

Part B The Collection of Taxation Debts

28 RECOVERING DISPUTED DEBTS

The policy in this chapter is to be followed by Tax Office staff. We have made every effort to ensure it is technically accurate, but in the interests of clarity it has been written in 'plain English' and should not be read or interpreted like legislation. If you feel that something in the chapter is wrong or misleading, please advise the Tax Office.

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28.1 PURPOSE

28.1.1 This chapter should be read in conjunction with the chapter entitled 'Risk management'. It deals with:

- the Commissioner's ability to recover tax-related liabilities that may be subject to dispute; and
- the circumstances and risk factors which will determine when the Commissioner will take action to recover those liabilities.

NOTE: The subsection entitled 'Participants in specific mass-marketed tax schemes' of the policy chapter entitled 'Risk management' outlines the special arrangements which apply to disputed debts stemming from participation in certain mass-marketed tax schemes.

28.2 LEGISLATION

28.2.1 Revenue becomes due to the Commonwealth under a number of provisions of taxation law. For example, section 204 of the *Income Tax Assessment Act 1936* (ITAA 1936) provides that any assessed income tax is due for payment on the date specified in the notice.

28.2.2 Section 255-5 of the *Taxation Administration Act 1953* (TAA) provides that a tax-related liability that is due and payable is a debt due to the Commonwealth and is payable to the Commissioner who may seek to recover an amount that remains unpaid after it has become due and payable in a court of competent jurisdiction.

28.2.3 Sections 14ZZM and 14ZZR of the TAA provide respectively:

- the fact that a Tribunal review (or appeal) is pending (other than a registration-type sales tax decision) does not in the meantime interfere with, or affect, the decision; and
- any tax, additional charges or other amount may be recovered as if no Tribunal review (or appeal) were pending.

28.3 INTRODUCTION

28.3.1 The legislative framework, which underpins the Commissioner's policy in the collection and recovery of disputed debt, is designed to ensure that tax debtors do not improperly delay payment of tax by making frivolous objections, requests for Tribunal reviews or appeals. Accordingly, the Commissioner can take legal action to recover outstanding tax irrespective of whether the tax is subject to an objection, review or

appeal. (*DFC of T v. Niblett* (1965) 8FLR 134; *DFC of T v. Mackey* 82 ATC 4571).

- 28.3.2 As a general principle, the Commissioner expects that all debts, including those subject to dispute, will be paid on time. Where tax is paid and the dispute is resolved in favour of the tax debtor (in whole or in part), the Commissioner will pay interest on overpayments under the *Taxation (Interest on Overpayments and Early Payments) Act 1983*, in respect of certain types of tax which have been overpaid.
- 28.3.3 The TAA imposes a statutory duty upon the Commissioner to decide objections (section 14ZY) and the Taxpayers' Charter outlines that the Commissioner will aim to finalise an objection within 56 days or within a negotiated timeframe of receiving all of the necessary information to make a decision. Tax debtors who wish to accelerate the objection process can require the Commissioner to make an objection decision. Where such a decision has not been made by the Commissioner within the prescribed time, the Commissioner is taken to have made a decision to disallow the objection (section 14ZYA) and the tax debtor can then pursue the matter at the Administrative Appeals Tribunal (AAT) or court.
- 28.3.4 In tandem with the duty to decide objections, the TAA also imposes upon the Commissioner the duty to collect and recover tax which is the subject of objections and to ensure that payment of such taxes are not put at risk.
- 28.3.5 In dealing with objections and managing the risk to payment of disputed debt, the Commissioner is required to deal with varying classes of tax debtors in terms of their attitude, behaviour and compliance with the law. The level of compliance varies from the taxpayer who is 'willing to do the right thing' in terms of lodgment of correct returns and payment of tax to the non-compliant tax debtor who shows contempt for the law by not lodging returns or lodging incorrect returns and alienating assets to defeat the Commissioner's ability to recover tax.
- 28.3.6 As outlined in the Taxpayers' Charter, the Commissioner will treat each taxpayer fairly and equitably, taking into account their individual circumstances. This principle applies equally to the measure and sanction the Commissioner must implement based on the level of risk associated with each disputed debt matter. The risk factor in each case will turn on its own facts and, subject to its assessment, the Commissioner can apply the level of sanction that the circumstances dictate (ie the most severe sanction in the case where the highest level of risk is identified - see the chapter entitled 'Risk management').
- 28.3.7 The Commissioner's primary responsibility, as intended by Parliament, is for the collection of revenue and his powers to discharge this responsibility are enshrined in sections 255-5, 14ZZM & 14ZZR of the TAA. Whilst the judiciary recognises the intent of these powers, it will not permit an abuse of the court's process for instance through vexatious or oppressive recovery proceedings.
- 28.3.8 The courts have an inherent discretion to stay or intervene in a recovery process. They will do so rarely and the onus lies on the tax debtor to justify any intervention. Some of the principles which the courts take into account in deciding whether to intervene may be relevant for the Commissioner in deciding whether to defer recovery action. These include:

- (i) The courts give 'great weight' to the policy priority given by the legislation to the recovery of revenue over the finalisation of objections and appeals;
- (ii) The fact that the tax debtor has a dispute is a relevant factor to be taken into account, but is not of itself sufficient to defer recovery action. The merits of the tax debtor's dispute (eg if the Commissioner is taking a position against the weight of precedent cases) may constitute a factor to be taken into account in deciding whether or not to grant a deferral of legal action;
- (iii) The courts give serious consideration to any adverse consequences to tax debtors that may flow from recovery action being instituted prior to the determination of objections. Accordingly, a stay may be granted in cases of extreme personal hardship to the tax debtor, however, the obligation to pay tax does not on its own constitute hardship. A stay may also be granted where the court considers it necessary to prevent an abuse of the court's process, for instance through vexatious or oppressive recovery proceedings; and
- (iv) The courts will be reluctant to grant a stay where the tax debtor was party to artificial and contrived arrangements to avoid tax, (*DFC of T v. Mackey* 82 ATC 4571), nor will the courts set aside a winding up demand on the grounds, *inter alia*, that there was a genuine dispute as to the debt (*Hoare Bros Pty Ltd v. DFC of T* 96 ATC 4163).

28.4 POLICY

OBJECTION STAGE

- 28.4.1 Whilst the focus of the Commissioner's attention at the objection stage is to determine the objection as quickly as possible, due regard will be given to the tax debtor's capacity and willingness to pay the disputed debt. This will necessitate an analysis of the risk associated with the collection of the disputed debt. (See the policy chapter entitled 'Risk management').
- 28.4.2 Where a tax debtor lodges an objection against an assessment, the Commissioner may initiate recovery action for collection of the disputed debt at any time prior to the determination of the objection based on an assessment of the risk.
- 28.4.3 Generally, where an objection is lodged promptly after receipt of an assessment, and the Commissioner is satisfied that there is little or no risk, it is unlikely that recovery action for collection will be initiated until the objection is determined. In these circumstances, the Commissioner will generally not demand payment of the disputed debt until 14 days after the objection has been determined.
- 28.4.4 In cases where it is considered appropriate based on the risk mentioned above, the Commissioner may allow the tax debtor to minimise exposure to the imposition of the general interest charge (GIC) while the objection remains undecided. Generally, the Commissioner will favourably consider 50/50 arrangements upon a written request being received from the tax debtor who agrees to:
- pay all undisputed debts and a minimum of 50% of the disputed debt (for assessments relating to the 2000-2001 to 2003-04 years

of income, 50% of the disputed principal tax debt may be acceptable, eg 50% of the assessed income tax liability); and

- co-operate fully in providing any requested information necessary for the early determination of the objection within 30 days of the request or within another agreed timeframe set by the case officer;
- pay the whole of any subsequently arising tax liability which is not in dispute and for which no other deferral of legal action has been granted.

28.4.5 Alternatively, where a written request for a 50/50 arrangement has not been received from the tax debtor, the Commissioner may formally invite the tax debtor to pay the required amount within 14 days where it is considered appropriate to do so following an assessment of the risk associated with the case. Should the tax debtor decline the offer, recovery action is unlikely to be commenced prior to the determination of the objection unless the circumstances of the case indicate an unacceptable level of risk.

28.4.6 Where a number of tax debtors lodge objections on the same matter it is sometimes appropriate to select a representative sample of these objections as test cases. The other objections remain undetermined pending the hearing of the test case(s) provided they are heard within a reasonable time. Alternatively, objections might be determined in all cases and action taken to expedite the hearing of a representative selection of cases. Where an undetermined objection is awaiting decision on a test case the tax debtor may, subject to the level of risk associated with the case, be given the opportunity to enter into a 50/50 arrangement. The Commissioner may adopt a similar approach where the matter is at the Tribunal review or appeal stage in the appropriate circumstances, based on an assessment of risk.

28.4.7 A 50/50 arrangement will be refused or rescinded and recovery action may be taken at any time before an objection is determined where there are reasonable grounds for the Commissioner to believe that the associated risk requires such action. (See policy chapter entitled 'Risk management').

28.4.8 In all cases action will be taken to recover disputed amounts at the objection stage where:

- the tax debtor's total liability includes an amount which is not subject to a dispute; or
- there are reasonable grounds to believe the revenue is at risk (eg funds and /or assets are being dissipated); or
- the tax debtor declines to supply additional facts or other material, within 30 days of the request, necessary for the determination of the objection. This timeframe may be varied, where appropriate, by negotiation between the case officer and the tax debtor; or
- the objection is deemed to be frivolous or without merit by virtue of the fact that the tax debtor is pursuing arguments which are inconsistent with a previous Public or Private Ruling/Binding Oral Advice, or where the law in relation to the matter in dispute is well-settled and the tax debtor is going against the weight of precedent cases (for example, where the tax debtor's grounds of objection have been previously considered and rejected by an appellate

tribunal in another similar case and leave to appeal to a superior Court has been refused to that tax debtor).

- 28.4.9 Where the Commissioner determines that the level of risk necessitates action to secure payment of the disputed debt before resolution of an objection, the following options will be considered as alternatives to the instigation of legal action for recovery of the debt or possible submissions from the tax debtor to mitigate the perceived risk:
- payment of the whole debt within 14 days of a demand being issued to the tax debtor;
 - payment of the whole debt by instalments;
 - payment of 50% of the disputed debt in a lump sum with the balance being paid by instalments;
 - payment of 50% of the disputed debt together with the provision of acceptable security for the remaining balance;
 - provision of acceptable security for the whole debt;
 - payment of 50% of the disputed debt in exchange for deferment of the balance until the objection is determined by the Commissioner;
 - payment of 50% of the disputed principal tax debt in exchange for deferment of the balance until the objection is determined by the Commissioner (eg payment of 50% of the assessed income tax)
 - provision of financial documents to substantiate that payment of 50% of the disputed debt would cause serious financial hardship. (*DC of T v. Gergis* 91 ATC 4510, also *DC of T v. La Rosa* 37 ATR 84).
- 28.4.10 Acceptance of any of the above options will be subject to imposition of the GIC at the statutory rate on any amounts ultimately held to be payable. However, consideration may be given to remission of part of the amount imposed upon receipt of an application for remission from the tax debtor.
- 28.4.11 Where a tax debtor is unable to comply with the Commissioner's demand for payment within 14 days and wishes to advance submissions to mitigate the perceived risks, the Commissioner will require a full and true disclosure of the financial position of the tax debtor and all associated entities upon which the tax debtor can reasonably be expected to rely for financial assistance. In addition to the pre-requisite financial statements, which would normally be required by the Commissioner (eg in the 'Application for an Arrangement to Pay by Instalments' form), the tax debtor may be required to disclose information such as:
- the name of the owner(s) of properties where the tax debtor
 - resides; and or
 - conducts business,
- where third parties are reported to be the owners of such properties.
- Serious financial hardship**
- 28.4.12 A submission based on serious financial hardship would require the support of financial documents, which show that the tax debtor's inability to pay 50% of the disputed debt is **not** merely due to short-term liquidity

problems. Conversely, a disclosure which amounts to a declaration of insolvency as defined in the *Bankruptcy Act 1966* would not be considered just cause for deferring legal recovery action.

- 28.4.13 Serious financial hardship in the context of a personal taxation debt of an individual tax debtor, such as income tax, is likely to ensue where payment of the disputed debt would place a tax debtor in a situation where there are insufficient assets, which could be reasonably realised to cover the gap between personal income and the expenses associated with the basic necessities of everyday life.
- 28.4.14 In the context of an individual or corporate tax debtor who is engaged in business, a presumption of serious financial hardship would be sustained where the tax debtor can demonstrate that the business would suffer prejudice of an extraordinary type such that survival of the business would be endangered if forced to make payment of 50% of the disputed debt.
- 28.4.15 Misfortunes beyond a tax debtor's control such as sickness, accident, flood, fire, drought etc can obviously have significant impact on a tax debtor's capacity to pay, to such an extent that immediate payment of any part of a disputed debt may be regarded on compassionate grounds as an imposition of undue hardship on the tax debtor.
- 28.4.16 A finding of serious financial hardship is unlikely where the tax debtor and/or entities associated with the tax debtor hold assets such as term deposits, shares, investment properties, boats etc, or where there appears to be considerable scope for economising on items such as accommodation, clothes, education or general living/business expenses. Similarly, the mere anticipation of inconvenience or disruption to the tax debtor's business or personal lifestyle which could result from the reorganisation of the tax debtor's financial affairs to pay 50% of the disputed debt would not amount to hardship.

Securities

- 28.4.17 It should be noted that unlike a financial institution whose primary function is to derive interest income on loans to its clients, the Commissioner's primary duty to Government is to maximise collection of taxation debts. From that perspective, it is not in the revenue's best interest for the Commissioner to accept security in lieu of payment of disputed debts. Accordingly, the Commissioner will only favour acceptable security in very limited circumstances such as where a tax debtor has an unencumbered asset in the form of real property but has been unable to obtain a loan from financial institutions because of an inability to service repayment of such loan in the absence of sufficient income. (For a definition of 'acceptable security', see the chapter entitled 'Securities').

Objections after the commencement of recovery action

- 28.4.18 In any case where the due date for payment of tax has passed, and an objection has not been lodged, the Commissioner may commence debt collection action in accordance with the principles and practices set out in this *ATO Receivables Policy*.
- 28.4.19 In some instances, an objection may be lodged after the Commissioner has commenced action to recover the debt. The notice of objection will

frequently be accompanied by a request to defer or stay recovery action until the objection is determined. Such requests should be refused unless there are substantive reasons why the objection was not lodged promptly. If the request is refused, recovery action should proceed to the entry of judgment while the objection is being processed as a matter of priority.

28.4.20 If the objection cannot be determined by the time the Commissioner seeks execution of judgment, bankruptcy or liquidation, then provided:

- the tax debtor continues to cooperate in the fast resolution of the objection;
- there is little or no risk to the revenue; and
- all tax not in dispute has been paid;

the Commissioner may agree to defer execution of judgment, bankruptcy or liquidation until the objection has been determined.

28.4.21 If the facts of the case require recovery action to proceed to bankruptcy, liquidation or if the tax debtor's estate becomes the subject of another form of insolvency administration before the objection is determined, then the right to pursue that objection, as a general rule, is a power conferred by statute upon the insolvency practitioner who is appointed as Trustee or Liquidator or Administrator of the tax debtor. (See *McCallum v. FC of T* 97 ATC 4509).

Remission requests based on delay

28.4.22 Occasionally some objections take longer to determine, and requests may be received for a remission of additional charges for late payment/GIC for the duration of that delay. Such a request may be made independently of any 50/50 arrangement.

28.4.23 A full or partial remission may be granted in individual cases depending on the facts of those individual cases. In considering whether to grant any remission, it would be expected that consideration would be given to the following:

- the tax debtor's ability to pay the debt since the date the tax became due and payable;
- any circumstances that have affected the tax debtor's ability to pay the debt since the date the tax became due and payable, including steps taken to mitigate, or mitigate the effects of, the circumstances that contributed to the delay in payment; and
- any special circumstances.

28.4.24 The delay in determining the objection(s) would carry negligible weight in any consideration of special circumstances because:

- (i) the fact the assessment is subject to an objection does not alter the fact the tax raised in the assessment remains due and payable.
- (ii) subject to the facts of individual cases, any delay in determining an objection should not impact on a tax debtor's ability to pay their tax. Assuming some initial financial inability to pay in full, a delay ought to enhance their ability to pay their tax debt off by instalments over time;

- (iii) it may be open for some tax debtors to defer the time for payment of a liability (eg under section 255-10 TAA) - see the chapter entitled 'Deferring the time for payment';
- (iv) Tax debtors have options to compel the Commissioner to determine an objection (see sections 14ZYA and 14ZY TAA); and
- (v) Tax debtors are entitled to interest on overpayments on any tax ultimately found to be overpaid should the objection be allowed in full or in part.

28.5 TRIBUNAL REVIEW OR APPEAL STAGE

- 28.5.1 In all cases action may be taken to recover disputed debt at the Tribunal review or appeal stage, unless:
- the Commissioner has accepted a 50/50 arrangement; or
 - the tax debtor can demonstrate that they do not have the capacity to pay a minimum of 50% of the disputed debt (or 50% of the disputed primary tax debt for assessments relating to the 2000-01 to 2003-04 income years) but gives the Commissioner acceptable security for the full amount of the outstanding tax; or
 - the tax debtor can satisfy the Commissioner that payment of a minimum of 50% of the disputed debt would cause serious financial hardship, (See subsection above entitled 'Serious hardship'); or
 - the Commissioner is pursuing arguments which are inconsistent with a previous Public or Private Ruling/Binding Oral Advice, or going against the weight of precedent cases (ie the Commissioner is challenging the previously accepted position).
- 28.5.2 Even where these conditions are met, the Commissioner may still initiate recovery action where there are reasonable grounds for the Commissioner to believe that the risk associated with the case requires such action. (See the chapter entitled 'Risk management').
- 28.5.3 In certain high risk cases such as where there is clear evidence of a blatant tax avoidance scheme or where a court has already determined the subject matter of the Tribunal review or appeal in favour of the Commissioner, it is unlikely that the Commissioner will consider acceptance of a 50/50 arrangement or security as an alternative to legal action for recovery of the whole debt. In those circumstances, the claim of serious financial hardship in support of a deferment of legal action or an application for a stay of proceedings is unlikely to succeed. (See *DFC of T v. Mackey* 82 ATC 4571; *Held v. DCT (Vic.)* 88 ATC 4315).
- 28.5.4 It is expected that tax debtors will voluntarily enter into a 50/50 arrangement to avoid the possibility of legal action being instigated for recovery of the debt at appeal stage. Where a tax debtor has not voluntarily entered into a 50/50 arrangement, the Commissioner may require the tax debtor to enter such an arrangement within 14 days where it is considered appropriate to do so following an assessment of the risk associated with the case. However, where the tax debtor fails to comply, recovery action is likely to be commenced (subject to the exceptions mentioned above) immediately after giving the tax debtor notice of the intention to commence such action. Where a 50/50 arrangement has not been requested or the application has not been accepted, GIC will continue to accrue at the statutory rate.

- 28.5.5 A request for a 50/50 arrangement where the assessment is under Tribunal review or appeal should be made in writing and lodged with the Tax Office as soon as possible after lodging the Tribunal review or appeal. The Commissioner's decision on the request should also be in writing. All agreements to defer legal action should contain the following terms:
- the tax debtor pays all tax not in dispute and a minimum of 50% of the disputed debt (for assessments relating to the 2000-2001 to 2003-2004 years of income, 50% of the disputed principal tax will suffice);
 - the tax debtor agrees to take all reasonable steps to proceed with the review or appeal promptly;
 - for the duration of the deferral, the tax debtor will pay the whole of any subsequently arising tax liability which is not in dispute and for which no other deferral of legal action has been granted; and
 - default of the arrangement could result in action by the Commissioner as if the arrangement had never been entered into.
- 28.5.6 Where an application for a 50/50 arrangement is not made or is refused, recovery action may be commenced or continued. Where a tax debtor seeks to delay the recovery action by applying for a stay of recovery or of execution, late payment GIC will continue to accrue at the statutory rate. The court may be advised in low risk cases that the Commissioner will agree to recovery action being deferred, only in respect of any disputed debt, if:
- the tax debtor meets the Commissioner's requirements for a deferment of legal action set out above; or
 - the tax debtor or another party provides an acceptable undertaking to the court that in the event of a decision favourable to the Commissioner, the disputed debt will be paid in full within 14 days of the decision of the AAT or court. Such deferment will be subject to the imposition of GIC at the statutory rate.
- 28.5.7 If the tax debtor declines to accept these terms, the recovery action should proceed. In rare cases, the tax debtor may be able to demonstrate they do not have sufficient assets to support an acceptable undertaking to the court that the debt will be paid in full if the AAT or court fully or partially disallows the appeal (ie the tax debtor can demonstrate to the court that they would be insolvent if the tax debts were held to be payable). In those circumstances, subject to the level of risk, provided that the tax debtor consents to the Commissioner having leave to enter judgment, the Commissioner would in turn consent to a stay of entry of judgment until fourteen days after the decision of the AAT or court.
- 28.5.8 It should be noted that the onus remains with a tax debtor to produce documentary evidence in support of his/her financial position. A mere allegation that the tax debtor is facing insolvency does not in itself mean that the Commissioner should await the outcome of protracted litigation before obtaining an appropriate share in the bankrupt's estate. (See *DCT (Vic) v. Ewen* 84 ATC 4550).

28.5.9 Wherever possible, suitable Consent Orders should be settled to reflect the exact terms of an agreement and to eliminate the possibility of further dispute in the event that a favourable decision necessitates the entry of judgment by the Commissioner.

28.6 50/50 ARRANGEMENTS AT THE OBJECTION, TRIBUNAL REVIEW OR APPEAL STAGE

28.6.1 The lodging of an objection, appeal or application for Tribunal review does not relieve tax debtors of their liability, including the GIC for late payment.

28.6.2 The prospect of remission of GIC is not to be used as an inducement to achieve finalisation of a dispute although, depending on the circumstances, remission may form a component of a settlement.

28.6.3 The fact that the Commissioner has not instigated collection action for whatever reason while an objection, Tribunal review or appeal remains unresolved does not in itself amount to an agreement by the Commissioner to defer recovery of the disputed debt under section 255-5 of the TAA. The Commissioner will only agree to a deferral of recovery action where the tax debtor has entered into a *50/50 arrangement* or where the Commissioner considers that a genuine dispute exists in regard to the assessability of an amount. Such an agreement will usually be expressed in writing.

28.6.4 Section 8AAZL of the TAA sets out how the Commissioner must treat payments received in respect of taxation debts as well as credit entitlements arising under a taxation law. Where a 50/50 arrangement has been accepted, payments received under the arrangement will be applied to reduce each component of the disputed debt to 50%, or in manner consistent with the terms of the arrangement entered.

28.6.5 Once a decision has been made to retain a credit and it has been applied to a disputed debt, the Commissioner will not reapply such credit to any subsequent tax liability of the tax debtor. For details of the Commissioner's policy relating to the treatment of credits arising for a tax debtor while a disputed debt remains outstanding, see the chapter entitled, 'Offsetting of refunds and credits against taxation and other debts'.

28.6.6 Where a 50/50 arrangement has not been accepted the GIC will continue to accrue at the statutory rate. However, where the Commissioner has accepted a 50/50 arrangement, the tax debtor will minimise their exposure to GIC.

28.6.7 Further, where the Commissioner has entered a 50/50 arrangement at the objection stage, and following the determination of the objection the tax debtor promptly lodges an appeal or requests that the dispute be referred to the AAT, the Commissioner will (depending on an assessment of risk) generally extend the period of the 50/50 arrangement until fourteen days after the date that the decision is handed down by the relevant appellate tribunal or Court.

28.6.8 In relation to assessments for years of income earlier than 2000-2001 income year, the Commissioner will pay interest following the determination of a dispute in the tax debtor's favour in respect to overpayments of the principal tax, tax shortfall penalties imposed under Part VII of the ITAA 1936 and the GIC incurred under section 170AA of

the ITAA 1936. However, in relation to assessments for the 2000-2001 to 2003-2004 years of income, following a determination in the tax debtor's favour the Commissioner can **only** pay interest in respect to overpayments of the principal tax. That is, in these circumstances the Commissioner cannot pay interest in respect to any overpayment of tax shortfall penalties incurred under Division 284 of the TAA or GIC incurred under section 204 of the ITAA 1936 (these penalties and charges essentially replaced the amounts formerly imposed under Part VII and section 170AA of the ITAA 1936). For years of income 2004-2005 onwards, the Commissioner remains unable to pay interest in respect of any overpayment of tax shortfall penalties incurred under Division 284 of the TAA. However, for income tax cases, the Commissioner is able to pay interest on overpayment in respect to an overpayment of shortfall interest charge incurred under Division 280 of the TAA.

28.6.9 In recognition of the irregular operation of the interest on overpayment laws in this circumstance, the Commissioner will offer different terms and conditions when entering into a *50/50 arrangement* in relation to disputed debts for the 2000-2001 and later years of income than offered to earlier income years.

A. Disputed debts prior to the 2000-2001 income year

28.6.10 Based on an assessment of risk, the Commissioner will generally enter into a 50/50 arrangement in relation to disputed debts pertaining to income years **prior** to 2000-2001 where the tax debtor has paid all tax not in dispute, paid a minimum of 50% of the entire disputed debt and satisfied the other prerequisites set out above in this chapter (for example, see paragraphs 28.4.4 and 28.5.5). In return, the tax debtor will receive a deferral of legal action in respect to the unpaid balance of the disputed debt until 14 days after (as appropriate):

- the Commissioner determines the objection; or
- the date of the decision on the appeal or Tribunal review has been handed down;

and will be liable for GIC as follows:

- (i) on any debts not in dispute, GIC will accrue at the full rate from the due date(s) until the date of payment;
- (ii) on the full amount of the disputed debt, GIC will accrue at the full rate from the due date(s) for payment until, but not including, the date the tax debtor pays a minimum of 50% of the entire disputed debt;
- (iii) on the remaining balance of the disputed debt that is being deferred under the arrangement, the tax debtor will be liable for 50% of the GIC calculated for the period commencing from the date of payment of a minimum of 50% of the entire disputed debt until fourteen days after (as appropriate):
 - the Commissioner determines the objection; or
 - the date that the decision is handed down by the relevant appellate tribunal or court.

(ie. the Commissioner will remit 50% of the GIC accrued during this period);

and

- (iv) fourteen days after the date that (as appropriate):
- the Commissioner determines the objection; or
 - the decision is handed down by the relevant appellate tribunal or Court;

the remaining balance of the disputed tax debt that was previously deferred under the arrangement will be subject to GIC at the statutory rate until the balance is paid in full.

B. Disputed debts relating to the 2000-2001 to 2003-04 income years

28.6.11 A tax debtor should be advised prior to entering a 50/50 arrangement of the Commissioner's inability to pay interest in the event that the dispute is determined in the tax debtor's favour on any overpaid tax shortfall penalty or GIC pertaining to the period commencing from the date the correct amount of principal tax should have been paid and up until the date the (amended) assessment is made.

28.6.12 In relation to disputed debts pertaining to the 2000-2001 to 2003-04 income years, based on an assessment of risk and satisfying the prerequisites set out above (for example, see paragraphs 28.4.4 and 28.5.5), the Commissioner will generally enter into a 50/50 arrangement where the tax debtor has paid all tax not in dispute and paid a minimum of 50% of the disputed principal tax debt (eg a payment of 50% of the assessed income tax). That is, in recognition that the law will not permit the Commissioner to pay interest should the dispute be determined in the tax debtor's favour in relation to overpayments of tax shortfall penalty imposed under Division 284 of the TAA and the GIC incurred under section 204 of the ITAA 1936, the Commissioner will usually not insist on receiving a 50% payment of these amounts for the purposes of entering a 50/50 arrangement.

28.6.13 However, in order to minimise their exposure to GIC, in addition to paying a minimum of 50% of the disputed principal tax debt, a tax debtor may choose to voluntarily pay as part of the 50/50 arrangement:

- 50% of the other related components of the disputed debt (eg any tax shortfall penalty and certain amounts of GIC); or
- 50% of one of these other components.

28.6.14 Where the Commissioner has entered into a 50/50 arrangement with a taxpayer upon receiving payment of only 50% of the disputed principal tax debt, the tax debtor will still receive a deferral of legal action in respect to the entire unpaid balance of the disputed debt until 14 days after (as appropriate):

- the Commissioner determines the objection; or
- the date of the decision on the appeal or Tribunal review has been handed down;

However, in this circumstance the tax debtor will be liable for GIC as follows:

- (i) on any debts not in dispute, GIC will accrue at the full rate from the due date(s) until the date of payment;

- (ii) on the full amount of the disputed principal tax debt, GIC will accrue at the full rate from the due date(s) for payment until, but not including, the date the tax debtor pays a minimum of 50% of the disputed principal tax debt;
- (iii) on the remaining balance of the disputed principal tax debt that is being deferred under the arrangement, the tax debtor will be liable for 50% of the GIC calculated for the period commencing from the date of payment of a minimum of 50% of the disputed principal tax debt until fourteen days after the date (as appropriate):
 - the Commissioner determines the objection; or
 - the decision is handed down by the relevant appellate tribunal or court
 (ie the Commissioner will remit 50% of the GIC accrued during this period);
- (iv) on the remaining balance of the **other related components** of the disputed debt that are being deferred under the arrangement (eg. the unpaid disputed tax shortfall penalty imposed under Div 284 of the TAA and the GIC incurred under section 204 of the ITAA for the period commencing from the date the correct amount of principal tax should have been paid and up until the date the assessment is made), **GIC will accrue at the full rate** from the due date(s) until the date of payment (nb see paragraph 28.6.13, a tax debtor may reduce their exposure by paying 50% of all these other related components or 50% of one of these other related components as part of the arrangement).

and

- (v) fourteen days after the date that (as appropriate):
 - the Commissioner determines the objection; or
 - the decision is handed down by the relevant appellate tribunal or court;

the remaining balance of the disputed principal tax debt that was previously deferred under the arrangement will be subject to GIC at the statutory rate until the balance is paid in full.

28.6.15 Where a tax debtor, for example, has chosen to voluntarily pay 50% of the entire disputed debt as part of the 50/50 arrangement, the tax debtor will further minimise their exposure to GIC. In this case, in addition to the GIC concession outlined in paragraph 28.6.14, the tax debtor will also receive in relation to the remaining balance of the other related components of the disputed debt, a 50% remission of the GIC calculated for the period commencing from the date of payment of 50% of the other related components of the disputed debt until fourteen days after the date that (as appropriate):

- the Commissioner determines the objection; or
- the decision is handed down by the relevant appellate tribunal or Court.

28.6.16 Similarly, where a tax debtor as part of a 50/50 arrangement pays in addition to the mandatory 50% of the disputed principle tax debt only 50% of one of the other related components of the disputed debt, the tax

debtor will only receive, in addition to the GIC concession outlined in paragraph 28.6.14, a 50% remission of the late payment GIC attributable to that other related component of the disputed debt in a manner similar to that outlined in the above paragraph.

C. Disputed income tax debts relating to the 2004- 2005 and later years

28.6.17 For the 2004-2005 or later income years, any overpayment of shortfall interest charge imposed under Division 280 of the TAA **does** attract interest on overpayments. Hence, in relation to disputed income tax debts pertaining to those years, the principles set out above will be modified to reflect this fact. This means that a 50/50 arrangement will generally be agreed to where the tax debtor has paid all tax not in dispute and paid a minimum of 50% of the disputed principal tax debt (eg a payment of 50% of the assessed income tax) **plus** 50% of the disputed shortfall interest charge. Concessions in relation to GIC will be calculated accordingly. Again, the taxpayer will be able to further reduce their exposure to GIC by voluntarily paying further amounts, for example, 50% of any tax shortfall penalties.

Multiple assessments

28.6.18 In a particular income year, the Commissioner may validly issue two or more assessments relating to the same transaction against different taxpayers, or against the same taxpayer under different taxing provisions. In those cases, the payment by one of these entities of 50% of its disputed liability relating to that transaction, may provide benefits to all entities which have been assessed in relation to that transaction.

28.6.19 The benefits available to the other entity(ies) would be a remission of the GIC imposed on its disputed debt relating to that transaction. The amount of the benefit would be limited to a maximum of:

- the amount of GIC that would be remitted as a result of the payment *if* the payment had been made by the entity itself and not the paying entity, plus
- an amount equal to the GIC remitted on the paying entity's debt as a result of its 50/50 arrangement.

28.6.20 The income of a discretionary trust or similar entity could be adjusted as one of the adjustments or assessments resulting from the transaction. The benefits outlined immediately above are only available to the other entities assessed (excluding the other beneficiaries) if all of the beneficiaries of the trust pay 50% of the disputed debt relating to the transaction. Despite any non-payment by other beneficiaries, any beneficiary that pays 50% of its disputed debt will be entitled to the benefits normally available other than those outlined in previous two paragraphs.

28.6.21 In relation to these "multiple" assessments, no inference should be drawn by the relevant entities from the actions of the Tax Office as to the merits or validity of any of the assessments raised.

28.6.22 In the event that the appellate tribunal ultimately decides the substantive issue against the Commissioner, the full amount paid will be refunded together with interest on overpayment.

28.7 COMPETENT AUTHORITY ISSUES/MUTUAL AGREEMENT PROCEDURES

- 28.7.1 In cases where the Commissioner makes a transfer pricing or profit re-allocation adjustment, the debtor may seek Competent Authority assistance, under the Mutual Agreement Procedure (MAP) article contained in Australia's double tax agreements, to attempt to have the matter resolved with the other tax jurisdiction involved.
- 28.7.2 Where a MAP has been initiated by the debtor, irrespective of whether objection/appeal rights are being pursued concurrently by the debtor, the liability assessed will be treated as a disputed debt for collection purposes. To this end, it is recognised that the collection of tax during MAP cases will in some instances impose temporary double taxation on the taxpayer whilst the MAP is in progress because the same profits have been subject to tax in both jurisdictions. Where the possibility of such double taxation arises the Commissioner will agree to defer recovery action under section 255-5 of the TAA, including the recovery of any GIC until an agreed future date, (which will usually be the date that the MAP process is concluded), unless:
- there is a risk to the revenue, or
 - the taxpayer has other liabilities unpaid after the due date; or
 - the taxpayer has failed to meet other tax obligations when required.
- 28.7.3 Decisions in respect of individual adjustments and in respect of individual years are separate decisions.
- 28.7.4 Taxpayers should refer to Taxation Ruling TR 2000/16 for the remission policy in respect of the GIC which has accrued during the MAP.
- 28.7.5 A taxpayer may also be entitled to a limited remission of GIC incurred both prior to the MAP and up to 14 days after the MAP has been concluded (for further details refer to the chapter entitled, 'General Interest Charge').

28.8 TERMS USED

- 28.8.1 'Disputed debt' is a term used for the purposes of this chapter to describe a tax-related liability, which is subject to an objection, a Tribunal review or an appeal. In this context, 'disputed debt' also includes other related components that may arise from the making of the assessment increasing the liability of the taxpayer to tax. These related components include tax shortfall penalty and the GIC calculated from the date the correct amount of tax should have been paid and up until the date the assessment is made.
- 28.8.2 'GIC' in this chapter refers to the General Interest Charge (GIC) imposed for late payment.
- 28.8.3 'MAP' is an abbreviation for the Mutual Agreement Procedure contained in Australia's double tax agreements which provides a process for resolving disputes pertaining to tax also assessed under other tax jurisdictions.
- 28.8.4 'Principal tax debt' is a term used for the purposes of this chapter to describe the primary tax at the centre of the dispute. It would include amounts like assessed income tax, assessed GST and assessed Fringe

Benefits Tax. It does not include the other debts that may arise from the making of these assessments, such as tax shortfall penalty or GIC.

- 28.8.5 'Tax-related liability' or 'liability' is a term used to define any pecuniary liability to the Commonwealth arising directly under a taxation law (including a liability the amount of which is not yet due and payable). It thus encompasses all types of taxes, penalties, additional charges for late payment, etc (including amounts previously defined under the Income Tax Assessment Act 1936 (ITAA 1936) as 'tax' and under the Superannuation Guarantee Administration Act 1992 (SGAA 1992) as 'superannuation guarantee charge' etc). A table which lists the tax-related liabilities is found at section 250-10 of Schedule 1 of Taxation Administration Act 1953 (TAA). This includes excise and diesel fuel rebate debts administered under the provisions of the Excise Act 1901, diesel fuel rebate debts administered under the 'diesel fuel rebate Customs provisions' of the Customs Act 1901 and both grant scheme debts administered under the provisions of the Diesel and Alternative Fuel Grants Scheme Act 1999 and Product Grants and Benefits Administration Act 2000.
- 28.8.6 '50/50 arrangement' is a term used to describe an agreement between the Commissioner and a tax debtor where upon payment of a minimum of 50% of the disputed debt, the Commissioner agrees not to recover the balance of the disputed debt under section 255-5 of the TAA and consents to a remission of 50% of the general interest charge for late payment (GIC) which would otherwise accrue in the event that the tax debtor's dispute is unsuccessful. This arrangement may be subject to certain conditions outlined in this chapter.