

Audit Reports Summaries

Audit Report No. 16 1995-96

Summary

Australian Taxation Office

ASSESSABLE GOVERNMENT INDUSTRY ASSISTANCE

Performance Audit

Background

As the Commonwealth's principal revenue collection agency, the Australian Taxation Office (ATO) has to collect all tax revenue that taxpayers are required to pay by law, so that the government may fund services and support for the people of Australia.

Tax is payable on various assessable grants, bounties, rebates and subsidies paid by the Commonwealth where connected to the income-producing activities of recipients. These forms of payments are referred to as Assessable Government Industry Assistance (AGIA).

This audit focused on tax compliance strategies aimed at rebates paid under the Diesel Fuel Rebate Scheme (DFRS) administered by the Australian Customs Service. This is the largest AGIA and therefore has significant potential impact on Commonwealth revenue. In 1994-95, diesel fuel rebates totalled over \$1.2 billion, with an estimated \$1.4 billion to be paid in 1995-96.

In undertaking the audit, the ANAO sought to assess whether the ATO had implemented appropriate compliance strategies (administrative framework, education and enforcement activities) to ensure that AGIA is identified, disclosed and the tax revenue payable is collected in an efficient and administratively effective manner.

Administrative framework

The collection of the revenue attributable to AGIA is heavily dependent on taxpayers disclosing AGIA income in their tax returns. It is therefore important that taxpayers are provided with information on the assessability of government industry assistance and how to disclose AGIA in their tax returns. However, the ANAO found no reference to the diesel fuel rebate or other AGIA in the relevant tax return forms and accompanying instructions.

Education activities

Under the self assessment framework the ATO has a responsibility to meet the tax information needs of taxpayers. We found that references to taxpayer obligations are not comprehensive and are not targeted at AGIA recipients. The ATO has not asked other government agencies to include information on AGIA tax obligations in their industry assistance brochures and payment notifications. We have recommended that the ATO carry

out an education campaign targeted at relevant taxpayer groups which can assist taxpayers in understanding their tax obligations with respect to AGIA.

Enforcement activities

The matching of external and ATO data is a significant tool for fostering taxpayer compliance. It helps the ATO to identify non-compliers. In addition, taxpayer awareness of data matching encourages them to comply voluntarily with tax legislation. The ATO generally has expanded its income matching activities in recent times but it has not taken advantage of existing AGIA-related data held by other government agencies.

Data matching is a sensitive matter. The rights of individuals to privacy need to be carefully balanced against the need to efficiently and effectively collect tax revenue for the benefit of all Australians. The ANAO considers that data matching can be an effective administrative technique. For example, it can offer considerable administrative benefits in terms of increased compliance, additional revenue and lower costs. This, of course, is only a partial view of the many factors influencing the use of this technique.

The risk to tax revenue

The ATO has not undertaken any compliance research into the risks to revenue and the level of compliance associated with DFRS. The ANAO assessed the likely extent of the risk to revenue but could not establish the level of non-compliance due to insufficient relevant data. However, it is likely that a risk to revenue exists and improved compliance management in this area would yield significant results.

Overall conclusion

The ATO has implemented only limited compliance strategies to ensure that AGIA is identified, disclosed and tax revenue is collected. The ANAO's recommendations would improve aspects of the ATO's administration and increase tax revenue collected from AGIA.

The audit recommendations are directed at improving administrative arrangements, taxpayer education and enforcement activities. They point to the potential benefits of data matching with external AGIA databases and of seeking the cooperation of other government agencies for the purposes of targeting education and enforcement activities.