated in his Second Reading speech, that the purpose of the Act was to virtually eliminate a major cause of social security and taxation fraud.¹⁵ This was fraud arising from people providing false or inconsistent information on their income and family structure to two or more government agencies. Agencies participating in the program are required by the Act to produce special annual reports addressing matters specified in the Act.

TFN quotation compliance arrangements

- **1.16** Legislation provides that quotation of the TFN is optional for taxpayers in respect of a range of financial transactions. ¹⁶ A taxpayer (that is, a person, company, partnership, trust or superannuation fund) is not compelled to quote their TFN in any of their dealings with the ATO. This makes Australia unique amongst nations with TFN type identifiers.
- 1.17 TFN withholding taxes are imposed for not quoting a TFN for specific financial transactions (such as the interest earned on investment accounts). However, there are exemptions from the TFN withholding tax.¹⁷ The TFN withholding tax imposed is at the top marginal tax rate (plus the Medicare levy) and applied to the interest earned above a minimum threshold of \$120 per annum for interest earned and to each \$1 earned as dividends.
- **1.18** The top marginal tax rate (plus the Medicare levy) is imposed on the actual salary and wage income being paid for not quoting the TFN on the Employment Declaration Form (EDF) regardless of the actual income.
- **1.19** In the case of the Prescribed Payments System (PPS) and the Reportable Payments Declarations required by the Reportable Payments System (RPS), if the payee does not quote their TFN, the payer must deduct tax at a specified rate from the payment.
- **1.20** With regard to superannuation, the top marginal tax rate (plus the Medicare levy) is imposed in connection with the determination of the maximum amount of superannuation and similar benefits that a person

¹⁵ House of Representatives Hansard, 20 December 1990, pps 4871–4872.

¹⁶ Appendix 5 for a listing of these transactions.

Those exempted from quoting include most pensioners, entities not required to lodge tax returns, non residents and children whose income is below a certain threshold.

is entitled to receive during their lifetime on a concessionally taxed basis under the provisions of the reasonable benefits limits (RBL) system.¹⁸

- **1.21** Monies withheld from taxpayers as a result of the imposition of TFN withholding taxes can be claimed as tax credits when the client lodges their tax return.
- 1.22 The audit examined ATO's administration of the TFN withholding tax applied to financial transactions. The administration of TFN withholding arrangements for EDFs, the PPS and RPS systems and for superannuation purposes (including the RBL system) was outside the scope of this audit.

Privacy arrangements

- **1.23** The *Privacy Act 1988* regulates the collection, handling and use by Commonwealth agencies of information about individuals. It specifically regulates the collection, storage, use and security of tax file number information. All TFN information users are required to comply with these provisions. The *Privacy Act 1988* enumerates a series of rules, called information privacy principles, based on those recommended by the Law Reform Commission in 1988.
- **1.24** Under the principles, Commonwealth agencies must have a lawful purpose for collecting personal information, and the purpose must be related to the functions or activities of the collector. The principles require agencies to store information records securely against loss or misuse.
- 1.25 The Act empowers the Privacy Commissioner to issue guidelines for the collection, storage, use and security of TFN information. Under the guidelines, which have the force of law and apply generally, the ATO can only use or disclose TFNs as permitted by law. TFNs cannot be matched with other records except for lawful purposes. Only authorised staff can have access to TFNs.
- **1.26** Employers and other TFN recipients must comply with the *Privacy Act 1988*. The guidelines require recipients of TFNs to establish internal management systems that ensure that TFN information is held securely and is only capable of use and access by authorised staff and others with tax-related responsibilities.

It is to be noted that the imposition of the top marginal tax rate is not automatically applied for non quotation of the TFN for RBLs. The top rate can only be applied after the ATO has completed an exhaustive search for a taxpayer's absent TFN. Apart from this instance, there are no sanctions for not providing a TFN in relation to superannuation and related transactions, for which the quotation of the TFN is not compulsory.

Recent developments

1.27 There have been three recent policy and administrative developments relevant to TFN administration. These are:

- the establishment through an internet facility of a single business entry point (BEP) for business in their dealings with Government;
- the Government's announcement of the Australian Business Number (ABN); and
- the Taxation Commissioner's endorsement of a compliance model for tax administration.

The single business entry point

1.28 In December 1997 the Prime Minister announced a new policy framework for small business in his speech Investing for Growth in Australia, including the establishment of a single point of entry for business to Government. This became operational for the four Treasury agencies, the ATO, ABS, ASC and ISC on 1 July 1998. The relevance of the BEP to the TFN is in terms of electronic commerce and the ability of clients to attach their TFN electronically to information.

The Australian Business Number (ABN)

1.29 The Government has announced that it will introduce an ABN as an element of its tax reform package.²⁰ In the Bell Report, Time for Business, the business community expressed its support for an ABN for all Commonwealth taxation purposes. That Report outlined the business community's desire for an ABN that:

- can be used in public;
- has high integrity;
- will eliminate tax fraud and evasion;
- protects privacy;
- is secure;
- is unique;
- facilitates the updating of records across the various agencies; and
- defines the holders of it as reputable, law abiding businesses.

More Time for Business. This was the Government's formal response to the Bell Report Time for Business

²⁰ Tax Reform not a new tax a new tax system AGPS 1998. This report was released to the public by the Treasurer in August 1998.

1.30 Many of the business communities' demands for the ABN overlap with an efficient and effective TFN. The business community's recommendation for a ABN drew heavily on international developments such as those of other OECD member states, for example Canada.²¹ The ATO has advised that the implementation of the ABN for business taxpayers will see adoption of best practice that can flow on to the general administration of TFNs. As part of ABN (and TFN) best practice, the ATO has commented that it will use the registration interaction to build a relationship with taxpayers that will enable the ATO to ensure that all responsibilities are handled in the one exchange. The ATO considers that it can use past history to assess compliance risks associated with a new registration. The ATO has explained that by means of this approach a completely new business taxpayer could be offered a record keeping visit.

A new compliance model for tax administration

1.31 The other relevant development was the ATO's release of the two reports of the Cash Economy Task Force. The second of these, Improving Tax Compliance in the Cash Economy, released on 22 April 1998 contains a new paradigm of compliance for the ATO. The new compliance model has been accepted by the Commissioner. It suggests a changed role for the ATO in the achievement of greater compliance with tax law by the community. This new role has implications for ATO's role in the TFN system. It is a role which could see ATO doing less routine administrative work and more high level regulatory and quality assurance work.

The audit

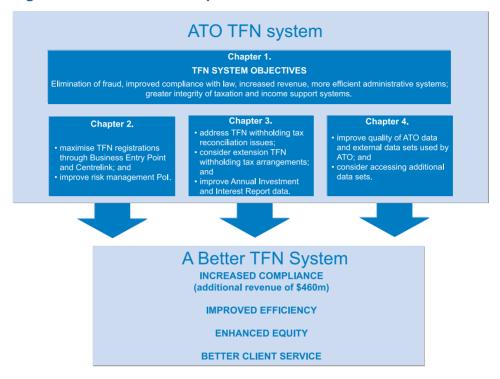
Purpose and scope

1.32 The purpose of the audit was to ascertain, and report to the Parliament on how efficiently and effectively the ATO administers the TFN system and to identify opportunities for improvement of that system. The audit focused on the administration of the TFN system by the ATO as represented in Figure 1 above. The ANAO developed a methodological framework for the evaluation of the efficiency and effectiveness of the ATO's administration of the TFN system that examined the TFN system; individuals and their TFNs; the TFN withholding tax and TFN information matching.

The Bell Report noted that Revenue Canada had put a proposal to the Canadian Government for a UBI in 1992 and that the Government had begun to implement it in 1996.

1.33 Figure 2 provides an overview of the report.

Figure 2: Overview of the report



1.34 The total cost of the audit was approximately \$370 000. The audit was conducted in accordance with ANAO auditing standards.

Methodology

- **1.35** The ANAO developed a methodological framework for the evaluation of the efficiency and effectiveness of the ATO's administration of the TFN system, that consisted of:
- a means for the measurement of:
 - ☆ the effectiveness of the achievement of legislated outcomes; and
 - ☆ the relative efficiency of the production of outputs from the ATO TFN system;
- the use of quantitative techniques as a key facet of the audit:22
 - ☆ the conduct of data-matching studies using data sets external to the ATO;
 - ☆ analysis of ATO data by means of a series of ATO data

The quantitative data in this audit has been drawn from various sources indicated in the text. Unless otherwise shown, the data has been examined for reasonableness, but not audited.

- warehouse projects; and
- ☆ the use of Australian Bureau of Statistics (ABS) statistics to support the ANAO analysis of aspects of ATO performance; and
- a review of the additional information that may be required for the ATO to have sufficient information about taxpayers relevant to the accurate verification of income tax returns in all cases.

Equity

- **1.36** In evaluating the administration of the TFN system the ANAO also considered several equity issues, such as:
- impact on individuals of TFN arrangements with respect to a person's financial circumstances; and
- the fair and consistent treatment of people.

Special data-matching studies

- 1.37 We performed several data-matching studies that can only be carried out under section 32 of the *Auditor-General Act 1997*. As legislation precludes the ATO's use of Health Insurance Commission (HIC) data and bars the use of TFNs in the matching of the ATO's EDFs against Centrelink data, the studies performed could only be done lawfully by using the power of the Auditor-General to obtain information. All of the agencies that provided the ANAO with the information we required cooperated fully with the ANAO. The Privacy Commissioner was kept fully informed and concurred with the arrangements. The ANAO accepted the advice of the Privacy Commissioner about the incorporation of safeguards in the studies and built these into the arrangements for the conduct of the studies.
- **1.38** We conducted these studies to obtain information not otherwise obtainable about the:
- quality of the ATO's data bases;
- likelihood of fraud against Commonwealth law;
- value of the TFN as a matching key; and
- scope for additional savings to the Commonwealth's income support payments by extending the use of the TFN as the matching key.
- **1.39** We considered the provision to Parliament of information about these matters to be of sufficient importance to use section 32 of the *Auditor-General Act* 1997 to conduct these studies.

- 1.40 The provision of this information contributes to improving the accountability of Commonwealth administration as it discloses information about the Commonwealth's administrative systems not otherwise available. In this way it contributes to Parliament's understanding about the way in which public funds are spent. It helps fill gaps in the information available to Parliament about the payment of benefits and the administration of tax by the Commonwealth. These are areas of significant materiality in the finances of the Commonwealth.
- **1.41** The information disclosed by these studies also sheds light on Parliament's understanding of the general public's compliance with Commonwealth law and on its equitable treatment of people. Indeed, some of the analyses set out in this report point to emerging disparities on this matter.

2. Individuals and their TFNs

This chapter outlines the administration of TFN registration arrangements for individuals, discusses issues associated with the verification of proof of identity and the validation of TFNs. Comparative practices of OECD member states are surveyed. The chapter concludes with recommendations for improved performance.

Background

- **2.1** The TFN system produces a range of outputs. These include registered TFNs, official forms, publications, oral and written advice to taxpayers, advice to the Government, Parliament and other agencies. The key output of the TFN system on which the ANAO focussed was the provision of a TFN through the TFN registration process.
- 2.2 The ANAO examined the relative efficiency with which the ATO produced this output. The ANAO assessed opportunities for improved efficiency by the examination of the scope for providing higher quality and additional output at no extra cost and/or for providing the same quality and extent of current output at lower cost. TFN registration process consists of several steps. The ANAO focussed on the administration of the main ones:
- the application/registration process;
- management of PoI risks;
- compilation of the TFN number; and
- privacy arrangements.
- **2.3** The ANAO also examined comparable Organisation for Economic Cooperation and Development (OECD) practices.
- 2.4 Responsibility for non individual clients was transferred from INB to WHT in April 1998. WHT adopted existing TFN registration policy and procedures as their starting point, and are proposing to redevelop PoI and client access options in line with the direction set by the business entry point (BEP) service and the Government's taxation reform proposals generally.
- **2.5** The ANAO endorses the initiatives that the ATO is taking to improve TFN registration processes (especially the use of business process reengineering²³ and the accurate costing of services) for non individuals

The authors who introduced the term "business process re-engineering" defined it in the following: The fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance, such as cost, quality, service and speed. Hammer, M. and Champy, J. Re-engineering the Corporation Harper Collins 1993. Page 32.

in readiness for implementing wider tax reform. The ANAO did not examine non-individual TFN processing as it was assessed that WHT needed a minimum of 12 months operational control before any ANAO analysis of operations occurred.

- 2.6 The ANAO examined application and registration practices and procedures for individuals by reviewing management systems, outcomes, outputs and cost of service. The ANAO undertook quantitative analysis of registration data as a means of assessing the efficiency and effectiveness of the ATO's administration of TFN registration.
- **2.7** The ANAO recognises the advantages in separately registering businesses and individuals. However, we consider that it is necessary that the ATO continue its efforts to ensure that each business is correctly linked to individuals through their TFNs so that ultimate responsibility for any business can be traced back to a natural person.

Application/registration processes

Lodging a TFN application

- 2.8 Legislation permits the Tax Commissioner to accept applications for a TFN from persons who wish to obtain one. Legislation requires that the Commissioner be satisfied that the applicant's identity be established before issuing the person with the TFN. The Commissioner has discretion to refuse to issue a TFN if he is not satisfied as to the applicant's true identity. The ATO has established administrative procedures and practices to give effect to legislative requirements. Application for a TFN is voluntary and clients may apply for a TFN by completing an application form.
- 2.9 Most TFNs for individuals are issued to applicants who apply for themselves, with the remainder being applied for by parents/guardians or persons in a position of care. Without a TFN clients cannot receive income support payments and may have to pay high levels of TFN withholding taxes. The ATO assigns a TFN to a client after an application has been successfully lodged and registered through:
- the ATO either in person, through correspondence (and for business clients through the internet via the BEP);²⁴
- the ATO students education program; or
- Centrelink or Department of Veterans' Affairs (DVA) for their customers/clients.

At the time of the audit this facility was only available to non individual business clients.

Individual applications

Overview

2.10 The ATO receives approximately 700 000 applications annually for TFNs. Approximately 250 000 are for businesses and 450 000 for individuals. While the bulk of the applications are managed in an appropriate manner both the ANAO and the ATO Internal Audit identified a number of ways by which the current process can be improved.²⁵

TFN management systems

- **2.11** TFN management systems include practices and procedures (as outlined in the TFN Procedures Manual), human resources and information technology (IT) systems established for the administration of individual's TFNs. The bulk of the work managed by these systems is of a transactional nature as it is largely concerned with the processing of applications.
- **2.12** There is in the ATO an increasing emphasis being given to knowledge management as an essential element to good tax administration. From this perspective, functions such as the registration of TFNs are high priority front line operations. This is because they are means by which the ATO acquires the knowledge it needs. Front line staff have the critical function of getting information right the first time a client enters into a transaction with the ATO.
- **2.13** Improved management systems could be achieved by:
- adopting the key quality assurance principle of ensuring information is correct at the first point of entry;
- applying business process re-engineering principles; and
- using appropriate technology in applications processing;

Outcomes and outputs

2.14 The administrative performance of the ATO's registration of TFNs is mainly measured by input and process performance measures. Input and process information is of limited use to management. Management does not have the information needed to move out of a clerical culture to one of knowledge management. For example, incomplete applications are not recognised as a separate output. Their measurement and costing is required in order to measure accurately outputs of the TFN registration process. The ATO is moving to give effect to the Government's adoption of the outcome/output approach to public service management. The ATO stated that it expects to have the Government's framework operational by 1 July 1999.

²⁵ ATO Internal Assurance Branch report, *Proof of Identity of ATO Clients* 1998.

Cost of service

2.15 The ATO calculates the cost of TFN services by means of the direct cash cost of those services. The ATO uses the actual hourly rates of the cash value of the direct annual salaries of the staff performing TFN registration services. This measure underestimates the true cost of service provision. The ATO is implementing the accrual accounting framework adopted by Government. This should provide a more accurate basis for the measurement of the cost of the ATO services.

The ATO Schools Education Program (SEP)

Overview

2.16 In 1994 the ATO began implementing the SEP in secondary schools, with the dual objectives of informing students of their future taxation responsibilities and their opportunity to apply for a TFN through their school. Under the arrangements entered into between the ATO and schools, school administrators certify the identity of those students who use the opportunity to apply for a TFN. Parents can veto their child's lodgement of a TFN application form.

2.17 In 1997–98 SEP registered 25 per cent of the total number of TFNs registered for individuals. This was an increase on the percentages of previous years. In 1997–98, 189 333 TFNs were registered to young people between the ages of 15 and 18. In 1995–96 it was responsible for 43 per cent of these registrations. In 1997–98 SEP was responsible for 61 per cent. These figures show that an increasing proportion of TFNs are being issued through SEP. However, this information is not the most relevant to gauge the effectiveness of the program. The information required for this purpose is the proportion of Year 9 and 10 students enrolled at schools in Australia who receive their TFN through SEP.

2.18 In 1995 there were 477 374 Year 9 and 10 students in Australian schools, of whom 245 492 were in Year 9.26 In 1995–96, 88 376, or 19 per cent, of Year 9 and 10 students in Australian schools were registered with a TFN through SEP. Almost all of these young people will ultimately need a TFN and most will have to get them from the ATO. It is possible to estimate the savings that ATO could achieve if it was able to maximise TFN registrations of Year 9 students through SEP. As TFNs are registered for about 18 per cent of the 245 492 Year 9 students, there are about 200 000 additional to register.

1997 Year Book Australia, page 237; Australian Bureau of Statistics Canberra ABS Catalogue No. 1301.0. Since 1995 is the last year for which ABS data about the numbers of young people at

^{1301.0.} Since 1995 is the last year for which ABS data about the numbers of young people at school are available, the audit team used them to estimate the potential for administrative savings for the ATO from the more effective use of SEP.

- **2.19** On the basis of costing information prepared by the ATO, the ANAO estimates that the cost of the registration of a TFN through the SEP is about \$10 less than by direct application to the ATO. Accordingly, the ATO could save at least additional \$2 million by more effective use of SEP. The added advantage of registering the maximum possible TFNs through SEP is that of better risk management. As schools guarantee the identity of the TFN applicant, there is a very low risk of a TFN being issued to an applicant with a false identity.
- 2.20 The ANAO also analysed the numbers of TFNs registered to 15 and 16 year olds in 1997 in relation to the total numbers of people of this age living in Australia recorded in the 1997 Census. The results show that in the financial year 1997 the ATO has issued TFNs to only about one third of 15 and 16 year olds. In view of these relatively low rates of TFN registrations for young people, the ANAO considers that the ATO can achieve a higher rate of TFN registration for this age group.
- **2.21** The SEP shows much merit. It is an ATO initiative which produces benefits for all participants. The benefits arising from SEP include:
- it helps young people to better understand their tax rights and responsibilities under Commonwealth law;
- it is an effective way of obtaining quality, low cost TFN registrations for a significant proportion of eligible Australians; and
- it ensures that young people about to enter the work force have a TFN and therefore do not incur the TFN withholding tax levied at the highest marginal rate.
- **2.22** The ATO could improve the effectiveness and efficiency of TFN administration by maximising the proportion of eligible young people at school who receive their TFN through SEP. This could assist in increasing the rate of TFN registration through SEP.
- **2.23** The ATO is undertaking preliminary work in estimating the cost-efficiency of implementing the electronic lodgment of TFN applications through schools to the ATO. The ANAO supports this initiative.

Access to schools

2.24 The ANAO estimates that between one third and one half of the time of the staff administering SEP is spent on negotiating access to schools. The ANAO acknowledges that the decision to grant access to schools for SEP purposes at present is the responsibility of the principal. The ANAO noted that in some states, the ATO has obtained letters of support for SEP from the Directors-General of state school education

systems. These letters have been of assistance to the ATO in securing the cooperation of some state schools. However, the ANAO considers that high level, systemic agreement to access would mean that the ATO would have more ready access to most schools than under current arrangements. If this commitment was obtained, there would be a further administrative efficiency for the ATO.

Recommendation 1

- **2.25** The ANAO recommends that the ATO:
- a) examine the cost-effectiveness of offering an electronic service to schools in regard to TFN applications;

ATO Response:

Agree.

The ATO agrees that this option should be considered; in fact, there is a pilot underway in two schools in Victoria to test its viability. However, the ATO is conscious that it must not, nor must it be perceived to be, transferring its costs to other organisations.

b) maximise the proportion of eligible 15 and 16 year olds enrolled at schools who choose to receive their TFN through the ATO's Students Education Program;

ATO Response:

Agree.

Given the debate when the ATO introduced the Schools Education Program (SEP) we are conscious that positive marketing is essential for this program. Accordingly, the ATO notes that the objective of the TFN registration component of the SEP is to maximise the proportion of students who choose to apply for a TFN. However, the intention of Parliament in the TFN legislation is quite clear in that all taxpayers, including students, still have a choice whether to apply or not.

c) seek the support of the Department of Education, Training and Youth Affairs in preparing a submission for ministerial consideration about obtaining the cooperation of peak school bodies to the conduct of the ATO's Schools Education Program in Year 9 classes on a annual basis.

ATO Response:

Agree.

The ANAO has acknowledged that the SEP was an initiative which the ATO instigated and which has proven to be very successful. The ATO

realises that we are fortunate to be in a somewhat privileged position to have access to those schools who choose to take part in the SEP. While we continue to seek further access and cooperation in this regard, we recognise that there are other curriculum pressures and priorities for schools.

Department of Immigration and Multicultural Affairs (DIMA) registrations

2.26 The ATO advised that a joint project is being undertaken by the ATO and DIMA to systematically exchange visa issue data as the basis for automated TFN registration. The ATO anticipates that this initiative could automate the registration of potentially 200 000–300 000 TFN applications per year.²⁷ This automated process is based upon the ability of DIMA to ascertain the identity of the potential applicant. The ATO believes that if DIMA has satisfied itself of the applicant's identity for entry purposes into Australia, then sufficient verification of PoI for TFN purposes has been established.

Centrelink/DVA lodged applications

2.27 Alternative service arrangements for some TFN clients have been provided by Centrelink and DVA. These agencies are able to accept TFN applications and certify PoI from their clients, on behalf of the ATO. In the case of Centrelink, this is of great advantage to their clients especially those who reside in regional and remote Australia who do not have ready access to an ATO office. There may be merit in Centrelink being able to accept TFN applications from any applicant, not just those who are Centrelink clients. The ATO and Centrelink are also investigating the potential for the auto registration functionality being developed to process DIMA data to also be used to automate TFN registrations for Centrelink clients. This could result in administrative efficiencies for the ATO but the ANAO was not able to estimate the likely financial benefit achievable.

2.28 In 1997–98 Centrelink accepted on behalf of the ATO approximately 72 000 TFN applications from Centrelink clients. This was 16 per cent of all individual TFNs registered. Under current arrangements an applicant might not receive a TFN for some months after they lodge their application with Centrelink. Existing ATO practice requires that the TFN be issued within 28 days after the application has been made. The ATO interprets this requirement to mean within 28 days after the application has been received by the ATO. The ANAO considers that

All tables are located in Appendix 9, the Statistical Appendix. For further details see Table 12 in that Appendix.

applicants are entitled to receive their TFN within 28 days of lodgment of their application with Government, regardless of the Government agency with which it was lodged.

- **2.29** In order to achieve the objective of a 28 day turn around, the ATO could establish arrangements with Centrelink to ensure that TFN applications received by Centrelink are processed by both agencies within 28 days.
- **2.30** The TFN application form for individuals contains a space for officials to record the document code of the PoI documents lodged with the application. The ATO does not require Centrelink and DVA to complete this section. An analysis of PoI categories is a risk management tool of potential usefulness. Its usefulness is undermined if the ATO has incomplete data. In 1997–98 the PoI document codes were absent from all of the 72 000 TFN application forms processed by Centrelink. The ATO needs to reexamine existing arrangements with Centrelink and DVA on this matter.

Proof of Identity (Pol)

Pol documents

- **2.31** The ATO has established procedures and practices to give effect to legislative requirements that accurate identification be obtained before a TFN is issued to a client. The ATO requires that original documents be lodged with an application so as to provide the ATO with satisfactory PoI. Once the ATO is satisfied that the applicant is properly identified and is not already registered, the ATO provides the applicant with a letter advising the applicant of their TFN.
- **2.32** To provide the ATO with sufficient evidence of identity to issue an individual with a TFN, the person presents the ATO with documents in particular combinations from an approved list. There are different lists for the different taxpaying entities. The impact of these requirements for documentary evidence of identity is to make paramount the proper identification of individuals when they first apply for a TFN.
- 2.33 The documentary evidence for non individuals is evidence about the proper establishment or registration of the taxpaying entity. The ATO requires correct identification of the principal(s) for the non individual entity for which an application has been lodged. The ATO's preferred evidence of the identity of the principal is the principal's TFN. As the disclosure of a person's TFN is not compulsory, the ATO endeavours to match the person's name and address against its data bases and discover the principal's TFN for those who do not quote their TFN.

Additional areas of interest

- **2.34** The audit team reviewed various aspects of PoI administration, including:
- risk management;
- PoI fraud;
- quantitative analysis;
- the ATO Internal Audit report on PoI;
- OECD member states management of PoI; and
- ATO management of PoI.

Risk management

2.35 The verification of PoI involves the management of underlying risks. The general problem is that it is difficult to ensure that false identities cannot be created or substantiated from the key documents required to establish PoI. It is possible to obtain false sets of all of the documents required to prove identity, especially given the document reproduction technology available. The general approach to TFN PoI verification, within the ATO, did not have sufficient regard to risk management criteria.

Proof of Identity fraud

- **2.36** The ANAO reviewed cases of documented PoI fraud including two cases where a criminal conviction had been recorded. These cases show the ease with which false sets of documents in the ATO's approved list can be produced. They also show the ease with which such documents can be accepted as valid under existing ATO practices and procedures.
- **2.37** The measurement of the incidence and cost of PoI fraud is a difficult area of public administration. There is little information relating to the cost of PoI fraud generally available. One commercial estimation is that PoI fraud costs 0.1 per cent of overall transactions. However, one American agency has seen a growth in PoI fraud in dollar terms from \$442 million (USA) in 1995 to \$745 million (USA) in 1997.
- **2.38** Apart from the fact that these frauds occur at all, there are two aspects of them that are of additional concern. One is that the two frauds that resulted in criminal convictions continued for more than five years before they were detected. In both cases, the input of other

USA General Accounting Office Audit Report IDENTITY FRAUD Information on Prevalence, Cost, and Internet Impact is Limited May 1994 p4.

²⁹ ibid p4.

Commonwealth agencies was crucial to the discovery of the fraud. The ANAO considers that the ATO would have been unlikely to detect the frauds without this input. The other concern is that the ATO does not systematically examine the practices and procedures that permitted the occurrence of the PoI frauds in the first case. Unless this is done, the ATO runs the risk that similar frauds will be perpetrated.

- **2.39** There are a range of initiatives that the ATO can adopt to reduce the cost of the verification of low risk PoI cases. This would enable the ATO to transfer resources to high risk areas by simplifying the administration of low risk areas. Improved administration of SEP and increased use of Centrelink are two possible initiatives.
- **2.40** The ATO should adopt strategies to prevent fraud in the high risk PoI cases. These include:
- applying the lessons learnt from PoI frauds;
- carrying out quantitative analysis of PoI data as a diagnostic fraud detection/prevention tool;
- carrying out PoI audits;
- implementing stronger PoI quality assurance arrangements; and
- entering into service provision arrangements with other agencies (for example, DIMA and the Australian Federal Police) that have the expertise in the detection and prevention of high risk PoI fraud so as to augment ATO capacity.

Quantitative analysis of Proof of Identity data

- 2.41 The ATO's data bases record the numbers and combinations of classes of documentary evidence approved by the ATO as suitable to support a TFN application. The regular analysis of this data by the ATO could provide a useful quality assurance tool. The ANAO requested the ATO to undertake several quantitative analysis studies as part of this audit. One of these was the compilation of the numbers of times each of the 75 types of documentary evidence accepted by the ATO were submitted with TFN application forms lodged with the ATO since 1989. Since 1989 the ATO has sighted close to three million items of documentary evidence. The most commonly lodged documents and the numbers of these is shown in Table 2, Appendix 9. As noted earlier, all tables are located in Appendix 9, the Statistical Appendix.
- **2.42** The ANAO considers that the periodic analysis of the incidence of usage of particular PoI documents, as well as variation in their pattern of usage, could be a useful aid to the prevention and detection of PoI fraud. Table 3, Appendix 9, shows, for example, the incidence of usage

of some PoI documents to which a higher degree of risk of PoI fraud could be reasonably attached. The conduct of this analysis by the ANAO was outside of the scope of this audit, but it may be of merit to the ATO to consider such research.

ATO Internal Audit

- **2.43** In recognition of the importance of PoI to the ATO, its Internal Assurance Branch undertook an audit of *Proof of Identity of ATO Clients* during 1998. The scope of this internal audit was principally limited to examining how the ATO could internally improve its operations. Our analysis of the report's 35 recommendations groups them into three areas, which are:
- risk management (including quality assurance) procedures;
- data management; and
- partnerships with other government agencies.
- 2.44 The ATO Internal Assurance report states that despite its best efforts the ATO cannot be assured of the veracity of a person's PoI. The ANAO analysis of the operations of PoI practices and procedures supports this finding. The ANAO acknowledges that document reproduction technology facilitates the manufacture of professional quality forged documents with relative ease and minor cost. It is difficult for any agency to manage this risk.

Overseas management of Pol

Overview

2.45 A number of OECD member states have managed the risk of PoI fraud by mandating the registration of clients for tax and social security purposes at birth. While a policy matter for the Government, such an arrangement is possible in Australia. Using the records of births maintained by State Registrars-General, the ATO could construct a data base of TFNs nominally allocated to young people at an early age.³⁰ This data base could be up-dated periodically to keep it accurate. At the time young people are invited to apply for a TFN in secondary school through SEP, the TFN that had been previously assigned to them could then be issued.

2.46 In a number of countries, the agency charged with managing the common identifier grew into the role over time. ANAO was advised

In 1997–98, the ATO issued 81 856 TFNs to children under 15; 10 155 of these were issued to children under 10.

³¹ See Appendix 7 for OECD chart.

that the assignment of this role occurred without any administrative reviews being undertaken to determine the most efficient and effective means of delivering this service. Several Commonwealth agencies currently have the function of managing the risks associated with the verification of PoI documents. Some of these agencies have the expertise that the ATO would require to manage properly high risk TFN applications. If the ATO acquired the expertise to verify all classes of PoI documents, the ATO could become, by default, the Commonwealth's identification bureau. The ATO may or may not be the most appropriate agency to fulfil this role.

Improved compliance and client service

- **2.47** Most OECD member nations use a client service number (CSN).³¹ Some countries allow a CSN to be used by the private as well as the public sector. All member states examined had privacy restrictions on the ability of government agencies to cross match data. The use of a CSN by some OECD members across their public sector authorities is seen as being responsible for both improved compliance with tax laws and for delivering improved client service.³² Improved compliance is achieved by matching individual revenue accounts against income support payments.
- **2.48** OECD staff commented that member nations believe they have reduced their compliance costs and improved client service by mandating the registration of clients at birth.³³
- 2.49 The United States Government recently introduced the requirement that a child's Social Security Number (SSN) be provided on parents' income tax returns whenever a deduction is made for the child. The ANAO was informed that the American Internal Revenue Service noted a decrease of seven million children from a population base of 260 million.³⁴ American authorities consider that there are substantial financial and client service benefits to be gained by incorporating the SSN into a range of documents such as drivers' licences and property registrations. Discussions are currently underway between the US Government and USA state governments on this matter and it is anticipated that the incorporation of the SSN as outlined should be finalised by the year 2000.³⁵

OECD Committee on Fiscal Affairs, <u>OECD News Release</u>, *OECD Approves Recommendations to Improve Exchange of Tax Information*, Paris 18 March 1997.

³³ Ibid (including interviews with OECD Fiscal Committee staff).

Information supplied by OECD Fiscal Committee staff and USA, Internal Revenue Service, Tax Treaty Division staff.

USA Social Security Administration SSA Publication No. 12–002 September 1997, Report to Congress On Options for Enhancing the Social Security Card p3 and information supplied by USA, Internal Revenue Service, Tax Treaty Division staff.

Private sector use of Client Service Number

- **2.50** Two different styles were observed regarding the use of a CSN by the private sector. The audit team examined the Dutch tax jurisdiction (which is similar to many other European nations using a CSN) which uses a CSN but does not allow private sector use and north American systems which allowed extensive private sector use.
- 2.51 The Dutch experience is that use of a CSN, known as a SOFI (social and finance number), does present substantial benefits to both individuals and the community. Individuals benefit through the efficiency of being able to quote one number to government for a range of services. Communities benefit by Government being able to test the compliance of people with the law. The SOFI appears on virtually all official documents. However, strict controls are exercised by the Dutch Government on agencies cross matching of data. The principal datamatching exercise undertaken is to reconcile social security benefits paid against income declared in tax returns.
- **2.52** The situation in north America is quite different. In both the USA and Canada it is common practice for an individual's SSN (USA) or Social Insurance Number (Canada) to be demanded for private commercial purposes. Despite this widespread private sector use, there are still strict controls on government agencies cross matching data.

Management of a CSN

- 2.53 In OECD jurisdictions in which audit and revenue agency staff were consulted, the CSN is managed by a non revenue agency.³⁶ The ANAO was advised of the rationale for this arrangement. The relevant governments consider that the management of the CSN is better placed in an agency which does not have the coercive powers that legislatures traditionally bestow on revenue agencies. Revenue agencies are given access to the identifier to efficiently and effectively carry out their mandates and cross matching of data is controlled by legislation. In these countries PoI is determined at birth and the CSN is issued at that time. This is viewed as being cost-effective as it gives individuals their own identifier to use for life when dealing with government.
- **2.54** It could now be an opportune time for the ATO in conjunction with other agencies to research and report upon to the Government and the Parliament a range of possibilities for the management of a cost-effective, client centred identification agency which would have due regard to privacy considerations. ANAO recognises that locating within

The jurisdictions consulted were the Netherlands, Canada and the USA.

an appropriate Commonwealth administrative arrangement the responsibility for the allocation of a common identifier (such as the TFN) and for the management of risks associated with the verification of PoI is a matter for Government policy.

- **2.55** Although the TFN is not now a CSN in the same way that a CSN is used in other OECD jurisdictions, the TFN is now no longer simply a tax file number. As was indicated earlier in this Report, it has wider use in Commonwealth administration and, to the extent permitted by current legislation, is used for administrative purposes additional to tax administration.
- 2.56 The integrity of other significant areas of Commonwealth administration now depends on the integrity of ATO's TFN system. This means that, as the TFN has a role in Commonwealth administration that is broader than tax administration and as this role might well expand in future years, the ATO carries a broader administrative role. This role can introduce priorities that might not be those of tax administration. ANAO's main concern is that the ATO will need to be more cognisant of this wider role of the TFN. In improving administration of TFN matters in ways indicated in this Report, the ATO may, in ANAO's view, need to give priority to concerns that relate more to other areas of Commonwealth administration than to tax administration.
- 2.57 ANAO noted client service advantages have accrued from the use of the TFN in Commonwealth administration. The most significant of these is the improved integrity of the relevant Commonwealth systems. This means that clients can have greater confidence that fraud and abuse are better prevented and more readily detected. It also includes the simplification of administrative requirements placed on clients. The Government has announced the rationalisation of the identification of business across all Commonwealth regulatory bodies. All businesses will require an Australian Business Number (ABN). They will require only one number and this will suffice for all dealings with the Commonwealth. The Government has stated that the ABN can be adapted for state registration.
- **2.58** It is reasonable to assume that many of the advantages which apply to businesses in being able to access government services through the use of a single number would also accrue to individuals. The ATO, in conjunction with other government agencies, needs to research this area to determine the benefits to clients and the cost-effectiveness of providing a client service number. Such research should also take into account the medium of recording the client service number which fits client needs for access, use and maintenance, as well as privacy considerations.

ATO Management of Pol

- **2.59** The ANAO analysis of the ATO's management of PoI in relation to the ATO TFN system also identified that:
- the TFN is regarded in many instances as the optimal identifier for both individuals and business entities, that is the TFN is perceived to have a higher validity than many other forms of identification;
- better practice identified in similar countries places the onus of identification on non-revenue government agencies which are given the appropriate tools to identify and register people;
- clients can experience difficulty in conveniently storing/accessing their TFNs;
- no use is made by the ATO of quantitative analysis of Pol information;
- less than satisfactory ATO PoI practices have resulted in poor quality data; and
- the work currently being undertaken by the ATO and DIMA is a significant advance on previous practice by correctly identifying persons entering Australia and allocating them a TFN and is in accordance with better practice.

The validation of TFNs

- 2.60 Chapter 1 outlined the legal and administrative growth of the TFN system. Despite the considerable growth of the use of the TFN beyond the boundaries of the ATO, the generation/composition of the number itself has not changed. The ATO still uses the check digit routine adopted in the early 1970s to generate TFNs. At that time the arithmetic routine was kept secure within the ATO. The ATO referred to it then, and now, as the "TFN algorithm". The main purpose of the routine was to prevent key stroke errors by the ATO's own data entry staff.
- **2.61** A high integrity TFN system is necessary to ensure the security, uniqueness and validity of each TFN. The security of each TFN should be a basic feature of the TFN system. A desirable elementary feature of client service is that each TFN that the ATO allocates is unique, valid and secure.
- 2.62 The ATO has issued the TFN algorithm to more than 20 000 entities outside the ATO. Many employers have it as do most investment bodies. The algorithm is in the software approved by the ATO for use by the more than 10 000 tax agents who lodge tax returns electronically on behalf of their clients. These entities use the algorithm to ensure that the TFNs that they provide to the ATO are valid and unique. Each entity that has the TFN algorithm in its computer systems signs a confidentiality

agreement with the ATO. The purpose of this agreement is to keep the algorithm secure. Entities signing the confidentiality agreement do so "...upon the clear understanding that the Algorithm is confidential information..." and the entity undertakes to treat it as such.³⁷ Clause 9 of the Agreement states that the Agreement "...shall be governed by and construed in accordance with the laws in force in the Australian Capital Territory."

- **2.63** The ANAO obtained advice from Department of Defence, Defence Signals Directorate (DSD), about the security of TFNs, particularly of the current TFN algorithm. This advice included:
- relative security of the TFN algorithm and of TFNs; and
- options for an algorithm that could generate secure TFNs even in a context where individual TFNs might not remain confidential.
- 2.64 DSD advised that the check digit routine used to generate the TFNs is widely known and could be regarded as in the public domain. It is one of a wide family of similar routines used throughout the world and known as check digit routines. A competent mathematician provided with a handful of numbers could with relative ease derive the TFN check digit formula. In the current environment the TFN algorithm is not secure. It may no longer be the optimal method for generating TFNs. The confidentiality agreements might not now have the merit, or standing in law, that they once might have had when first introduced a decade ago, given DSD's advice that the Algorithm could be regarded as being in the public domain. ANAO acknowledges that the ATO has risk management strategies that reduce the risk of valid but illegal TFNs by persons who have unauthorised use of the Algorithm.
- 2.65 DSD advised of several algorithms that could be used to generate TFNs with high levels of security. These might be more appropriate than a check digit routine of the early 1970s to the coming new era of tax administration in Australia. The concept of a secure, valid and unique TFN is important to both the ATO and its clients. Given this, the number in actual usage should have these attributes. In addition, the number should be easy to use and not impose high compliance costs on clients.
- **2.66** DSD advised that the introduction of a more secure algorithm need not be costly. However, ANAO did not evaluate the cost effectiveness

³⁷ Clause 3 of the Agreement for the disclosure of Tax File Number Algorithm to Investment Bodies, Employers and others.

³⁸ Check digit routines are algorithms that check the validity of a number made up of several digits by the calculation of a unique digit that is the last digit of the number. This digit is uniquely determined by not only the preceding digits, but also the order in which they are written.

of introducing a more secure algorithm. ANAO considers that there is a range of factors that indicate that now might be an appropriate time for the ATO to conduct such an evaluation. These factors include: the Government's proposed reforms to the tax system; the introduction of the ABN; international developments concerning the standards of unique numeric identifiers used by national taxation authorities; the emergence of electronic commerce; and other initiatives to improve the TFN system recommended elsewhere in this Report.

2.67 An important aspect of the security of TFNs is the medium through which they are provided to clients. They are currently provided to clients through the post on a paper medium. This medium is not particularly user friendly or secure. Research undertaken in the USA has costed various mediums of presenting SSNs to clients in a secure and client friendly format at between 12 cents to approximately \$4 (American valuations).³⁹ The ATO could leverage off this work in determining a suitable medium for the presentation of TFNs to clients. The medium by which financial institutions advise their clients of their Personal Identification Number is illustrative of an alternative, and perhaps superior, means that the ATO could use to advise clients of their TFN.

Privacy

2.68 Australia has rigorous privacy legislation and attendant safeguards, which were outlined in Chapter 1. The audit team found no systemic failures in relation to the ATO's management of TFN privacy issues. The ATO displays a culture which has high regard for values such as client confidentiality and privacy. Other countries with a similar democratic tradition and respect for privacy to Australia have introduced a CSN. OECD staff stated that within these jurisdictions individual rights have not been affected.⁴⁰

2.69 In the USA, the Social Security Administration measured relevant aspects of use of the Social Security Number and found that 89 per cent of its use was for internal identification of clients within agencies. The ANAO would encourage the ATO to continue to work closely with the Privacy Commissioner to determine the contemporary standards of privacy and how best they can be maintained, given the dynamic, information rich, and accessible environment of today.

USA Social Security Administration SSA Publication No. 12–002 September 1997, Report to Congress On Options for Enhancing the Social Security Card p57.

⁴⁰ Information supplied by OECD Fiscal Committee staff.

Recommendation 2

- **2.70** The ANAO recommends that the ATO in conjunction with other agencies research and report appropriately upon the privacy considerations, client benefits and cost-effectiveness of:
- a) implementing an effective risk management process, including quantitative analyses of Proof of Identification (PoI) data;

ATO Response:

Agree

The ATO has been developing a framework for risk assessment which incorporates TFN registration and PoI issues. In addition, research has been underway for some time in an attempt to identify levels of risk in relation to different segments of the client population. The ATO intention is to continue to work closely with Centrelink and other agencies (who carry out similar POI practices) especially in relation to known fraudulent registration cases.

b) delivering TFN client services through appropriate alternative means additional to the ATO;

ATO Response:

Agree.

The ATO has been for some time undertaking work with Centrelink on a range of initiatives, including electronic transfer of Centrelink client applications and POI certification by Centrelink for non-Centrelink clients. In relation to new arrivals into the country, DIMA and the ATO are working together on a new system of automatic registration.

c) providing a more secure, client focussed and cost-effective means of generating/composing TFNs. The ATO should have regard to the widespread use of the TFN (by employers, investment bodies and other government agencies) and to Defence Signals Directorate's advice concerning secure algorithms;

ATO Response:

Agree.

However, the ATO considers that the avenue for abuse through TFN generation using the algorithm is limited and that current TFN systems are an appropriate, cost effective response to the risk identified. This is an area where a balance needs to be struck between risk and cost from both a client and an ATO perspective. As we continue to improve our understanding of client needs through working closely with them, we

recognise that new and emerging risks may arise needing new and different solutions.

d) conducting PoI audits within and across government agencies;

ATO Response:

Agree.

This issue will be evaluated as part of the ATO risk assessment process.

e) providing the client service number in a format which is easy for clients to access, use and maintain, while protecting their individual privacy

ATO Response:

Agree with qualification.

The ATO believes that such consideration should include taking into account the preferences of a range of different clients and notes that certain formats have not, at least in the past, seemed palatable to the general public (as recognised during the Australia Card debate). In reviewing options, there will also be a question of balance between community compliance costs and the ATO's cost of administration.

3. The TFN Withholding Tax

This chapter examines the administration of TFN withholding tax arrangements that apply to the quotation of the TFN in relation to certain financial transactions. Gaps in the coverage of financial transactions relevant to tax administration are discussed. Problems associated with existing practices such as IT systems, quality of information from investment bodies and the reconciliation of transactions are reviewed. The chapter concludes with recommendations for improved performance. The TFN withholding arrangements that apply to the quotation of the TFN in relation to Employment Declaration Forms, the Prescribed Payments System; the Reportable Payments system and superannuation administration including the Reasonable Benefits Limits (RBL) system were not examined in this audit.

Introduction

3.1 To help the ATO detect non-disclosure of income and enable it to match the details of income disclosed in a taxpayer's return with information that it receives from other sources, clients are requested to quote their TFN in relation to a range of financial transactions. ⁴¹ This request applies to all clients, that is, individuals, companies, partnerships, trusts, and superannuation funds.

The TFN withholding tax

- **3.2** There is no compulsion on taxpayers for the quotation of their TFN when entering into the specific financial transactions with investment bodies. There is, however, a sanction for not quoting the TFN as requested. This sanction is the TFN withholding tax and it applies to all taxpayers. Investment bodies are required to remit this tax to the ATO on a regular basis.
- **3.3** A taxpayer who has incurred this penalty can claim a tax credit equal to the TFN withholding tax incurred. They can have the amount credited to them at the time of their income tax assessment. To do this they must lodge an income tax return and claim the tax credit. Some investors who incur the TFN withholding tax are exempt from it. The exempt investors are mainly income support recipients such as pensioners.

Investors who get part or all of one of the following payments are eligible to claim an exemption from the TFN quotation arrangements: Age Pension; Widow's Pension; Disability Support Pension; Sole Parent's Pension; Wife's Pension; Special Benefit; Carer's Pension; Service Pension; Rehabilitation Allowance received by qualifying for one of the preceding payments. The TFN withholding tax is not imposed on these investors for the non quotation of their TFN if they have been given an exemption by the ATO.

Exempt investors are eligible for a refund of monies withheld. The TFN withholding arrangements are a significant element of the TFN system. Since quotation of the TFN by taxpayers is optional rather than mandatory, the taking of withholding action is an essential feature of the compliance arrangements.

Overview

- 3.4 The ANAO reviewed the extent to which the TFN withholding tax applies to all relevant transactions that investors enter into with investment bodies. Gaps in the coverage of the tax could undermine the effectiveness of the TFN system. These gaps could arise because some transactions and some investment bodies remain outside the current TFN withholding tax arrangements. There is also a risk that investors and investment bodies might not comply with these arrangements. The ANAO reviewed the administration of the TFN withholding arrangements, focusing on key aspects of the arrangements. These are the:
- administration of the TFN withholding tax arrangements;
- range of investment bodies subject to the TFN withholding tax arrangements;
- range of financial transactions to which the TFN quotation arrangements apply;
- management of risks of non compliance by investors and investment bodies with the arrangements;
- ATO data specifications to financial bodies;
- compliance with reporting arrangements;
- reconciliation of financial transactions;
- reconciliation of TFN withholding tax credits; and
- administration of refunds.

Administration of the TFN withholding tax arrangements

- **3.5** The TFN withholding tax arrangements consist of:
- a range of financial transactions and the investment bodies to which the TFN withholding tax applies (these are listed at Appendix 5);
- a range of exemptions and special requirements;
- requirements on investment bodies to remit the TFN withholding tax to the ATO;
- reporting obligations of investment bodies (referred to by the ATO as remitters);

- the administration of TFN withholding tax credits;
- the administration of the TFN withholding tax arrangements; and
- the provision of client support and public education services by the ATO.
- 3.6 The administration of these arrangements occurs throughout the ATO. However, the Investment and Royalty Withholding Taxes Branch (IRW) of the Withholding Tax business line is responsible for the main task of collecting the tax from remitters and ensuring that they comply with tax law

Remittance arrangements

- 3.7 Investment bodies are required by law to levy the TFN withholding tax on all investment accounts held with them that do not have a TFN attached. Investment bodies are required by law to remit to the ATO the TFN withholding tax imposed.⁴² The IRW Branch receives the TFN withholding taxes from investment bodies and manages a range of specific requirements relating to the following:
- organisations and individuals exempt from the TFN withholding tax requirements;
- children's accounts;
- non-residents;
- the treatment of errors made by investors and investment bodies;
 and
- joint accounts.

Reporting requirements

- 3.8 Investment bodies that maintain accounts subject to TFN quotation requirements are required to supply quarterly information to the ATO in a form that is specified in the Commonwealth Gazette. The investment bodies are required to include in the quarterly reports the TFN quotations made by investors in the preceding 3 month period. Quarterly reports for the periods commencing on the first of January, April, July and October are due in the month following the end of the quarter.
- **3.9** An Annual Investment Income Report (AIIR) is to be submitted by investment bodies by 31 October following the end of the financial year to which the income report relates. Investment bodies are required to supply the AIIRs to the ATO in a form specified in the *Commonwealth Gazette*.

⁴² Table 4, Appendix 9.

3.10 The Client Identification Compliance Group, a section within the INB business line, is responsible for specifying the requisite form for these two reports. It is also responsible for managing the compliance of investment bodies with these requirements.

TFN withholding tax credits

3.11 The administration of the granting of TFN withholding tax credits is the responsibility of the business line relevant to the particular taxpayer role. If the credit is claimed by an individual taxpayer, the INB business line is responsible. If the taxpayer is a company, trust or superannuation fund, the relevant business line is SBI or LBI depending on the taxpayer's income.

Client support and public education

3.12 The IRW performs a range of activities intended to inform clients and the public of their rights and obligations under the TFN withholding tax arrangements. The public education work includes the publication of official forms, booklets, pamphlets, official bulletins, the publication of articles in popular media, presentations to community and professional groups, and the provision of advice by telephone and correspondence. A key feature of IRW's client support arrangements is the Interest and Dividends Payers Consultative Forum. The Forum consists of senior ATO officers and representatives of the investment bodies that remit TFN withholding taxes to the ATO. The Forum allows the ATO and the investment community to exchange views about the administration of withholding taxes; ATO reporting requirements; data-matching; progress with legislative amendments and related policy issues, including TFN issues.

Scope for improvement

Overview

3.13 There is scope for improvement in the administration of TFN withholding arrangements. The TFN withholding tax arrangements do not apply to all transactions that are relevant to the administration of tax. For example, the quotation of the TFN is not requested for transactions reported to AUSTRAC.⁴³ Quotation of the TFN is not requested in relation to the purchase, sale or rental of any type of real estate. A sufficient range of financial transactions and investment bodies

The second report of the ATO Cash Economy Taskforce recommended that the *Financial Transactions Reporting Act 1988* be amended to require that cash dealers report TFN details in conjunction with reports where the TFN is held (eg banks) by the cash dealer. (See page 48 of that Report).

are outside of the arrangements to put at risk the integrity of the TFN system.⁴⁴ A range of key compliance risks could also be better managed. The shortcomings found have three major administrative causes as follows:

- functions spread across several organisational units;
- an unsatisfactory information technology system; and
- the changing role of IRW.

Functions spread across organisational units

3.14 The administrative functions of TFN withholding tax arrangements are distributed across several organisational units with a consequent loss of coordination, accountability and focus. The unsatisfactory nature of the IRW IT system compounds these problems as it precludes improvements that would be possible by system interconnectivity. The solution to this problem is not necessarily the amalgamation of functions into one organisational unit. This may not be practicable or desirable given the diversity of TFN withholding functions. There may be sufficient flexibility within existing ATO corporate governance arrangements to overcome the shortcomings reported below, provided the current IRW IT system is replaced by a satisfactory one.

IRW IT system

3.15 The information technology system upon which IRW administration depends is fundamentally defective. The IRW IT system is a legacy system and is the reason for most of the IRW administrative problems. The current system displays the following characteristics:

- a range of major deficiencies in system controls. For example, the current IRW IT system was not fully custom designed for IRW functions. In particular, it lacks essential accounting controls;
- poor integrity; that is the aggregates produced by it (whether revenue collected, penalties incurred, client accounts or numbers of clients) do not reconcile with comparable aggregates produced from other sources;
- inability to support recent legislative changes;
- inability to support the new compliance management approach by IRW to its responsibilities. For example, the system does not have the functionality to impose late payment penalties automatically and relies on the manual detection of cases;

Parliament of the Commonwealth of Australia: Follow the Yellow Brick Road The Final Report On An Efficiency Audit Of The Australian Taxation Office: International Profit Shifting. House of Representatives Standing Committee on Finance and Public Administration. March 1991.

- generation of a high level of manual work. It is not possible to exchange information between the IRW IT system and any other ATO IT systems; and
- involvement of a high level risk to WHT.

Recommendation 3

3.16 The ANAO recommends that the ATO ascertain the cost-effectiveness of assigning appropriate information technology resources to Interest Royalties and Withholding Branch.

ATO Response:

Agree.

The benefits of redevelopment of the Interest Royalties and Withholding system has been recognised and prioritised. However, delivery is subject to balancing all tax reform priorities.

The changing role of IRW

3.17 IRW administration is in a state of transition. Historically, its role was largely clerical in the way that it went about administrating complex laws. Its main function was processing a large number of remittances. Its work in this role was transaction based. Consistent with reforms to tax administration taking place throughout the ATO, IRW is moving from a clerical to a managerial role. The focus of this role is that of managing the compliance of a large number of highly diverse entities with highly complex laws and regulating the enforcement of those laws.

3.18 IRW and SBI have established joint teams to determine the level of compliance of SBI taxpayers who have withholding tax obligations. These teams have already demonstrated the value of such work by the impact they have had on increased revenue and voluntary compliance.

Investment bodies subject to the TFN withholding tax

3.19 The Income Tax Assessment Act 1936 (ITAA) defines the entities as "investment bodies" subject to the TFN withholding tax arrangements. These provisions include the familiar investment bodies such as banks, credit unions and building societies as well as a range of less familiar financial institutions. The range of investment bodies has been extended to include body corporates that invest on behalf of investors who are

Investment bodies subject to the provisions of Division 4 of Part VA of the ITAA are those identified by reference to column 3 of sub-section 202D(1). The bodies specified are further defined by reference to the interpretation provisions of section 202A of ITAA.

⁴⁶ By sub-sections 202D(2) and (3) of ITAA.

entitled to the income of the investments. This includes bare trustees such as nominee companies, custodian companies, trustee and estate companies, but excludes corporate trustees of discretionary trusts.

- **3.20** The ANAO sought advice from the ATO about the adequacy of the ITAA definitions, given that the relevant financial sector is now subject to considerable change. There are two areas that may require clarification. These are:
- ITAA does not provide a clear enough definition of "body corporate";⁴⁷
 and
- ITAA defines "public company" by reference to the Corporations Law.
- 3.21 The definition of "public company" given in the Corporations Law makes the application of the TFN withholding arrangements difficult in significant cases. The ATO advised that the problem occurs when overseas public companies list on the Australian Stock Exchange and want to know if they are investment bodies for the purposes of ITAA. There would be merit in the ATO reviewing the adequacy of existing definitions, having regard to administrative problems arising in their application and to the rapidly changing financial services sector.

Financial transactions and TFN quotation

- 3.22 When the Government introduced the reforms to the TFN system in 1988 the role of the TFN as a code for tracking financial transactions was emphasised. 48 In this way the TFN system would improve the efficiency and effectiveness of taxation administration by ensuring that all transactions that involve information that may have a bearing on the assessment of income are linked to the TFN of the individual for whom an income tax assessment is being determined. As the range of additional information made available by the quotation of the TFN for transactions has a bearing on revenue collected, the ANAO examined whether or not quotation of the TFN is currently requested for all relevant transactions.
- 3.23 The ATO's capacity to collect the revenue due has been improved by having available transactions relevant to the assessment of income tax that are linked to taxpayer records through their TFNs. However, this capacity may not be fully utilised if there are transactions relevant to the assessment of income tax for which a TFN is not requested and to which the TFN withholding arrangements do not apply. The ATO agrees

The ATO advised that Income Tax Ruling 2634 has clarified some ambiguities but some remain.

The Government emphasised this purpose of the TFN in the following way: a person entering into a relevant transaction will be required only to quote his or her tax file number which will then be included on reports forwarded to the Taxation Office for matching purposes. (Economic Statement May 1988). Statement delivered on 25 May 1988 by the Treasurer, page 107.

that there is a range of such transactions and that the ATO's capacity to collect revenue would be enhanced if the TFN quotation and withholding tax arrangements were extended to include these.

3.24 Quotation of the TFN for additional transactions would mean that new data relevant to the assessment of income would be available to the ATO. The identification of the increased revenue arising from the use of this new data would be relatively straight forward. There is usually a tax relevant asset or liability, such as an income stream, associated with the financial transaction for which TFN quotation is requested. It was because of this that the TFN quotation arrangements were introduced. The additional income could be identified from income tax returns. For example, the Taxation Commissioner's 1991–92 Annual Report states:

There was also a very significant increase (38%) in the amount of interest disclosed in 1991 returns partly as a result of the publicity about the arrangements for matching information from investment bodies on investment income with tax returns through the Tax File Number system.⁴⁹

- **3.25** ATO officials have from time to time prepared discussion papers that could form the basis for advice that might be put to Government in support of the extension of the TFN system to include other transactions that provide information necessary to support the assessment of income tax.
- **3.26** In 1997 about 30 senior ATO officials attended an internal ATO workshop concerned solely with TFN issues. The purpose of the workshop was to identify and examine a range of compliance and enforcement related TFN issues that required legislative amendment to implement. This included the identification of transactions currently outside the TFN withholding arrangements that, if included, could improve ATO's income tax assessment capacity. This may, in turn, result in increased revenue.
- **3.27** The workshop produced a priority list of TFN issues that could only be addressed by legislative amendment. This list included legislative amendments the officials considered necessary to allow continuing actions that officials considered breached the existing *Taxation Administration Act* 1953.⁵⁰ It also included proposed amendments the purpose of which would be to improve administration of the TFN system. For example, ATO officials consider that tax administration would be improved, and revenue collection enhanced, if the ATO could legally request and collect TFNs on taxation returns in certain instances.

⁴⁹ Commissioner of Taxation Annual Report 1991–92 p28.

⁵⁰ For example, breaches of sections 8WA and 8WB of TAA may occur when investment bodies amalgamate (in relation to TFNs on transaction accounts) or when employers amalgamate (in relation to the use of TFNs on EDFs). As TAA has not been amended to rectify these problems, these possible breaches could continue.

- **3.28** The workshop reached agreement about the inclusion of additional, relevant transactions in the TFN system and produced a compilation of transactions that could be subject to the TFN quotation rules. This list included the following:
- purchase and sale of real estate;
- the renting of real estate;
- new financial products such as uninscribed (unregistered) money market and derivative securities and the like;
- AUSTRAC transactions; and
- transactions of trustee bankrupt estates.
- 3.29 Inclusion of these transactions into the TFN system would require legislative amendment. The ATO did not follow up with advice bringing to Government's attention recommendations concerning the full range of additional, relevant transactions for inclusion in the TFN system. Work did not proceed with an evaluation of the cost-effectiveness of including them within the TFN quotation arrangements. This would have resulted in a set of coherent, consistent criteria for the classification of a candidate transaction as a relevant transaction for which quotation of the TFN would be required. It would have resulted in, as well, an estimate of the additional revenue collectable, and of the administrative efficiencies achievable, by extending the TFN system to include the additional transactions.
- **3.30** The ANAO found that there is a range of financial transactions to which the TFN quotation arrangements do not apply. These include:
- purchase and sale of real estate;
- the renting of real estate;
- new financial products such as uninscribed (unregistered) money market and derivative securities and the like;
- AUSTRAC transactions;
- transactions of trustee bankrupt estates;
- loan transactions;
- futures contracts;
- insurance payments (such as commissions to salespersons and payouts on policies);
- purchase and sale of insurance products; and
- use of safety deposit box and similar services.

- **3.31** Many of these transactions involve information that may have a bearing on the assessment of income. The quotation of the TFN in relation to these transactions could provide the ATO with information that might improve its capacity to assess tax liability, just as does the quotation of the TFN in relation to those transactions to which the TFN withholding arrangements currently apply.
- 3.32 The effectiveness of the TFN system depends in part on the ATO being able to access the additional income-relevant information made possible by TFN quotation. The more complete this set of additional information, the more effective would be the TFN system. The advent of electronic commerce⁵¹ may introduce new transactions to which the TFN quotation arrangements should apply. These transactions could involve information that may have a bearing on the assessment of income. If this happened, electronic commerce could open up new opportunities for taxpayers to evade TFN withholding arrangements. This is because electronic commerce can reduce transaction costs dramatically and open up new ways of doing business resulting in new types of transactions. This may have a bearing on the efficiency of the TFN and of TFN withholding arrangements as these were originally introduced to track or match a range of financial transactions in which people engage.
- **3.33** One class of transactions outside the TFN system (those of non-residents) has been the subject of a Parliamentary inquiry.⁵²

TFN withholding tax and non-residents

3.34 Different TFN withholding tax provisions apply to non-residents. The absence from the TFN quotation arrangements of some transactions that could be relevant to the assessment of tax liability in conjunction with non-resident status could undermine the integrity of the TFN system. In this regard, the ANAO noted that in March 1991 the House of Representatives Standing Committee on Finance and Public Administration has previously reported that the different withholding tax provisions that apply to non-residents can provide an opportunity for tax evasion. The Committee concluded:

The integrity of the new tax file number system could be jeopardised if more stringent requirements are not placed on those who actually claim non-resident status to prove that they are actually non-residents.⁵³

Electronic commerce is central to the emergence of a global information network. This network, of which Australia is a part, is changing our society and economy dramatically. Both are becoming increasingly knowledge and information based.

Parliament of the Commonwealth of Australia: Follow the Yellow Brick Road The Final Report On An Efficiency Audit Of The Australian Taxation Office: International Profit Shifting. House of Representatives Standing Committee on Finance and Public Administration. March 1991.

⁵³ ibid p41.

3.35 Further, the Committee recommended:

that the tax file number system be modified to incorporate non-resident verification procedures, which should require persons/entities depositing funds in Australian financial institutions to provide proof that they are non-residents before they are eligible to have tax deducted at the interest withholding rate of 10 per cent on interest earned. Where adequate proof is not provided, tax should be withheld at the top marginal rate.⁵⁴

Since 1994, the ATO has undertaken research on the collection of 3.36 tax of non-resident property owners in the Australian residential real estate market. This arose from the conclusions and recommendations of the above mentioned report of the House of Representatives Standing Committee on Finance and Public Administration. ATO concerns about the non-compliant behaviour of non-resident property owners was also a factor behind the ATO's decision to conduct the research.

3.37 The research indicated high non compliance rates, around 65 per cent for non return of rental income and 80 per cent for non return of capital gains tax. The research indicated \$250 million of income and capital gains not being returned annually. The ATO research was limited to the residential real estate market. The research was carried out in 1994 and appears to conform to ATO standards for this type of work. The report highlighted a potential problem, recommended a range of options to solve the problem and requested that a more substantial national research project commence. ANAO understands that no further work proceeded on this problem and that the research constituted the best available assessment within the ATO of the problem. The ANAO notes that all (that is commercial, residential, purchase and rental involving resident and non-resident vendors, purchasers and owners) real estate transactions are outside the TFN quotation arrangements.

Extension of the TFN withholding arrangements

3.38 There would be merit in the ATO providing the Government with advice about the extension of the TFN withholding arrangements. Advice to Government about completing the extension of the arrangements to cover all investment bodies and all relevant financial transactions could help Government make decisions to improve the effectiveness and efficiency of the TFN system. The total additional financial benefits likely to be achieved by these measures would be substantial. The ANAO was not able to estimate these benefits, but the previously mentioned ATO research provides an indicative measure of \$250 million as a first

ibid p42.

approximation of the estimate.⁵⁵ Those real estate transactions that would provide the ATO with information necessary for the assessment of income tax are only one class, of at least six classes, of significant transactions outside the TFN quotation arrangements.

- **3.39** The Cash Economy Task Force recommended to Government that: careful consideration should be given to extending financial reporting requirements under the <u>Financial Transactions Reporting Act 1988</u> to require cash dealers to report the TFN details in conjunction with reports where the TFN is held (for example, banks) by the cash dealer.⁵⁶
- **3.40** The importance of this recommendation is demonstrated by the substantial amounts of money reported as AUSTRAC transactions. The ATO advised that 200 000 AUSTRAC transactions were reported in 1995 with a total value of \$4 billion.

Recommendation 4

3.41 The ANAO recommends that the ATO examine the risks to the integrity of tax administration and to the collection of revenue arising from transactions (for example, those listed in paragraph 3.30) being outside the TFN withholding arrangements and consider options for addressing these risks, such as their inclusion within the TFN withholding arrangements.

ATO Response:

Agree.

The ATO has previously proposed and received legislative support for extension of TFN reporting arrangements in the clothing, fishing, smash repair and fruit and vegetable industries. Whether further extension is required in the areas detailed in the report needs further consideration in the context of balanced risk assessment and alternative strategies.

The ANAO report makes specific reference to compliance research for non-resident property owners. The ATO is carrying out further research in relation to this group but notes that there is still significant uncertainty as to the extent of rental income and capital gains non-disclosure.

In particular, the figures used in the report for non-resident property owners rental and capital gains were taken from ATO research which was based on a very small and localised sample and then extrapolated

These transaction were those of the purchase, sale and rental of residential property by nonresidents. This is because it estimated that the loss of tax revenue from non compliance with existing tax law in respect to only one group of real estate transactions is at least \$250 million.

⁵⁶ ATO Improving Tax Compliance in the Cash Economy, April 1998 p48.

nationally. There is some question as to the appropriateness of the methodology used for extrapolation purposes, and therefore, on the overall level of risk.

Our findings in the general real estate area have highlighted a number of potential risks and we are assessing risk based strategies to address these as a matter of course. This research to date has indicated that the disclosure of rental income and net capital gains by resident landlords may not be as significant a risk as rental deduction claims.

In this regard, we note that we have researched and introduced a comprehensive compliance program particularly targeting rental deductions.

When a risk area is identified the ATO considers a range of options to address that risk including education, awareness raising via publicity, increased reporting or enforcement action. Approval to seek legislative change is an option but is not our preference without first seeking other solutions.

Non compliance by investors and investment bodies

- **3.42** There is a range of compliance risks in relation to non-residents, the payment of refunds, the reconciliation of payments, the receipt of remittances, and the interpretation of the law that could be better managed. Examples include:
- non-compliance with the TFN quotation arrangements by investors and investment bodies;
- improper exemptions claimed by residents;
- non-compliance of non-residents;
- false and incorrect refunds by investment bodies to their clients;
- retention or partial remittance by investment bodies of the TFN withholding tax withheld;
- investment bodies not withholding/remitting tax as required;
- imposition of late payment penalties;
- non compliance with the TFN withholding tax obligations on the part of temporary residents who continue to pay interest on overseas mortgages; and
- ambiguity in the understanding of section 202EE of ITAA as it relates to non-residents deriving unit trust distributions that consist of classes of income other than interest or unfranked dividends.
- **3.43** These risks could give rise to revenue loss and adversely affect equitable administration of taxation laws. The IRW Branch is aware of

these risks and has implemented, or has plans to implement, strategies to manage the risks. However, effective management of each of the risks cannot be supported by the existing IT system. The ATO has advised that the above compliance risks are managed to a degree by the Tax Audit Program. As investment bodies are taxpayers, they are subject to the ATO's regular tax audits. The ANAO acknowledges that some of the risks associated with possible non compliance of investment bodies with the TFN withholding tax arrangements may be managed adequately by these audits.

Annual Investment Income Reports (AIIR)

3.44 The ANAO considers that there is room for improvement in the quality of the AIIR data supplied by investment bodies. For example, the ATO has experienced difficulties in the reconciliation of the TFN withholding tax shown in AIIRs with the amounts remitted by investment bodies. Nevertheless, AIIR data is an important source of information for the assessment of income tax. The ATO has concerns about AIIR data in relation to:

- the volume and magnitude of AIIR transactions that cannot be matched with an ATO client registration as shown in Table 5 in Appendix 9; and
- the difficulties in reconciling the quarterly remittance returns that the ATO receives from investment bodies with the AIIRs discussed below.
- 3.45 In their report *Follow the Yellow Brick Road*, the Committee commented about the AIIR information which, at that time, was to become available to the ATO in the following year. The Committee observed:

As for other sources of information on withholding tax, the Committee welcomes developments aimed at improving the ATO's non-resident investment in Australia, particularly the proposed Annual Investment Income Report. The Committee considers that, to be useful in relation to the detection of tax avoidance/evasion arrangements, these sources of information need to be monitored systematically and that, as part of audit case selection processes, particular attention should be directed to higher risk categories of activity. These would include interest payments made to non-residents living in non-treaty countries, particularly those made through discretionary trusts and private companies. The quantum of an interest payment is also a relevant risk factor. ⁵⁷

Parliament of the Commonwealth of Australia: Follow the Yellow Brick Road The Final Report On An Efficiency Audit Of The Australian Taxation Office: International Profit Shifting. House of Representatives Standing Committee on Finance and Public Administration. March 1991, p44.

3.46 Variable quality of the AIIRs has meant that these expectations were generally not met in the early years of the operation of the TFN withholding tax arrangements.

Compliance with reporting arrangements

3.47 The ANAO acknowledges that all registered investment bodies with an obligation to report are subject to lodgment enforcement activity by the ATO. However, we found instances of non compliance of remitters with the quarterly and annual reporting requirements. These incidents extend over several years. The ANAO is not confident that the ATO has taken the necessary action to ensure compliance of remitters with the TFN reporting requirements.

Reconciliation of financial transactions

3.48 The ATO's official advice to investment bodies on reconciliation of financial transactions is:

amounts deducted from investment income and reported for a financial year must reconcile with amounts remitted to the ATO. The ATO will use the information from your Annual Investment Income Report, and what has been paid, to reconcile your account. If there is a discrepancy you will be asked to provide an explanation.⁵⁸

3.49 The ATO has been unable to reconcile the accounts of almost all investment bodies for each of the eight years that the TFN withholding tax arrangements have been operating. This is due mainly to the inadequacies of the AIIR IT system discussed earlier. The ATO also claims that there are problems with the quality of data provided by some investment bodies with their remittances of the TFN withholding tax and in the AIIRs. The ANAO notes that those investment bodies that do not comply fully with the Commonwealth reporting requirements may obtain an advantage over those that do. This could arise from their under investment in IT systems that enable full compliance with the reporting requirements. Investment bodies that fully comply may incur an additional impost that is avoided by non-compliers.

TFN withholding tax credits

3.50 Tax legislation provides that moneys withheld under the TFN withholding tax arrangements may be remitted to taxpayers upon the quotation of their TFN. Most taxpayers who have incurred the TFN withholding tax claim it back as a tax credit in their income tax return. The liability on the ATO to remit withheld moneys to taxpayers has no time limit. It may be claimed by beneficiaries of estates.

⁵⁸ ATO, *Tax File Number Arrangements*, <u>Information for Investment Bodies New Edition</u>, August 1995 p15.

- 3.51 If there were full adherence with the TFN quotation arrangements, no moneys would be withheld from investors. The total amount of money collected as the TFN withholding tax and not returned to taxpayers is a useful measure of compliance with the TFN withholding arrangements. It is a more precise measure than the proportion of investors who do not quote their TFN as it takes into account the size of the amount of the TFN withholding tax withheld. The analysis of the circumstances of investors who have incurred sizeable TFN withholding taxes and who do not claim the amounts in assessments is likely to be of interest to the ATO from a taxation audit perspective. Such an investor who did not lodge a tax return might also warrant closer ATO scrutiny. Table 6, Appendix 9, shows the numbers of transactions for which a TFN was not quoted, that could not be matched to a taxpayer and for which a TFN tax was withheld.
- 3.52 The ANAO endeavoured to measure the amount of the TFN withholding tax collected that was not returned to taxpayers. The ATO does not record separately the amounts of the TFN withholding tax credits refunded to companies and superannuation funds. As a result, the ANAO was not able to estimate reliably the amount of the TFN withholding tax collected that was not returned to taxpayers. Table 6, Appendix 9 shows for 1993 to 1997 inclusive the total amounts of the TFN withholding tax collected and the total amounts of tax credits, including the TFN withholding tax credits, refunded to taxpayers.
- 3.53 The only year for which an estimate of the lower bound can be provided of the amount of the TFN withholding tax collected that was not returned to taxpayers is 1997. In that year, the ATO for the first time recorded the TFN withholding tax credited to three of the four groups of taxpayers, that is, individuals, trusts and companies. The ATO does not disaggregate the total tax credits refunded to superannuation funds. Accordingly an accurate measure of the amount of TFN withholding tax claimed as credit against tax assessed could not be calculated. However, it was possible to estimate the amount claimed as credit.
- 3.54 There are two problems associated with making this estimate. The first is that the ATO does not record TFN tax credits claimed separately from other tax credits claimed by superannuation funds. The second is that, for the years 1993–96, the ATO did not record separately for companies TFN withholding taxes credited. This means that while it is not possible to estimate the amount claimed as credit for any particular year, it is possible to estimate the aggregate amount claimed as credit since the scheme began in 1992. In order to do this, it is necessary to make two subsidiary estimates. One is the estimate of the proportion of tax credits claimed by superannuation funds for purposes other than TFN

withholding taxes. The ATO agrees that two thirds is an appropriate proportion. The other is the estimate of the percentage of withholding tax credits claimed by companies for purposes other than TFN withholding tax. The ATO concurs that 85 per cent is a reasonable upper bound for this percentage.

3.55 Table 6, Appendix 9, shows that \$650 million has been collected as TFN withholding tax since 1992. Application of the above considerations to the data in Table 6 indicates that a reasonable estimate of the total amount of the TFN withholding tax collected that was not returned to taxpayers since the scheme began is at least \$200 million.

Recommendation 5

- **3.56** The ANAO recommends that the ATO:
- a) seek concurrence of relevant financial institutions regarding the data specification for Annual Investment Income Reports information that provides the ATO with accurate and valid data that minimises compliance costs;

ATO Response:

Agree.

Recognising that there is a requirement for financial institutions to provide regular reports, the ATO consults with a range of umbrella organisations of investment bodies in order to seek agreement to and improvement of the data specifications needed. These consultative forums allow early industry input into the ATO specifications recognising the time lags inherent in updating systems.

b) investigate the disparity between the TFN withholding tax collected and the amounts remitted to taxpayers;

ATO Response:

Agree.

This issue will be investigated and prioritised as part of the overall ATO risk assessment process.

c) reconcile remitter/investment body payments as appropriate and ascertain the level of tax payable having regard to the quality and timeliness of available data.

ATO Response:

Agree.

The ATO agrees that this matter should be investigated and prioritised in the ATO's risk assessment process.

Administration of refunds

3.57 Investors who receive certain income support payments are exempt from the imposition of the TFN withholding tax.⁵⁹ Exempt investors who have had the TFN withholding tax deducted from the interest earned on investments may apply to the ATO for a refund. The system for refunding exempt investors is overly complex. There is scope for improvement and simplification of procedures in the ATO's administration of refunds. Under current arrangements the process of administering refunds is entirely paper based. Each year the ATO processes about 6500 applications for refunds from exempt investors and refunds about \$2.5 million. On this basis, the average refund is \$385. There are two key issues with existing arrangements:

- some exempt investors might not take the initiative and apply for the refund to which they are entitled; and
- the exempt investor might not apply for a refund of the full amount deducted and to which they are entitled.
- **3.58** The ATO relies on exempt investors to apply for a refund. While this is understandable, the ATO should be mindful that a proportion of exempt investors may be people who are disadvantaged. For these people the completion and lodgement of an application form may be a formidable task. A review of a number of refund application forms supported a view that a reasonable proportion had been filled out by the exempt investor with the assistance of another person.
- 3.59 The ATO advised that some of the instances of non quotation of the TFNs arise because investors change accounts held with the same investment body. Changing accounts in this way is happening with increasing frequency according to the ATO. Although the investment bodies have the ability to automatically transfer their customer's TFN to a new account, many do not. By not transferring the TFNs customers may incur the TFN withholding tax.

Equity considerations

3.60 Clients who do not quote a TFN in relation to the Reasonable Benefit Limits (RBL) are liable to a TFN withholding tax similar to that which applies to investors. For these clients, under current administrative arrangements, the penalty can only be applied after the ATO has completed an exhaustive search for the person's missing TFN. As almost

Investors who get part or all of one of the following payments are eligible to claim an exemption: Age Pension; Widow's Pension; Disability Support Pension; Sole Parent's Pension; Wife's Pension; Special Benefit; Carer's Pension; Service Pension and Rehabilitation Allowance received by qualifying for one of the preceding payments.

all exempt investors would have a TFN, considerations of equity of treatment would suggest that the ATO could be expected to apply the TFN withholding tax only after completing a search for the exempt person's TFN as is the practice for RBL clients.

3.61 The ANAO reviewed a number of applications for refunds from exempt investors and found instances where the investor did not claim the full refund owing to them. In one instance, a pensioner missed \$28.75 in their application for a refund of \$484.50. The ATO can only refund the amount claimed in such cases. Some of the exempt investors may be persons of quite modest means. In many of the cases reviewed, the exempt status of the investor was apparent from the investor's bank statement. This is because the statement identifies the person as a recipient of the income support payment that determines their exempt status.

Recommendation 6

- **3.62** The ANAO recommends that the ATO:
- a) examine opportunities for simplifying the refund process for exempt investors who have incurred the TFN withholding tax;

ATO Response:

Agree.

The ATO agrees that this matter should be considered. Any proposed action will need to be evaluated in the light of tax reform and other priorities.

b) examine the cost-effectiveness of establishing suitable arrangements to ensure the automatic identification of exempt investors.

ATO Response:

Agree.

The ATO agrees that this matter should be considered. Any proposed action will need to be evaluated in the light of tax reform and other priorities.

4. TFN Information Matching

This chapter reviews issues associated with TFN information matching. These include an examination of the quality of TFN information, the impact of optional quotation of the TFN on TFN information matching, the revenue potential from better matching, the value of the TFN as the matching key and an overview of equity issues. The results of a range of quantitative studies conducted by the ANAO using data from the Health Insurance Commission, the Australian Securities and Investment Commission, Centrelink, the Australian Bureau of Statistics and State Registrars-General are reported. The chapter concludes with recommendations for improved performance.

Introduction

- 4.1 One objective of the TFN system was to increase the effectiveness and efficiency of information matching contained in reports and returns received by the ATO. Information matching is the comparison of any one information set with other information sets for the purpose of producing or verifying information. This implies that the result of any information matching process is only as good as the source information in the sets being matched.
- 4.2 As outlined by the Commonwealth Privacy Commissioner, information matching permits the linking of independent pieces of information in order to draw conclusions that would not have been possible without the match being made. Quality information is required to ensure that the new conclusions made possible by information matching are reliable and valid. The phrase "TFN information" refers to data items that are now essential to tax administration. These items are the taxpayer's TFN, name, address and date of birth.

Overview

- **4.3** The ANAO approach to the audit of the ATO's management of TFN based information matching was to:
- examine the quality of TFN information;
- review steps taken by the ATO to improve data quality;⁶¹

Commonwealth of Australia, Privacy Commissioner, (1992). Submission to the House of Representatives Standing Committee on Legal and Constitutional Affairs Inquiry into the Protection of confidential Personal and Commercial Information.

⁶¹ Appendix 6 includes the actions being undertaken by the ATO.

- assess impacts of optional TFN quotation on the ATO's information matching capacity;
- assess the value of the TFN as the information matching key; and
- ascertain the implications for the better achievement of the outcomes set for the TFN system that more effective and efficient information matching might achieve.

External data sources

- 4.4 We sought the assistance of other organisations in our approach to the examination of the quality of the TFN information. The agencies that assisted us and the information we obtained from them are as follows:
- the State Registrars-General (provision of data about deceased persons);
- the Australian Securities and Investment Commission (provision of data about deregistered companies); and
- the Health Insurance Commission (provision of data on general client population).
- 4.5 Their information was matched against the ATO's data bases in order to obtain evidence about the quality of the TFN information. Assistance was also sought from Centrelink and the ATO in our assessment of the value of the TFN as a data-matching key. A comparison of data was made by matching the same data bases of EDF with the TFNs attached against the same EDFs without the TFNs attached.

Management of TFN information

- **4.6** The ANAO examination of the ATO's management of the TFN information focussed on the following:
- the ATO's management of TFN privacy issues;
- the application of the ATO's information management strategies to the management of the TFN information;
- the quality of the TFN information, including interconnectivity between the ATO's data bases;
- quotation of the TFN: voluntary or mandatory;
- external data-matching, including the value of the TFN as the datamatching key; and
- tax administration possibilities enabled by more complete TFN information.

Quality data-matching requires accurate information

- 4.7 In order to achieve quality information matching, the ATO should take steps to ensure that the TFNs registered on its data bases are of the highest quality in relation to data quality standards. The management of TFN information by the ATO is crucial because the achievement of outcomes is directly connected to:
- quality and range of income relevant information to which the TFN is attached; and
- quality of data-matching enabled by the TFN.
- 4.8 The interaction of these two can result in more efficient datamatching using more extensive information relevant to the assessment of income. This itself may generate additional revenue and improve the integrity of the Commonwealth's income support system. Furthermore, the knowledge that the ATO uses the TFN system with these features can increase the level of voluntary compliance with Commonwealth law. This, too, may result in increased revenue and reduce the amount of incorrect income support payments. It may also assist in increasing the fairness of revenue collection as it helps to ensure that those taxpayers who should be paying are doing so.
- 4.9 Improved effectiveness could result from the strengthening of these connections. This requires better management of the data, information and partnerships associated with the TFN related information and its use in data-matching. The partnerships are critical since the ATO uses a number of essential data sets provided to it by external agencies. The effectiveness of the ATO's use of data depends on the timeliness and quality of the data such agencies provide. The poorer the quality, the less useful the data. Improving the strategic partnership with the agencies that supply the ATO with data will mean reaching agreement about the standards regulating data quality and its timely provision.

Measurement of outcomes

- 4.10 Expected outcomes of the TFN system included a substantial reduction in tax fraud and evasion, and fraud in the Commonwealth's income support payment systems. The TFN system could enable this to be achieved by improving the effectiveness and efficiency of datamatching within the ATO, between the ATO and the main income support agencies and between the ATO and the Australian Prudential Regulation Authority (APRA). The TFN could lead to better data-matching because of the TFN quotation arrangements.
- **4.11** Data-matching is the most cost-effective way to achieve the above mentioned outcomes. As several of the above outcomes are not themselves

readily measurable, the ANAO required a measurable outcome that would serve as a satisfactory proxy for them. Outcomes such as improved compliance with Commonwealth law, greater integrity of taxation and income support systems and reductions in tax fraud, tax evasion and fraud in the Commonwealth's payment systems are hard to measure.

4.12 Increased taxation revenue and savings to income support outlays are, however, readily measurable. They provide reasonable proxies for the hard-to-measure outcomes. This is because the achievement of the hard-to-measure outcomes would usually result in a financial benefit to the Commonwealth.

The administration of data-matching in the ATO

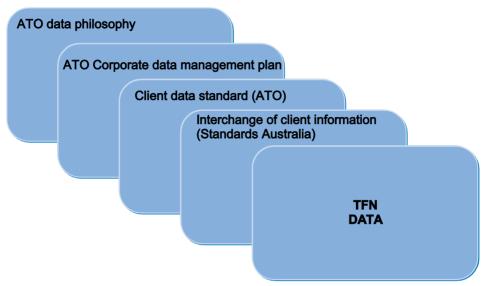
- **4.13** Data-matching is one of the essential tools that the ATO uses to carry out a basic task. This is to make sure that each person pays the correct tax. There are two steps to this:
- · the establishment and verification of client identity; and
- the assessment of tax.
- **4.14** The data-matching tax equation is therefore a two step process. The first step is performed by the Client Identification Compliance (CIDC) Group. It ensures that all:
- identity information received by the ATO is verified against available information;
- taxpayers are linked to the totality of available relevant information;
 and
- information relevant to the assessment of a taxpayer's tax is correctly linked to the person to whom it is related.
- **4.15** The second step is to reconcile and verify the information submitted on tax returns against other relevant information. The Information Matching System (IMS) is at the heart of the second step.⁶²

Corporate data management strategy

4.16 A range of corporate initiatives began in 1989 that were directed at the achievement of sustainable data quality. By the end of 1991 the ATO's top level management group had promulgated high level guidance on corporate data management issues. Figure 3 shows the relationship of these documents to TFN information.

Appendix 3 describes the role and functions of CIDC and IMS.

Figure 3
The ATO Data Management Strategy



Information management strategies and TFN information

4.17 The ATO's Data Philosophy was promulgated in 1991. It set out data management principles, procedures and rules. The Corporate Data Management Plan (CDMP) was designed to translate the philosophy into operational practice. The ATO advised that their Business and Service Lines (BSL) were expected to take individual responsibility for the implementation of these reforms. Despite a soundly articulated strategy on data management practices and procedures, the ANAO did not see evidence of the formal acceptance and comprehensive operational implementation of the CDMP in relation to the ATO's TFN system. ANAO considers that if there had been full operational implementation of the CDMP by the ATO's BSLs, as expected by ATO's top management, the ATO could have responded earlier to, and addressed more thoroughly, the problems of poor quality TFN information reported in this audit.

The quality of TFN information

4.18 An organisation faced with data integrity problems might periodically clean up data sets. Alternatively, it might identify the sources of poor quality data and take steps to ensure that poor quality data no longer enters its data bases. The CDMP was a corporate initiative designed to clean up data corporately at source. Significant data quality problems persist in respect of the TFN information. The extent of data quality problems on the ATO's data bases is shown by the following.

- **4.19** A quantitative analysis was undertaken by the ATO of TFN registration data in relation to ABS population data. (The ATO provided, in addition, an analysis in relation to enrolments maintained by the Australian Electoral Commission.) The results of this analysis are shown in Graphs 1, 2 and 3.63 These figures are calculated by counting the numbers of the TFNs issued to people with a particular date of birth as recorded on their TFN application form. This result is then compared to the numbers of people living in Australia at the time of the ABS Census born in a particular year according to their date of birth recorded at Census time.
- **4.20** The analysis shows anomalies. For some age groups, the ATO has issued TFNs to significantly more people than the ABS has recorded as living in Australia. For example, TFNs have been issued to over 235 000 more people over 90 years of age than there are in Australia. TFNs have been issued to just over two million more people aged between 20 and 49 than there are in Australia.
- 4.21 The analysis showed that, in aggregate, there were 3.2 million more individual registrations than people in Australia counted by the ABS in the last Census. The ATO advised that a comparison between their data and ABS data in 1994 found a similar pattern of excess individual TFN registrations over ABS numbers. Furthermore, in 1994 the aggregate excess was about 1.8 million. The discrepancy between aggregate ATO and ABS numbers has almost doubled since then. The discrepancies may arise from the following:
- failure to archive inactive records, that is, the retention of records of deceased persons, residents who have emigrated;
- the presence of duplicate records on the ATO data bases; and
- the retention on the ATO's data bases of the TFNs issued to persons in Australia on temporary work permits who have since left.

TFN archival

4.22 The ATO has not undertaken archival action in relation to TFNs since the late 1980s. There are currently in excess of 18 million individual TFN records on the ATO's key client data base. Many of these are known to no longer be of use for current ATO activities, that is, the taxpayer is deceased or the record is annotated with a Further Returns Not Necessary (FRNN) indicator. Better practice records management principles suggest that these records be deleted.

⁶³ All graphs are located in Appendix 8, the Graphical Appendix.

4.23 The ATO advised that in addition to those records already identified as deceased and FRNN, there are sizeable numbers of TFN records which could also be archived.⁶⁴ In order to assist in the archiving of records the ATO needs to access date of death data. This would enable the systematic identification of the TFN records of deceased clients. In addition, the ATO needs to remove systematically those clients without a taxation liability. The ATO advised that the identification of these TFN records continues to be resource intensive.

TFN Duplications

4.24 ANAO endeavoured to establish a reliable estimate of the incidence of duplicate records for individual taxpayers on ATO's key data bases.⁶⁵ ATO advised that these databases contain approximately 17.1 million active tax records of individual taxpayers. 66 Anecdotal comment made to ANAO during the audit indicated that the number of potential duplicates of individual taxpayer records might be as high as one million. If this was the case, it would mean that about 6 per cent of the active records on these data bases could have been potential duplicates. Whilst the audit was being conducted, the ATO undertook more detailed research to establish with greater confidence the actual number of duplications of individual taxpayer records. The ATO also refined the criteria for identifying duplicates, thus increasing the accuracy of the estimate. ATO advised that this research shows that the number of potential duplicates of individual taxpayer records was likely to be 185 000. Out of this set of 185 000 potential duplicates, the ATO has identified 23 000 duplicates requiring follow up action. Duplicates represent risk to:

- revenue through inappropriate use of the TFNs, invariably as a result of fraud (such as income splitting fraud);
- revenue through not being able to use external data income because of duplicate records;⁶⁷ and

⁶⁴ Table 10, Appendix 9.

There are five categories of taxpayers who may apply for a TFN: individuals, partnerships, trusts companies and superannuation funds.

Table 1 of Appendix 9 shows that there were 22 912 781 TFN client registrations for all categories of taxpayers on ATO's key data base. Of this, there were 18 353 802 TFN client registrations for individual taxpayers. The number of individual taxpayers with a return lodged between 1989 and 1998 was 13 307 118. ATO advise the number, 17.1 million, includes all tax records of individual taxpayers with a current tax return lodgement record, the records of persons who may be in receipt of income support assistance but who might not need to lodge income tax returns and tax records of individuals that have been identified as inactive but not archived, but excludes those records that the ATO has identified as inactive and has archived.

The non detection of fraudulent representation to welfare agencies is a case in point as Centrelink's Data Matching Program would be unable to establish income that is attributed to another TFN. A similar problem would arise in the ATO's matching of any AIIR transaction that were associated with incorrect TFNs.

- the accuracy of information used for decision making (as in including duplicate records in client profiling and other exercises).
- **4.25** The ATO is assessing the above risks and refining its selection criteria for potential duplications accordingly. The ATO should pursue its efforts to identify and resolve duplications as quickly as possible. The number of potential duplicates on these data bases is too high. The ANAO expected to find that the percentage of potential duplicates would have been almost zero, given the above mentioned CDMP.
- 4.26 The ATO could use the ABS Census data to measure the degree to which people in particular age groups had been issued with a TFN. If the analysis showed that for some age groups, for example males aged between 28 and 30, that there was an unexplained gap in the TFN registration rates, the ATO could use this to guide branch priorities. However, the use of the Census information in this manner would require higher quality information on the ATO data bases.
- **4.27** The ANAO notes that, as the ABS data provides a snapshot in time, its use is restricted to the analysis of strategic trends. The use of data from other sources, such as the Health Insurance Commission (HIC) (discussed below) would provide the ATO with a valuable resource. It would give the ATO access to more current, almost real time data and enable the ATO to conduct more detailed cross referencing of its data. Data from sources such as the HIC is currently not available to the ATO. This is a matter for the ATO to pursue.

Temporary residents and newly arrived residents

- 4.28 Non-residents visiting Australia may require a TFN under some circumstances. These include working holidays, enrolment at approved educational centres and approved restricted employment. Those who obtain Australian permanent resident status will also require a TFN. 68 Temporary residents (working holiday and students) arriving in Australia in 1996–97 and 1997–98 numbered almost 212 000 and 220 000 respectively. Potentially all may need a TFN. As non-residents for immigration purposes, they will not be reflected in Australian Electoral Commission or ABS Census data if departing or arriving before and after a Census.
- **4.29** The ATO believes that this category of client has contributed significantly to the disparity between the number of the TFN registrants and the number of individuals identified in Appendix 8 of this report. Archiving this category of registrant on the basis of long term inactivity should substantially reduce the disparity. The data exchange with DIMA

 $^{^{\}mbox{\tiny 68}}$ A tabulation of these numbers can be found in Table 12, Appendix 9.

discussed in Chapter 2 should enable these categories to be monitored and the TFNs deactivated on the departure of temporary residents.

TFN trust data

- 4.30 Partnership and Trust Income Tax Returns require the statement of the distribution of the net Australian income or loss to beneficiaries. The ATO advised that about 80 per cent of these returns are lodged electronically. For those returns lodged on paper, it is a long standing ATO practice not to enter them into the data base if the TFN of the beneficiary is not quoted. The ANAO examined the incidence of quotation of TFNs of the beneficiaries of partnership and trust distributions. The result of this analysis is shown in Tables 7 and 8, Appendix 9.
- **4.31** Nearly half of the 430 572 Trust Returns received by the ATO during 1997 do not list the TFNs of all beneficiaries. About 18 per cent of the two million trust beneficiaries do not have their TFN affixed to the distribution information recorded about them on Trust Income Tax Returns.

Interconnectivity between the ATO's data bases

- 4.32 There are a range of interconnectivity problems between the ATO's data bases. The ANAO observed that the ATO staff experience difficulty in accessing data from various IT systems during their work. Conversely, it is possible for staff to update client details based on invalidated information. Data (such as date of birth) established by PoI can be changed by the ATO staff on the basis of lower grade information. The ATO staff can update a client or role record without that update being recorded on other relevant data bases. This results in a range of inconsistencies across data bases.
- 4.33 The ATO has taken significant initiatives that aim to ensure only high quality TFN information is included on its databases. The ANAO found that, notwithstanding these initiatives, there is room for improvement in the quality of TFN information. The ATO was advised during the audit, through its own internal research, that the quality of its main databases was probably somewhere between unsatisfactory and average. The less than satisfactory integrity of the ATO's TFN information is generally acknowledged throughout the ATO. The shortcomings in data quality have limited the effectiveness of information matching by the ATO. This limitation has a financial cost that neither the ANAO nor the ATO was able to estimate on the basis of available information. Prior to completion of the audit, the ATO commenced initiatives to improve the quality of its main databases.

Data verification

4.34 The ANAO sponsored a number of internal ATO and external data-matching studies to ascertain the quality of TFN data held by the ATO, the likelihood of fraud, the value of the TFN as the matching key and the scope for savings to Commonwealth income support payments. Data was examined generically with no identification or examination of individual records. Further, all parties agreed that no administrative action would be taken against an individual as a result of this data-matching.

Health Insurance Commission

- 4.35 In 1987 the ATO estimated that the matching of HIC and ATO data could generate an additional revenue of \$180 million for the Commonwealth. However, with existing legislation preventing the HIC from releasing data to the ATO, some initial work was undertaken by the ATO to progress the matter but this work lapsed with the change of government. ANAO has been advised that the potential benefit of a match of HIC and ATO data will be revisited by the ATO in the light of the results of the analysis summarised in paragraph 4.38 below.
- 4.36 The ATO has advised the ANAO that the use of HIC data would be of value to the ATO in ways additional to supporting compliance and revenue collection. The ATO stated that the HIC data is more current than ATO data because it relates to actual payments of benefits throughout the year. It would therefore give the ATO a more accurate, almost real time view thus enabling the ATO to improve the quality of its data bases. This would have consequential benefits for revenue collection, client service and the integrity of tax administration. The verification of the ATO client identification data would be an important outcome of a match between the ATO and HIC records. A measure of this would be the proportion of HIC clients that could not be matched against the ATO clients.

HIC data sets

4.37 The ANAO matched two HIC data sets against the ATO's main client data base. One consisted of those in receipt of Medicare benefits; the other consisted of those in receipt of Commonwealth Childcare Cash Rebates.

Medicare

4.38 Some 10 072 076 Medicare records were matched against 18 353 802 tax records. The matching shows that almost 96 per cent of the Medicare records match with ATO records, corresponding in relation

to name, date of birth and address. Some 410 347 (that is 4.07 per cent) of the Medicare records could not be matched to an existing tax record. More than 5 per cent of males and females between the ages of 21 and 30 who receive Medicare benefits could not be matched to an existing tax record. Given that any person in receipt of Commonwealth income assistance should have a tax record the ANAO would expect a lower rate of mismatch.

4.39 An analysis of the reasons for the apparent anomalies revealed by this study was outside the scope of this audit. This may indicate that there are people in receipt of Commonwealth benefits who have not lodged tax returns when they should have or that there are people in receipt of Commonwealth benefits who might not be entitled to them.

Commonwealth Childcare Cash Rebate (CCCR)

- **4.40** Some 318 568 CCCR claims were matched against 18 353 802 tax records. The study shows that almost 98 per cent have ATO records. The ATO advised that taxation records could not be found for 5 986 CCCR claimants. The approximate financial value of the unmatched CCCR claims was \$2.8 million.
- **4.41** An analysis of the reasons for the number of unmatched CCCR claims revealed by this study was outside the scope of this audit. The number of unmatched CCCR claims may indicate that there are people in receipt of Commonwealth benefits who have not lodged tax returns when they should have or that there are people in receipt of Commonwealth benefits who might not be entitled to them.

State Registrars-General

4.42 The ANAO obtained data from the State Registrars-General in relation to date of death of individuals. The data consisted of 107 963 Fact of Death records. This was matched against the ATO's main client data base to determine the percentage of deceased clients with active TFN records. The matched records showed that 62 per cent of deceased clients were not recorded as deceased on the ATO client data base.

Australian Securities and Investments Commission

4.43 The ANAO obtained data from the Australian Securities and Investment Commission in relation to the deregistered companies. This was matched against the ATO's main data base to determine the percentage of deregistered companies with active TFN records. The matched records showed that 40 per cent of deregistered companies were still recorded as active on the ATO client data base.

Impact of information quality problems

Impact on data-matching

- 4.44 The introduction of the TFN enabled improved capacity for data-matching. The ATO estimates that before the implementation of the TFN legislation the match rate achieved when matching the ATO data against external data was about 60 per cent. In those cases where the TFN can be used in data-matching, the ATO advises that the match rate is just over 95 per cent.
- **4.45** The improved data-matching, and better research enabled by the TFN reforms, have resulted in improvements in administrative efficiency including:
- reductions in the ATO's tax audit work force performing income matching work;⁶⁹
- a volume of data-matching projects not previously possible;
- TFN based data-matching enables a better selection of cases that are referred to tax auditors;
- ATO systems now automatically cross reference multiple tax debts having the same TFN making more efficient the recovery of such debts; and
- improved ATO correspondence processes.⁷⁰
- 4.46 There are two broad types of data-matching carried out by the ATO and the estimation of the financial benefits foregone because of data quality deficiencies will differ according to the type of data-matching. The two types are linear and relational data-matching.⁷¹

Revenue potential from better information matching

- **4.47** The shortcomings in data quality have limited the effectiveness of information matching by the ATO. This limitation has a financial cost. The cost has three components:
- loss of revenue;
- additional administrative costs; and
- loss of savings to income support payments.

Before the TFN changes approximately 400 tax auditors performed income matching work. After the reform about 40 auditors are required as much of the previous manual tax audit case work is now performed electronically.

 $^{^{70}}$ For example, ATO can now send out about 30 000 letters to tax agents automatically using the TFN.

Appendix 4 gives details of both data-matching types.

- **4.48** The ANAO was unable to estimate this cost; nor was the ATO. It is, however, possible to give an indication of a broad measure of the additional amounts of revenue collectable by better quality information matching. This indication can be derived from four sources:
- the volume of AIIR transactions (and the amounts of money associated with them) that could not be matched against income tax returns;
- the numbers of taxpayers who did not lodge tax returns where they had an obligation to do so and the estimated potential revenue gain from this group;
- the number of taxpayers shown to have discrepant tax returns and the estimated potential revenue gain from this group; and
- a reduction in the amount of debt which the ATO writes off.⁷²
- **4.49** The first set of information provides a broad picture of the magnitude of one significant set of transactions that the ATO cannot factor into income tax returns. Even though the ATO has the relevant data, its inability to accurately attribute the external information to the ATO clients means that the data cannot be used. Table 5 shows information for a subset of this group compiled by the ATO.
- 4.50 The second set is obtained from the TFN based information matching. By using the main sources of information (for example: AIIRs, PPS, RPS, EDFs, partnership and trust distributions), the ATO can identify taxpayers who have received income from one or more of these sources, but who have failed to lodge tax returns at the time the IMS was run. The figures from the 1996 IMS indicate that the ATO had not received the 1996 income tax returns from 2.7 million taxpayers by the end of September 1997. Of these, nearly two million had received income in excess of the taxable income threshold. The ATO estimated that the potential revenue gain from this group was \$146 million.
- 4.51 The third set matches information from the above mentioned sources against income tax returns and identifies discrepancies. Discrepancies counted include taxpayers with reported income greater than that shown in the tax return, over claiming of tax credits and rebates or having sources of taxable income not declared in the return. The figures from the 1996 IMS identified 982 488 discrepant returns with a potential revenue gain of \$1 596 million. The ATO advised that not all of these

In 1997–98 the ATO carried a total tax debt of \$5.7 billion (the value of cases on hand at 30 June) and in its financial statements made provision of \$733 817 000 for bad and doubtful debts (Commissioner of Taxation *Annual Report 1997–98*).

cases are ultimately subject to audit activity. Some culling is required, for example, taxpayers who have quoted their own TFN instead of the TFN of the entity where the income has been returned, those cases where the income has been incorrectly declared in the tax return, or where the reported income information has been found to be inaccurate.

4.52 The effects of quality data management are not restricted to IT areas. Data management also impacts on issues such as client service, debt collection and administrative efficiency. The performance standards set for client response times in the *Taxpayers' Charter* are dependent upon the ATO possessing quality data.

External data-matching with the TFN as the matching key

Overview

- **4.53** The audit examined the following areas concerning external datamatching:
- an evaluation of the added value of the TFN as the matching key;
- the examination of whether the ATO advised Government about the options for:
 - ☆ additional data-matching (not requiring use of the TFN) that would require amendment to Commonwealth legislation; and
 - ☆ more extensive use of the TFN in data-matching amongst Commonwealth agencies; and
- the quality of data obtained by the ATO from external sources.

The value of the TFN as the matching key

- 4.54 Employees working under the PAYE tax system must fill in an EDF if they are to avoid being taxed at the highest rate. Centrelink matches EDFs against its data bases to identify customers/partners of customers who have commenced employment and who may not have declared all of their employment income to Centrelink. Centrelink and its predecessor has been matching EDFs in this way since 1992. The matching is an important tool of compliance management as it helps ensure that only those entitled to payments receive them. As a result, it generates savings to income support expenditure. In 1997–98, the EDF matching produced savings of \$255 793 802.
- 4.55 Legislation that regulates the use of the TFN in data-matching requires that the TFNs be removed from the EDFs before they can be

matched against Centrelink data bases.⁷³ The ANAO considered that there was merit in conducting a pilot match of EDF records on which the TFN had been retained. This enabled the comparison of the results of a match of records with the TFN against the results of a match without the TFN. This pilot data match demonstrated the extent to which data-matching using a unique numeric match key such as the TFN is more efficient and effective. It also indicated additional savings the Commonwealth could achieve by the retention of the TFN on the EDFs and the use of it as the matching key.

4.56 The pilot study was conducted in October 1998. Some 228 210 EDFs with and without their TFNs attached were matched against more than five million Centrelink records. The study showed that the use of the TFN as the matching key produced an additional 10.8 per cent of matches. This means that even when used with high quality data, the TFN improves the efficiency of data-matching by about 11 per cent.⁷⁴ Centrelink estimates that the use of the TFN in EDF matching could generate an additional saving of \$27.6 million each year.⁷⁵ It could also be reasonable to assume that there would be a higher rate of detection of fraudulent claims against the Commonwealth.

4.57 Centrelink also matches PPS and RPS records from the ATO against its databases for the same purpose as the EDF match. The TFN has to be removed from the RPS and PPS records for the same reason that it has to be removed from the EDFs. On the assumption that the use of the TFN as the matching key for these matches would also improve the efficiency of matching by about 11 per cent, Centrelink advises that an additional saving of \$235 440 could be achieved.

The Privacy Commissioner's Guidelines on "Data-matching in Commonwealth Administration" specify that a protocol be prepared by agencies conducting certain data-matching programs. The matching of EDFs against Centrelink's data bases is one of these. Although the ANAO is exempt from the *Privacy Act 1988*, the ANAO wished to comply with the spirit of the Act and have regard to the Information Privacy Principles issued under the authority of the Act and to the Privacy Commissioner's guidelines.

Accordingly, the ANAO developed a protocol to regulate the pilot data match. The protocol was developed with the assistance of the Privacy Commissioner and was agreed to by Centrelink and the ATO. The Protocol included the undertaking that no administrative action would be taken against individuals matched by the pilot study.

As the added value of the TFN as a matching key depends in part on the quality of the information to which it has been added, the pilot match would provide a good estimate of the minimum value that the TFN could add to data-matching. This is because (as ANAO has been advised) the quality of the records being matched without a TFN is quite high. Centrelink advised that considerable care is taken to achieve high quality information on its data bases. The ANAO understands that the quality of the EDF information provided by the ATO is also relatively high.

The amount of savings will increase proportionally to the total of benefits paid.

Wider TFN based data-matching

4.58 Formal advice has not been put to the Government about the extended use of the TFN into relevant areas of Commonwealth administration. There are other areas of Commonwealth administration with functions similar to those in which the TFN is now used. These include:

- the collection of revenue by Commonwealth agencies other than the ATO;
- the payment of grants, subsidies and other payments (including those of indigenous affairs and employment assistance) by Commonwealth agencies; and
- the payment of income support assistance by Commonwealth agencies other than Centrelink and the DVA.

4.59 The 1998–99 Estimates reported in Budget Paper No. 4 of the Budget show that in 1997–98 agencies associated with the above functions collected revenue of approximately \$25 billion and made payments to others by way of grants, subsidies or other payments of approximately \$1.3 billion. A direct translation of the gains currently achievable by the TFN system to new administrative areas is outside of the scope of this audit. Nevertheless, it is reasonable to expect that there could be financial gains from widening the scope of the TFN system.

Quotation of the TFN

Overview

4.60 Chapter One described the range of transactions for which the TFN quotation is requested. The transactions include HECS liabilities, financial, employment, superannuation, applications for income support benefits and tax administration.⁷⁶ In relation to the TFN quotation the following areas were examined:

- voluntary quotation;
- non quotation;
- consequences of non quotation of the TFNs; and
- sanctions for non quotation.

[™] For example, TFNs attached to income tax returns and used by clients in general dealings with the ATO.

Voluntary quotation

4.61 Table 9, Appendix 9, shows the extent to which taxpayers voluntarily comply with the optional TFN quotation arrangements. It shows that, amongst clients generally, there is a high degree of adherence with the TFN quotation arrangements. In most instances the incidence of voluntary compliance is greater than 90 per cent.

Non quotation

- **4.62** Non quotation of the TFN tends to be associated with situations where tax affairs are complex and where there are greater opportunities to evade, avoid or reduce the tax payable in other ways.
- 4.63 The incidence of voluntary compliance with the TFN quotation arrangements by the general public contrasts with that found in relation to taxation returns for Trusts. Tables 7 and 8, Appendix 9 show the incidence of voluntary compliance with the TFN quotation arrangements on the taxation returns for Trusts. On these returns taxpayers are requested to provide the TFNs of the people listed as beneficiaries of trust distributions. In 1997 45 per cent of the 430 572 Trust taxation returns did not include a complete list of TFNs for the beneficiaries of trust distributions. In previous years the incidence was 49 percent. In 1997 TFNs were not provided for 18 per cent of the 2 064 830 beneficiaries of trust distributions. This percentage has been consistent over previous years. The examination of the reasons for the non quotation of TFNs in relation to Trusts was outside the scope of the audit. However, the ATO advised that the absence of TFNs on Trust returns makes more difficult the correct assessment of income tax for those individuals for whom a TFN has not been provided.
- 4.64 An issue for wider consideration is the equity of administration that arises where different requirements in relation to the quotation of TFNs apply to different segments of the community. For example, as stated in Appendix 5, those who apply for Commonwealth income support or who have to take on a HECS liability must quote their TFN. In contrast, there are no sanctions for the non quotation of a TFN in relation to the lodgement of taxation returns. The sanction of the TFN withholding tax that applies to the non quotation of the TFN in relation to investments would not carry the same impact as does the inability to obtain income support assistance or tertiary enrollment for those who must quote their TFN in order to obtain these benefits.

Consequences of non quotation of TFNs

- **4.65** There are a number of consequences arising from non quotation of TFNs including:
- higher compliance costs for clients and the community;
- incomplete revenue collection;
- increased outlays on income support and similar programs; and
- increased administrative costs for the Government.

Higher compliance costs for clients and the community

4.66 Non quotation of a TFN in most instances will mean that employers and financial institutions will withhold tax from employees or investors at the highest marginal rates. Such action could incur higher administrative expenses for these organisations. To claim back the TFN withholding tax, taxpayers have to submit claims through their tax returns, unless they are eligible for exempt status in which case different arrangements apply. Some taxpayers may not be aware that they can claim this tax back from the ATO.

Revenue collection

4.67 The tax system is predicated on a basis of voluntary self assessment with the ATO selecting individuals and entities for audit action as a result of a risk management process. Without the ability to correctly identify an individual or business entity, the ATO faces an increased risk of not detecting those clients who seek to avoid their tax commitments. The ATO has difficulties in determining the correct tax liabilities of some taxpayers with complex tax arrangements.

4.68 There is no suggestion that transactions currently outside the TFN system are any less likely to be associated with tax avoidance than those transactions currently within the system. Other tax jurisdictions examined during the audit attached a numeric tax identifier to a range of similar transactions.⁷⁷ We found that the ATO has not estimated the possible gains to revenue that the attachment of a tax identifier may bring to many of these transactions.

USA Social Security Administration SSA Publication No. 12–002 September 1997, Report to Congress On Options for Enhancing the Social Security Card p4.

Increased government outlays on income support and other programs

4.69 As a means to ensure equity within the community many government income support and other benefit programs are subject to income and asset testing. As the matching of Centrelink and the ATO data bases, with and without the TFNs demonstrated, data-matching is capable of lowering government outlays in relation to incorrectly paid income support payments.

Increased administrative costs for government

4.70 Australia is alone amongst OECD jurisdictions that have legislated for the use of a unique numeric identifier in not making the use of it compulsory. The non quotation of TFNs causes additional administrative costs. These arise from reverse work flows, additional special investigations and case work because the TFN quotation is optional. Furthermore, there are circumstances that arise in tax administration when the ATO would find it helpful having the authority to require the TFNs of taxpayers and entities relevant to the assessment of a taxpayers liability.

Sanctions for non quotation

- **4.71** In most cases there is a sanction for not quoting the TFN when it is requested. The sanction is the imposition of the maximum marginal taxation rate of 48.5 per cent. Thus, if an employee does not quote their TFN on an EDF, the employee will be taxed at the maximum rate. If an investor does not quote in connection with their investments, they will have tax withheld at the 48.5 per cent rate on the interest earned on their investments.
- 4.72 The sanction that applies to those who do not quote when lodging an application for income support payments is that the applicant will be denied those benefits. A similar sanction applies to those who have a HECS liability and whose enrolment at a tertiary centre depends on the quotation of a TFN.
- **4.73** The sanctions that apply to the income support and HECS liabilities are much more severe than the other TFN non quotation sanction. The effect of the sanction is to make quotation of the TFN mandatory for the receipt of income support payments and HECS debtors. Quotation of the TFN for income support purposes is mandatory for more than five million persons in receipt of these benefits.

Enhanced tax administration

- 4.74 The ANAO has identified in this report several ways for improving the ATO's capacity to collect revenue. The improved use of the TFN is common to them all. They are relatively independent of the legal framework for the determination of tax liability. Indeed, the report makes no comment about this framework, except to emphasise that the use of the TFN be made more integral to it.
- **4.75** The ANAO has confirmed that the ATO's TFN system has improved the ATO's revenue collection capacity and administrative efficiency. It shows that these improvements have depended on four factors:
- the extension of the TFN system to include a substantial proportion of financial transactions relevant to the assessment of income;
- the high level of voluntary compliance in the quotation by taxpayers of the TFN in relation to these transactions;
- improvements in the quality of the ATO's data; and
- the more widespread use of more sophisticated information technology
- **4.76** These TFN reforms enabled the introduction of better and different approaches to tax administration. The approaches involved a greater use of self assessment coupled with the large scale use of datamatching to automatically examine income tax returns. The following suggestions complement the above mentioned reforms:
- including all tax relevant transactions within the TFN system; and
- improving the quality of the ATO's data to specified standards (and that of sources external to the ATO).
- **4.77** Implementation of these measures could result in improved financial benefits for the Commonwealth. The report suggests that approximately \$460 million per annum could be achieved.⁷⁸
- **4.78** Adoption of the measures proposed by the ANAO offers a range of benefits for tax administration just as did the introduction of the TFN

⁷⁸ This amount is calculated as follows:

Additional revenue from the inclusion of certain real estate transactions in the TFN withholding arrangements \$250 million.

Additional revenue from ATO/HIC data-matching \$180 million.

Expenditure savings on income support payments from the use of the TFN in EDF, PPS, RPS data-matching with Centrelink \$28 million.

Expenditure savings on ATO administrative expenses from the maximisation of Year 9 registrations in SEP \$2 million.

and associated measures during the last decade. It should result in the collection of a greater share of the revenue due to the Commonwealth under existing tax law. It could result in a higher quality, but lower overall cost of service to the taxpaying community. And significantly, may result in the fairer and more consistent treatment of all taxpayers. A number of these initiatives can be implemented directly by the ATO: others would require legislative amendment.

Recommendation 7

- **4.79** The ANAO recommends that the ATO:
- a) improve client data quality throughout its business lines;

ATO Response:

Agree.

However, the ATO notes that major elements of the Corporate Data Management Plan have already been put in place across Business and Service Lines by means of the Client Identity Integration Project including implementation of the ATO Data Standard. This standard imposes corporate client information business rules, data formats and edit rules across all ATO business systems.

The ATO is also contributing to the development of an Australian Standard for "Interchange of Client Information" and the ATO Data Standard is being used as the base document for this exercise.

b) progress strategies for the resolution of duplicate, and the archival of inactive, records;

ATO Response:

Agree with qualification.

The ATO is investigating these issues, but also notes that the effort required in cleansing duplicate and archival records raises priority issues, with the need to balance this effort with the evaluation of risks posed and the systems efforts required for other work including tax reform.

c) assess the cost-effectiveness of accessing and using additional data sets, such as those from the State Registrars-General;

ATO Response:

Agree.

The ATO is currently negotiating the cost of accessing additional data sets.

d) work with strategic partners to ensure that data sets conform to ATO standards before they are provided to the ATO.

ATO Response:

Agree.

The ATO treats this as part of its business as usual and has regular meetings of the Data Matching Programs Working Group. See also the response to recommendation 5(a) above.

Canberra ACT 29 April 1999 P. J. Barrett Auditor-General

Appendices

Relevant Commonwealth legislation

The following thirteen acts of the Commonwealth Parliament now regulate the purpose and use of the TFNs:

- Income Tax Assessment Act 1936 (ITAA);
- Tax Administration Act 1953 (TAA);
- Privacy Act 1988;
- Data-matching Program (Assistance and Tax) Act 1990;
- Income Tax (Deferred Interest Securities) (Tax File Number Withholding Tax) Act 1991;
- Social Security Act 1991;
- Veterans' Entitlements (Rewrite) Transition Act 1991;
- Higher Education Funding Act 1988;
- Superannuation Industry (Supervision) Act 1993;
- Small Superannuation Accounts Act 1995;
- Tax Laws Amendment Act (No. 2) 1996;
- Retirement Savings Accounts Act 1997; and
- Superannuation Contributions Tax (Assessment and Collections) Act 1997.

Financial transactions and the TFN withholding tax

Quotation of the TFN is requested for the following investment transactions (not quoting the TFN incurs the TFN withholding tax):

- Interest-bearing accounts with financial institutions such as banks, credit unions and building societies, for example savings and passbook accounts, interest-bearing cheque and card accounts.
- 2. Interest-bearing deposits with financial institutions, for example term deposits, fixed deposits.
- 3. Loans to government bodies or companies, for example Treasury bonds, debentures and money market securities, including a company that is set up within a company group to raise and provide finance for the group.
- 4. Moneys deposited into the trust account of a solicitor or a legal practitioner for reinvestment or on-lending.
- 5. Units in a unit trust, including cash and property management trusts. Shares in a company which is a public company according to company law.
- 6. Certain investment related lottery prizes and betting chances.
- 7. Most types of inscribed securities such as those where a register of investors is maintained.
- 8. Certain deferred interest investments, including interest bearing accounts or deposits with a financial institution or non-transferable loans to government bodies or bodies corporate.

Client Identification Compliance

The ATO has established a specialist group to manage the identification of a relationship between a taxpayer and information obtained by the ATO from external sources. This group is the Client Identification Compliance (CIDC) Group.

The chief role of CIDC is to ensure the accuracy of client identification information and other information supplied to the ATO by external organisations. The processes used by CIDC are mostly automated, with an emphasis on batch processing of the data rather than an on-line process with operator intervention. The system validates the TFN if it has been provided on the external data and verifies that it belongs to the client. Where the TFN has not been provided the correct number is identified, using name matching software and is appended to the transaction. CIDC has a soft matching capacity. This means that client identity can be established with varying degrees of confidence by the use information such as name, date of birth and address.

The major objective of CIDC is to pass only high quality, high confidence matched data to the IMS and to other ATO business systems that use the external data. To achieve this, data quality checks on the monetary fields in the reported data are also part of the processing system. In addition, samples of the external data are also examined by auditors who conduct data quality audits of the suppliers.

CIDC also performs the lodgement enforcement role for the AIIR and the quarterly TFN reports.

The Information Matching System

The Information Matching System (IMS) compares income/credit/rebate data provided to the ATO from external sources with income supplied by a client on their income tax return. Only external data that has been identity verified by CIDC is passed to IMS. IMS output may consist of a discrepancy related income emission, rebate or credit over claimed or failure to lodge an income tax return where reported levels deem one unnecessary. The Case Actioning System provides an automated facility to enable efficient actioning of IMS discrepancies.

The Data Warehouse

The Data Warehouse is a research facility constructed by copying the ATO's major data bases. The facility does not permit any amendments to be made to any of the data bases from which it is constructed.

Data-matching

Linear Matching

Linear matching involves the matching of two or more data sets in order to establish whether or not they apply to the same person, thus providing additional information about the person relevant to administrative decisions that will be made about that person. Examples are decisions about a person's income tax liability or income support entitlement. A special case of linear matching is the detection of duplicate data sets. Linear data-matching is appropriate for at least 90 per cent of taxpayers. The characteristics of most taxpayers are suitable for this type of data-matching and include:

- stable tax relevant attributes as defined by key data fields (for example address);
- stable relationships with a small number of associated entities (for example employers, investment bodies, tax agents); and
- having no more than a few taxpayer roles that are quite straight forward (for example being a PAYE taxpayer, the director of a company and an executer of a trust).

Relational matching

Relational matching involves the matching of two or more data sets in order to establish the relationships between all of the entities in the data sets, especially between the entities and the individual to whom the data sets primarily relate.

Relational matching is appropriate for the 10 per cent of taxpayers at the high income end of the income spectrum. The taxation administration characteristics of these tax payers are highly complex and vary considerably overtime, often over a short time frame. A typical taxpayer in this group will be associated with a large number of entities, the relationships between the taxpayer and these entities will be subject to continuing change and the tax payer will have several taxpayer roles. These roles will also be quite complex and will be variable over time.

Relational matching requires different strategies to those appropriate for linear matching. It also requires a different conceptual framework. For example, one strategy is to take periodic snapshots of the values of the key tax variables central to these relationships. In the case of an individual's relationship to tax related entities these variables might be:

percentage of equity;

- percentage share of profit; and
- · voting rights.

The ATO initiated work on relational matching only since the financial year 1995–96 when the High Wealth Individuals Task Force was established. The ANAO did not examine this work as part of this audit, but simply obtained a broad understanding of the methodology and its use. The task force uses state of the art computer software to analyse data bases and produce visualisations of relationships implicit in the data. This provides the ATO with the potential to uncover networks of relations between taxpayers and tax relevant entities and transaction which would otherwise remain impenetrable to linear data-matching.

The ANAO understands that relational matching has the potential to generate significant additional tax revenue, probably greater than that obtained from linear matching. Shortcomings in the quality of key data sets, including the TFN information, detracts from the ATO's capacity to use computer based methodologies to carry out useful relational datamatching. In the absence of this capacity, the ATO has to rely on expensive and slow analytic case work by highly trained analysts. The ATO now estimates that the taskforce's ongoing investigations will generate revenue of some \$100 million in each year for an investment of about \$9.5 million.

Quotation of the TFN

Mandatory	Voluntary
Centrelink benefits	Family Tax Initiative
Dept of Veteran's Affairs benefits	Tax returns and general enquires with the ATO
Training Guarantee Act	Prescribed Payments System
Higher Education Contribution Scheme	Employment Declaration Forms
	Reportable Payments System
	Superannuation transactions
	Financial transactions including:
	interest bearing accounts;
	 loans to government bodies and companies;
	trust accounts;
	• unit trusts;
	shares; and
	 tax assessable proceeds of certain games of chance.

Steps to improve data quality

Individual Client Data Quality

The ATO has recognised for some time that there are problems with the integrity of individual client identification data. The following brief overview documents the varied causes of bad individual client data and the initiatives undertaken to date to address data quality problems.

Pre TFN legislation data

Prior to the implementation of the TFN initiative in 1989, the quality of individual client data was subject to the following quality impacts:

- no requirement to provide PoI;
- TFNs allocated at the lodgement of a first tax return;
- client identity data was taken from the tax return, with fields such as date of birth, spouse name, full name and alternate names often incomplete or not captured; and
- TFN searching to establish whether a taxpayer was already registered was a manual process utilising microfiche.

This TFN registration regime was appropriate to the pre-1989 environment but was inadequate in terms of the enhanced TFN initiative.

Post TFN legislation data quality issues

The quality of the individual client identity data created since 1989 has benefited from the requirement to lodge a TFN application and to provide satisfactory PoI. The integrity of the registration process has nonetheless been negatively impacted by the following:

- the pre-1989 client data base was migrated with the above listed data quality problems, and has contributed to search problems and duplication creation;
- the phased development of TFN registration functionality, with the incremental improvement of search capacity, has been a factor in the creation of duplications;
- the extended use made of the TFN, internally and externally has forced
 the re-emergence of inactive taxpayers (aged, housewives etc), with
 implications in terms of duplications and treatment as active by ATO
 systems; and
- failure to "archive" the records of inactive clients (deceased, no further taxation liability, no longer Australian residents, non-residents having left Australia) has inflated the data base and the lack of a corporate

client data standard contributed to data quality concerns, from both AIS searching and data input perspectives.

Ongoing Data Quality Initiatives

Major improvements to client data quality have been achieved through the implementation of a Corporate Data Standard, and the introduction of a corporate name and address keying guide. Client data has been subject to a rolling series of both systematic and manual data cleanse processes to obtain the most correct and up to-date name, address and date of birth detail. Client data captured via the tax return has also been utilised to update incomplete data fields.

Current Client Data Quality strategies

Culture/Quality Assurance: A project is underway to analyse current work practices and culture. The purpose of this project is to identify opportunities in everyday INB business activities where the ATO can confirm and update taxpayer's personal details stored on ATO Systems.

An integral component of this analysis has been to evaluate work practices for quality of processes and service, as well as overall efficiency and effectiveness. TFN related objectives of the project include:

- reduction in TFN duplications;
- reduction in applications for a second TFN (non-fraudulent applications);
- reduction in TFN inquiries;
- remove barriers to taxpayers contacting ATO to update details;
- improvement in data integrity; and
- gathering of strategic intelligence.

Duplications: Through ongoing re-evaluation of the selection criteria, the ATO has arrived at a more accurate estimate of 185,100 potential duplications. A risk assessment process has then identified those 23,070 duplications which need to be targeted individually as well as those which can be handled systematically through some form of archival/deletion. INB has targeted about 11,000 cases and has commenced a program of resolution for these. Lessons learnt from this exercise will be applied to the resolution of the remainder.

Date of Birth (DoB): As part of the recent migration of data from the National Taxpayer System (NTS) to the ATO Integrated System (AIS), an alignment of data from the two systems has been conducted. One of the results of this exercise has been to reduce the number of invalid/incomplete dates of birth for active records on AIS to 0.45%. There still

remains 14.5% of total records which are inactive and have invalid/incomplete dates of birth, but proposed archival/deletion action would see these removed from the ATO client database.

Further work is progressing to compare, and where appropriate substitute, external date of birth data. The Australian Electoral Commission and Centrelink data are the primary data sets used for this purpose.

Address: Prior to migration, address data was held on both NTS and AIS. As with DoB, an alignment exercise was conducted to ensure that the most current address was held post migration. This exercise resulted in 120,000 AIS income tax postal addresses being updated with the NTS address. The introduction of a new Change of Address Policy should lead to more timely updating of individual address, and other, data.

Archival: A discussion paper is being prepared to define redundant client records and suggest either archiving or deleting these from NTS and/or AIS. As well as enabling us to better target those clients with whom we need to do business, this process will also resolve many of the low risk duplications. Numbers of "inactive" records which may be archived or deleted are:

Deceased	411 097
Further Return Not Necessary notation	2 333 129
Over 60 & no lodgement for 5 years	339 839
Total	3 084 065

Appendix 7

Taxpayer identification details for OECD member countries

The following chart lists taxpayer identification number details for OECD member countries. The taxpayer identification number has different names in various member countries. For example, in Australia it is known as the Tax File Number, while in the Netherlands it is the Social and Fiscal Number, USA it is the Social Security Number and in Canada the Social Insurance Number. For ease of use therefore in certain parts of the audit a generic title of client service number has been used when discussing possible uses of the current Tax File Number.

Existence of Taxpayer Identification Number (TIN) in OECD member countries

OECD Member countries	Countries with a TIN n: numeric an:alpha- numeric	Number of digits individuals	Number of digits legal entity	TIN used widely for marching in a domestic context	Countries with only a tax file number
Australia	Υn	9	8	Y	
Austria	Y	9	9		Υ
Belgium	Υn	9	9		
Canada ¹	Υn	9	9 n	Υ	
Czech Republic	Υn	10	8	Υ	
Denmark	Υn	10	8	Υ	
Finland	Y an	10	8		
France	N				Υ
Germany	N				Υ
Greece	Υn	8	8	Υ	
Hungary	N ²				
Iceland	Y				
Ireland	Y ⁴	8	8	Υ	
Italy	Y an	16 an	11 n	Υ	
Japan	N				Υ
Korea	Υn	10 or 13 ³	10	Υ	
Luxembourg	Υn	11	11	N	
Mexico	Y an	14 an	13 an	Υ	
Netherlands	Υn	9		Υ	
New Zealand	Υn	8		Υ	
Norway	Υn	11	11	Υ	
Poland	Υn	10	10	Υ	
Portugal	Υn	9		Υ	
Spain	Y	9 an⁴	9 an	Y	

OECD Member countries	Countries with a TIN n: numeric an:alpha- numeric	Number of digits individuals	Number of digits legal entity	TIN used widely for marching in a domestic context	Countries with only a tax file number
Sweden	Υn	11	11	Υ	
Switzerland	N				Υ
Turkey	Y in future	10	10	Y	
United Kingdom	Y an (only for companies)	in 1997	10 an	N	
United States	Υn	9	9	Y	

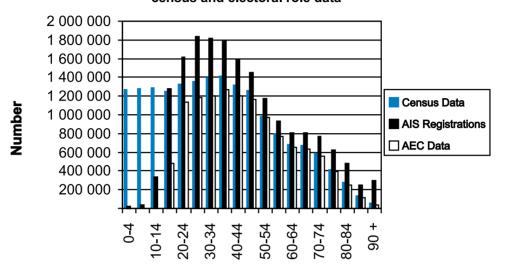
- Canada implemented in January 1997 a new numbering system called Business Number. It
 consists of 2 parts: the registration number and the account identifier. The registration number
 (first 9 digits) identifies each business. The 6 digit Account Identifier which consists of two alpha
 digits indicating the type of account and the Reference Number (4 numerical digits) identifies each
 account.
- 2. As of I January 1997.
- 3. 10 with no hyphens (000–00–00000) for individuals running a business; 13 (otherwise): the resident registration number is used as TIN (000000–0000000).
- 4. Numeric TIN but alpha check digit.

Source: OECD Financial Committee

Appendix 8

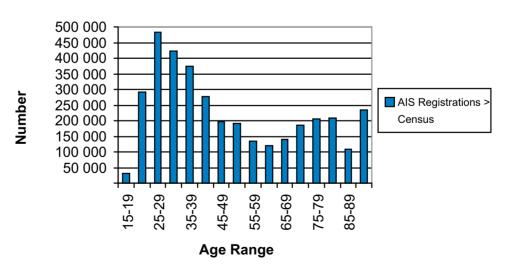
Graphical Appendix

Graph 1 ATO TFN registrations for individuals compared to census and electoral role data

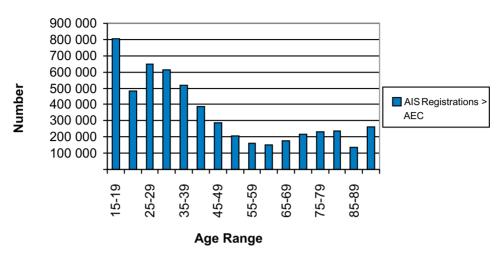


Age Range

Graph 2 Number of ATO registrations for individuals in excess of census population counts for specific age groups



Graph 3 Number of TFN registrations for individuals in excess of electoral role counts for specific age groups



Appendix 9

Statistical Appendix

Table 1

Total Number of TFNs on ATO files since 1988

	Total Client TFN Registration on File	Number with return lodged between 1989–1998
Individuals	18 353 802	13 307 118
Partnerships*	1 592 875	n.a.
Trusts	1 110 885	756 065
Companies	1 373 353	841 608
Super Funds	481 866	239 345
Total	22 912 781	15 144 136

^{*}Partnership distributions are included in the income tax returns of individuals (Source: ATO)

Table 2
The most common Proof of Identity documents lodged since 1988

Туре	Code		Number
Individuals	A02	current overseas passport with evidence of Aust. immigration status	723 425
	B01	full Aust. or overseas birth certificate	545 858
	B23	a bank account statement	329 732
	A08	an examination report	238 333
	A09	a current student ID card	214 616
	B04	current Australian drivers licence	177 867
	A01	current Australian passport	174 872
	B22	current international driver's permit	124 139
Company	C01	Certificate of registration of a company issued by Australian Securities and Investment Commission	302 583
	C02	Strata certificate of registration	81 966
	C10	Certificate of change of name issued by Australian Securities and Investment Commission	18 326
Trusts	T01	Extracts from trust deed	233 620
ITUSIS	T01	Death certificate	62 627
	T07	Probate	29 951
	T08	Notice of public trustee	13 129
Partnerships	P07	A statement of transactions issued by a financial institution showing trading or business name	146 037
	P02	Certificate of registration	130 571
	P09	Partnerships agreement	50 141
Super Funds	S02	Extracts from trust deed	120 867
Super Fullus	S02		5 911
	S01	Superannuation fund policy notice A statement of transactions	2 854
	304	issued by a financial institution	۷ 00 4

in the name of the fund—less than 1 year old

Table 3
Incidence of usage of some high risk Pol documents provided as evidence of identity in support of TFN applications by individuals
1988–1998

	Pol Document	Number
B27	summons	1323
B28	bail paper	764
B29	restraining order	204
B30	police order	789
B31	discharge certificate from a prison	231
B32	parole order	194

Table 4
TFN Withholding Tax: Number of remitters and \$ value remitted

Year	Total Number of Remitters	Number remitting in the year	Total \$ value of remittance
1993-94	3798	1377	199 501 782
1994–95	4846	1390	129 428 131
1995–96	5432	1452	158 055 120
1996–97	6400	1444	149 677 021
1997–98	7178	1340	133 802 872

Table 5
Unmatched AllR transactions*

Year	Numbers ('000)	Percentage of total transactions	Value (\$ 000)
1994	3367.4	14.6	22 887 326
1995	3531.9	13.8	25 889 196
1996	4077.4	14.9	29 262 542
1997	3730.0	12.7	14 130 008

TFN Withholding Tax

Table 6

Amounts collected and credited in income tax returns

Financial Year Ended	1993	1994	1995	1996	1997	Total
Collection \$m	117	110	125	154	144	650

Amounts shown on Tax Return Data Base from income tax returns of entities liable to income tax

Income Year Ended	1993	1994	1995	1996	1997
Individuals \$m (a)	42.9	37.1	42.5	60.2	53.7
Taxable Trusts \$m (a)	2.5	4.2	2.5	3.2	2.5
Companies \$m (b)	102.3	71	139.6	161.7	15.4
Funds \$m (c)	5.8	4.9	66.8	44.4	55
Total (d)	153.5	117.2	251.5	269.6	126.5

- (a) TFN Withholding Tax credits only
- (b) Includes Australian Film Industry Trust Fund (deduction from withdrawals) for years 1993 to 1996, 1997 shows only TFN withholding tax credits.
- (c) Includes all tax credit refunds; the ATO does not record TFN refunds separately for superannuation funds.
- (d) Totals may not agree with sum of components due to rounding.

^{*} These are transactions that the ATO has not been able to match accurately to an ATO registered client

Table 7
Trust Returns without a complete list of the TFNs of all beneficiaries

Year	No. Trust Returns	No. without complete list of TFNs	Per cent
1995	403 463	198 864	49
1996	426 298	207 097	49
1997	430 572	193 553	45

Table 8
Trust beneficiaries without TFNs

Year	No. Beneficiaries	No. without TFNs	Per cent
1995	2 073 189	354 466	17
1996	2 106 047	374 582	18
1997	2 064 830	370 764	18

Source: ATO

Table 9
TFN quotation rates in 1997 for ATO systems for 1997

		Total Number in system	Number quoting a valid TFN	% quoting a valid TFN
PPS payees	Total number of payees reported	107 174	95 700	89.3
RPS payees	Total number of payees reported	163 153	145 <i>868</i>	89.4
Employment Declaration Forms	Total number of declarations received	4 870 475	4 675 740	96.0
Investment (AIIR)	Total number of transactions reported	29 306 548	26 348 500	89.9
Superannuation	Surcharge*	13 359 760	12 396 516	92.8
	Guarantee	89 371	80 024	89.5
	Superannuation Holding Accounts Reserve	41 234	37 155	90.1
	Reasonable Benefits Limit Scheme	639 258	629 360	98.5

This includes approximately 40% of those members incurring the surcharge for whom the ATO was able to assign correctly the member's TFN.

Table 10

Type and number of NTS records which could be archived or deleted

Deceased	411 097
Further Return Not Necessary notation	2 333 129
Over 60 & no lodgment for 5 years	339 839
Total	3 084 065

Table 11
Investment transactions without a TFN: numbers, amount invested and TFN tax withheld for 1997

Range (\$) of TFN tax withheld	Number	Amount (\$'000)	TFN tax withheld (\$'000)
1–100	93 778	3519.8	1469.3
101–200	35 243	5053.2	2163.2
201–1000	43 434	18 974.1	8778.2
1001–2000	7614	10 614.2	4908.8
2001–3000	2473	5983.4	2742.2
3001–4000	1197	4152.4	1855.3
4001–5000	646	2886.5	1271.3
5001-6000	395	2145.7	961.2
6001–7000	271	1753.2	794.9
7001–8000	196	1468.1	615.9
8001-9000	153	1298.0	547.6
9 001–10 000	114	1079.5	393.4
10 001–20 000	390	5250.1	2135.8
20 001–30 000	88	2090.4	885.1
30 001–40 000	25	892.8	369.8
40 001–50 000	14	607.9	238.3
50 001 +	18	1166.5	438.1
TOTAL	186 049	68 935.8	30 568.4

This table shows the number of investment transactions recorded on the AIIR that did not have a TFN, that could not be matched to a taxpayer and for which a TFN tax was withheld.

Table 12
Visitors and Immigrants to Australia

	Students	Work Visas	Immigrants
1995	103 967	39 006	87 428
1996	134 452	42 768	99 139
1997	159 020	52 959	85 752
1998	159 151	60 588	77 327

Index

A	Clients 7, 14, 16–18, 21, 23, 28, 33,
ABS Census data 83	38–40, 44, 48–57, 60–61, 69,
American Internal Revenue Service	74–75, 82, 85–86, 88, 91–93, 107,
49	109
Annual Investment Income Reports	Commissioner of Taxation 16, 27, 30,
(AIIRs) 18, 23, 73	64, 88
ATO Internal Audit report on Pol 46	Commonwealth Gazette 59
Auditor-General Act 1997 3–4, 36	compliance 5–8, 14, 16, 18, 20–21,
Australian Bureau of Statistics (ABS)	23, 29, 31, 33–34, 37, 49–50, 53, 56, 58, 60–62, 64, 67–73, 78–79,
8, 36, 41, 76	85, 89, 92–93, 95, 103
Australian Business Number (ABN)	Corporate Data Management Plan 8,
8, 33, 51	80, 96
Australian Prudential Regulation	
Authority (APRA) 78	D
Australian Securities and Investment	data bases 7, 14, 36, 45, 47, 77-78,
Commission (ASIC) 20, 76–77,	80-85, 89-90, 94, 103, 105
86	data quality 7, 15, 20, 24, 76, 78–80,
Australian Transactions Reports and	84, 87, 96, 103, 107–108
Analysis Centre 8, 19	data-matching 5–7, 15, 20–21, 31,
В	35–36, 50, 60, 77–79, 85, 87,
Declara Decree No. 4, 01	89–91, 94–95, 101, 104–105
Budget Paper No. 4 91	Data-Matching Program (Assistance
business entry point (BEP) 33, 38	and Tax) Act 1990 31, 101 debt 18, 28–29, 87–89, 94
C	Defence Signals Directorate 8, 17, 23,
Canada 34, 50, 110, 111	53, 55
Cash Economy Task Force 34, 68	Department of Education, Training
Centrelink 5, 15, 17, 20–21, 31, 36,	and Youth Affairs 22, 43
39, 44, 45, 47, 55, 76–77, 82,	Department of Immigration and
89–91, 94–95, 109	Multicultural Affairs 5, 44
Childcare Cash Rebate (CCCR) 8,	Directors-General of state school
20–21, 85, 86	education 42
Client Identification Compliance	Dutch tax 50
Group 60	Department of Veteran Affairs 5, 8,
Client Identity 16, 28, 79, 96, 103, 107	19, 39, 42, 44–45, 51–52, 71, 74, 91
Client Identity Integration Project 96	
Client Service 6, 17, 22–23, 30, 49,	E
50–52, 55–56, 85, 89, 110	Employment Declaration Forms
Client Service Number (CSN) 6, 8,	(EDFs) 20, 21, 57
17, 23, 49–51, 56, 110	F
	Follow the Yellow Brick Road 61, 66,
	70

Н

Health Insurance Commission (HIC) 7, 8, 15, 20, 36, 76, 77, 83, 85 Higher Education Contribution Scheme (HECS) 8, 18, 30

income support payments 15, 18–19, 28, 30, 36, 39, 49, 74, 78, 85, 87, 94–95

Individuals Non-Business (INB) 13, 27

Information Matching System (IMS) 79, 103

Information Technology 8, 14, 18, 23, 28, 40, 61, 62, 95

Investment, Royalties and Withholding (IRW) 18

L

Large Business and International (LBI) 8, 13, 27 Linear Matching 104–105

М

Medicare 20–21, 31, 85–86

0

OECD 7-8, 34, 38, 46, 48-51, 54, 94, 110-111

Р

Parliament 3–4, 13, 20, 30, 34, 36–38, 43, 50, 61, 66, 70, 101

Prescribed Payments System (PPS) 9, 21, 31, 57

Privacy 5, 6, 13, 16–17, 22–23, 28, 30, 32–33, 36, 38, 49–51, 54–56, 76–77, 90, 101

Privacy Act 1988 16, 32, 90, 101 Proof of Identity (PoI) 5, 9, 16–17, 22, 29, 38, 40, 45–48, 55, 114

R

Reasonable Benefit Limits (RBL) 74 Relational matching 104–105 Remittances and exemptions 19 Reportable Payments Declarations 31

Reportable Payments System (RPS) 9, 21, 31, 57

risk management 5, 15, 22, 42, 45–46, 48, 53, 55, 93

S

sanctions 5, 7, 18, 30, 32, 91, 92, 94 Schools Education Program (SEP) 5, 9, 15, 17, 22, 41, 43

secondary schools 41

Small Business Income (SBI) 9, 13, 27

Social Insurance Number 50, 110 Social Security Number (SSN) 9, 49, 54, 110

SOFI (social and finance number) 50 Special data-matching studies 5, 20, 36

States Registrars-General 20

Т

tax agents 52, 87, 104
Taxation Administration Act 1953
64
TFN algorithm 52, 53
TFN Improvement Project 15

TFN system 5, 13–17, 19–20, 22, 27–29, 34–36, 38, 51–52, 54–55, 58, 61, 63–67, 76–78, 80, 91, 93, 95

The Income Tax Assessment Act 1936 (ITAA) 27, 62

U

United States Government 49 USA 46, 49–50, 54, 93, 110

W

withholding arrangements 6, 14–16, 18–19, 23, 29, 32, 57–58, 60, 63–64, 66–68, 72, 95

Withholding Tax (WHT) 6–7, 9, 13–14, 18–19, 24, 27, 31–32, 34, 40, 42, 57, 59, 61, 63–67, 69–73, 75–83, 101–102, 115, 117

Series Titles

Titles published during the financial year 1998-99

Audit Report No.1 Performance Audit Corporate Governance Framework Australian Electoral Commission

Audit Report No.2 Performance Audit Commercial Support Program Department of Defence

Audit Report No.3 Performance Audit - Follow-up Assessable Government Industry Assistance Australian Taxation Office

Audit Report No.4 Performance Audit Client Service Initiatives Australian Trade Commission

Audit Report No.5 Performance Audit Commonwealth Agencies' Security Preparations for the Sydney 2000 Olympics

Audit Report No.6 Audit Activity Report

Audit Activity Report: January to June 1998

Summary of Outcomes

Audit Report No.7 Performance Audit

Management of the Implementation of the New Employment Services Market

Department of Employment, Education, Training, and Youth Affairs

Audit Report No.8 Performance Audit Safeguarding Our National Collections

Audit Report No.9 Performance Audit Accountability and Performance Information Australian Sports Commission

Audit Report No.10 Performance Audit Sale of One-third of Telstra

Audit Report No.11 Performance Audit
OGIT and FedLink Infrastructure
Office of Government Information Technology

Audit Report No.12 Performance Audit Taxation Reform Community Education and Information Programme

Audit Report No.13 Performance Audit

Aboriginal and Torres Strait Islander Health Program

Department of Health and Aged Care

Audit Report No.14 Performance Audit Prescribed Payments System Australian Taxation Office

Audit Report No.15 Performance Audit Postal Operations
Australian Customs Service

Audit Report No.16 Performance Audit

Aviation Security in Australia

Department of Transport and Regional Services

Audit Report No.17 Performance Audit Acquisition of Aerospace Simulators Department of Defence

Audit Report No.18 Performance Audit

Accounting for Aid-The Management of Funding to Non-Government Organisations Follow-up Audit

Australian Agency for International Development (AusAID)

Audit Report No.19 Performance Audit The Planning of Aged Care Department of Health and Aged Care

Audit Report No.20 Financial Statement Audit

Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 1998

Summary of Results and Financial Outcomes

Audit Report No.21 Financial Control and Administration Audit Costing of Services

Audit Report No.22 Performance Audit

Getting Over the Line: Selected Commonwealth Bodies' Management of the Year 2000 Problem

Audit Report No.23 Performance Audit

Accountability and Oversight Arrangements for Statutory Bodies in the Former Primary Industries and Energy Portfolio

Audit Report No.24–27 Performance Audit DAS Business Unit Sales No.24 Sales Management No.25 DASFLEET Sale No.26 Sale of Works Australia

No.27 Sale of DAS Interiors Australia

Audit Report No.28 Performance Audit Sale of SA Rail. Tasrail and Pax Rail

Audit Report No.29 Performance Audit Provision of Migrant Services by DIMA Department of Immigration and Multicultural Affairs Audit Report No.30 Performance Audit
The Use and Operation of Performance Information in the Service Level
Agreements
Department of Social Security
Department of Employment, Education, Training and Youth Affairs
Centrelink

Audit Report No.31 Performance Audit The Management of Performance Information for Specific Purpose Payments—The State of Play

Audit Report No.32 Performance Audit Management of Parliamentary Workflow

Audit Report No.33 Audit Activity Report Audit Activity Report: July to December 1998 Summary of Outcomes

Audit Report No.34 Performance Audit Fringe Benefits Tax Australian Taxation Office

Audit Report No.35 Performance Audit The Service Pension Department of Veterans' Affairs

Audit Report No.36 Performance Audit Pay-As-You-Earn Taxation – Administration of Employer Responsibilities Australian Taxation Office

Better Practice Guides

Administration of Grants	May	1997
AMODEL Illustrative Financial Statements 1998	Jul	1998
Asset Management	Jun	1996
Asset Management Handbook	Jun	1996
Audit Committees	Jul	1997
Cash Management	Mar	1999
Controlling Performance and Outcomes	Dec	1997
Financial Statements Preparation		1996
Managing APS Staff Reductions	Jun	1996
Management of Accounts Receivable	Dec	1997
Management of Corporate Sponsorship	Apr	1997
Management of Occupational Stress in		
Commonwealth Agencies	Dec	1998
New Directions in Internal Audit	Jul	1998
Paying Accounts	Nov	1996
Protective Security Principles (in Audit Report No.21 1997-98)		
Public Sector Travel	Dec	1997
Return to Work: Workers Compensation Case Management	Dec	1996
Security and Control for SAP R/3	Oct	1998
Selecting Suppliers: Managing the Risk	Oct	1998
Telephone Call Centres	Dec	1996
Telephone Call Centres Handbook	Dec	1996