

PS LA 2004/2 (Withdrawn) - GST Cooperative Compliance Advance Agreements

 This cover sheet is provided for information only. It does not form part of *PS LA 2004/2 (Withdrawn) - GST Cooperative Compliance Advance Agreements*

 This practice statement is withdrawn with effect from 27 January 2010 as it is no longer Tax Office practice to enter into GST Cooperative Compliance Advance Agreements.

 This document has changed over time. This version was published on 27 January 2010



ATO Practice Statement Law Administration

PS LA 2004/2

This practice statement is withdrawn with effect from 27 January 2010 as it is no longer Tax Office practice to enter into GST Cooperative Compliance Advance Agreements.

FOI status: may be released

This Practice Statement is issued under the authority of the Commissioner and must be read in conjunction with Law Administration Practice Statement PS LA 1998/1. It must be followed by ATO officers unless doing so creates unintended consequences. Where this occurs ATO officers must follow their Business Line's escalation process.

SUBJECT: GST Cooperative Compliance Advance Agreements

PURPOSE: To advise:

- what is a GST Cooperative Compliance Advance Agreement**
 - the procedures to adopt when entering into a GST Cooperative Compliance Advance Agreement**
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STATEMENT

1. The Cooperative Compliance Model outlines the cooperative relationship the Tax Office seeks with large businesses and the wider community.
2. A GST Cooperative Compliance Advance Agreement ('Advance Agreement') is based on the principles contained in the Cooperative Compliance Model.
3. Advance Agreements allow large businesses and the Tax Office an opportunity to cooperatively address key risks in a GST environment.
4. A business seeking to enter into an Advance Agreement must commit a level of resourcing that would enable it to independently conduct a detailed self-examination of its internal controls and accounting systems.
5. A business will need to have demonstrated a high level of self-compliance with the GST law before it can enter into an Advance Agreement with the Tax Office.
6. An Advance Agreement enables a business to reduce its risk of audits and penalties, provided it properly implements and maintains the agreed assurance processes.

Scope of this Practice Statement

7. This Practice Statement is designed to provide direction to Tax Office staff on the procedures to adopt when entering into an Advance Agreement.

Entities to which this Practice Statement applies

8. This Practice Statement applies to the large business segment including state-owned corporations and government bodies.

Authority to enter into an Advance Agreement

9. The person able to enter into an Advance Agreement on behalf of the Commissioner of Taxation is the Deputy Commissioner, Senior Assistant Deputy Commissioner or relevant Assistant Deputy Commissioner of the GST business line.

Advance Agreement Register

10. Once an Advance Agreement has been signed, it will be recorded on a central register for access by Tax Office staff.

EXPLANATION

What is an Advance Agreement?

11. An Advance Agreement is a written agreement that formally acknowledges self-regulation and cooperation in accordance with the Tax Office's Cooperative Compliance Model.
12. An Advance Agreement is a compliance product introduced for the purpose of promoting greater certainty, reducing compliance costs and improving administration for businesses in meeting their GST obligations.
13. An Advance Agreement is tailored to those businesses that the Tax Office has established as having demonstrated a high level of self-compliance with the GST law.

Procedure prior to entering into an Advance Agreement

14. Prior to entering into an Advance Agreement, businesses will be required to undertake a detailed self-examination of the adequacy of their accounting systems and internal controls. The recently released publication, *The Better Practice Guide for GST Administration* (see paragraphs 22 to 24) can assist businesses in their self-examination.
15. Businesses will need to satisfy certain requirements before the Tax Office will agree to enter into an Advance Agreement. These requirements are that they have:
 - Demonstrated a high level of self-compliance with the GST law;
 - Performed a rigorous self-examination of processes and system controls;
 - Demonstrated a high level of commitment toward cooperative compliance; and
 - Agreed to allow Tax Office staff to have full and free access to systems, training and system manuals and relevant personnel.
16. The Tax Office will review and test their systems and controls, in accordance with Tax Office work practices, to determine whether they demonstrate a high level of self-compliance with the GST law.
17. Where businesses demonstrate a high level of self-compliance, the Tax Office may enter into an Advance Agreement with them. Continuance of an Advance Agreement is subject to businesses periodically undertaking specific tasks and

providing update reports to the Tax Office to demonstrate their ongoing commitment in maintaining and continuing to improve their controls of the GST risk categories identified.

The Advance Agreement

18. An Advance Agreement is a written agreement between a business and the Tax Office. It may be varied or terminated at any time with the agreement of both parties. Attachment A contains a model of an Advance Agreement.
19. An Advance Agreement should clearly state the terms agreed between the parties. Included in the terms is an assurance that a business has implemented processes to adequately control its GST risks in respect to the categories listed below. The categories are not meant to be exhaustive or exclusive and are provided for guidance only.
 - Business Activity Statement (BAS) Compilation
 - Identifying all GST transactions
 - Tax Coding
 - Data Entry
 - Statutory Documentation
 - Attribution
 - Adjustments
 - System Configuration
20. The following checklist of items is not intended to be compulsory in every Advance Agreement, nor is the list meant to be exhaustive. There will be cases where other items will need to be included subject to negotiation between the relevant parties to the Advance Agreement. The items that will generally be in an Advance Agreement are:
 - Heading
 - Name of the taxpayer
 - The terms of the agreement
 - Date of the agreement
 - Signature blocks
 - Details of the specific tasks and reports undertaken by the taxpayer and submitted to the Tax Office
21. As part of an Advance Agreement, the person authorised to enter into an Advance Agreement (see paragraph 9), will give an undertaking to give strong favourable consideration towards:
 - exercising the Commissioner's discretion in remitting administrative penalties (see Law Administration Practice Statements PS LA 2000/9 and PS LA 2002/8) and General Interest Charges (GIC) in accordance with the GIC remission guidelines set out in Chapter 93 of the *ATO Receivables Policy*; and

- determining reduced frequency and scope of future GST audits for that business.

Better Practice Guide

22. To assist in demonstrating a high level of compliance with the GST law, a business is encouraged to access *The Better Practice Guide for the Management of GST Administration* (the Guide) that is available on the Tax Office website at www.ato.gov.au. The Guide focuses on the administration of GST and addresses gaps and weaknesses in GST administration identified by the Australian National Audit Office (ANAO) and the Tax Office.
23. The Guide describes **Six Better Practices** which are listed below:
 - Apply a risk management approach to GST administration;
 - Establish an internal control environment that effectively supports GST processing;
 - Identify and document all GST impacted transactions in the organisation's operations and the technical positions that relate to them;
 - Process and report GST transactions in an accurate, complete and timely manner;
 - Manage changes that impact on GST administration; and
 - Monitor and review the effectiveness of GST administration.
24. Each of the Guide's six chapters covers one of the better practices and provides advice on how they might be achieved. The Guide also includes an accompanying workbook and a self-assessment checklist that provides tools, templates and checklists that can be used by businesses in implementing a better practice framework.

subject references: Business Activity Statement; Cooperative Compliance Advance Agreement; Goods and Services Tax

legislative references:

related public rulings:

related practice statements: Law Administration Practice Statement PS LA 2000/9
Law Administration Practice Statement PS LA 2002/8

other related documents: *ATO Receivables Policy*, Chapter 93
Cooperative Compliance Model
The Better Practice Guide for GST Administration

file references: 2004/000129

Date issued: **9 January 2004**

Date of effect: **3 April 2003**

Other Business Lines consulted **GST; LB&I; Operations; Excise; OCTC**

ATTACHMENT A: MODEL GST COOPERATIVE COMPLIANCE ADVANCE AGREEMENT

RECITALS

- A.** <Taxpayer> has identified key risks in respect of its GST environment, has implemented processes to control those risks, and remains committed to controlling those risks in the future;
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- B.** The Tax Office has assessed <taxpayer> processes to control its key GST risks, and agrees that these processes demonstrate a high level of self-compliance with the GST law; and
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- C.** <Taxpayer> and the Tax Office wish to formalise this Agreement in a GST ‘Cooperative Compliance Advance Agreement’ (the ‘Agreement’).
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AGREEMENT

- 1.** The Tax Office agrees that <taxpayer> has implemented processes to adequately control its GST related risks in respect of the following eight categories:
 - a. BAS Compilation
 - b. Identifying all GST Impacted Transactions
 - c. Tax Coding
 - d. Data Entry
 - e. Statutory Documentation
 - f. Attribution
 - g. Adjustments
 - h. System Configuration

- 2.** This Agreement is subject to <taxpayer> periodically undertaking specific tasks, and providing update reports to the Tax Office to demonstrate its ongoing investment in maintaining and continuing to improve its controls of its GST related risk categories. The specific tasks and the required update reports are detailed in Appendix 1.

- 3.** The Tax Office agrees that it will take this Agreement into strong favourable consideration in:
 - a. exercising discretion in respect of penalties and General Interest Charges in the context of any future GST audit finding; and
 - b. determining the frequency and scope of future GST audits of <taxpayer>.

4. <Taxpayer> acknowledges that it has demonstrated to the Tax Office controls in respect of the eight GST related risks categories as they relate to their systems.

5. <Taxpayer> agrees that should it make any misstatement of its net GST amount as a consequence of an error;

- a. outside the eight GST related risk categories above; or
- b. outside the systems stated in clause 4 above,
 - i) the Tax Office is not bound by the terms of this Agreement in assessing penalties and a General Interest Charge in respect of any shortfall amount.

6. The term of this Agreement is three years from execution. The Agreement may be varied or terminated at any time with the agreement of both parties in writing.

7. <Taxpayer> acknowledges that this Agreement and the documentation referred to therein may be used by the Tax Office in accordance with the law. Without limiting the generality of this statement, the Tax Office may use this Agreement and documentation for internal training purposes provided the Tax Office follows all confidentiality and privacy laws, rules and internal instructions.

8. <Taxpayer> acknowledges that the Tax Office may publicise the fact that <taxpayer> has reached this Agreement.

Tax Office Signatory

Company Signatory

Signature

Signature

Date:-

Date:-

APPENDIX 1 TO ATTACHMENT A: EXAMPLE OF SPECIFIC TASKS AND UPDATE REPORTS

Pursuant to Clause 2 of this Agreement, <taxpayer> will undertake specific tasks, and provide the following update reports to the Tax Office on the regularity specified in the table below:

<Taxpayer Specific Tasks and Update Reports to be provided to the Tax Office	Regularity
Random transaction testing	Every six months
<Taxpayer> to take immediate action to rectify any material errors discovered during testing or otherwise and discuss with the Tax Office	As required
List of all non-taxable tariffs/adjustment tax codes	Every six months
Any changes to the Risk/Control Matrices to be updated and tracked	Every six months
New GST Tax Office Rulings sought by <taxpayer> to be addressed to Tax Office GST Energy and Resources Group and inserted into Appendix	As required
<Taxpayer> to consider impact of any current or new Tax Office Public Ruling affecting its operations	As required
Current training of Accounts staff to be maintained	Every six months
<Taxpayer> to analyse whether it exceeds the financial acquisitions threshold	As required
<Taxpayer> to monitor expenses in relation to residential rent and ensure that input tax credits are not claimed	Annually