



Australian Government
Australian Taxation Office

COMPLIANCE PROGRAM

2003–04

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RESULTS OF 2002–03 COMPLIANCE PROGRAM

Our compliance strategies seek to maximise the number of people who choose to comply by making it as easy as possible for people to understand and meet their obligations and by ensuring there are approaches in place to deter non-compliance.

We look to ensure our responses are proportionate to what we find, including the firmest possible enforcement responses to those who deliberately set out to avoid their obligations.

The results overleaf illustrate the range of the active compliance responses undertaken in 2002–03 and their direct revenue impact. The results do not show the deterrent effect of active compliance and the resulting revenue.



TAX AND PENALTIES RAISED AND COLLECTIONS¹

Collection figures are preliminary and will be updated in the Commissioner's annual report.

INCOME TAX

Businesses with annual turnover of over \$100m²

- \$3,259m tax and penalties raised
- \$947m tax collected
- \$7,600m losses disallowed

Activities leading directly to these collections

- 94 specific-issue field audits completed
- 20 broad-ranging field audits completed
- 178 field audits in progress

Other compliance activities

- 100 checks with clients on specific issues
- 340 fieldwork risk reviews completed
- 22 advance pricing arrangements

Businesses with annual turnover of less than \$100m

- \$1,160m tax and penalties raised
- \$674m tax collected

Activities leading directly to these collections

- 9,500 field audits
- 1,600 office-based audits
- 15,000 phone verifications – primarily non-commercial losses
- 421 serious evasion and tax avoidance audits
- 19,000 PAYG withholding verification reviews
- 15,500 reviews of high-risk refunds

As part of our GST compliance activities

- 57,000 field audits for income tax and PAYG withholding
- 6,000 phone checks for income tax and PAYG withholding (see GST)

Other compliance activities

- 41,600 advisory visits (see GST)
- 16,200 businesses' activity statements and tax returns checked without client contact
- 25 checks with clients on specific issues
- 127 fieldwork risk reviews
- 3 advance pricing arrangements

Individuals

- \$192m tax and penalties raised
- \$171m tax collected

Activities leading directly to these collections:

- 13,900 audits of work-related expenses
- 1,400 audits of rental expenses
- 239,400 data matching audits of interest, dividends and other income
- 4,600 audits of capital gains on the sale of shares and property
- 30,400 audits of working holiday-makers and backpackers claiming the tax-free threshold
- 162 audits of foreign source income
- 8,600 audits of tax offsets
- 178 audits of prior year losses
- 7,900 reviews of interest and dividend deductions
- 6,800 reviews of high-risk refunds

Aggressive tax planning²

- \$367m tax and penalties raised
- \$564m tax collected

Activities leading directly to these collections

- 6,158 linked bonds and security lending arrangement audits
- Mass marketed investment schemes:
 - 31,000 settlement cases finalised
 - 36 scheme audits finalised
- Employee benefit arrangements:
 - 493 settlement cases finalised
 - 873 audits finalised

Other compliance activities

- 20 promoters and 57 premises subject to access visits
- 53 promoter cases under joint investigation

OTHER

GST

- \$812m tax and penalties raised
- \$690m tax collected

The integrated approach to compliance activities focused on both GST and income tax.

Activities leading directly to these collections

- 41,300 field audits
- 24,600 field visits to check the integrity of client registrations
- 26,900 field visits to check for activity statement and tax return non-lodgment
- 9,200 verification activities conducted with importers registered for the deferred GST scheme
- 65,500 activity statement refunds reviewed, including phone contact and field visits where necessary

Other compliance activities

- 41,600 advisory and new business service visits to assist clients comply with GST and income tax obligations
- 60,000 clients contacted to ensure proper accounting for sales of business assets

Excise revenue

- \$13m tax and penalties raised
- \$3m tax collected

Activities leading directly to these collections

- 80 specific-issue audits on alcohol, petroleum and duty-free clients
- 70 wine equalisation tax reviews

Other compliance activities

- Over 2,200 permits, 332 licences, and 45 period settlement permissions to alcohol clients issued
- 1,420 assurance reviews of alcohol, tobacco and petroleum clients

Excise grants

- \$6m tax and penalties raised
- \$5.5m tax collected

Activities leading directly to these collections

- 82 specific-issue audits of fuel scheme claimants
- 202 office-based audits
- 57 broad-ranging audits

Other compliance activities

- over 150,000 fuel grants claims checked prior to issue
- 23 education and advisory visits

Superannuation guarantee³

- \$197m superannuation guarantee charge and penalties raised
- \$164m superannuation guarantee contributions collected

Activities leading directly to these collections

- 15,819 audits of superannuation guarantee payments
- 104,518 surcharge exceptions actioned

Self-managed superannuation fund regulation

Other activities

- 4,700 funds reviewed for breaching investment restrictions
- 781 funds reviewed in a compliance benchmarking survey
- 4,600 new trustee education phone calls
- 30,000 new trustee guides mailed
- 90 seminars/presentations
- 99,900 lodgments achieved for income tax returns, surcharge member contribution statements and regulatory returns

1 Estimated collections based on sampling and related to amounts raised in 2002–03.

2 Actual collections, including some relating to prior year assessments and disputes.

3 The Tax Office retains the administrative charge and the remainder is transferred to employee superannuation fund accounts.

INVESTIGATIONS AND PROSECUTIONS

In 2002–03 our investigation and prosecution work relating to GST, income tax and excise included:

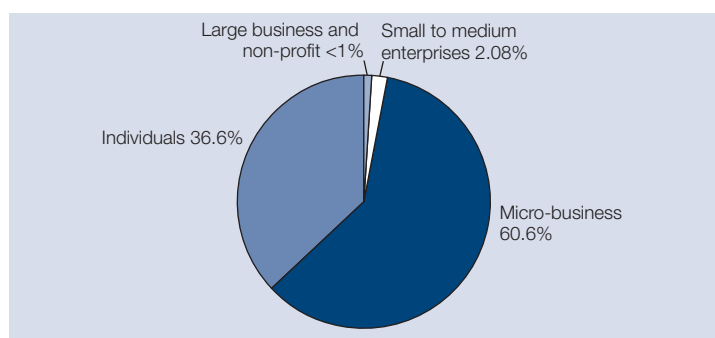
- 550 fraud investigations finalised
- 131 briefs to the Commonwealth Director of Public Prosecutions
- 16 excise briefs to the Australian Government Solicitor
- 96 matters referred to the Australian Federal Police
- 167 cases dealt with by the courts
- 61 excise penalty infringement notices
- 363 matters under investigation as at 30 June 2003
- 50 matters under investigation with other agencies
- 161 successful prosecutions
- 67 prison sentences
- reparation orders of nearly \$1.6m
- fines payable to the courts of more than \$54m (including one fuel case of over \$53m)
- seizure of 26 tobacco cutting machines, 33 motor vehicles, 141 tobacco plants, 3 stills, 58.8 tonnes of cut tobacco and tobacco leaf (excise revenue at risk equivalent to \$15.8m)

DEBT COLLECTION AND LODGMENT ENFORCEMENT

In 2002–03 we collected \$37.7 billion from an average of more than 1 million debt cases on hand at any point in time.

In addition, lodgment enforcement resulted in:

- 3.3 million activity statements lodged
- 420,000 income tax returns lodged

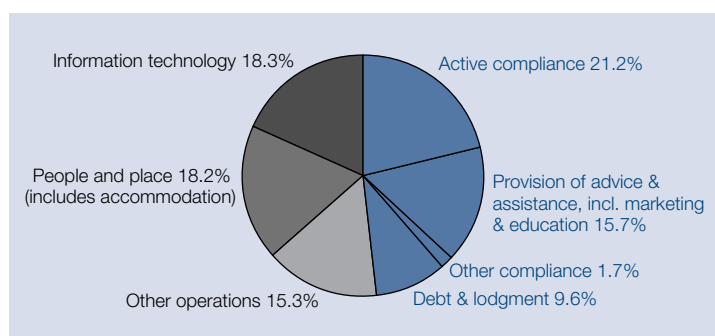


Average percentage of cases on hand

TAX OFFICE EXPENDITURE 2002–03

The chart shows how we split our resources in 2002–03. The section highlighted in blue (approximately 48%) represents our focus on compliance.

Tax Office expenditure on compliance in 2002–03 was less than planned because of delays in recruiting skilled staff to undertake compliance work. We returned \$50 million to the government and retained \$40 million for future investment in making tax administration easier, cheaper and more personalised for the community.



Our recently published *Strategic statement 2003–05* outlines our approach to managing Australia's revenue system. Broadly, our approach is to:

- make it as easy as possible for people to comply, and
- verify compliance using a risk management approach.

In July 2003 we released the booklet *Making it easier to comply*. The booklet details how we are going about making it easier for people to comply through the easier, cheaper and more personalised program.

The *Compliance program 2003–04* details our planned compliance activities for this year.

In publishing this plan, we are being open about the compliance issues confronting our revenue systems and the steps we are taking to address them.

My purpose is to be more accountable to the community, to explain the decisions we have made in applying the resources available to manage compliance, and to influence decisions by people in their approach to meeting their obligations.



A handwritten signature in black ink that reads "Michael Carmody". The signature is written in a cursive style with a long horizontal stroke underneath.

Michael Carmody
Commissioner of Taxation

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Australia's revenue collection system generally relies on taxpayers assessing their liability under the law and paying the correct amount of tax to the government through the Australian Taxation Office.

This system of self-assessment – with its associated periods of review – has inherent risks. We manage these by balancing our resources accordingly to ensure that people are meeting their obligations.

The *Compliance program 2003–04* describes these risks and how the resources of the Tax Office are used to treat them.

In publishing these risks and what we are doing about them, the Tax Office is demonstrating that the tax system is being managed in an open and accountable way, and that we are balancing education and enforcement functions in a way that is acceptable to the community and sustainable in the long term.

We invite feedback on how this is being achieved.

As well, wherever possible, we engage community representatives and other specialists in decision-making forums, including rulings panels and accountability and integrity committees.

Our environment

The dynamic and volatile nature of the world financial system continues to influence much of what we do. International transactions – by individuals and giant corporate groups – continue to demand our attention and resources.

Tax planning remains a feature of the tax environment. Complex business structures and innovative financial products, sometimes driven by a perceived tax 'benefit', challenge us to see that participants pay the correct tax due under the law. We are continuing to see promotion of highly aggressive strategies and schemes designed primarily for tax purposes. As a general rule, we caution – 'If it looks too good to be true, it probably is!'

We have seen a growth in the number of individuals claiming work-related expenses and deductions for rental properties. Income is being derived from an increasing number of sources – many taxpayers have several jobs, and many others receive income from multiple investments or superannuation, or operate a business. These complexities, and the variety of family relationships, make claiming deductions and entitlements difficult and prone to error for some in the community.

We are paying close attention to the few people who deliberately flout their obligations, including those who attempt to take themselves outside the tax system. We have created a new area that draws together our ability to handle serious non-compliance. This area deals with revenue fraud (including excise evasion), people operating outside the tax system, and other serious non-compliance practices.

The number of interactions between the Tax Office and the community has increased as part of the design of the new tax system. Within that framework, we are looking for ways to ease the cost of compliance.

Tax agents have a vital role in a healthy revenue collection system. Nearly all businesses use a tax agent to calculate and lodge their tax returns, while around 75% of individual taxpayers use a tax agent. We have worked closely with agents to better recognise their role and make their interactions with us easier.

Managing revenue

Revenue is managed through a number of collection systems: income tax, goods and services tax (collected by the Commonwealth on behalf of state and territory governments), superannuation and excise. The Tax Office also administers a range of benefits and refunds, including the Baby Bonus, income tax and GST refunds, excise grants, family tax benefits and superannuation guarantee transfers.

Income tax is the largest of the revenue systems we administer. It includes personal tax, company tax, capital gains tax and taxation of superannuation funds (including the superannuation contributions surcharge). It is estimated that income tax will account for around 75% of total Commonwealth revenue collections in 2003–04.

GST is a broad-based tax of 10% on the supply of most goods and services in Australia. There are 2.2 million businesses registered for GST, including charities and other non-profit organisations that previously had no tax obligations or dealings with the Tax Office. In 2003–04 the Federal Budget estimate for GST collections is \$31.7 billion.

We play a significant role in administering the superannuation system, which now has around \$508 billion in superannuation fund assets under management. Our role includes administering the superannuation guarantee and regulating self-managed superannuation funds, as well as continuing to implement a range of new government policies announced in 2001–02.

Excise duty is levied on the domestic production of alcohol, tobacco and petroleum products, generally based on their volume. The excise system also delivers fuel grants and administers the product stewardship (oil) scheme. We also administer wine equalisation tax, a value-based tax imposed on the wholesale price of wine. Excise accounts for around 13% of Commonwealth revenue.

Our general approach

Our administration of the tax system is based on providing help and education to support taxpayers to self-assess their liability. We also conduct a range of compliance activities, ranging from verifying information supplied to undertaking complex audits, and take appropriate action where we detect deliberate non-compliance. In addition, we work closely with industry members and their representative bodies to manage a range of issues.

We also continuously monitor expected revenue outcomes and the implementation of major changes to the revenue systems to identify emerging risks. This means we may undertake reviews or enquiries before relevant returns or forms are lodged, or assessments are issued.

We actively communicate areas of risk and concern so that people understand our position and the response they can expect from us.

The *Taxpayers' Charter* and Compliance Model guide our compliance actions.

The charter is about being open and fair in our treatment of people, within the framework set by the law. It directs the way we behave towards the community, and what the community can expect from us.

The Compliance Model directs that we better understand why people are not complying, and that we develop appropriate and proportionate responses. An underlying objective is to develop responses that maximise the proportion of the community who are both able to, and choose to, comply.

Market segments

Because the taxpaying community is made up of vastly different groups with varying characteristics and circumstances, we break it up into five segments:

- individual taxpayers
- micro-businesses, with an annual turnover of less than \$2 million
- small to medium enterprises, with an annual turnover of between \$2 million and \$100 million
- large businesses with an annual turnover of \$100 million or more, and high wealth individuals, and
- non-profit and government organisations.

We complement this focus with compliance analysis of the various taxes we administer.

Using this booklet

This booklet describes the five market segments and the compliance issues affecting each segment.

It then outlines a number of key features we are focusing on this year that affect the various segments, namely:

- evasion and fraud (including the cash economy)
- aggressive tax planning
- international tax issues, and
- overdue debt and late or non-lodgment.

We suggest you identify which market segment relates to your circumstances and look at the compliance issues identified for that segment. Then turn to the featured issues for more detailed information on our approach to compliance. Tax agents are encouraged to read the section dedicated to agents and the segments relevant to their client base.

OUR MARKET SEGMENTS

- A Individuals
- B Micro-businesses
- C Small to medium enterprises
- D Large business
- E Non-profit and government organisations

Because of the size, nature and diversity of the tax system and the taxpaying community, we broadly separate taxpayers into market segments. This enables us to develop strategies, products and services that best meet the needs of taxpayers in each segment.

This section outlines our general compliance approach and the specific compliance risks for each segment.

A

Individuals

Around 10 million people, mostly salary and wage earners, make up the largest group in the tax system. Individual taxpayers contributed around 40% of Commonwealth revenue in 2001–02.

More individuals are earning income from investments in property and shares, and have to deal with the income and deduction rules applying to these more sophisticated investments. They are claiming a growing range of offsets through the tax system, including the Baby Bonus, family tax benefit and senior Australians tax offset.

Around 75% of individuals use tax agents to prepare their tax returns, while the remainder prepare their own.

Individuals benefit from Australia's retirement income system through compulsory superannuation guarantee contributions made by employers, as well as being able to make voluntary superannuation contributions.

OUR GENERAL APPROACH

Our compliance efforts for individual taxpayers are primarily aimed at ensuring that people have the information they need to self-assess their tax or entitlements. We put most of our effort into providing educational products and support services. Tax agents also use our products and services for guidance.

Our main products are *TaxPack* and *e-tax*, which are supported by many specialised products dealing with particular tax issues. We produce more tailored products such as the *Retirees TaxPack* and the *Short tax return* (this is currently being trialed).

Taxpayer support is provided through our phone centres, ATOaccess information sites and specialised advice areas. We train about 2,000 community volunteers to help low-income earners and the elderly prepare their tax returns.

As part of our work with individual taxpayers this year, we expect to assist people through 3.86 million phone calls, 50,000 email enquiries, and almost 1 million client visits to ATOaccess sites.

Electronic interaction with taxpayers is improving, with *e-tax* and the Tax Agent Portal being two of our most popular products. By going to our website at www.ato.gov.au, taxpayers can download *e-tax*, which will ask them the necessary questions, prepare their tax return, calculate the result and lodge the return. This year we expect 800,000 individuals who prepare their own tax returns to use *e-tax*. The Tax Agent Portal is a website where agents can obtain information about their clients and other information to help them manage their practice. Over 10,000 agents are using the portal to manage their clients' business.

We continue to support employees to obtain their superannuation guarantee entitlements by:

- helping to re-unite people with the \$168 million in unclaimed superannuation guarantee vouchers or the 300,000 accounts in the Superannuation Holding Accounts Reserve
- investigating all cases where employees tell us that their employer has not paid superannuation, or has not reported to them the details of superannuation paid (last year we investigated 15,800 cases), and
- raising awareness of the Lost Members Register (which has 4.5 million accounts) through education and a new facility that will allow members to search for lost superannuation online at www.ato.gov.au.

With 10 million individual taxpayers, we cannot examine every case for compliance. Instead, we generally process tax returns without review, based on the information contained in the return. We check that the self-assessment process is not abused, for example, by checking large refunds prior to issue. After processing, we do computer-based reviews of returns and ask for more information where returns are not in line with what might be expected, or with the returns of taxpayers in similar circumstances.

When we uncover errors, we aim to distinguish between people who try to do the right thing and those who set out to deliberately avoid their obligations. Errors can arise because people do not know the requirements of the law or about new entitlements, or because they do not keep proper records. On the other hand, some people try to push the boundaries in relation to grey areas of the law, and occasionally deliberately attempt to get out of paying the right amount of tax.

OUR GENERAL APPROACH

We identify issues such as underclaimed tax offsets or income not being declared in a tax return by matching our data with data from other systems. For example, we match information provided in tax returns with interest and dividend information and Centrelink benefits to identify people who did not declare all their income.

Around 75% of individuals use tax agents to prepare their tax return. This year we will be exploring some new tax agent profiling and compliance measurement approaches. As a result of profiling checks, we sometimes identify tax agents preparing returns incorrectly. We investigate these cases to identify whether the error is intentional. Where it is not, we work with the agent to correct their application of the law. Where the error is intentional, we can refer the agent to the Tax Agents' Board for review of their continued fitness for registration. In the most serious cases, we prosecute agents found to be acting criminally.

OUR COMPLIANCE FOCUS

Although most of our effort goes into helping people to get their tax returns right, there are some particular areas we check, as described below.

Entitlements

Where a baby was born, adopted or the subject of a custody order between 1 July 2001 and 30 June 2002, a person (generally the mother) is entitled to claim the Baby Bonus in either their 2002 or 2003 income tax return. Once we have processed most 2003 returns, we will compare claims against available data to identify and contact those people who have not claimed the bonus.

Deductions for work-related expenses

This year we are again looking closely at the deductions claimed by individuals for work-related expenses. These claims are increasing and have significant revenue impacts.

Work expenses, such as car, travel, uniform, laundry and self-education expenses, account for 59% of total claims by individuals. Around 6.4 million taxpayers claimed \$9.4 billion last year, an increase of around 12% on the previous year. Some 3% of the increase was attributable to the new deduction for sun-protection products, with price adjustments and work practice changes also contributing. We are working with tax agents and industry representatives to better understand the remaining increase, and what that might mean for ongoing compliance and education activity.

We have sent out 174,000 letters to selected taxpayers (or their tax agents) about their deduction claims for work-related expenses for 2002–03. The taxpayers are from a range of occupations, including some where we are seeing an unusual growth in claims and mistakes being made. The letters explain the common claim mistakes and where taxpayers can get extra help. We have asked 63,000 of the 174,000 selected taxpayers to complete a work-related expenses schedule and lodge it with this year's tax return. We will review these schedules and disallow any inappropriate claims. We will also be looking at returns lodged late because they sometimes have higher than expected claims.

OUR COMPLIANCE FOCUS

Deductions for rental expenses

Deductions for rental expenses are a focus again this year. There are many new claimants each year, with an extra 60,000 rental property owners coming into the tax system over the last 12 months.

Last year, 1.3 million taxpayers declared rental income of \$12.6 billion and claimed rental deductions of \$13.2 billion. Rental income and deductions claimed were both up 8% on the previous year.

We have sent out 15,000 letters about rental deductions, explaining the common claim mistakes and where taxpayers can get extra help. We have asked another 5,000 taxpayers to complete a rental expenses schedule and lodge it with this year's tax return. We will review these schedules and disallow any inappropriate claims.

Interest and dividends

We will again match tax returns with information we obtain from financial and investment institutions. Based on previous experience, this year we expect to follow up over 230,000 discrepancies worth \$129 million in revenue as a result of computer data matching.

Evasion, fraud and aggressive tax planning

We use our intelligence sources and high-risk refund checks to identify evasion, fraud and aggressive tax planning. This year we will review about 23,000 high-risk refunds to identify fraud and aggressive tax planning – double the number we reviewed last year (see evasion and fraud, page 36, and aggressive tax planning, page 40).

Capital gains tax

About 1.1 million individual taxpayers declared about \$5.9 billion in net capital gains from shares and property sales in their tax returns for 2001–02. While the number of individual taxpayers declaring income from capital gains was down 21% on the previous year, the amount of net capital gains declared was up by 12%. This year we are comparing 8,000 individual tax returns with share and property sales data.

Superannuation

We have identified taxpayers with superannuation contributions of more than \$10,000 who have not lodged income tax returns, preventing superannuation surcharge and other assessments being raised. This year we will contact 20,000 taxpayers to make sure they lodge income tax returns. In addition, we will pursue deliberate non-compliers for potential prosecution. We expect to prosecute 900 cases.

We will also contact 4,800 taxpayers who have not declared reportable fringe benefits amounts in their income tax returns and are thus not detected as high-income earners for superannuation surcharge purposes.

We will match reasonable benefit limit determinations against the income tax returns of 1,500 individuals to ensure they are reporting eligible termination payments in their tax returns.

Registration

This year we are continuing to improve the integrity of our tax file number records. We check the integrity of tax file numbers by investigating duplicate records, as well as tax file numbers belonging to taxpayers who have died, have left Australia, or are not active in the tax system. We are implementing further improvements to the registration process and the integrity of our data, and continue to work with other agencies to identify and analyse anomalous tax file number registrations.

Returns that have not been lodged

We carry out a risk profile of taxpayers who have failed to lodge a return. We follow up cases by contacting the taxpayer to remind them of the outstanding lodgment. Where a suitable response is not received, we consider prosecution action.

B

Micro-businesses

We classify businesses with an annual turnover of less than \$2 million as micro-businesses. Around 2.5 million micro-businesses account for just over 10% of Commonwealth revenue, and around 60% of the debt collected by the Tax Office.

Around 80% of micro-businesses have an annual turnover of less than \$200,000. Most are family businesses with few or no employees, and a significant number operate from home. Many are sole traders or family partnerships. They incur significant opportunity costs associated with tax compliance, as time spent on this work takes them away from income-earning activities. They generally have no in-house accounting expertise. There is a high turnover of these businesses and they change hands often.

Within this segment, there are over 630,000 businesses that employ staff. This brings with it a number of obligations, including pay as you go (PAYG) withholding and the superannuation guarantee. These employers remit around \$13.5 billion in PAYG withholding tax, representing around 16% of total PAYG withholding. We recognise the importance of the micro-business segment in terms of employment within the community and, as a result, we are increasing our focus on supporting employers.

Self-managed superannuation funds are regulated by the Tax Office and are required to comply with income tax and superannuation obligations. There are around 250,000 self-managed superannuation funds, with registrations growing at more than 2,000 a month.

Micro-businesses account for a large proportion of the 220,000 businesses eligible for fuel grants.

While over 95% rely on tax agents to prepare their income tax returns, only around 50% of micro-businesses use a tax agent to prepare their activity statements, and this percentage is declining.

OUR GENERAL APPROACH

Our compliance approach for micro-businesses has an emphasis on helping and educating businesses to make sure they are aware of their tax, excise and superannuation obligations and are therefore in a position to comply. We place particular importance on ensuring that micro-businesses are advised of their record keeping obligations and that they keep appropriate records. The correct reporting of income, including cash income, also remains an ongoing focus of attention for this segment.

This year we are increasing our presence in the community and providing support for tax agents. We have set a target to check compliance in 10% of micro-businesses, and will address topics across the full range of revenue, excise and superannuation products. To support this approach, our field staff will review all activity statement obligations, including GST, income tax instalments and PAYG withholding obligations.

In the excise area we are targeting high-risk taxpayers in the alcohol industries (beer, spirits), taxpayers with wine equalisation tax obligations, and selected tobacco growers. In the GST and income tax areas we are focusing on the correct treatment of the disposal of assets.

Tax agents are an important source of advice for taxpayers and it is critical that they are in a position to provide appropriate information. This year, more effort is being put into managing our relationship with agents to achieve compliance. We are working closely with agents and professional associations to give them practical assistance, for example, by identifying common errors and providing useful information about new tax measures affecting their clients. We continue to help them understand business tax reform measures such as the simplified tax system, non-commercial losses and the alienation of personal services income.

OUR COMPLIANCE FOCUS

Our compliance program this year focuses on:

- helping and educating taxpayers
- working with tax agents and industry associations to gain better insight into the needs of their clients or members, and tailoring our approaches appropriately
- helping new and intending business owners
- increasing our enforcement work in the cash economy, with a stronger emphasis on cases of serious non-compliance
- checking that registrations are correct (including identity checks) and checking entitlements to refunds
- chasing up outstanding debt and lodgment obligations
- ensuring self-managed superannuation funds comply with the changes to the superannuation guarantee legislation, and
- pursuing promoters of avoidance schemes within the superannuation industry.

Tax obligations

As an increasing number of micro-businesses are preparing their own activity statements, a large part of our approach is to ensure that these businesses are aware of their various tax obligations. We do this by providing education products and direct assistance, for example, through new business and advisory visits, and seminars. The remainder of our compliance program seeks to make sure there is follow-up action and, if appropriate, consequences where businesses fail to meet their obligations. This year we will make 38,000 new business and other advisory visits, and conduct more than 1,200 education and new business seminars on GST, income tax and superannuation. We will follow up new businesses that, from our information, appear to be struggling with their obligations.

OUR COMPLIANCE FOCUS

Registration

An important aspect of our compliance work is to see that businesses are correctly registered in our systems. This year we are looking in particular at a number of aspects of registration, including:

- identifying entities operating outside the tax system, such as businesses operating without an Australian business number (ABN) or GST registration
- following up entities that are registered for an ABN but appear to have been an unregistered business operating outside the system in the past, and
- identifying entities registered for GST that are not operating as an enterprise.

We will conduct around 27,000 registration integrity checks this year to make sure that businesses are correctly registered. We will also check third-party information, such as registrations with licensing bodies, to identify businesses that should be registered. This work will be primarily focused on micro-businesses.

This year we are also examining potential ineligible ABN registrants, including de-registered companies, with a view to cancelling their registration. We will implement improvements to the registration process and concentrate on ensuring that registrations are correct.

Record keeping

Micro-businesses are time poor and often have limited accounting skills. This can lead to poor record keeping practices and inaccurate reporting. Around half of micro-businesses prepare their own activity statements (and this percentage is increasing), but most use a tax agent to prepare their income tax returns. Agents report that information provided to the Tax Office by their clients in activity statements does not always reconcile with information their clients provide for income tax returns. Agents often detect errors in activity statements and we are looking for ways to make it easier for these errors to be corrected. Common errors include failing to properly account for private use of business assets, and not accounting for the disposal of business assets, especially computers and motor vehicles.

We have specific campaigns to simplify record keeping to make it easier and cheaper for taxpayers to meet their obligations. We have also developed an online tool that enables small businesses to self-assess their record keeping capabilities and identify weaknesses, and will trial this product during the year.

This year we will review the GST and income tax record keeping of 8,500 businesses. To address concerns about the level of record keeping in the alcohol industry, we will do 350 record keeping reviews of micro-businesses, representing 10% of taxpayers in each of the beer, spirits, concessional alcohol and wine industries.

OUR COMPLIANCE FOCUS

Debt and lodgment

Overdue debt remains a concern across the micro-business segment this year. Late or non-lodgment, particularly in relation to income tax returns, has also emerged as a concern. Both these issues are receiving close attention. We will be encouraging micro-businesses that find themselves in debt to enter into a managed payment arrangement, rather than allow the debt to be increased by interest and penalty charges.

The legal profession project started in late 1997 and initially focused on barristers in New South Wales who had used a variety of means to avoid their tax obligations. This included not lodging returns, not paying debt and using bankruptcy and family law to defeat recovery action. In 2002 the project was expanded to look at legal professionals in all states and territories. This year, additional resources have been allocated to the project. To date, 98 barristers and solicitors have been prosecuted for a variety of tax offences. The Tax Office has funded the public examination of 10 bankrupt barristers and 12 related parties, including spouses. This approach has increased collection rates compared to historical outcomes.

Cash economy

Smaller businesses often deal in cash and generally operate in a very competitive market. This increases the likelihood of some of them failing to disclose part or all of their income. To monitor this, we are checking activity statements and income tax returns. We are also reviewing specific taxpayer groups operating in identified cash economy industries (see the cash economy, page 39).

Industries of particular concern in this segment are building and construction, restaurants, cafes and takeaways, taxis, hairdressing, cleaning services, hotels and clubs, computer retailing, barter and fishing.

Sale of business assets

Last year we issued approximately 50,000 letters to micro-businesses about not correctly accounting for GST on the sale of business assets. This year we will continue to follow up on the results of these letters and will send out a further 13,000 letters and questionnaires, asking for specific information about the sale of assets. We will undertake field visits to check appropriate cases.

International tax issues

The use of tax havens for business and investment purposes and the use of international credit and debit cards are emerging as risks. We will undertake further work during the year to determine the extent of these practices among micro-businesses (see international tax issues, page 44).

OUR COMPLIANCE FOCUS

Incorrect or fraudulent claims

We issue GST refunds as quickly as possible, with more than 90% of refunds paid within 14 days. However, there are extensive checks in place to prevent incorrect payments. GST refunds can be claimed only by registered taxpayers on the *Business activity statement* issued to them by the Tax Office. Each activity statement carries a unique identifier to ensure that bogus claim forms cannot be submitted and that multiple claims cannot be made for a particular period. Refunds will only be paid direct to bank accounts in the name of the registered business. Every refund is subjected to a range of credibility checks prior to issue, and taxpayers may be contacted by phone or by field officers where further information is required to substantiate claims. Where necessary, third-party suppliers may be contacted to validate the transactions resulting in the refund. Particular attention is paid to large refunds and to refunds associated with recently registered businesses because of the inherent risks involved with these cases. Among micro-businesses, we plan to check more than 72,000 GST refunds and 18,000 income tax refunds for accuracy this year.

This year we will do 22,000 phone and field checks of information submitted on activity statements to check accuracy. In addition, we anticipate writing to around 10,000 taxpayers as a result of information received from the general community. We expect to undertake around 1,500 audits relating to serious issues of non-compliance.

Fuel grant schemes

On 1 July 2003 the new energy grants credits scheme replaced the two fuel rebate and grant schemes. We have written to approximately 219,000 micro-businesses registered for these schemes, and produced fact sheets and other guidelines to advise them of the changes and the new scheme requirements. We also provide support and advice through the dedicated **1300 657 162** number.

Our processing systems check all claims for payment against a range of risk criteria, including claims history, industry profiles and other information. This year we will check approximately 200,000 claims under the energy grants credits scheme and make any adjustments before payment. We will also complete approximately 800 audits to confirm the accuracy of claims and payments. We will check around 5,000 claims under the fuel sales grants scheme before they are paid.

Superannuation guarantee obligations

With the introduction of the quarterly superannuation guarantee, we want to maintain current high levels of employer compliance.

We are continuing our educational activities to increase the awareness of both employers and employees. At the same time, we are moving to a more proactive compliance approach so that we are less reliant on employees notifying us to trigger action. Nevertheless, all notifications received from employees about employers not paying superannuation will be followed up.

Our program includes:

- publishing information in industry journals and providing speakers and/or information at relevant industry conferences or expos to raise employers' awareness of superannuation guarantee obligations
- investigating all cases where employees notify us that their employer has not paid superannuation, or has not reported to them details of the superannuation paid. This year we expect to audit over 16,000 employers whose employees have lodged notifications, or who have been referred to us through other processes
- contacting (by phone or letter) about 4,000 high-risk employers in the three weeks before the end of each superannuation guarantee payment period to remind them of their obligations. These cases will then be followed up as necessary through audit activity, and
- auditing a further 16,200 employers as a follow-up to work commenced last year to identify 'at-risk' employers. This work involved matching payment summaries with superannuation surcharge contribution data provided by funds.

OUR COMPLIANCE FOCUS

Self-managed superannuation funds

Some trustees of self-managed funds, and their advisers, are not correctly managing their superannuation responsibilities. Preliminary results of our work from last year indicate that there are compliance issues that require further investigation.

This year we are continuing our trustee education program, as well as providing advice through more than 100 seminars and presentations. We are also using the results of our work in 2002–03 to target self-managed funds that are at risk of not complying with their obligations.

Our program includes:

- enforcing lodgment of outstanding tax and regulatory returns for 20,000 self-managed funds identified as 'high-risk' through our data matching activities
- conducting detailed field audits of 1,000 funds that are at risk of non-compliance, and
- reviewing high-risk trustees, including those disqualified through bankruptcy, to ensure their appropriateness to act as trustees.

We are working with professional accounting associations to ensure the proficiency of self-managed fund auditors (see tax agents, page 32).

We continue to work closely with the Australian Prudential Regulation Authority and the Australian Securities and Investments Commission to ensure that appropriate action is taken against scheme promoters (see aggressive tax planning, page 40).

Excise fraud and evasion

There are two main areas of concern – the market in illicit tobacco (chop-chop) and the substitution and/or blending of fuel. Both these activities are designed to avoid paying excise, but may also have consequences for the broader community.

Excise evasion is often also a cash economy issue. We identify and investigate instances where excise evasion has led to non-payment of other tax obligations.

We will closely monitor the 240 licensed tobacco growers throughout the growing and harvesting season. We are also working closely with state and federal police on activities relating to illegal purchasing or theft of tobacco, and targeting retailers who sell tobacco products on which excise has not been paid. We expect to visit approximately 180 retailers this year.

As a result of our intelligence gathering, we plan to take fuel samples and conduct fuel tests at approximately 200 micro-business retail sites this year.

C

Small to medium enterprises

There are around 108,000 businesses with an annual turnover between \$2 million and \$100 million. These small to medium enterprises account for around 10% of Commonwealth revenue.

The majority of businesses in this segment are private companies (64%), with trusts (21%), partnerships (8%), public companies (5%) and the self-employed (2%) making up the remainder.

Businesses in this segment display different characteristics depending on their size and complexity. Typically, businesses with a turnover of less than \$10 million use simple business structures, with most being single entity private companies. Businesses with a turnover of more than \$10 million are likely to be more sophisticated and often involve a number of related entities.

There are approximately 12,000 groups in the segment, most with a membership of between two and six entities, and with a self-managed superannuation fund.

The industries with the largest numbers are property and business services, retail trade, wholesale trade, manufacturing, finance and insurance, and construction. International business dealings are increasing rapidly in this area of the economy.

This year we are continuing to focus on employers within this segment. Small to medium enterprises employ around 1.8 million Australians. Almost 64,000 small to medium enterprises have PAYG withholding and superannuation guarantee obligations. They account for almost \$17 billion in PAYG withholding tax, representing around 21% of total PAYG withholding.

There are around 2,500 superannuation funds in this segment, which are required to comply with income tax and superannuation obligations.

Approximately 98% of small to medium businesses use a tax agent to lodge their income tax return. While a majority of these businesses lodge their own activity statements, tax agents are playing an increasingly important role in providing them with advice, particularly about new measures such as consolidation and demergers.

OUR GENERAL APPROACH

Our compliance approach in this segment has two key elements:

- an ongoing program of activities to make sure that small to medium enterprises meet their basic tax obligations around registration, lodgment, payment and the claiming of refunds, and
- analysis and follow-up of information from activity statements, tax returns and other internal and external sources that identifies other compliance risks.

Last year a large part of our compliance plan focused on dealing with the issues around basic tax obligations, such as lodgment and refunds, across the range of revenue products. This year we are maintaining that work and increasing our focus on tax performance at both the individual business and industry level. In doing so, we have adopted a whole-of-business approach, looking at the tax performance of all entities in a group so that we can more fully understand the tax outcomes of the entire business.

This year over 800 tax officers will undertake compliance activities in this segment. We intend to contact over 26,000 (around 24%) small to medium enterprises. The contacts will involve a range of activities, including letters, phone calls, interviews, risk reviews and audits.

To identify risks for action, we look at the segment in a number of ways:

Business

- Businesses attract our attention where their tax performance appears inconsistent with their level of economic activity, or their financial or tax performance seems at odds with others in their industry. Other factors we consider are profit ratios and business viability, low effective tax rates, and cases where a business or an entity consistently pays low tax.

Industry

- Industries attract our attention where their performance against key indicators such as lodgment, debt and levels of tax paid is inconsistent with economic conditions and industry benchmarks. Other factors, such as the findings of the Royal Commission into the Building and Construction Industry, may also bring an industry to our attention.

Revenue product

- Our monitoring strategies ensure that potential risks are identified on a product basis, including income tax, PAYG withholding, fringe benefits tax and GST.

Issues

- Areas of the law that may be incorrectly applied by businesses and their advisers come to our attention from a number of sources, including the results of our audit activities, what we learn from taxpayers and their representatives, requests for private binding rulings and advice, and our knowledge of the tax system and business.

We provide information and services for smaller private companies and family businesses to help them understand and meet their obligations. For larger enterprises in the segment, our compliance focus is on ensuring they have the appropriate accounting and management systems in place and that their interpretation of the law is correct, given their more complex tax arrangements.

We also recognise the important role tax agents play in supporting businesses in this segment, and have a range of products and services to support them.

OUR COMPLIANCE FOCUS

Registration, lodgment and refund checks

Our compliance program focuses on registration, lodgment, payment and validation of refunds across GST, income tax, fringe benefits tax and PAYG withholding. This year we will review 3,400 cases, with a specific focus on non-lodgment of activity statements and income tax returns, those operating outside the tax system, and verification of PAYG withholding obligations.

We issue GST refunds as quickly as possible, with more than 90% of refunds paid within 14 days. However, there are extensive checks in place to prevent incorrect payments. GST refunds can be claimed only by registered taxpayers on the *Business activity statement* issued to them by the Tax Office. Each activity statement carries a unique identifier to ensure that bogus claim forms cannot be submitted and that multiple claims cannot be made for a particular period. Refunds will only be paid direct to bank accounts in the name of the registered business. Every refund is subjected to a range of credibility checks prior to issue, and taxpayers may be contacted by phone or by field officers where further information is required to substantiate claims. Where necessary, third-party suppliers may be contacted to validate the transactions resulting in the refund. Particular attention is paid to large refunds and to refunds associated with recently registered businesses because of the inherent risks involved with these cases. We plan to check the accuracy of more than 9,000 GST refunds in the segment this year. The majority of these checks will be done by phone, but we anticipate around 1,100 cases will be escalated to a field audit. We will also check 3,500 income tax refunds for accuracy prior to issue.

We have a program to check claims for deferred GST made by entities that are importing goods into Australia. We plan to undertake around 5,000 reviews of deferred GST claims this year.

Tax performance reviews

We are now systematically conducting risk reviews across the small to medium enterprise segment using a new approach that looks at the overall tax performance of a business and identifies any key risks. This year we expect to undertake more than 820 risk reviews of this type. The approach has a number of stages, including internal risk analysis, taxpayer interview, preliminary review of records, and an overall assessment of risk. Depending on our findings, we may invite taxpayers to correct their tax liability, or we may conduct a specific audit in the area of concern.

We are paying particular attention to a number of issues, including shareholder loan accounts being inappropriately used to disguise income, treatment of stock, reconciliation items, capital gains tax and GST. Where we find that particular issues relate to certain advisers, we will deal directly with the relevant advisers.

From this work, we will gather the risk intelligence on industry type, turnover range, tax agent and other issues to identify any patterns, trends and drivers of non-compliance. This risk analysis will feed into broader compliance approaches, including our law clarification and education programs.

OUR COMPLIANCE FOCUS

Business tax reform

While a number of business tax reform measures will affect the segment this year, the impact of each measure on small to medium enterprises and their advisers will vary. Measures that may have a significant impact include:

- consolidations
- general value shifting
- demergers
- taxation of financial arrangements
- the simplified imputation system and related changes to the loss utilisation rules
- the replacement of the existing deemed dividend rules applying to distributions from trusts to corporate beneficiaries, and
- uniform capital allowances.

As a key part of implementing these measures, we consult with businesses, tax practitioners, professional associations and other interested people to determine the best way to manage implementation. For example, the ATO Tax Practitioner Forum has a joint working party looking at how best to implement and manage new measures.

We provide a range of communication products, from simple explanations to detailed reference guides, to further assist with implementation of these measures.

Groups entering the new consolidation system are supported by advice and practical help. We are also continuing to concentrate on membership rules, the transfer and use of losses, and identifying any restructures that are contrary to the intent of government policy. We plan to undertake 100 membership reviews this year.

Cash economy

We are maintaining our focus on high-risk industries in the cash economy and these will be subject to a range of audits. In this segment, we are particularly concerned about hotels and clubs, building and construction, business services, motor vehicle retailing, and clothing and textiles. We expect to undertake 1,000 compliance field visits this year (see the cash economy, page 39).

Building and construction industry

Building and construction remains a high-risk industry from a tax compliance perspective. The level of losses claimed continues to increase, against strong economic activity in this industry.

Our focus is on major infrastructure projects and other issues raised by the Royal Commission into the Building and Construction Industry. We are paying particular attention to omitted income, and compliance with PAYG withholding, ABN and GST obligations. We will review 300 cases in this segment of the industry this year.

We are also looking closely at the margin scheme, which allows businesses to calculate GST on the increase in value of certain property transactions, rather than on the full sale price. The rules governing the application of the margin scheme have recently been clarified and people who 'got it wrong' will have the opportunity to go back and correct their activity statement. Of particular concern are taxpayers who cannot show that they applied the margin scheme when they disposed of a property. We are also seeing instances where tax credits have been incorrectly claimed for purchases made under the margin scheme. This year we will check 400 businesses that used the margin scheme when they sold property.

OUR COMPLIANCE FOCUS

Insolvency

Some taxpayers use company structures to evade tax – such as ‘phoenix’ companies, where directors accumulate unpaid PAYG withholding, GST and other debts, abandon the company and its debts, then carry on business through a newly formed company. This year we will examine around 100 of the most serious cases in the building and construction, transport, security, information technology, clothing and cleaning industries, and other industries where this behaviour is identified.

International tax issues

Increasingly, small to medium enterprises are engaging in international transactions that give rise to a range of specific compliance issues. Our information indicates that 11% of these businesses are now involved in international activities.

This year we are working with businesses and their advisers to help them meet their obligations in this area. Key areas we are focusing on include whether businesses are complying with their obligations where they have dealings with overseas related parties, and the transfer pricing policy of high-risk businesses. Transfer pricing involves value shifting to minimise tax. We will undertake a range of other activities this year as part of the overall approach to international issues (see international tax issues, page 44).

Aggressive tax planning

Aggressive tax planning, particularly where it is driven by promoters who design, sell, market or implement schemes, is a significant focus for the segment. We have identified over 2,500 small to medium enterprises that have participated in different schemes, with some involved in multiple schemes. Scheme types vary, and include employee benefit arrangements and film schemes (see aggressive tax planning, page 40).

Further areas of investigation include barter and non-arm's length transactions that incorrectly reduce the amount of GST payable or artificially inflate tax credits. We are also focusing on tax agents and advisers who have a history of promoting schemes, particularly advisers with clients in multiple schemes.

Losses and other inappropriate tax minimisation

The incorrect calculation and recoupment of losses remain a particular concern. For example, we have found cases where losses have been claimed as a result of the incorrect application of the continuity of ownership and the same business tests. This year we will undertake 185 loss reviews.

In the course of our activities we will also look at inflated management fees, excessive royalty payments, and tax-driven financing arrangements.

OUR COMPLIANCE FOCUS

Shareholder loans

A key focus for the 820 tax performance reviews planned for this year will be looking at loan arrangements to ensure that distributions to shareholders through loan account transactions are not used to avoid tax. This risk is particularly prevalent in businesses with simple structures and a turnover of up to \$10 million. We will check that shareholder loan accounts are properly recognised with formal loan agreements, and that those in debit are being operated according to the law.

Research and development (R&D)

Incorrect and inappropriate claims in relation to the R&D offset provisions are a concern. Initially, we will conduct 50 targeted reviews of claims and then follow up with an expanded program later in the year.

Sale of business assets

There is an issue with businesses not reporting GST on the sale of business assets. Our verification activities involve using external data and other information to identify businesses that have sold a range of business assets, including property, motor vehicles and aircraft.

Last year we sent 8,000 letters to businesses, requesting information about how they treated GST on the sale of business assets. We are continuing the program this year and will send a further 2,000 letters asking for information going back to 1 July 2000 when GST was introduced. We will undertake around 1,000 compliance reviews, including following up information from the letters.

Serious evasion – GST

We have a significant focus on deliberate non-compliance with GST legislation. This involves using intelligence drawn from internal and external data to identify high-risk businesses and activities. Our aim is to maintain the integrity of the system by addressing serious issues as they emerge. This year we will review 130 cases in this category.

Superannuation obligations

During the year we will enforce lodgment of outstanding surcharge member contribution statements and/or income tax returns for 500 funds, as part of an increased focus on non-lodgment of returns and statements. We will consider the application of penalties and potential prosecutions. We will also review specific items on 60 superannuation fund income tax returns. These items have been identified from tax return information as being areas of risk.

In addition, we are maintaining our educational emphasis by identifying the common reporting issues for superannuation funds (for example, what and when to report for the surcharge and reasonable benefit limit). We will run 20 workshops and prepare educational material to help funds deal with these reporting issues, thus improving data quality.

We continue to monitor employer compliance levels with the superannuation guarantee in this segment.

D

Large business

The large business segment is made up of enterprises with a turnover of around \$100 million or more, and high wealth individuals who (together with their families and business entities) control more than \$30 million in assets. The segment contributes approximately 17% of Commonwealth income tax, 55% of GST, 54% of fringe benefits tax, and 95% of excise revenue.

There are around 1,400 large business groups, and 650 high wealth individuals with 14,000 associated entities. This segment also includes around 460 superannuation funds, which are required to comply with income tax and superannuation obligations.

Large businesses are major employers, collecting around 35% of total PAYG withholding tax on behalf of their employees. They are also required to make superannuation guarantee payments for their employees.

Income tax revenue from this segment over the last seven years has increased at an average rate of 8% a year, greater than the 6% increase in nominal gross domestic product.

We are developing advance compliance arrangements with large businesses that have appropriate processes and controls in place to meet their GST obligations. We continue to promote advance pricing arrangements for related-party international dealings.

Large business groups are constantly changing in response to their business needs and the shifting demands and opportunities in the global and domestic economies. Their structuring and business operations raise a wide range of domestic and international tax issues.

High wealth individuals operate across the large business segment and often control, either directly or indirectly, a large number of different entities, some being quite significant.

Tax reforms continue to require a significant level of change in what large businesses and high wealth individuals have to do to properly manage their tax affairs.

For more information about the range of issues we manage in the large business segment, see *Large business and tax compliance*, which is available at www.ato.gov.au.

OUR GENERAL APPROACH

In the context of Australia's system of self-assessment, our compliance program for large business is based on understanding the business environment so we can identify and address major tax risks and assist revenue forecasting. The dynamics of the market and complexity and importance of operations in the large business segment mean that we must continue to concentrate on these taxpayers to make sure they are getting it right, they have the guidance and support they need, and that we are actively pursuing tax avoidance.

Where large businesses seek our assistance, we help them review material tax issues before they lodge their income tax returns, and work with them on due diligence processes in relation to tax matters.

Our risk assessment in this segment takes account of:

- financial or tax performance that varies substantially from industry patterns
- significant variations in the amounts or patterns of tax payments compared to past performance and relevant economic indicators and industry trends
- unexplained variation between economic performance, productivity and tax performance
- unexplained losses, low effective tax rates, and cases where a business or an entity consistently pays relatively low tax
- a history of aggressive tax planning by a corporation, group, board members, key executives or advisers
- weaknesses in the structures, processes and approaches to tax compliance, and
- tax outcomes that are inconsistent with the policy intent of tax reform.

OUR COMPLIANCE FOCUS

Our approach involves taking a whole-of-enterprise view and tailoring the compliance action to the nature and extent of any revenue risks, and the attitude of the corporate group to tax compliance.

We are broadening our examination to include tax issues as they arise, as well as reviewing events that occurred some years ago. Our fieldwork will continue to become more current, while still sorting out the older issues. In high-risk cases where there are tax issues from previous years, we will continue to work with large business to make sure that significant risks up to the current year of income are addressed.

In relation to income tax, this year we are extending our fieldwork coverage and will carry out the following specific activities.

- Continue to risk-profile payment patterns of the 1,400 corporate groups which make up this segment. This covers about 11,000 separate payers of income tax, PAYG withholding and fringe benefits tax. We are expanding our approach to closely follow the pattern of payments for these obligations to identify emerging risks across all income tax revenue products. Where there are variations from forecasts, we follow up to determine whether the variation (up or down) is due to changes in the business or market factors, or to tax planning.
- Continue to systematically risk-profile the entire large business population. We do this to compare tax performance with business performance and to establish the trend in effective tax rates. We are expanding the application of standard financial ratios as well as employing a broader cross-section of risk factors to improve our economic analysis.

OUR COMPLIANCE FOCUS

- Expand our fieldwork coverage and undertake at least 100 specific enquiries. These typically involve contact with large businesses about relevant events reported in the media, information reported in their annual accounts, or variations in forecast revenue payment patterns.
- Complete 320 fieldwork risk reviews. Where our risk profiling identifies potential material tax risks, we conduct more intensive risk assessments. This invariably involves contacting the business, assessing their operating environment and business results, and evaluating their systems and processes for tax compliance. Our risk reviews are being expanded to address issues associated with the implementation of tax reform measures, with particular emphasis on the new consolidation regime, uniform capital allowances and thin capitalisation. We expect that at least 80 reviews will have a focus on transfer pricing, which involves international value shifting to minimise tax.
- Complete 160 audits, which may encompass the full set of business operations, specific focus issues or industry issues. We expect that transfer pricing will be a focus in around 20 audits. Where businesses consistently seek to avoid tax obligations – whether through tax planning designed to avoid the policy reflected in the law, or through careless or reckless approaches to tax compliance – we will maintain our audit activity until we can be confident a more constructive approach has developed.
- Complete another 20 advance pricing arrangements for related-party international dealings.
- Undertake mutual agreement procedures with other tax administrations as and when required (probably around 10 cases). This procedure is designed to avoid or resolve international double taxation.
- Check the accuracy of around 1,500 large and high-risk refunds to large businesses.

We are paying particular attention to tax planning that involves the following areas.

Tax reform implementation

We are closely monitoring the implementation by large business of the range of significant tax reforms. We need to ensure appropriate compliance arrangements are in place and that we are in a position to challenge any tax structuring designed to obtain tax benefits beyond those intended by the law.

In light of the new consolidation regime, we will follow the pattern of quarterly tax payments in the transition from entity level to consolidated group to identify any significant variations, and the reasons. We will look at how all types of tangible and intangible assets are managed to see that values are not skewed, and will review cases where there is a big uplift in the values of assets giving rise to capital allowances.

Any changes in structure, ownership, funding arrangements, function and location in the context of the whole group will be reviewed to see the changes do not involve tax avoidance and are consistent with the consolidation rules. We will also follow the stocks and flows in respect of losses.

We are looking closely at whether many high wealth individuals will consolidate.

High wealth individuals

We are continuing our compliance program for high wealth individuals and their associated entities. This year around 50 high wealth individuals will be audited.

Our strategies for high wealth individuals have had very positive results. Since the creation of a special taskforce in 1996, additional collections of \$790 million in tax and penalties have been generated from audit activity, and there has been a reduction of around \$1.4 billion in losses claimed. It is evident that some high wealth individuals have improved their tax compliance after an audit, and we are seeing less aggressive tax planning by some high wealth groups.

OUR COMPLIANCE FOCUS

International tax issues

With the closer linking of the Australian and global economies, there is an increased need to monitor international dealings in the large business segment. There has been a significant increase in the value of cross-border dealings involving related parties, with 85% of these dealings taking place in this segment.

We are continuing to promote advance pricing arrangements for related-party international dealings. These arrangements provide greater certainty to all parties, while also reducing compliance costs. We continue to undertake mutual agreement procedure cases with other tax administrations to resolve international double taxation issues.

We are strengthening our focus on transfer pricing in the large business segment across the full range of our compliance activities. We are seeing an increasing use of arrangements that purportedly shift risks from Australian operations to other parts of the world to reduce profits attributable to the Australian operations. We will be evaluating these arrangements to ensure the proper allocation of global profits to Australia.

Where large businesses engage in transactions involving tax havens, we examine the transactions. We need assurance that they are genuine dealings and that any profit allocated to a tax haven is commensurate with the economic value added by that jurisdiction – and not simply an exercise in profit shifting to avoid Australian taxes.

The reforms to Australia's international tax arrangements announced by the Treasurer in the May 2003 Budget are expected to have a major impact on the large business segment. As part of managing implementation of these measures, we will be ensuring appropriate compliance arrangements are in place.

See international tax issues, page 44, for more information.

Aggressive tax planning

We continue to concentrate on aggressive tax planning risks in the large business segment, including the promotion, design or distribution of schemes and arrangements specially tailored for large businesses (see aggressive tax planning, page 40).

Losses

Losses continue to be a high-risk compliance issue. Losses disallowed last year increased dramatically to \$7.6 billion. One area of focus is capital and revenue losses generated from intra-group loans that do not reflect real commercial arrangements. We are looking at the origin of claimed losses, as well as how they have been used and transferred.

Corporate financing

Corporate financing is another area we are focusing on, especially in terms of ensuring that outcomes are consistent with the policy intent of tax reform. A number of major reforms are having interrelated impacts on corporate financing, including the thin capitalisation rules, debt and equity rules, and consolidation. We are looking very closely at the financing of corporate acquisitions and restructuring in this context.

Uniform capital allowances

We have some concerns about asset management by large business and will be reviewing significant cases. We need to be sure there is a sound basis for self-assessed rates of depreciation.

Foreign exchange

We are checking to make sure foreign exchange transactions and exposures are being properly identified and accounted for on a consistent basis for tax purposes.

OUR COMPLIANCE FOCUS

Capital gains tax

We continue to see numerous examples of elaborate arrangements to avoid or reduce capital gains tax. These raise serious concerns. Complex structures and intra-group transactions are being used in an attempt to shield real capital gains from tax. In the more extreme cases, businesses are claiming that a gain has been transformed into a loss for tax purposes. We are increasing our compliance focus in this area and actively working on a number of cases, including the possible application of the general anti-avoidance provision to these types of arrangements.

Market valuations

Market valuations have a bearing on a wide range of tax issues, including values for depreciable assets, allocation of asset values for consolidation, calculation of GST in certain circumstances, royalty rates for intellectual property, capital gains and losses, transfer pricing, certain financial arrangements, accounting for trading stock, and core technology values for the R&D concession. We are checking cases where market valuations have significant tax impacts and are materially different from the values used for the purposes of a business generally. We are paying particular attention to cases where different bases of valuation have been used.

GST issues

Across a range of GST compliance activities, we expect to interact with approximately 50% of the corporate groups in the large business segment this year. We will undertake:

- 30 broad-ranging audits
- 1,200 audits of specific issues
- 200 audits to check business activity statements
- 700 refund checks, and
- 300 non-lodgment checks.

We are substantially increasing our focus on internal governance in large public and private entities to make sure they have the necessary processes and controls to meet their GST obligations. To help these entities monitor their legislative and business environments, the Tax Office and the Australian National Audit Office have recently published *A better practice guide for the management of GST administration*.

We have entered, and are prepared to enter, into compliance agreements to deliver greater certainty, reduced costs and improved administration for both businesses and the Tax Office in their GST dealings. An agreement is seen as a significant step towards self-regulation, with a business agreeing to:

- maintain satisfactory internal GST controls
- lodge activity statements and pay GST obligations promptly
- continuously improve its GST systems, and
- provide updated reports at the Tax Office's request.

In return, we take these arrangements into account in determining the frequency and scope of any future audits, and in considering the imposition of penalties.

We issue GST refunds as quickly as possible, with more than 90% of refunds paid within 14 days. However, there are extensive checks in place to prevent incorrect payments. GST refunds can be claimed only by registered taxpayers on the *Business activity statement* issued to them by the Tax Office. Each activity statement carries a unique identifier to ensure that bogus claim forms cannot be submitted and that multiple claims cannot be made for a particular period. Refunds will only be paid direct to bank accounts in the name of the registered business. Every refund is subjected to a range of credibility checks prior to issue, and taxpayers may be contacted by phone or by field officers where further information is required to substantiate claims. Where necessary, third-party suppliers may be contacted to validate the transactions resulting in the refund. Particular attention is paid to large refunds and to refunds associated with recently registered businesses because of the inherent risks involved with these cases. In the large business segment, we plan to check 700 refunds for accuracy this year.

Another area we are examining is large 'one-off' or unusual transactions, such as the sale of an asset. These are often treated outside the taxpayer's normal processing systems and hence the GST impacts are not considered. Ensuring that GST has been appropriately accounted for on these types of transactions will remain a focus of our audit activity. A number of our proposed specific-issue audits will concentrate on these transactions.

OUR COMPLIANCE FOCUS

There has been significant confusion about the rules relating to the margin scheme applicable to supplies of real property, and we are continuing to address this issue in our audit and education programs. People who 'got it wrong' will have the opportunity to go back and correct their activity statement. Genuine mistakes will not be penalised. We are also closely examining sales of new residential property within groups or joint venture arrangements aimed at artificially reducing the GST payable for that property. We expect to undertake approximately 300 audits in this segment.

The banking, finance and insurance industry continues to receive attention because of the complexity of the special rules applying under the GST law. A range of education, assistance and compliance activities addressing these issues are included in our GST compliance program for this year. We expect to undertake approximately 500 audits in this segment.

We continue to monitor and assess the GST revenue implications of cross-border transactions. As part of this, we are pursuing discussions with relevant jurisdictions to share taxpayer data held in those countries.

Superannuation obligations

We manage the superannuation obligations for around 460 superannuation funds in this segment. This year we are increasing our focus on non-lodgment of statements by contacting all funds with outstanding surcharge member contribution statements. This will include a focus on lost member reporting to ensure these funds are correctly reporting details of lost members to the Tax Office.

We are also maintaining our educational focus by:

- facilitating 50 key client relationships, covering the top funds in the industry
- hosting superannuation industry meetings to provide education and raise awareness of current issues, and
- identifying common reporting issues for superannuation funds, and running workshops and preparing educational material to help funds deal with these issues.

We continue to monitor employer compliance levels with the superannuation guarantee in this segment.

Excise

We plan to audit eight large manufacturers across the tobacco, petroleum, beer, spirits, wine, concessional alcohol and oil recycling industries. In conjunction with activity from last year, this should cover about 75% of this segment and provide a high degree of revenue assurance for all excise commodities.

On 1 July 2003 the new energy grants credits scheme replaced the two fuel rebate and grant schemes. We have written to approximately 1,000 large businesses, and produced fact sheets and other guidelines, to advise them of the changes and the new scheme requirements. We also provide support and advice through the dedicated **1300 657 162** number.

E

Non-profit and government organisations

There are 700,000 non-profit organisations, but only 170,000 of them are in the tax system – 94% of these are companies, and the remainder trusts. Combined annual turnover of non-profit organisations in Australia exceeds \$27 billion.

Government organisations include federal, state, territory and local government bodies.

The 30,000 largest non-profit organisations employ 8% of Australia's workforce. So while these organisations pay less than \$1 billion in tax, their role is significant because they collect around \$5 billion of tax paid by their employees, representing around 5% of total PAYG withholding.

Non-profit organisations include charitable, religious and community service non-profit organisations; sporting recreational clubs; business and professional associations and trade unions; private schools; some hospitals; and some large financial and insurance companies. These organisations have special status within the tax system.

Tax administration can be difficult for small organisations and the voluntary officers who support them. Additionally, many non-profit organisations are relatively new to the tax system, having been included with the introduction of GST and the need for endorsement as a charity or deductible gift recipient.

There are some 25,000 government organisations, most of which are exempt from income tax. Around 80% are state and territory government organisations.

The importance of government organisations to the tax system lies in the number of people they employ – around 1.3 million. These organisations collect around \$17 billion of tax paid by their employees, representing around 22% of total PAYG withholding. Most government organisations also pay or claim back GST and pay fringe benefits tax.

OUR GENERAL APPROACH

Non-profit organisations are highly compliant by nature, but their level of knowledge about the tax system can be low. Our primary approach is relationship management, combined with help and education services.

This year we are building on our tailored approaches for the non-profit segment. We are also improving our understanding of what drives compliance, further refining products, exploring ways of dealing directly with non-profit organisations, establishing an Indigenous partnership, and revitalising existing consultations.

In managing the entitlement of non-profit organisations to a range of tax concessions, our role is to see that the concessions go only to those entitled to them, and that others know and meet their obligations.

We are working to implement changes arising from the recommendations of the Charities Definitional Inquiry. In particular, the requirement that organisations be endorsed to be entitled to GST and fringe benefits tax concessions is a significant change. We are investing in education and support to help organisations with the changes.

OUR COMPLIANCE FOCUS

We have a number of audit and help programs designed to address specific risks, help us understand the environment and what drives compliance, and ensure we are aware of tax and superannuation issues facing non-profit organisations. Our focus includes:

- individuals obtaining tax 'benefits' from the use of closely controlled charities
- charities engaging in commercial operations, potentially affecting their concessional status
- organisations claiming incorrect imputation credits
- employers not complying with the superannuation guarantee
- hospitals that enter into contractual arrangements with medical practitioners where the tax consequences are uncertain, potentially leading to tax shortfalls
- universities engaging in unusual structuring and funding arrangements that potentially affect their exempt status, and
- building our knowledge and understanding of the level of compliance in various areas including:
 - the potential improper application of the mutuality principle by clubs and other associations, leading to tax shortfalls, and
 - the failure of some deductible gift recipients to comply with the gift fund requirements, putting their concessional status at risk.

OUR GENERAL APPROACH

Ongoing liaison arrangements and state and territory consultative bodies are a key approach for managing GST and fringe benefits tax obligations in government organisations.

OUR COMPLIANCE FOCUS

We have a number of audit and help programs designed to address specific risks, help us understand the environment and what drives compliance, and ensure we are aware of tax and superannuation issues facing the government segment. Our focus includes:

- making sure that entities are treating the receipt and payment of grants appropriately for GST purposes, including following the 'grant trail' through the chain of entities to ensure the GST treatment is correct at each stage, and
- establishing that a supplier is registered before a recipient claims a GST credit, that a valid recipient created tax invoice agreement is in place, and that the recipient has issued a valid recipient created tax invoice to the supplier.

Together with the Australian National Audit Office, we have developed *A better practice guide for the management of GST administration*. The publication was prepared as a practical guide for Commonwealth agencies. It recommends a 76-point checklist and includes tools and templates to assist implementation. It is available on our website at www.ato.gov.au.

Tax agents

We recognise that tax agents play a critical role in the efficient operation of the tax system. Most of our compliance activities involve working with tax agents, who have a key role in lodging returns on behalf of a wide range of taxpayers.

There are more than 24,000 registered tax agents and around 9,500 practices. They lodge around 75% of the 10 million individual income tax returns, and 97% of the 2 million business-related income tax returns. They also lodge 55% of activity statements.

We take into account the behaviour of both tax agents and their clients when applying compliance, risk mitigation and education strategies. Our reviews concentrate on cases where there is a greater risk of non-compliance, and areas where we see common mistakes being made. We are also working with agents to reduce the social and financial cost of compliance for clients by making services easier, cheaper and more personalised.

Given the significant role of tax agents in the tax system, we are keen to explore various approaches to improving compliance. For example, this year we are working with professional associations to ensure the proficiency of self-managed superannuation fund auditors. Issues of concern in the administration of self-managed funds include independence, in-house assets and loans to trustees.

Agents can use the information in the relevant market segments and key features contained in this booklet to assess the compliance impacts for their clients. We are also preparing a calendar of compliance activity, which will cross-reference to the compliance program outlined in this booklet. The calendar will soon be made available electronically to agents.

Our relationship with tax agents

This year we are placing even greater emphasis on enhancing our relationship with tax agents, understanding their needs and providing the support they need to effectively carry out their role. We are working collaboratively with agents and their associations to develop a strategic framework for the relationship. This framework will guide our services for agents.

The importance of our relationship also led to a research initiative late last year, in conjunction with tax and accounting professional bodies. The results of the research are available on our website at www.ato.gov.au. While the picture is far from uniform at this stage, results indicate that the majority of practitioners feel their relationship with the Tax Office has improved over the last six months.

Supporting tax agents

A new program to manage relationships with tax agents is being progressively implemented from July 2003. This involves specific teams to help resolve issues with the Tax Office where agents cannot have them resolved through normal channels.

To help agents manage their workloads, we are implementing a number of administrative changes from July 2003. The changes, which should reduce lodgments by about 700,000 a year while maintaining the integrity of the revenue system, include:

- extending remittance advice arrangements to GST instalment payers
- extending remittance advice arrangements to company and superannuation fund annual PAYG income tax instalments (present requirements are for lodgment and payment)
- moving eligible PAYG withholders from monthly to quarterly lodgment
- reducing the number of PAYG clients by changing the entry/exit tests for individuals and trusts (the current \$1,000 business and investment income entry test is being increased to \$2,000, and the balance of assessment test from \$250 to \$500), and
- extending quarters 1, 3 and 4 activity statement lodgment dates, provided statements are lodged using the electronic lodgment system.

Over the next year, agents can expect to see further improvements to our phone service and to the Tax Agent Portal. The improvements to these and other services are detailed in the recently released statement on our easier, cheaper and more personalised program, *Making it easier to comply*.

We will continue to work with agents to design and prioritise improvements. In the past year, more than 4,900 agents have participated in research projects to help us better understand their needs. Additionally, more than 1,900 agents have been involved in consultations, forums and advisory groups.

We have scheduled two national satellite seminars. These follow the two national satellite seminars conducted last year, which reached 24,000 agents.

Other services we provide to support agents include face-to-face presentations on technical tax issues; emails, faxes and letters; a fortnightly electronic notice, with hyperlinks to pertinent information on our website; a quarterly printed newsletter on topical issues; web-based products, including *Tax measures in brief* and the *Tax agent portfolio*; and visits to agents to help introduce Tax Office technologies into their practices.

Building community confidence in tax agents

The vast majority of tax agents are professionals who conduct their business with integrity. They have a vital role in the efficient operation of the tax system and need to know that the small number of tax agents who choose to operate without quality processes and controls in place will be identified and those practices scrutinised.

A number of activities are directed at monitoring the overall tax performance of tax agents, both personal tax performance and practice integrity. These include, after three years of operation of the new tax system, a renewed focus on the systematic profiling of tax agent returns to identify patterns and trends that may indicate less than acceptable tax return preparation standards. This tax agent risk review profiling includes consideration of community-sourced information, fieldwork intelligence (including any instances of evasion and fraud) and overall practice management results (including lodgment and payment performance).

The risk reviews are aimed at identifying those tax agent practices that warrant specific performance scrutiny during the course of the year. We are also looking for returns prepared by unregistered tax preparers.

If we identify patterns of poor compliance or competency issues by particular agents, or a trend across agents, we tailor our compliance and education activities appropriately. Depending on our findings, we may let tax agents know where we see a trend, visit an agent, undertake a specific audit program, or conduct a broader review of their tax practice management procedures and controls. Some trends we are seeing in the various segments are:

Individuals

- work-related expenses not being substantiated
- entitlements such as the senior Australians tax offset and the Baby Bonus not being claimed, or not fully claimed
- capital gains not being declared
- rental property expenses being wrongly claimed

Micro-businesses

- inadequate record keeping, leading to errors in tax returns
- the alienation of income measure and the non-commercial losses rules not being properly applied
- clients not being advised of the potential benefits of the simplified tax system
- continued under-reporting of income in a number of industries being targeted by our cash economy compliance activities

Small to medium enterprises

- incorrect and inappropriate claims being made under the R&D offset provisions, and groups not complying with the threshold limits
- shareholder loans not being treated correctly, in particular, debit loan accounts not being repaid and lack of proper documentation, and
- GST, capital gains tax and income tax rules not being complied with in large, abnormal or one-off transactions.

If we consider that a tax agent has breached the requirements for registration, we refer the matter to Tax Agents' Boards for consideration. Last year, 33 cases were referred to boards. The boards also receive referrals from tax agents and taxpayers. Last year the boards cancelled 86 registrations, received 563 written complaints, wrote to 199 tax agents asking them to 'show cause', referred 94 agents to the Tax Office for investigation, and suspended 5 agents. Situations involving fraud are referred for prosecution action. Successful prosecution actions are publicised in the general press as a means of alerting the public, and influencing the behaviour of taxpayers and tax preparers generally.

We have a number of ways of detecting individuals and entities who are not registered tax agents but prepare and charge for tax return preparation. These include reports from the public and registered agents, and analysis of information, such as that provided in tax returns prepared by unregistered agents. This information is acted upon and investigated. Where appropriate, prosecution action is also undertaken for these 'unregistered' agents.

These activities help ensure a satisfactory quality of services is provided in the market place and that there is community confidence in relation to tax work undertaken for others.

KEY FEATURES WE ARE FOCUSING ON

There are a number of compliance features that do not apply specifically to only one market segment, but go across two or more. This section looks at the features we are focusing on in 2003–04.

- 1 Evasion and fraud
- 2 Aggressive tax planning
- 3 International tax issues
- 4 Overdue debt and late or non-lodgment

1

Evasion and fraud

The majority of taxpayers try to do the right thing in terms of their tax obligations. But a small minority are determined not to comply and, in some cases, directly undermine the tax system.

Evasion occurs where taxpayers deliberately refuse to comply with their tax obligations. For example, they may refuse to provide access to tax officers, fail to provide information when required to do so, disguise transactions, destroy documents, not disclose income or refuse to lodge tax returns. Evasion is a serious matter and can result in heavy penalties and prosecution.

Fraud occurs when a financial benefit is dishonestly obtained (or attempted to be obtained) where there is no entitlement, for example, lodging an activity statement to claim a refund of non-existent GST credits. Fraud is a serious criminal matter and can result in heavy penalties and up to 10 years imprisonment.

OUR GENERAL APPROACH

A variety of methods are used to identify those involved in evasion and fraud. For example, we cross-check ABN registrations with activity statements and income tax returns; compare information on activity statements with income tax return information; trace the audit trail left by tax invoices; and compare financial ratios calculated from activity statements and income tax returns with industry norms. We also request that information be provided to us, and take prosecution action against those who refuse to respond to these requests.

We use information from other government agencies, including Centrelink and the Department of Immigration, Multicultural and Indigenous Affairs. Of particular value are the reports of significant and suspicious transactions and overseas money transfers provided by AUSTRAC under the *Financial Transaction Reports Act 1988*.

Another source of information is from the community, through our tax evasion hotline (**1800 060 062**) and in writing.

People attempting or committing fraud will be investigated and, where appropriate, referred to the Commonwealth Director of Public Prosecutions. Outcomes of prosecutions will be publicised. We will be reviewing investigation and prosecution activities, in consultation with the Director of Public Prosecutions, to increase the effectiveness and impact of these activities.

We continue to work in close partnership with law enforcement agencies, including the Australian Federal Police, the Director of Public Prosecutions, AUSTRAC and the Australian Crime Commission, in identifying and dealing with evasion and fraud.

The areas we are examining in relation to fraud and evasion this year include:

- a specific focus on more extreme non-compliance activities, including identity crime and people seeking to operate systematically outside the system (see next page)
- GST credits and other refunds, to prevent revenue fraud (see pages 16, 20 and 28)
- the building and construction industry, in response to the findings of the Royal Commission into that industry (see page 21)
- aggressive tax planning schemes and those who design, market or implement such schemes (see page 40)
- the illegal tobacco trade and fuel substitution, to address excise evasion (see page 17)
- 'phoenix operators' (those who set up a business, incur large debts and tax obligations, go bankrupt, and then set up again), to ensure that business structures are not used to avoid tax obligations (see page 22)
- the superannuation guarantee, to ensure employees receive their entitlements (see page 16)
- international transactions, particularly the use of offshore tax havens (see page 44), and
- tax agents who fail to comply with the tax law (see page 34).

A SPECIFIC FOCUS ON MORE EXTREME CASES

Our capability to deal with more extreme cases of evasion, fraud and non-participation in revenue systems is an important aspect of our activities. We are increasing our focus on and effectiveness in this work, better integrating analysis, audit and investigation capabilities, and developing more strategic alliances with other authorities. We are also rigorously testing internal and external processes and controls so that we are sure they are highly effective.

Two specific areas of intensified focus are identity crime and those seeking to operate outside the tax system.

In relation to identity crime we are:

- continuing our work to enhance the integrity of the tax file number register through matching with Centrelink, Department of Immigration, Multicultural and Indigenous Affairs, and Births, Deaths and Marriages data, and other records, to update or remove up to 1.2 million tax file numbers (in addition to 2 million last year)
- maintaining our focus on improving the accuracy of the information held on the Australian Business Register, and improving the identification and cancellation of those who do not have an ongoing entitlement to registration (1.5 million records were updated last year)
- actively working with other agencies to improve proof of identity processes, and leading cross-agency data matching activities to cleanse government identity registers and detect discrepancies within registers
- working actively with other agencies and authorities in developing whole-of-government approaches to combat identity crime, and
- developing greater capability in this field within our organisation.

Where people are seeking to operate outside the system, we will more rapidly and comprehensively identify them through increasing our focus on data matching, including with third-party data. Specific projects include continuing to examine a range of professional groups, including the legal, medical, accounting and architectural professions.

THE CASH ECONOMY

Evasion in the cash economy takes many forms, from employees moonlighting to larger scale practices such as businesses skimming the till. It also includes the straightforward omission of income from tax records, whether that income is in cash or another form.

Our cash economy compliance strategies for this year will result in:

- contact with about 70,000 businesses based on community information and/or in industries under specific cash economy scrutiny.
This contact will include mailouts, activity statement reviews, and unannounced 'walk-in' registration and lodgment visits. We will write to around 40,000 businesses where their financial performance differs from others in their industry, or where we have received information about potential tax evasion. The letters will ask businesses to check their records and ensure their activity statements and tax returns are accurate, or require them to complete a schedule of information and return it to the Tax Office for checking. About 30,000 businesses can expect a visit by one of 660 tax officers specialising in cash economy reviews.
- contacts by a further 2,400 field officers, including reviews of cash economy risks and issues within industries not specifically within the cash economy program, and
- implementation of the recommendations of the Cash Economy Task Force's third report, to be published early in 2003-04.

Current reviews of businesses include those in the following industries – building and construction, restaurants, cafes and takeaways, taxis, hairdressing, cleaning services, clothing and textiles, hotels and clubs, scrap metal, computer retailing, barter and fishing.

Other industries we are looking at closely this year include tobacco growing, liquor wholesaling and manufacturing, motor vehicle retailing, gold bullion, art and antique dealing, the sex industry, and the tourism and hospitality industry.

Another specific focus is on business-to-consumer dealings in the cash economy. We will identify and exploit opportunities to further engage the community. This includes improving the ways consumers and other members of the community can provide information about non-compliant businesses to the Tax Office. We will also contact consumers about transactions they have undertaken with businesses to check the accuracy of information provided by those businesses.

An area of emerging concern is bartering. Industry estimates are that more than 50,000 businesses are involved in the bartering industry. Many businesses are well run and managed. However, we have identified a number of tax compliance issues during our routine fieldwork. Many of these mirror aggressive techniques used in the non-bartering economy. A dedicated team of 40 tax officers will be focusing on tax issues in the bartering industry. A number of high-risk operators are already under investigation.

We recognise that non-compliance may occur for less deliberate reasons, for example, through a small business failing to keep adequate records. An important part of our cash economy strategies therefore is to help businesses understand their obligations, including providing advice on the types of records they need to keep and their reporting requirements. We are maintaining a program of help and education through seminars, including those for people new to business, attendance at trade exhibitions, and a range of pamphlets and publications.

2

Aggressive tax planning

Aggressive tax planning undermines the integrity of the tax system and community confidence in the fairness and equity of that system.

Our focus is on arrangements to avoid any type of tax, superannuation or excise duty.

We aim to respond quickly to aggressive tax planning by focusing on patterns, trends and drivers in order to provide early warnings to the community where we view arrangements to be outside the law.

Our strategies are driven by an integrated intelligence system which we use to help identify, analyse and address issues, and communicate our views.

OUR GENERAL APPROACH

In examining particular cases and transactions, we look closely at the following features, either alone or in combination:

- transactions involving tax havens
- arrangements or products that transfer or create tax benefits in circumstances not contemplated by the law
- complex structures and intra-group transactions associated with generating tax benefits unrelated to the economic substance of a commercial activity (if any)
- tax benefits in respect of financial and other arrangements that are disproportionately high compared to the limited financial exposure or risk, and where there is a divergence between the real and claimed economic substance of an activity
- distortions and inconsistencies in market valuations
- winding up or leaving an arrangement before net income is generated, and
- the use of tax-exempt entities, especially charities, to shield income from tax.

Our strategies to improve community awareness of the issues and risks associated with aggressive tax planning include:

- publishing this compliance program
- issuing taxpayer alerts and sending early warning letters to taxpayers and tax advisers about arrangements we have under scrutiny
- providing speeches, media releases, interviews and articles, and
- developing an aggressive tax planning website (www.ato.gov.au/atp) to provide information about alerts, media releases, rulings, relevant cases and other information.

OUR COMPLIANCE FOCUS

We are currently examining a range of tax planning arrangements identified through our compliance activities, including those identified through our focus on promoters of aggressive arrangements.

The types of arrangements vary, but they exhibit the features outlined above. Cases under examination include complex arrangements designed to avoid or minimise capital gains tax, financing arrangements and offshore arrangements, including those involving tax havens.

We continue to focus on capital gains tax planning, which is often associated with a business event such as a restructure, merger, acquisition or disposal of a business or asset. We have concerns about arrangements involving complex structures and intra-group transactions that are seemingly designed to shield real capital gains from tax. Some arrangements include exploitation of the capital gains tax rollover provisions.

Financing arrangements exhibiting one or more of the features outlined above continue to be examined. Arrangements that are more tailored to the circumstances of particular taxpayers are a greater concern than the widely marketed products, which are now often the subject of product ruling applications.

We will continue to develop a cooperative relationship with financial institutions that market financial products. Our aim is to encourage these institutions to let us know what products they intend to market so that we can express our view about any tax implications as early as possible.

OUR COMPLIANCE FOCUS

Another area we continue to monitor closely is partnership loss claims. Analysis has shown that partnerships are sometimes used to pass on tax benefits that may be created through aggressive tax planning arrangements at the partnership level. We are particularly looking at losses claimed in respect of property development activities and in relation to retirement villages.

We are increasing our focus on aggressive tax planning arrangements involving GST and will challenge arrangements that are contrived to create tax benefits that are not contemplated by the law. One example of such an arrangement is interposing entities between a purchaser and a seller to bring forward claims for tax credits (that would not otherwise exist) on the purchase of second-hand goods from an unregistered party.

We are also concentrating on pre-consolidation planning arrangements to see that outcomes are consistent with the policy intent of the new consolidation regime. We intend to provide guidance on how we see the general anti-avoidance provision applying to planning arrangements.

We continue to use private and public rulings to set out our view of particular arrangements. The introduction of product rulings has had a significant impact on the ability of promoters to market investment projects of the type that gave rise to the mass marketed schemes of the 1990s. While a product ruling aims to give taxpayers certainty about the tax consequences of an arrangement, it will do so only if the arrangement is actually implemented in accordance with the ruling. We will review the implementation of a sample of product rulings to ensure compliance. We will also review projects where we declined to provide a ruling to ensure compliance if arrangements were actually implemented. We expect to do around 100 reviews this year.

Promoters

Promoters are those who design and/or market aggressive tax planning arrangements. They include some tax agents and advisers. We have a number of strategies to deal with those promoters representing the highest risk.

To identify and address the more tailored arrangements, we are working with financial institutions and accounting and legal firms.

Where a particular tax adviser or promoter of a tax avoidance arrangement is taking a lead role in aggressive tax planning, we investigate their clients to determine whether they have participated in the same and/or other aggressive arrangements. We also investigate the adviser or promoter to make sure the person or entity is complying with their own tax obligations. Our experience is that the more aggressive advisers and promoters are high-risk taxpayers.

Our strategies for dealing with promoters include:

- using the Commissioner's access powers, including unannounced access visits where appropriate
- working with the Australian Federal Police, the Australian Crime Commission and the Commonwealth Director of Public Prosecutions on possible criminal prosecutions, and
- requiring early lodgment and expanded tax returns for higher risk promoters. Our program requiring early lodgment of returns by high-risk promoters is being expanded this year, following the success of the program last year.

OUR COMPLIANCE FOCUS

Last year our special promoters taskforce examined a range of higher risk promoters and identified over 30 new aggressive planning arrangements. These arrangements (many of which are still being examined) included schemes seemingly designed to exploit concessions in the law relating to films and intellectual property; property joint ventures designed to manipulate GST credits; schemes involving the use of trusts to wash profits from business activities; and international tax planning schemes.

We are maintaining our focus on promoters, including those who promote the use of tax havens to avoid tax. Some promoters sell tax haven entities to Australians on the promise of reducing tax and providing secrecy from the Tax Office. However, our intelligence sources, including funds flow analysis, are identifying these transactions, and the promoters who drive them (see international tax issues, page 44).

Our role as the regulator of self-managed superannuation funds demands a continued scrutiny of promoters of early access to superannuation schemes. We work collaboratively on investigations and prosecutions with the Australian Prudential Regulation Authority and the Australian Securities and Investments Commission. Nine cases are currently with the commission for investigation. Taxpayers involved in such activity face paying tax on the benefit at their highest marginal tax rate. Penalties against promoters will be pursued.

We continue to jointly investigate a number of promoters with other agencies, including the Australian Federal Police. At present there are 53 investigations under way.

Mass marketed investment schemes

Most of the taxpayers in the mass marketed investment schemes of the 1990s have settled their tax debts. Amended assessments have been issued to give effect to the settlements in 30,800 of these cases. While we continue to finalise the remaining 15% of settled cases, we are also deciding outstanding objections, litigating relevant cases, and collecting outstanding tax for the remaining 5,400 cases not yet settled.

Employee benefit schemes

Court decisions during 2002–03 upheld Tax Office views about controlling interest superannuation and employee benefit trust schemes. We are continuing to take action to finalise outstanding cases, but expect further litigation around employee benefit trusts, offshore superannuation schemes and employee share plans. Around 6,400 cases were unresolved at 30 June 2003.

3

International tax issues

International tax issues affect all segments – from giant corporations to backpackers.

For individuals, the lack of awareness of obligations, the transitory nature of many interactions, the greater scope to receive foreign investment or pension income, and the tax-free threshold available only to Australians are all factors that affect compliance. Technology such as e-commerce has accelerated the globalisation of home-based businesses and more sophisticated operations, with more individuals now investing and conducting their affairs internationally.

For businesses, cross-border trade, investment and income flows are increasing, while global restructuring and changes in ownership are accelerating, regardless of whether a business is large or small. Know-how and other intangibles are playing a bigger role in profitability and are being shared across borders. Risk management has become a key focus in cross-border dealings.

Transactions between different parts of global corporations (so-called related parties) continue to grow far more strongly than in the general economy. We project that total international related-party dealings (excluding loans) will be

well in excess of \$150 billion this year. Approximately 8.5% of small to medium enterprises have related-party international dealings, valued at more than \$18 billion.

Mobility of capital causes many countries to use their tax regimes to compete for investment or create a revenue base. At the same time, globalisation is creating greater cooperation and broader alignment of trade, environment, tax and other rules.

Paying interest overseas, particularly within multinational corporate groups, has increased dramatically in the past few years, and is trending significantly higher than interest payments into Australia.

As the government's budget announcements on international tax changes indicate, international tax reform will continue over the next few years, driven by the need to maintain Australia's status as an attractive place for business and investment.

OUR GENERAL APPROACH

We continue to maintain a focus on international issues to make certain that Australia obtains its fair share of tax and that global profits are properly allocated. We are:

- working with Treasury to ensure Australia's treaty program is appropriate to government policy and business needs
- ensuring Australian views are reflected in international tax forums on issues like tax havens, bank secrecy, e-commerce, consumption of services, treaty interpretation and transfer pricing (or value shifting to minimise tax)
- working with other tax administrations and tax havens to improve the exchange of information and better align our approaches to global compliance
- focusing strongly on international aggressive tax planning (including offshore structures) through a program of identification, strategy building, audit and prosecution
- strengthening our focus on transfer pricing through a comprehensive program of rulings, education, risk assessment, audit and advance pricing arrangements
- providing rulings, advice and assistance to taxpayers – we are continuing our extensive international public rulings program and developing a web presence for international issues. This year the international tax rulings program plans to issue nine rulings and three determinations on the highest priority matters
- undertaking research and risk identification and analysis across various populations and markets (including matching records and other data) to identify and quantify patterns and trends, and take corrective action where necessary
- working with small to medium enterprises and their advisers to improve understanding and help them meet their international tax obligations, and
- helping resident and non-resident individuals, and small to medium enterprises and their tax advisers, to better understand their tax obligations in relation to international transactions.

In relation to our broader Organization for Economic Cooperation and Development (OECD) and AusAID commitment to the Asia-Pacific region, we are providing assistance to several countries on large business compliance, transfer pricing, financial instruments, GST and electronic commerce, complex audit, and other tax administration issues. We also continue to host appropriate delegations from other tax administrations.

World tax administration forums such as the OECD and the Pacific Association of Tax Administrators will continue to be the main forums in which we put forward Australia's view on global tax administration and how it is shaped. As well, we are involved in sharing knowledge and experience with, and learning from, the Committee of International Organisations of Tax Administrators, the Commonwealth Association of Tax Administrators and the Study Group for Asian Tax Administration and Research.

OUR COMPLIANCE FOCUS

Our compliance activities focus on the following key risk areas.

Tax havens

The internet, satellite seminars and global banking are making it easier to market products (such as foreign life policies and offshore credit and debit cards) that can be used to invest and gain easy access to money placed in tax havens. Our tax haven strategy maintains a specific focus on promoters. Where we identify and confirm schemes, we will continue to issue taxpayer alerts to the community.

Other elements of our tax haven strategy include:

- working with the OECD and Treasury. We will begin negotiating tax information exchange agreements with cooperative tax havens to enable effective exchange of financial and other tax-related information involving Australian citizens. We will seek to negotiate 10 such agreements with tax havens this year
- analysing intelligence, including AUSTRAC data, to identify the use of tax havens and their promoters
- investigating 11 key promoters, and profiling a further 10
- undertaking litigation in relation to key promoters and their associates
- continuing to monitor money movements, including through superannuation funds, using AUSTRAC data
- cooperating with other tax administrations, law enforcement agencies and tax haven administrations to prosecute abusive transactions
- undertaking 30 case reviews in relation to taxpayer use of offshore credit/debit cards
- reviewing 60 high-risk cases related to tax havens and financial flows that have been selected using AUSTRAC intelligence
- profiling 80 high-risk cases related to tax havens and foreign source income measures, 40 of which will be selected for review, and
- examining the use of tax havens by large businesses (see large business, page 24).

OUR COMPLIANCE FOCUS

Profit shifting

The number and value of international related-party dealings continue to grow strongly and reflect the ongoing globalisation of the Australian economy. International related-party dealings (excluding loans) are estimated to be well in excess of \$150 billion this year. Related-party loans are also raising concerns. The potential for multinational profit shifting through these various related-party dealings means that this area remains a key compliance focus.

Together with an increased concentration on transfer pricing risk assessment and audits, we continue to promote advance pricing arrangements. These are designed to provide greater certainty for all parties, while reducing compliance costs and the risk of a Tax Office audit and penalties.

Apart from the routine checking of this issue in all audits of large businesses, we expect to complete more than 80 risk assessments and 20 audits with a focus on transfer pricing, 20 advance pricing arrangements, and 10 mutual agreement procedure cases where we seek to resolve cases of potential double taxation with other tax administrations. We are increasingly considering the GST implications where the price of a supply changes.

While we continue to look at specific industries (including motor vehicles, oil, pharmaceuticals, distributors, banking and insurance), we are closely watching the pricing of intangibles and services. We are also examining ways to measure the profit attributable to Australia where there has been a hollowing out of the Australian business in company structures, or reorganisations that purport to transfer risks and functions to low-tax countries. We are continuing to help develop global approaches through the OECD, and will be actively involved in the proposed review of the 1995 *Transfer pricing guidelines*.

Approximately 70% of company groups engaged in international related-party dealings are in the small to medium enterprise segment, although 85% of dealings are in the large business segment.

We continue to expand our coverage of small to medium enterprises. We will undertake 150 reviews to ensure that businesses are complying with their obligations to lodge the required declarations where they have dealings with overseas related parties or significant offshore investments. In addition, we plan to undertake risk assessments of the transfer pricing policies of 120 high-risk small to medium enterprises, and conduct audits of the highest risk taxpayers.

We are monitoring businesses that are seeking to optimise the effects of the new consolidation law. To ensure that the law is being properly applied, we are looking closely at mergers and demergers among multinationals where there are substantial revaluations of assets and the creation of new interposed entities. This includes examining debt/equity ratios under the new thin capitalisation rules.

Offshore assets and foreign income

Complex arrangements involving the use of derivatives and round-robin funding are being used to avoid capital gains tax on the sale of offshore investments by Australian companies, and to exploit the exempt dividend provisions. Round-robin funding occurs where funds or assets are sold or transferred through a series of entities, but end up with the original entity without any risk to those funds or assets. Where appropriate, we will seek to use the general anti-avoidance provision to address such schemes and arrangements.

The superannuation industry currently holds international investments of \$95 billion (18% of total assets), most of which are under management within the highly regulated financial sector. Only 2% of small funds hold directly invested international assets.

In some cases, overseas investments by small funds in offshore entities are being returned to the taxpayer in Australia before retirement in the form of an interest-free or low-interest loan, or consultancy fees. At the same time, offshore superannuation funds are being used as 'parking vehicles' for investments and assets offshore to avoid or defer tax. To combat these issues, we are working closely with the Australian Prudential Regulation Authority and the Australian Securities and Investments Commission. We continue to monitor investment material provided by financial advisers, promotional material on the internet and other intelligence, including AUSTRAC data.

We are working to improve data matching with foreign tax administrations in relation to foreign source income, such as foreign pensions and offshore investment income of Australian resident taxpayers. We expect to complete 1,000 data matching audits this year.

OUR COMPLIANCE FOCUS

Australian tax obligations of non-residents

We have identified a range of areas where some non-residents are not meeting their Australian tax obligations.

For example:

- holiday-makers wrongly claiming to be Australian residents to receive the benefit of the tax-free threshold
- foreign nationals entering into employment arrangements that use interposed entities to attempt to recharacterise a substantial amount of their Australian-sourced salary as a tax-free living-away-from-home allowance
- non-residents not declaring Australian-sourced rental income in Australia
- non-residents not declaring capital gains on the disposal of an asset connected with Australia, and
- some visiting sportspeople and entertainers using a variety of means to avoid their Australian tax obligations.

The integrity of the tax file number registration process is enhanced by our working relationship with the Department of Immigration and Multicultural and Indigenous Affairs (DIMIA). We now have visa data that can be matched against tax file number registration to check the residency status of backpackers. DIMIA data is also used to confirm eligibility for accessing superannuation entitlements on permanent departure from Australia.

This year we will review 10,000 tax returns and focus on tax agents who seem to regularly deal with non-residents. Data received through exchange of information processes helps us to identify non-compliers.

In addition to non-residents lodging income tax returns, there are about 12,000 non-resident enterprises registered for GST. Some registrations will be the result of grouping with resident enterprises, others will be the result of the non-resident making supplies connected with Australia, and others will be designed to claim credits. We are analysing the drivers for GST registration by non-residents to better understand the proportion of non-residents in the different categories.

With particular emphasis on non-residents who appear to be registered only to claim tax credits, we are:

- analysing the nature of their registration to see that it is within the law
- providing advice about their GST obligations, and
- developing a program to make sure claims for credits are valid.

New measures

In the May 2003 Budget, the Treasurer announced a number of reforms to Australia's international tax arrangements relating to controlled foreign corporations, foreign investment funds, foreign source income, treaty policy and expatriate measures. Changes to the withholding arrangements in relation to particular transaction categories for non-residents (to be prescribed by regulations) are also being enacted. We are providing advice to taxpayers affected by these new measures, and working with them to make sure there are no unintended consequences.

The Tax Office is a member of the advisory group established to provide advice to Treasury on the overall implementation of the reform of international tax arrangements announced in the Budget. We will also be involved in working groups on specialist technical issues.

4

Overdue debt and late or non-lodgment

Reporting the correct information, meeting payment obligations and paying on time are fundamental to successful tax administration.

There is always a risk for the Australian community that compliance with obligations can fall behind and that debt can accumulate rapidly for some businesses. We place a high priority on helping taxpayers lodge on time and avoid debt. With many small businesses and individuals now having quarterly obligations, debt is established earlier, which leads to improved collection rates.

We manage more than 60 million forms and payments for 15 million individual and business taxpayers annually. These cover all taxes – income tax, PAYG withholding and instalments, GST, fringe benefits tax, excise, wine equalisation tax, the superannuation guarantee levy and superannuation surcharge. We also manage a small number of debts from the previous tax system, including pay as you earn, the prescribed payments system, and sales tax. With such large volumes, debt and lodgment management requires some 3,100 staff.

OUR GENERAL APPROACH

After three years of operation of the new tax system, we are now taking a more vigorous approach to lodgment and payment compliance. We aim to make early contact with taxpayers to encourage lodgment and payment. Our approach takes account of a taxpayer's lodgment and payment history, the cost-effectiveness of our actions, and opportunities to influence behaviour. This leads to an escalating process of intervention for debt and lodgment, according to the taxpayer's compliance profile and risk priority.

This approach has led to more activity statements being lodged on time, and considerable success in securing lodgment of outstanding activity statements for earlier periods. This has been accompanied by increased revenue collections, and some additional debt being established. The effectiveness of our debt management has significantly improved, resulting in an increase in the volume and value of debt collections, and all substantive debt now being actively managed.

This year we will:

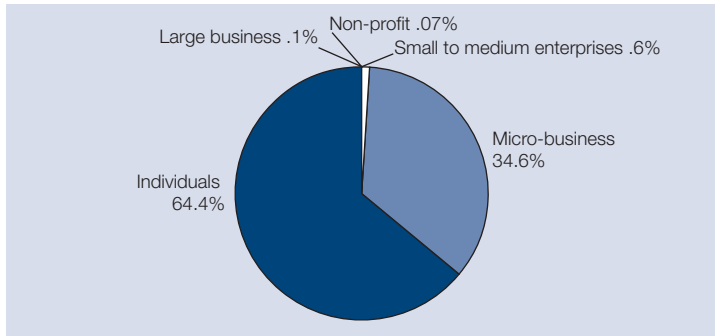
- send letters to all taxpayers who fail to lodge or pay, 28 days after they are due to lodge information or make a payment, and even earlier for high-risk taxpayers
- phone taxpayers who do not respond to written requests
- visit taxpayers who do not respond to alternative strategies
- prosecute taxpayers for non-lodgment, and undertake legal action to collect payment where appropriate
- enforce lodgment of outstanding income tax, regulatory returns and surcharge member contribution statements for 20,000 self-managed superannuation funds, and
- enforce lodgment of income tax returns and surcharge member contribution statements for 500 medium or large superannuation funds.

Initial contact usually results in an agreement to pay (either in full or over a negotiated period) and lodge forms and information.

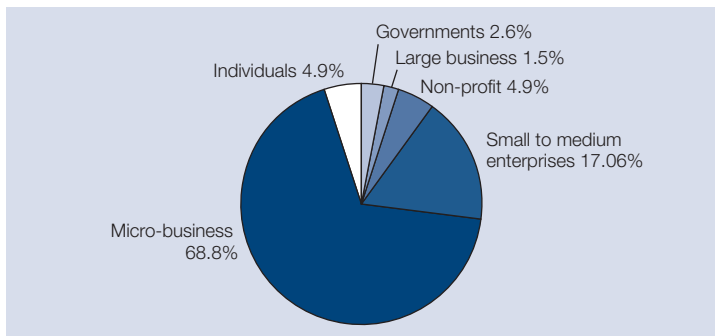
In addition to our escalating intervention strategies, we encourage compliance by:

- applying the general interest charge on outstanding payments and notifying taxpayers through monthly running balance account statements
- enforcing a failure-to-lodge-on-time penalty, taking into account previous lodgment behaviour – we send a warning letter to taxpayers before applying a penalty
- monitoring and managing large business taxpayers, particularly in relation to their PAYG withholding obligations
- examining behaviour in high-risk cases and categories, for example, those apparently operating outside the tax system (see evasion and fraud, page 36), and
- identifying and addressing persistent debtor behaviour.

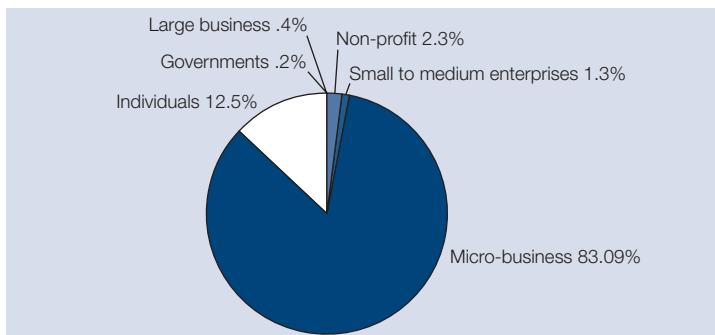
12 million income tax returns by segment



4.4 million monthly activity statements by segment



Over 8.6 million quarterly activity statements by segment



ATO Plan

The ATO Plan 2003–04 is made up of five sub-plans – the compliance, operations, people and place, information technology, and the easier, cheaper and more personalised sub-plans. These are designed to enable us to deliver agreed outputs and are guided by our corporate priorities.

The compliance sub-plan is central to our effective revenue administration, while the other four sub-plans play a supporting role. The compliance sub-plan is detailed in this booklet.

Underpinning all the sub-plans is the aim to treat taxpayers in accordance with the *Taxpayers' Charter* and the Compliance Model.

The sub-plans will evolve throughout the year as a result of a number of factors, including internal and external feedback, new policy, revised risk assessments, and business design and initiatives.

The interdependence of the sub-plans also means we must continually assess, monitor and review them to see that we make any necessary resource shifts within and between the sub-plans.

Operations sub-plan

The operations sub-plan aims to provide practical support for our compliance work. Work under this sub-plan includes administering the ABN and taxpayer registers (tax file number); managing the lodgment program for collecting information; receiving and processing activity statements, income tax and other returns; processing all payments; managing and maintaining client accounts; pursuing tax debt; and enforcing lodgment obligations.

The operations area also plays a major role in influencing administrative policy for the operation of the tax system.

The information collected and managed under this sub-plan is a significant input to the compliance program. Key areas of focus this year include improving integrity in taxpayer data holdings and accounts, reducing debt holdings and improving relationships. Additional areas of focus include implementing new tax policy and legislation and federal budget measures, improving taxpayer experiences in meeting their tax obligations, and partnering with the compliance area to address those currently operating outside the tax system.

People and place sub-plan

The major aim of the people and place sub-plan is to provide a sustainable platform to deliver our business outcomes and adapt to needs and opportunities in a rapidly changing environment. The sub-plan does this by:

- supporting our people through providing skilling programs, addressing wellbeing issues and work and job design, and encouraging a culture of integrity and performance

- providing appropriate accommodation for staff (the major component of this sub-plan's budget), and
- enhancing our corporate planning processes.

Information technology sub-plan

The information technology sub-plan aims to provide the information technology architecture and design, applications, infrastructure, security and future planning needed to support our compliance work.

The sub-plan particularly aims to make more efficient use of technology through synergies between projects and processes, and keep pace with external developments and community expectations.

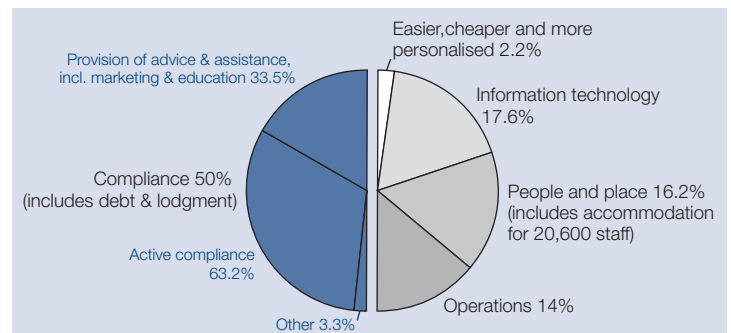
The easier, cheaper and more personalised sub-plan

This sub-plan aims to make it easier for taxpayers to comply with their tax obligations by providing products and services that are easier, cheaper and more personalised. It includes a large number of activities to enhance the taxpayer experience and build new capabilities in the Tax Office to continue to meet taxpayer expectations.

See our recently published booklet on this sub-plan, *Making it easier to comply*, which is available on our website at www.ato.gov.au.

This chart shows how we have allocated resources between the five sub-plans for 2003–04.

2003–04 planned sub-plan budget split



The allocation to the compliance sub-plan for 2003–04 is a 2% increase over that actually spent last year as a proportion of the total Tax Office budget. This equates to an increase of \$115.2 million over that spent last year.

Within the compliance sub-plan, it is planned to devote 63.2% of resources to active compliance (an increase of \$64.2 million over last year) and 33.5% on provision of advice and assistance, including marketing and education (an increase of \$48.9 million over last year).

Planning and governance arrangements

How we are organised to deliver on our business intent

ATO Executive

ATO Strategic statement and plan

- 01 Approve our strategic statement and plan
- 02 Continue to develop strategic directions
- 03 Monitor overall delivery and initiate corrective action

- 04 Approve necessary resource shifts between sub-plans
- 05 Corporate change program steering committee



<p>Corporate Change Program Executive</p> <p>Easier, cheaper, more personalised program sub-plan</p> <p>Under direction of the steering committee, develop and implement a program of initiatives to make the revenue experience easier, cheaper and more personalised.</p> <p>Work with the community and other sub-plan executives to engage in co-design and implementation.</p>	<p>Compliance Executive</p> <p>Compliance sub-plan</p> <p>Manage implementation of the compliance sub-plan.</p> <p>Continue to develop the sub-plan with emphasis on giving effect to the Compliance Model and Charter across compliance activities and developing leveraging activity across lines.</p> <p>Manage market segment and product balance.</p> <p>Make necessary resource shifts in the sub-plan.</p>	<p>Operations Executive</p> <p>Operations sub-plan</p> <p>Manage implementation of the operations sub-plan.</p> <p>Continue to develop the sub-plan with emphasis on improving efficiency and ease of operation for taxpayers and their representatives.</p> <p>Make necessary resource shifts in the sub-plan.</p>	<p>IT Executive</p> <p>IT sub-plan</p> <p>Manage implementation of the IT sub-plan.</p> <p>Continue to develop the sub-plan to support improvement initiatives generated by other executives, and to provide a design platform more in sync with our style of administration.</p> <p>Make necessary resource shifts in the sub-plan.</p>	<p>People and Place Executive</p> <p>People and place sub-plan</p> <p>Manage implementation of the people and place sub-plan.</p> <p>Continue to develop the sub-plan to support delivery of compliance, operations and IT plans.</p> <p>Emphasis on planning for workforce required for the future.</p> <p>Professional streams skills development.</p> <p>Make necessary resource shifts in the sub-plan.</p>
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- Corporate Design Forum**
Review and contribute to the development of our strategic directions and corresponding capabilities.
- Tax Policy Coordination Committee**
Joint Treasury and Tax Office forum to manage the relationship necessary to give effect to our respective roles in development and implementation of revenue legislation.
- Plenary Governance Forum**
Quarterly meeting of executives to review progress against direction and plan.
- Corporate Steering Committees/forums**
Review and drive particular corporate initiatives and capabilities.
- Rulings Panel and other Panels**
Establish our position on major technical and litigation issues.
- Integrity Advisory Committee**
Advise on the robustness of our integrity framework promoting and supporting an ethically-based culture.
- Audit Committee**
Oversee internal assurance to monitor and evaluate internal controls for risk management and financial reporting to support our integrity framework. Oversee implementation of Australian National Audit Office and internal audit recommendations.
- Finance Committee**
Review progress against the budget. Recommend corrective action. Develop our financial management capability. Monitor impact on future years.

Business and service lines

Plan and manage delivery of sub-plans within lines, reflecting decisions and directions from executive bodies.

