

# ***PS LA 2008/15 - Taxpayer Alerts***

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# Practice Statement Law Administration

**PS LA 2008/15**

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FOI status: may be released

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*This practice statement is issued under the authority of the Commissioner of Taxation and must be read in conjunction with Law Administration Practice Statement PS LA 1998/1. It must be followed by Tax Office staff unless doing so creates unintended consequences or is considered incorrect. Where this occurs Tax Office staff must follow their business line's escalation process.*

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**SUBJECT:** Taxpayer Alerts  
**PURPOSE:** To provide guidance for initiating and issuing a Taxpayer Alert

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## BACKGROUND

1. This practice statement replaces Law Administration Practice Statement PS LA 2005/13 Taxpayer Alerts. The referral processes for Aggressive Tax Planning matters contained in this practice statement, together with those in Law Administration Practice Statements PS LA 2008/7 Application of the promoter penalty laws (Division 290 of Schedule 1 to the Taxation Administration Act 1953) to promotion of tax exploitation schemes and PS LA 2008/8 Application of the promoter penalty laws (Division 290 of Schedule 1 to the Taxation Administration Act 1953) to schemes involving product rulings, replace those in Law Administration Practice Statement PS LA 2005/25 Aggressive tax planning end-to-end process. As a result, PS LA 2005/25 has been withdrawn.

2. In this practice statement:
  - a reference to 'tax' includes 'excise duty', and
  - a reference to 'taxpayers' includes 'trustees of self managed superannuation funds' (SMSFs).
3. Taxpayer Alerts are intended to provide an early warning to taxpayers, trustees of SMSFs, and their advisers, of significant existing, new or emerging higher risk tax planning arrangements and superannuation regulatory concerns that the Tax Office has under risk assessment. Taxpayer Alerts may also be issued where there are recurrences of arrangements that have been previously risk assessed.
4. 'Aggressive tax planning' is tax planning that goes beyond the policy intent of the law and involves purposeful and deliberate approaches to avoid any type of tax, superannuation obligation or excise duty. It undermines the integrity of the revenue system and community confidence in the fairness and equity of that system. Aggressive tax planning activity may be found in all market segments, but the types of activity differ across the segments.
5. Taxpayer Alerts are published under the Commissioner's powers of general administration including:
  - section 8 of the *Income Tax Assessment Act 1936*
  - section 3 of the *Fringe Benefits Tax Assessment Act 1986*
  - paragraphs 6(1)(e), 6(1)(f) and 6(1)(g) of the *Superannuation Industry (Supervision) Act 1993*
  - section 43 of the *Superannuation Guarantee (Administration) Act 1992*
  - section 30 of the *Superannuation Contributions Tax (Assessment and Collection) Act 1997*
  - section 3A of the *Taxation Administration Act 1953* (TAA)
  - section 356-5 of Schedule 1 to the TAA, and
  - section 7 of the *Excise Act 1901*.

## STATEMENT

6. Taxpayer Alerts provide information that is in the interests of an open tax administration to taxpayers. Taxpayer Alerts also provide early warnings to trustees of SMSFs regarding superannuation regulatory concerns that may put members' superannuation benefits at risk.
7. Taxpayer Alerts are written principally for taxpayers and their advisers and also serve to inform Tax Office staff of new and emerging higher risk tax planning and superannuation issues.
8. Taxpayer Alerts must give the title of the arrangement, briefly describe the arrangement and highlight the features about which the Tax Office has concerns. These features will generally require more detailed analysis to determine whether and in what respects to provide taxpayers with Tax Office views in a published form, such as by public rulings, or to explain relevant administrative approaches by practice statement as appropriate.

9. In publishing a Taxpayer Alert, the Tax Office is seeking to assist taxpayers who have entered into an arrangement, or who may be contemplating entering into an arrangement, to make informed decisions about their tax affairs. Those taxpayers can seek the Tax Office's advice in respect of their particular circumstances through a private ruling (noting that the TAA sets out circumstances where the Commissioner may decline to issue such a ruling).<sup>1</sup> However, a private ruling cannot be given regarding superannuation regulatory issues.<sup>2</sup>
10. Taxpayers, and those seeking advice on superannuation regulatory issues, may also seek independent advice from tax or legal professionals not associated with the arrangement. They may also contact the contact officer named in the Taxpayer Alert.
11. Not all potential tax planning issues that the Tax Office has under risk assessment or continues to encounter will be the subject of Taxpayer Alerts. The absence of a Taxpayer Alert on an arrangement does not mean that the Tax Office accepts or in any way endorses that arrangement or the tax consequences promoted. The Tax Office will not publish separate Taxpayer Alerts to describe each variation or adaptation of an arrangement some form of which is the subject of a Taxpayer Alert. Further, some arrangements that are the subject of a Taxpayer Alert may, on further examination, be found not to be of concern to the Tax Office. In these latter cases the Taxpayer Alert will be withdrawn (see paragraphs 36 to 38 of this practice statement) and a notification published, which will be referenced to that Taxpayer Alert.
12. In deciding to publish a Taxpayer Alert, the Tax Office must strike a balance between the desirability of providing an early warning to taxpayers and the legal, administrative and commercial risks which may arise following the publication of a Taxpayer Alert.
13. Taxpayer Alerts are excluded from Law Administration Practice Statement PS LA 2008/3 Provision of advice and guidance by the Tax Office. However, where a Taxpayer Alert provides guidance that a particular arrangement is or will be ineffective, that guidance will be given the same level of protection as is given to guidance in publications that are included in PSLA 2008/3. If the guidance in a Taxpayer Alert is subsequently found to be incorrect and the taxpayer relied on that guidance, the taxpayer is protected from paying a shortfall penalty and any interest charge that would otherwise be payable under the law.

#### **Identification of an aggressive tax planning arrangement**

14. Where Tax Office staff or an area of the Tax Office identifies a tax planning arrangement which may constitute aggressive tax planning, it is **mandatory** to escalate the issue for consideration as to whether a Taxpayer Alert should be published. Examples of features of tax planning arrangements that may warrant the publication of a Taxpayer Alert are outlined in paragraph 28 of this practice statement.

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<sup>1</sup> Refer to section 359-35 of Schedule 1 to the TAA and Taxation Ruling TR 2006/11 Income tax, fringe benefits tax and product grants and benefits: private rulings.

<sup>2</sup> Refer to section 357-55 of Schedule 1 to the TAA and Taxation Ruling TR 2006/11.

## Role of Centres of Expertise

15. Centres of Expertise (CoE) will help identify and articulate precedential issues in their area of responsibility that should be the subject of a Taxpayer Alert. Where a Taxpayer Alert involves a precedential issue, the respective CoE will provide technical input for the Taxpayer Alert (see paragraph 24 of this practice statement).

## Process to issue a Taxpayer Alert

16. Where a business line (the compliance risk owner) identifies an arrangement that may be suitable for a Taxpayer Alert as part of a wider compliance strategy for managing a risk, it should advise the Aggressive Tax Planning business line (ATP BSL) immediately via the *ATP BSL Referral Template*. In the case of GST arrangements, the *GST ATP BSL Referral Template* is to be completed.<sup>3</sup> Staff requiring advice or information about the Taxpayer Alert program, including guidance whether to refer a matter to ATP BSL, should contact ATP BSL via the contact points on the Tax Office intranet.
17. ATP BSL, with the compliance risk owner and other stakeholders, will conduct a risk assessment and consideration of the importance of the proposed Taxpayer Alert to the compliance strategy for the risk. On that basis, ATP BSL will then determine whether a Taxpayer Alert should be published and when this should occur.
18. If it is proposed that a Taxpayer Alert be published, ATP BSL in conjunction with the compliance risk owner will identify the relevant internal Tax Office stakeholders likely to be affected by the publication of the Taxpayer Alert and ensure that they are notified of the proposed publication. This will assist the early implementation of a stakeholder management plan.
19. ATP BSL will first work with the compliance risk owner, Tax Counsel Network (TCN), any relevant CoE and any other stakeholders to prepare an Internal Intelligence Alert. This will advise Tax Office staff of the intention to develop the Taxpayer Alert and outline perceived features of the tax planning arrangement.
20. ATP BSL will then prepare a submission, in conjunction with the compliance risk owner, TCN, any relevant CoE and any other stakeholders, to support the publication of the Taxpayer Alert. The submission will include:
  - a description of the arrangement
  - the revenue at risk
  - the numbers of taxpayers the arrangement may involve, and
  - indicative publication timeframes for the Taxpayer Alert.
21. The submission to publish the Taxpayer Alert must expressly assess:
  - any potential legal risks arising
  - any relevant previous or current consideration by the Tax Office of the arrangement, and

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<sup>3</sup> Both templates are Tax Office internal documents, not available externally. Tax Office staff can access these templates through hyperlinks in the Other References section at the end of this practice statement.

- any potential commercial impact of publishing the Taxpayer Alert on those promoting the arrangement it describes or others employing or associated with that arrangement.
22. The documentation supporting the submission must also consider the application of Division 290 of Schedule 1 to the TAA (promoter penalty laws) to entities marketing the arrangement and a compliance mitigation strategy for current or potential participants.
23. Further detail about the process recommended for issuing a Taxpayer Alert is outlined in the *Taxpayer Alert Procedures*.<sup>4</sup>

### **Approval of the Taxpayer Alert**

24. The Taxpayer Alert is to be reviewed by the relevant compliance risk owner and by the respective CoE (where precedential issues apply). Due to the reputational risk for the Tax Office, all Taxpayer Alerts must be technically cleared by TCN.
25. Once technically cleared, the Taxpayer Alert is to be reviewed by the Assistant Commissioner, Technical and Case Leadership in ATP BSL. Once satisfied with its content, the Assistant Commissioner will refer the Taxpayer Alert to the Deputy Commissioner of ATP BSL. Once satisfied with its content, the Deputy Commissioner will then refer the Taxpayer Alert to the Commissioner. The Commissioner will decide whether the Taxpayer Alert should be published.

### **Priority Technical Issues**

26. Technical taxation issues identified by Taxpayer Alerts should be escalated as early as possible in accordance with Law Administration Practice Statement PS LA 2003/10 The Management of 'Priority Technical Issues'. The technical issues may be resolved by stating the Tax Office view in a ruling, determination, ATO Interpretative Decision or in another interpretative product.

### **EXPLANATION**

27. Taxpayer Alerts are not limited to arrangements or concerns involving aggressive tax planning. Taxpayer Alerts may also be issued regarding arrangements which at the lower end of the scale may fall short of aggressive tax planning, or at the higher end of the scale may constitute fraud.
28. Examples of features of tax planning arrangements that may warrant the publication of a Taxpayer Alert include:
- improper creation of deductions, increasing credits or offsets, reduction or deferral of income or capital gains and circumventing withholding tax
  - suppression or deliberate understatement of income
  - contrivance and artificiality in the method of execution
  - little or no real underlying business activity or purpose
  - the claimed tax benefit may be significant in realising an economic return

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<sup>4</sup> This is a Tax Office internal document, not available externally. Tax Office staff can access the *Taxpayer Alert Procedures* through a hyperlink in the Other References section at the end of this practice statement.

- complete or substantial removal of any risk to a taxpayer
  - limited or non-recourse financing associated with a round-robin flow of funds
  - little cash outlay associated with borrowing of funds under a capitalising debt facility
  - a mechanism for winding up or exiting an arrangement before net income is generated for an investor
  - assumptions, including 'blue sky' projections, that can lead to seemingly excessive valuations of assets for example, resulting in inflated deduction claims
  - use of tax-exempt entities, especially charities, to wash income
  - transactions involving tax havens
  - use of superannuation funds for purposes other than superannuation benefits
  - interposed entities which have no substantial commercial rationale except to create a tax benefit, and
  - transactions which do not appear to be legitimate business dealings.
29. Taxpayer Alerts do not provide the Tax Office view on the arrangements they describe or on tax technical or tax administrative issues arising from those arrangements. In most instances, the taxation issues identified by or relevant to a Taxpayer Alert will require more detailed analysis before working out whether, and in what respects, a Tax Office view is to be published. However, in some cases, the Taxpayer Alert will include a reference to a previous statement of a Tax Office view which applies to taxation issues arising from the arrangement described in the Taxpayer Alert.
30. Preparation of a Taxpayer Alert is more likely to be required where the arrangement raises some issues for which there is no precedential Tax Office view published on the Tax Office's website at [www.ato.gov.au](http://www.ato.gov.au).

### **Supporting materials to be prepared**

31. In addition to the Internal Intelligence Alert, the submission for the Taxpayer Alert and the Taxpayer Alert, ATP BSL, in conjunction with the compliance risk owner, will normally prepare a briefing and communication package to accompany the release of the Taxpayer Alert.
32. This package will include the:
- Priority Technical Issue (PTI) Proposal
  - Media Release
  - Minute to the Assistant Treasurer
  - Question Time Brief
  - Client Contact Centre Script, Telephony Clearance and Procedures, and
  - Media Briefing.

33. A diagrammatic representation of the Taxpayer Alert process is shown at Attachment A of this practice statement.

#### **Submission to publish a Taxpayer Alert**

34. The submission includes an executive summary that gives a brief introductory description of the arrangement, the revenue at risk and the contact officer's details.
35. The submission supporting the publication of the Taxpayer Alert will cover these points:
- the reason for the Taxpayer Alert and how the arrangement was identified – including features of the arrangement that indicate that a Taxpayer Alert is warranted, revenue at risk, and the number of taxpayers involved
  - the indicative publication timeframes for the Taxpayer Alert
  - any potential legal risks arising, including the potential for criminal liability, claims for compensation, judicial review of future Tax Office decisions, and that the failure to publish a Taxpayer Alert may be used to support a 'reasonably arguable position' on the scheme
  - previous or current consideration by the Tax Office of the arrangement including any current or proposed compliance activity
  - commercial impact – the potential commercial impact of the publication of the Taxpayer Alert on the business of the relevant promoter and/or others associated with the arrangement
  - marketers, advisers and participants
  - outline of the arrangement – explanation of the mechanics of the scheme including legislative background/references
  - preliminary tax issues – legislative argument/s as to why the arrangement may not be reasonably available at law
  - compliance mitigation strategies/education, marketing, audit and litigation for current and potential participants in the arrangement, and
  - potential application of Division 290 of Schedule 1 to the TAA (promoter penalty laws) to entities involved in marketing or facilitating marketing of the arrangements.

#### **Alteration or withdrawal of a Taxpayer Alert**

36. The publication of a Taxpayer Alert is principally intended to ensure that taxpayers and their advisers are informed that the arrangement described is under risk assessment by the Tax Office. The subsequent publication of Tax Office views in respect of a published Taxpayer Alert ensures that taxpayers and their advisers are further informed of the Tax Office's position in respect of relevant issues for that arrangement.
37. Situations may arise where the earlier decision to issue a Taxpayer Alert is affected by legislative amendment, a court decision or new facts emerging that reveal the arrangement is not one involving any technical or administrative risk.

38. Where a published Taxpayer Alert is required to be altered or withdrawn, ATP BSL, in conjunction with the compliance risk owner will undertake the appropriate steps necessary for this process, taking account of the *Taxpayer Alert Procedures*.

**Amendment history**

<b>Date of amendment</b>	<b>Part</b>	<b>Comment</b>
31 May 2010	Contact details	Updated.

Subject references	Aggressive tax planning Taxpayer Alerts Priority technical issues Risk analysis and management Taxpayer Alerts – alteration and withdrawal Taxpayer Alerts – preparation, approval and publication
Legislative references	Excise Act 1901 7 FBTAA 1986 3 ITAA 1936 8 SGAA 1992 43 SISA 1993 6(1)(e) SISA 1993 6(1)(f) SISA 1993 6(1)(g) Superannuation Contributions Tax (Assessment and Collection) Act 1997 30 TAA 1953 Sch 1 Div 290 TAA 1953 3A TAA 1953 Sch 1 356-5 TAA 1953 359-35 TAA 1953 357-55
Related public rulings	TR 2006/11
Related practice statements	PSLA 1998/1 PS LA 2003/10 PS LA 2005/13 PS LA 2005/25 PS LA 2008/3 PSLA 2008/7 PSLA 2008/8
Case references	
Other references	<a href="#">ATP BSL Referral Template</a> (internal link only) <a href="#">GST ATP BSL Referral Template</a> (internal link only) <a href="#">Taxpayer Alert Procedures</a> (internal link only)
File references	08/3731
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Other Business Lines consulted	<b>GST, SME, LB&amp;I, Excise, Superannuation, ME&amp;I</b>

## Attachment 1

# Taxpayer Alert Process

