

The Auditor-General
Audit Report No.35 2001-02
Performance Audit

ATO Progress in Addressing the Cash Economy

Australian Taxation Office

© Commonwealth
of Australia 2002

ISSN 1036-7632

ISBN 0 642 80617 9

COPYRIGHT INFORMATION

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth, available from AusInfo. Requests and inquiries concerning reproduction and rights should be addressed to:

The Manager,
Legislative Services,
AusInfo
GPO Box 1920
Canberra ACT 2601

or by email:
Cwealthcopyright@finance.gov.au



Canberra ACT
11 March 2002

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Australian Taxation Office in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *ATO Progress in Addressing the Cash Economy*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. J. Barrett'.

P. J. Barrett
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

Auditor-General reports are available from Government Info Shops. Recent titles are shown at the back of this report.

For further information contact:
The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Telephone: (02) 6203 7505
Fax: (02) 6203 7519
Email: webmaster@anao.gov.au

ANAO audit reports and information about the ANAO are available at our internet address:

<http://www.anao.gov.au>

Audit Team

Lindsay Roe
Vanda Lockyer
Peter White

Contents

Abbreviations/Glossary	7
Summary and Recommendations	9
Summary	11
Background	11
Audit approach	12
Overall conclusion	12
Key Findings	14
Challenges and ATO action	14
CETF recommendations analysis	14
The compliance dividend outcome and performance monitoring	17
Recommendations	18
Audit Findings and Conclusions	21
1. Introduction	23
What is the cash economy?	23
Tax reform and the cash economy	29
Audit objectives and approach	31
Report structure	32
2. Challenges and ATO Action	33
Challenges	31
Coordination	34
Negotiation	37
Priorities	38
Knowledge sharing	39
New cash economy projects	40
Benchmarking with other countries	42
Future directions	42
3. Task Force Recommendations Analysis	43
Introduction	43
Partnerships	44
Strategies	47
Compliance Strategies	54
Research	54
4. Outcome and Performance Monitoring	59
The Compliance Dividend	59
Other performance indicators	61

Appendices	65
Appendix 1: Cash Economy Task Force Recommendations analysis	66
Index	78
Series Titles	80
Better Practice Guides	83

Abbreviations/Glossary

ABN	Australian Business Number
ALO	AUSTRAC Liaison Officer
ANAO	Australian National Audit Office
ANTS	A New Tax System
ATO	Australian Taxation Office
AUSTRAC	Australian Transaction Reports and Analysis Centre
BAS	Business Activity Statement
BtoB	Business to Business
BtoC	Business to Consumer
CD	Compliance Dividend
CETF	Cash Economy Task Force
CEI	Cash Economy Initiative
CEPT	Cash Economy Project Team
CISCO	Community Information and Storage Communication
CTSI	Centre for Tax System Integrity
FTR	Financial Transaction Reports
GST	Goods and Services Tax
IAWG	Inter Agency Working Group
kdNet	Knowledge Development Network
LB&I	Large Business and International
MoU	Memorandum of Understanding
RAB	Revenue Analysis Branch
SB	Small Business
SCTR	Significant Cash Transaction Reports
TESS	Tax Education Speakers & Seminars Unit
TR-BEC	Tax Reform Business Education Unit

Summary and Recommendations

Summary

Background

1. The term 'cash economy' has been used in Australia to describe the practice of hiding certain transactions by receiving payments in cash. A primary purpose of this use of cash is tax evasion. The cash economy is variously referred to by a number of descriptions, such as the 'hidden economy', the 'black economy', and the 'underground economy'. Because it is hidden, the size of the cash economy is unknown. However, it is considered large enough to cause concern, both over lost taxation revenue and the unfair burden placed on compliant small businesses and taxpayers. Various academic studies into the size of the cash economy have resulted in estimates ranging from 3.5 to 13.4 per cent of gross domestic product (GDP). Using the 2000–01 GDP figure, and assuming a tax rate of 23percent, this represents between \$5.4 billion and \$20.7 billion in potential tax revenue lost each year.
2. The cash economy is not unique to Australia. It is a common feature of all economies. Countries such as Canada, Malaysia, New Zealand, the UK and the USA have experienced similar concerns to those expressed in Australia regarding the cash economy.
3. The Australian Taxation Office (ATO) has been looking increasingly at activities typical of the cash economy from the early 1990s. Some of the ATO compliance project work initiated at that time was directed at mitigating those risks though not in a coordinated way. Recognising the complexities of the issues it was facing, the ATO established a task force in 1996 to develop a greater understanding of the factors involved and to devise a coordinated approach in dealing with the cash economy. The task force produced two reports of its work. The second, in 1998, made 34 recommendations on how to deal with the cash economy.
4. Targeted cash economy project work monitored by the task force over the two years 1997–98 and 1998–99 was expected to increase both the level of income declared and tax return lodgement. In 1999, the ATO undertook the significant task of implementing tax reform. The ATO expected the implementation of tax reform¹ to have a significant impact on the cash economy and estimated that this area would provide \$2.6billion of the overall compliance dividend of \$3.5billion over the first three years of operation, beginning in July 2000.

¹ Key elements of tax reform relevant to the cash economy include business registration, activity statements and withholding tax.

Audit approach

5. The objective of the performance audit was to report to Parliament on the ATO's progress in addressing the cash economy, including its monitoring and reporting of outcomes.

6. The audit focused on the ATO's implementation of its Cash Economy Task Force (CETF) recommendations in the light of the tax reform that has taken place over the last two years. A number of the task force recommendations have been given effect by tax reform, which has included in its design elements that were expected to address the cash economy. The intentions underlying the recommendations are still relevant. The task force report represents the ATO's latest comprehensive assessment of the cash economy.

7. In seeking to establish a benchmark for approaches to the cash economy, the ANAO considered the experience of a number of overseas revenue agencies. We also looked at the relationship between the ATO's current plans and activities for its cash economy work and the April 1998 CETF recommendations. The audit has also identified those aspects of the cash economy that are being addressed as part of the tax reform process as well as examining how the ATO measures the latter's effect on the cash economy.

Overall conclusion

8. The ATO expects its implementation of tax reform to be the main strategy in its efforts to address the cash economy. The strategy is based on four design elements: a business needs to be registered or is subject to withholding tax; a business is encouraged to be part of the GST system; income tax and GST are linked to enhance their integrity; and greater compliance is encouraged by a larger ATO presence in the community. Implementation of the strategy includes the four major themes identified in the task force recommendations, namely:

- partnerships with the community (mainly industry groups);
- communication and education strategies;
- compliance strategies based on taxpayer behaviour; and
- research that provides a fuller understanding of the issues.

9. The ATO strategy to address the cash economy is consistent with those of comparable countries. It offers a wide-ranging approach in dealing with the cash economy. Current operational plans are consistent with the strategic directions recommended by the task force.

10. We also found that most of the task force recommendations have been implemented, either in full or in part. There is still room for improvement,

however, in the ATO's approach to industry partnerships, its use of cash economy intelligence and its communication and education strategies related to the cash economy. In particular, the ANAO considers that the recommendation on the strategic use of cash transaction data needs to be fully implemented. The ATO has advised that this issue is now being addressed.

11. As part of the earlier projects associated with the task force, the outcome expected was improved compliance, which was to be measured by increased lodgments and increased income being reported over the two years 1997–98 and 1998–99. We found that the ATO achieved the targeted outcome.² From July 1999, the ATO's implementation of tax reform subsumed much of the ATO's cash economy project work. Although this is understandable, given the significance of the changes being introduced to the tax system, the ATO had reduced the priority given to project work specifically relating to the cash economy.

12. It is too early to measure the outcomes of tax reform on the cash economy. Projections based on revenue figures to date, however, have led the ATO to conclude that outcomes for the 2000–01 year have exceeded expectations, which included compliance dividend estimates, despite the economy continuing to grow (in nominal terms) at a rate which was broadly in line with expectations.

13. The ATO has also developed intermediate performance indicators to monitor progress of the supporting processes such as registration, lodgement and financial ratios. It is too early to decide whether these indicators will provide adequate measurement of performance. Some issues, such as the integrity of data used to derive the indicators needs to be improved before full reliance can be placed on these indicators.

² For details, see Table 1 in Chapter 1 of this Report.

Key Findings

Challenges and ATO action

14. The ATO continues to develop a wide-ranging approach to dealing with the cash economy. We found that the ATO has maintained an awareness of international initiatives and has exchanged strategy papers with comparable countries. As part of its examination of the cash economy through its task force approach, the ATO has also contributed to better practice approaches. Consistent with the experience and recommendations of other countries, the ATO has adopted a multi-dimensional approach to influence compliance behaviour.

15. Cash economy activities cover a range of industries, taxpayer types and transactions. Cash economy activities may be only a part of the taxable activity of a business and so are not the focus of an ATO business line that is attempting to provide a customised, specialist service to particular types and sizes of business and individuals. The ATO has responded by setting up a cash economy team to provide that focus. The challenges to effective management are: the need for effective communication, both internal and external; coordination of both intelligence and action; negotiation of resources; prioritising of tasks; and maintenance of a knowledge base to ensure consistency and continuity of information.

16. The ATO advised that it intends to allocate over 800 staff to cash economy-related tasks this financial year. While the ANAO found that the cash economy team had negotiated with ATO business lines for the planning and allocation of resources for cash economy tasks, it was yet to develop clearly defined plans and priorities for those tasks. The cash economy team should take a firmer approach to managing cash economy work across the ATO by more clearly defining responsibilities, intended actions, the allocation of appropriately trained staff, the measurement of performance and project deadlines.

17. We also found a need for the cash economy team to improve the management of its knowledge base. During the audit, the cash economy team commenced work on developing a national system of files and records to enhance its knowledge sharing and support its management of cash economy initiatives.

CETF recommendations analysis

18. The CETF April 1998 report made 34 recommendations. Of these, the Commissioner agreed to thirty and required further consideration of the

remainder. In summary, we found 29 have been implemented, either fully or partially. Two are no longer applicable, the Commissioner rejected one and another two were considered relatively minor and not to warrant further action at this stage. The implementation status of each of the recommendations of the CETF report is set out at Appendix 1.

19. In addressing the recommendations, the ANAO found that many were interrelated. Looking just at the implementation of an individual recommendation could mean losing sight of the overall balance of their effect. As a result, we considered that we could review the implementation of the recommendations in thematic groups. The themes identified were:

- partnerships;
- strategies;
- compliance; and
- research.

Partnerships

20. The ATO recognised that it could not address the problems presented by the cash economy on its own. Building community partnerships was seen as an intrinsic part of achieving greater ATO presence in the community. The CETF made eight recommendations relating to forming strategic alliances with a range of representative groups throughout the community. Partnerships with a range of areas in the community have proved helpful in implementing tax reform. The ANAO found that external representatives to these partnerships have advised of a reduction in the effectiveness of these partnerships following conclusion of the major implementation phase of tax reform. We see effective partnerships as critical for the ongoing two-way communication and cooperation necessary to achieve the intended results.

Strategies

21. The CETF made 17 recommendations relating to a variety of strategies that could be applied to the cash economy. They included public awareness raising through communication and education activities. Since the introduction of tax reform, the ATO has relied on media liaison and direct contact with industry and businesses to carry that communication strategy. Research had also pointed to changing community attitudes as a significant factor that needed to be addressed by communication and education. The ATO is yet to extend its communication activity to include a focus on changing attitudes.

22. One of a variety of strategies identified in the CETF report to deal with the cash economy is the use of cash transaction data from AUSTRAC. The ATO has recognised the intelligence benefit provided by the use of AUSTRAC data and some project teams have demonstrated success in its use. This use, however, is patchy and dependent on the skills of a few individuals. The level of training provided did not promote its effective use. The cash economy team, who are responsible for determining areas of risk related to the cash economy, need to be familiar with the AUSTRAC product and incorporate it as part of the team's risk analysis process. The ATO has advised that it is addressing the need to provide training to appropriate staff. In addition, senior AUSTRAC and ATO staff have been refocussing the strategy to improve its effectiveness, particularly in relation to the cash economy.

Compliance

23. The CETF promoted the introduction of the compliance model³ as a guide to strategy development in addressing the cash economy. It made four recommendations relating to introduction of the model and linking it with the Taxpayers' Charter in dealing with the cash economy. The recommendations to adopt the compliance model to guide ATO strategy on dealing with the cash economy have been implemented fully. The ATO recognised the applicability of the model to all taxes and has adopted the model for use throughout the organisation.

Research

24. The CETF made five recommendations for further research directed at a greater understanding of the cash economy and how it can be addressed. We found that research undertaken independently or on behalf of the ATO is extensive, although it was unclear how much of this research was strategically reviewed for incorporation into ATO's cash economy planning. Failure to do the latter could lead to the ATO re-doing work unnecessarily; for example, identifying an area for new research, which may cover an area previously explored. The ATO has advised that research findings are now included in risk assessments which in turn are considered in determining strategies.

25. Independent research has confirmed the ATO's own conclusions that Business to Consumer transactions were of a high risk to the cash economy. While recognising the difficulties involved in addressing Business to Consumer

³ The compliance model is described at paragraph 1.16.

transactions, researchers also indicate that changing the community attitude to the cash economy is critical in dealing effectively with it. Pursuing the conclusions of this research with a targeted communication campaign would address a current deficiency in the ATO's activities.

The compliance dividend outcome and performance monitoring

26. The major component of the compliance dividend is an indirect measure of the broad outcomes of tax reform in relation to the cash economy. The ATO estimated that the introduction of the New Tax System would result in an overall compliance dividend of \$3.5 billion over three years. The ANAO found that, as a result of changes in the legislation passed to introduce tax reform, there have been changes in the way some of the dividend was to be derived. The cash economy was expected to provide the largest single contribution to this dividend and remained almost unchanged at \$2.6 billion of the revised total of \$3.4 billion over the three years.

27. There is, necessarily, a significant time delay in measuring the actual compliance dividend achieved. Actual results depend on the processing of income tax returns for the three years commencing with returns for 2000–01. The first year's complete result will therefore not be available until June 2002, with the total three-year outcome to be determined in June 2004.

28. The compliance dividend, as an indirect measure, is neither specific enough nor timely for use as a means of focusing compliance activity. In developing early performance indicators for measuring progress of the new tax approach, particularly on the cash economy, the ATO has identified a range of contributing factors. These indicators focus necessarily on process measures, such as volume of lodgements and value of income reported, and allow the ATO to compare quarterly information from activity statements with its own estimates.

29. It is still too early to determine fully which of these indicators will remain appropriate and whether they provide adequate measurement of performance. Some issues, such as data integrity, have been identified as requiring attention before full reliance can be placed on these indicators.

Recommendations

Set out below are the ANAO's recommendations aimed at improving the effectiveness of the ATO's approach to addressing the cash economy. Report paragraph references and abbreviated ATO responses are included here, with more detailed responses shown in the body of the report. The ANAO considers that the ATO should give priority to recommendations 1, 4 and 5.

**Recommendation
No.1
Paragraph 2.20**

The ANAO recommends that the cash economy team reviews its management framework to ensure its initiatives are supported effectively with clear planning, communication, priorities, monitoring processes and project deliverables.

ATO response: Agreed.

**Recommendation
No.2
Paragraph 2.27**

The ANAO recommends that the cash economy team takes appropriate action to improve knowledge sharing by maintaining a formal system of records that is nationally accessible and regularly updated.

ATO response: Agreed.

**Recommendation
No.3
Paragraph 3.16**

The ANAO recommends that the ATO build and improve on its current industry partnerships, utilising a model of two-way interaction:

- with regular meetings to address industry and community concerns relating to the cash economy; and
- promoting those meetings both as a forum for intelligence sharing and to gain industry-based support for the ATO's cash economy projects and activities.

ATO response: Agreed.

**Recommendation
No.4
Paragraph 3.22**

The ANAO recommends that the ATO take action to implement a coordinated education campaign to address community attitudes to the cash economy.

ATO response: Agreed.

**Recommendation
No.5
Paragraph 3.33**

The ANAO recommends that, to enhance ATO cash economy intelligence, the ATO takes further action to use AUSTRAC data more strategically in its cash economy project teams by:

- ensuring that, in conjunction with AUSTRAC, the lines of communication are clarified and effective partnerships established; and
- ensuring that appropriate ATO officers are fully trained in the use of AUSTRAC data for undertaking cash economy work.

ATO response: Agreed.

Audit Findings and Conclusions

1. Introduction

This chapter looks at the cash economy within the context of the Australian Taxation Office's (ATO) activities. The risks posed to society by cash economy activities are explained, as is the potential cost in lost revenue. Further, the chapter describes the work of the ATO and the Cash Economy Task Force (CETF) in counteracting the cash economy. Tax reform and the government's expectation of an overall \$3.5 billion compliance dividend from this reform are also addressed. The chapter also sets the context for the audit and its objectives, scope and methodology.

What is the cash economy?

1.1 Cash plays a legitimate and essential role in the Australian community with its reliable store of value and convenience of exchange. However, cash transactions can also be used to avoid paying tax. It is difficult to identify cash economy activity in otherwise legitimate business transactions. A major element is omitted income, that is, income derived from a business transaction that is not reported as income. An example is some business income, which is not reported as taxable income, and is then used to pay employees unreported cash wages. Typically they are high volume, low value transactions. Another major element is those not in the tax system. That is, a business or an individual is not registered and avoids detection by dealing in cash. The level of tax evasion is unequally spread throughout the population and varies with the type of income, amount of income and with community attitudes towards laws and governments.

1.2 The cash economy is not unique to Australia. It is a common feature of all economies. Countries such as Canada, Malaysia, New Zealand, the United Kingdom and the United States of America have all experienced similar concerns regarding the cash economy. The nature of cash means that there will always be an opportunity for tax evasion by people dealing in cash and not reporting the transaction accurately, if at all. The cash economy is variously referred to by a number of descriptions, such as the 'hidden economy', the 'black economy' and the 'underground economy'.

What risk does it pose?

1.3 The cash economy represents a risk to the Australian economy. It unfairly leaves others to pay more tax than would be necessary in a society where all taxation obligations were met. It also allows unfair competition and may cause legitimate businesses to close because they are unable to compete with those businesses not paying their fair share of taxes.

1.4 There is no reliable estimate of the tax revenue foregone due to the cash economy. It is difficult to estimate because it is hidden wholly or partially⁴ from the standard techniques and measures used in society to determine the size of the economy.

1.5 Estimates from various academic studies show that the cash economy may range from 3.5 to 13.4 per cent of gross domestic product (GDP).⁵ Using the 2000–01 GDP figure and assuming an effective tax rate of 23percent, this gives a potential loss to taxation revenue for the year of between \$5.4 billion and \$20.7 billion.

1.6 However, the precise size of the cash economy, while warranting much debate, is of lesser importance than the fact that it exists, that it is significant and that there is some broad measurement of an increase or decrease in it. Even at the lowest estimate, it is a very large number. As the Commissioner of Taxation commented *‘while there is no definitive size of the cash economy there is general agreement it is in the order of many billions of dollars.’*⁶

Why should the public be concerned?

1.7 The American jurist, Oliver Wendell Holmes, said *‘taxes are what we pay for a civilised society.’* Taxes pay for schools, roads, defence, hospitals, government infrastructure, government programs and community services. The Commissioner of Taxation pointed out some of the more direct effects of the cash economy on Australian society in the following quote:

*The cash economy represents a major cost to the Australian community in lost revenue and an unfair shouldering of the tax burden. It generates increased welfare costs as it impacts on means tested social benefits and on our child support system. It is also a major problem for business because cheats gain an unfair business advantage.*⁷

1.8 Some taxpayers promote the cash economy by accepting cash wages or a discount for unreported cash payments. Costs to society come in the form of:

- welfare fraud when an individual works in the cash economy yet illegally claims welfare benefits;
- revenue foregone that reduces community benefits;

⁴ It is possible to make some assumption about illegal markets such as prostitution or drugs, but much harder to make assumptions in business to consumer and some business to business transactions.

⁵ ATO, *Improving Tax Compliance in the Cash Economy*, Commonwealth of Australia, 1998.

⁶ Commissioner of Taxation, *Administering Australia’s Tax system*, Monash Law School Foundation Lecture, 1998.

⁷ ATO media release Nat97/19 (Michael Carmody, 3 June 1997).

- employers who pay non reported cash wages can also avoid paying the employees superannuation guarantee, payroll tax and workers compensation; and
- workers liable to pay child support can hide cash wages through under-reporting their income against which child support payments are calculated.

1.9 The ATO found in a corporate survey⁸ that taxpayers are more tolerant of workers cheating than if businesses cheat. This produces a challenge for the ATO. Unrecorded business to consumer cash transactions are less likely than business to business cash transactions to attract the ire of the public and are less likely to be reported to the ATO.

The Cash Economy Task Force

1.10 In November 1996, the Commissioner of Taxation established the CETF. The objectives of the CETF were: to examine the nature of the cash economy; to determine what the likely compliance issues were; and to develop a view about what additional steps could be taken by the Australian Tax Office to address tax evasion in the cash economy.

1.11 The CETF presented its first report to the Commissioner in May 1997. It identified a range of structural elements that influence behaviour in the cash economy. It concluded that taking a long-term perspective in addressing each of the elements would be vital to achieving an effective and systemic approach to the problems caused by the cash economy.

1.12 The report identified two major community attitudes or perceptions that were of great concern:

- the widespread acceptance in the community that not paying tax on cash transactions was acceptable. This was identified through feedback from tax industry representatives and appeared to be supported by research into individual motivation and cultural attitudes; and
- the perception that there was little likelihood of detection, and in any case, that the consequences of being detected were not severe. Business taxpayers complained that there were few incentives for them to do the right thing by declaring cash payment or reporting cash transactions, particularly if their competitors were perceived to be failing to comply.

1.13 The CETF concluded that, although the ATO programs then in place did have an impact on the cash economy and should be maintained and refined, there was a need for a greater ATO presence in the community and the development of more effective compliance improvement initiatives. These

⁸ Reported in: ATO, *Improving Tax Compliance in the Cash Economy*, Commonwealth of Australia, 1998.

included incentives for compliance as well as sanctions for non-compliance.

1.14 In its report, the CETF proposed a package of priority initiatives to improve the ATO's effectiveness in dealing with the cash economy. Subsequently, the Commissioner announced a number of measures to increase the effectiveness of the CETF recommendations: additional staff, staff redeployment, and national and regional projects in high-risk industries. A key recommendation reproduced in the 1996–97 ATO Annual Report was that the ATO develop an evaluation framework to monitor the impact of its cash economy initiatives. The CETF reconvened in September 1997 to review progress since its first report and seek input from new members.

The second task force report

1.15 The CETF produced a second report in April 1998. The report expanded on the issues presented in the first report and made 34 recommendations to address the cash economy.⁹ The Commissioner accepted all but one of the recommendations. This report also saw the generation and promotion of the compliance model. The adoption of the compliance model implies that ATO strategies are aimed firstly at encouraging voluntary compliance through approaches like education and convenient and efficient service delivery. Although the expectation and emphasis is on voluntary compliance, the ATO also has access to an escalating regime of sanctions.

1.16 The compliance model approach requires a flexible regulatory regime with a wide range of enforcement options that can be applied on an escalating basis of severity. The main principles underlying the compliance model are:

- understanding taxpayer behaviour;
- building community partnerships;
- increasing flexibility in ATO operations to encourage and support compliance; and
- more and escalating regulatory options to enforce compliance.

The compliance model has been described more fully in a number of ANAO audits¹⁰ and is also mentioned on the ATO web site.

⁹ Chapter 3 and Appendix 1 provide our analysis of the ATO's implementation of these recommendations.

¹⁰ ANAO Audit reports:

No.2 2001–02 *Examinations of Allegations Relating to Sales Tax Fraud*—Australian Taxation Office;
No.37 2000–01 *The Use of Audit in Compliance Management of Individual Taxpayers*—Australian Taxation Office; and

No.23 1999–2000 *Management of Tax Debt Collection*—Australian Taxation Office.

Cash Economy Projects / Industry Partnerships prior to the new tax system

1.17 The CETF was created in 1996 from within the then Small Business Income line of the ATO because there was evidence that cash economy issues were occurring predominantly in that sector. Small Business (SB) is one of the more diverse lines in the ATO, with a client base of around two million taxpayers including partnerships, companies, trusts and individuals running a business.

1.18 Project work had targeted certain industries that were recognised as high-risk before the CETF was formed. Six industries were identified and project work in these industries focused on aspects of the cash economy. These industries were clothing manufacture, personal computer goods, fruit and vegetables, restaurants and cafes, taxis and specific elements of building and construction. As a result, the CETF was both informed by the intelligence and understanding that was gained by the project teams and was involved in securing an increase in staffing to address these risk areas. The following section provides an insight into the ATO's early cash economy project work. The personal computer project is not discussed because its focus was sales tax related.

Building and Construction

1.19 A project in 1995 pointed to the risks inherent in the industry and led to a further project that focused on cash economy issues. It commenced in July 1997 and concluded in October 1998. It was used as a 'flagship' for trialing the compliance model by focusing on increasing ATO's visibility to the industry and on influencing compliance behaviour through a greater emphasis on education and real-time reviews.¹¹ Industry partnerships at this time were of an informal nature.

1.20 The ATO evaluated the building and construction project in 1999 finding that all key performance measures set were achieved. It reported an increase in total reported income of 21.2 per cent between 1996 and 1998. In the same period lodgements increased by 9.9percent. The project noted lessons learnt and made recommendations for future projects in this area.

Taxis

1.21 Relevant project work began in the taxi industry in July 1994. The risks identified were poor record-keeping and a high level of cash income. As part of the cash economy initiative, the focus changed in 1997 to developing a working relationship (or partnership) with the industry. The maintenance and

¹¹ Real-time reviews are aimed at having immediate impact on business income reporting and on compliance behaviour. They consist of an initial contact with the taxpayer, irregular visits to the taxpayer, an analysis of the taxpayers current business records and any further action required.

improvement of cooperation and liaison between the ATO and the taxi industry was part of the ATO's planning in 1997. A major outcome for the project was the introduction of a ratio for deriving an assessment of tax payable, based on total kilometres driven.

Restaurants and Cafes

1.22 A pilot project on the restaurant industry commenced in mid July 1996. The CETF considered that the industry was among a group of high risk cash industries. A project took place in 1997–98 based on the results of the 1996 pilot, which introduced the real time review methodology. A major outcome was the derivation and use of gross profit ratios as a benchmark for assessment and analysis of the industry. Another major outcome was the development of industry norms for record keeping in cooperation with representatives in the industry and the production of a booklet on record keeping tailored specifically for the industry. The risk of non-compliance was considered by the ATO to be significant and to require a continued presence.

Clothing Manufacture

1.23 Project work on 'Outworkers'¹² commenced in 1991. The Reportable Payments System (RPS) was introduced in 1994 and was followed by a marked behaviour change in the industry. The ATO found that the industry further attempted to hide transactions that should have been reportable. The emphasis of ATO project work then changed to compliance support for the RPS system.

1.24 Education and consultation with industry were features of the ATO approach. This preceded, and is consistent with, the compliance model. The cash based nature of the compliance risk in the clothing manufacture industry resulted in ATO planning and resourcing for this industry coming under the cash economy umbrella. Some improvement in compliance was realised as a result of the combined effects of RPS and project work although the assessed risk of non-compliance did not change.

Fruit and Vegetables

1.25 Project work concentrated on the small retail sector (greengrocers) as they were seen as the greatest risk in this industry. The major focus was on record-keeping, with greengrocers being the main target of an educational campaign. Both ATO results and feedback from industry representatives indicated improved compliance. The improvement was attributed to the combined effect of the RPS and project work.

¹² Those people who work from home, for example, clothing machinists.

Early outcome

1.26 Over the two years 1997–98 and 1998–99, the clothing manufacture, personal computer goods, fruit and vegetables, restaurants and cafes, taxis and specific elements of building and construction industries, which represented a high risk of operating on a tax-avoiding cash basis, were identified for scrutiny by the ATO. An outcome of improved compliance was sought. Two measures identified for this proposed outcome were estimates for the initial two years of operation compared to the ATO baseline measure from the 1995–96 year: firstly a 20 per cent increase in income declared; and secondly a 5 per cent increase in tax return lodgement. Table 1 shows the results of the cash economy project work.

Table 1

Outcomes sought by the CETF from targeted industries

	Year	Income declaration	Lodgement
The two years initially identified for measurement	1997–98 & 1998–99	Target increase of 20%	Target increase of 5%
		Increased by 21%	Increased by 9%
Measurements for the following year	1999–2000	nil increase target	nil increase target
		Increased by 7%	Increased by 3%

Source: Commissioner of Taxation Annual Report 1999–2000

1.27 The outcomes planned and achieved by the CETF were intended to be a guide for work in uncharted territory during its first two years of operation. For the 1999–2000 year, the performance target was to maintain, but not necessarily increase, the gains achieved in the previous two years. As seen in Table 1, income declarations and tax return lodgements also increased in this year.

Tax reform and the cash economy

Tax reform

1.28 With the passage of tax reform legislation, the ATO committed considerable resources to developing the framework and procedures needed to introduce the new tax system. Reflecting its expectation that the new tax system, including introduction of the ABN and the GST, would have an impact on cash economy practices, the ATO shifted its focus from the project work described above to providing information and assistance. From July 1999, the ATO's implementation of tax reform subsumed much of the ATO's cash economy project work. Although this is understandable given the significance of the changes

being introduced to the tax system, it had reduced the priority given to project work specifically relating to the cash economy. Some enforcement work was maintained to deal with the more serious cases. Enforcement work was intended to gain momentum once more from 1 July 2001 as the focus of ATO's field workers shifted from 'help and assistance'.

1.29 The current cash economy project team formed in July 2000 to continue, from previous teams, the role of developing compliance management strategies and coordinating the ATO's approach to the cash economy. It also was tasked with setting up appropriate parameters for monitoring its effect. In December 2000, the ATO produced a plan for identifying risks and developing and implementing strategies in relation to the cash economy for both Income Tax and GST. The compliance dividend was identified as an outcome measure of their success. Key elements of the plan were to:

- understand better the participants in the cash economy, in light of the implementation of the new tax system through profiling the client base, identifying patterns and trends;
- review and refine the ATO's approaches to the cash economy including adopting integrated approaches by Small Business and GST, which includes:
 - maintaining compliance levels through identifying and managing associated risks in transition to the new tax system;
 - having staff suitably trained and skilled, with quality support tools, to effectively address the risks in the cash economy;
- deliver the compliance dividend; and
- ensure the ANTS design features are implemented and operating as required.

The compliance dividend

1.30 In its document *Tax Reform—Not a New Tax a New Tax System* the Government quoted advice from the ATO that the reforms would result in a compliance dividend, from the cash economy and other areas of tax avoidance, of \$3.5 billion in additional income tax over the three years 2001 to 2003. The ATO estimated timing of the dividend is shown in Table 2. The major impact of the reforms was expected to come indirectly through the voluntary actions of taxpayers, in particular through an increase in the level of income declared by small businesses. Increases are expected to result from a number of design features:

- a unique business identifier (the Australian Business Number or ABN¹³);
- encouragement of business to register so as to claim input credits;

¹³ As part of our current audit program, we intend to undertake a performance audit of the implementation of the GST that will focus primarily on ABN registrations.

- easier identification of inconsistencies between different taxes; and
- more regular visits by income tax and goods and services tax (GST) field staff.

Table 2

Compliance dividend by yearly expectation

Year	Expected collection amount \$ billion
2000–01	0.8
2001–02	1.4
2002–03	1.3
Total	3.5

Source: ATO

1.31 Although the compliance dividend can be expected to impact on both current lodgers and new registrants across all industries and entity types, the ATO considers the key group to be business entities with annual turnover less than \$1 million.

1.32 The ATO has a number of compliance dividend assurance strategies. These include: Monitoring; Lodgement; Debt; BAS Compliance; Outliers and ABN integrity. These strategies, along with performance towards the compliance dividend, are discussed in Chapter 4.

Audit objectives and approach

1.33 The objective of the performance audit was to report to Parliament on the ATO’s progress in addressing the cash economy, including its monitoring and reporting of outcomes.

1.34 The audit focused on the ATO’s implementation of its Cash Economy Task Force (CETF) recommendations in the light of the tax reform that has taken place over the last two years. A number of the task force recommendations have been given effect by tax reform, which has included in its design many elements that were expected to address the cash economy. The intentions underlying the recommendations are still relevant. The task force report represents the ATO’s latest comprehensive assessment of the cash economy.

1.35 In seeking to establish a benchmark for approaches to the cash economy, the ANAO considered the experience of overseas revenue agencies. We also looked at the relationship between the ATO’s current plans and activities and the April 1998 CETF recommendations. The audit has also identified what aspects

of the cash economy are being addressed as part of the tax reform process and examined how the ATO measures its effect on the cash economy.

1.36 The ANAO addressed the audit objective in a number of ways, by:

- obtaining adequate information to provide Parliament with the context for understanding the ATO's activities regarding the cash economy;
- examining the link between the old cash economy projects and new projects commenced, or about to, and on how well the ATO has modified its approach in the light of its experience of the original projects and the changes made by tax reform;
- considering the experience of a number of overseas revenue agencies in dealing with the cash economy;
- assessing the status and relevance of the recommendations of the CETF in order to inform Parliament of the ATO's progress in their implementation;
- analysing the monitoring and reporting of outcomes; and
- examining how the ATO's current work links its strategic approach to handling the cash economy.

1.37 The total cost of the audit was approximately \$238 000. The audit was conducted in accordance with ANAO auditing standards.

Report structure

1.38 This chapter provided background information on the cash economy and the work of the ATO and its Cash Economy Task Force in countering the cash economy.

1.39 Chapter 2 looks at the challenges facing the ATO in dealing with the cash economy. It explores the activities of the cash economy team, resourcing of cash economy work, the use of its management framework and how the team is dealing with the challenges identified.

1.40 Chapter 3 considers the Cash Economy Task Force recommendations within the context of the ATO's current activities. The ANAO examined the implementation of the recommendations, mindful that the recommendations could impact all ATO business lines and implementation was not just related to the work of the Cash Economy Team. The impact of tax reform was also taken into consideration.

1.41 Chapter 4 examines the indicators the ATO has in place to monitor its progress in addressing the cash economy. It covers the compliance dividend from tax reform, a significant public target, and the range of internal process indicators used to inform management decisions.

2. Challenges and ATO Action

This chapter looks at the challenges facing the ATO in dealing with the cash economy. It explores the activities of the cash economy team, resourcing of cash economy work, the use of its management framework and how the team is dealing with the challenges identified.

Challenges

The current ATO arrangements for the cash economy

2.1 Cash economy activities in the community cover a wide range of industries and transactions. The challenge is that such a diversity of activities does not lend itself to homogenous treatment by one dedicated group within the ATO. Cash economy activities may be only a part of the taxable activity of a business and so cannot be the focus of an ATO business line that is attempting to provide a customised, specialist service to particular types and sizes of business and individuals.

2.2 The ATO has responded by setting up a team that can focus on cash economy issues. The team is therefore examining aspects of taxpayers that relate to the cash economy while other areas and business lines deal with the total taxation issues of those same taxpayers. The team, necessarily, must coordinate actions through other business lines. The management approach adopted to deal with such multiple responsibilities across multiple work boundaries brings its own benefits and risks.

2.3 The benefits are that focus can be maintained on specific issues while a taxpayer is treated holistically. Monitoring the outcomes on a specific issue is also enhanced as a specific team reports on performance for that issue.

2.4 The risks, and therefore challenges, to effective management in this approach are the need for coordination, of both intelligence and effort, negotiation of appropriate resources, prioritising of competing tasks, keeping of appropriate records and effective knowledge sharing.

2.5 A coherent strategy needs to underpin these management approaches. That strategy then needs to be communicated to both the rest of the ATO and the community. A strong communication capability will be critical to the success of the ATO's cash economy initiatives.

Coordination

2.6 The task force was reconvened in March 2001 to consider the current state of the cash economy in the light of implementation of tax reform.

2.7 The cash economy team is located within the Small Business (SB) line. At the time of audit, the team comprised 16 people, located in Adelaide, Sydney and Perth. They design relevant compliance approaches, measure the compliance dividend and review and refine approaches to the cash economy. Despite being located within SB, cash economy activity is spread wider and also has links to other business lines, such as Large Business & International (LB&I) and GST. In particular, the team has placed an emphasis on forging a strong working relationship with GST, with a view to integration of field resources in its management approach.

2.8 The task facing the cash economy team is to have strategies and processes in place to identify and reduce the amount of the cash economy that goes undetected in society. This requires a sound coordinated effort that includes training of staff, the use of intelligence and communication of strategic direction.

2.9 The planned focus of the team is on the 'omission of income' and those 'not in the system'. The team has planned strategies and activities addressing these issues, as summarised in Table 3.

Table 3**Cash economy team strategies and activities to 30 June 2002**

Strategies	Activities
To address those who omit income	
<i>Tax Return & BAS verification / analysis</i>	BAS outliers Field visits Random sampling
<i>Responding to community & other information</i>	Community Information Storage Communication and Observation (CISCO) Other referrals AUSTRAC Barter pilot
<i>Matching</i>	Comparing BAS to Income Tax Returns Large payer/s project BAS withholding label / ABN checks
<i>Client education</i>	Advisory visits Record keeping reviews — previously checked — never checked Media & publications
<i>Mandatory reporting</i>	Research & analysis in high risk industries Develop & submit case for legislative change
To address those not in the system	
<i>Matching</i>	New entrant and new registrants Internal & external data re ABR BAS withholding label / ABN checks Large payer/s project Community Information Storage Communication and Observation (CISCO) AUSTRAC

Source: ATO

2.10 The team's initial intention was for strategic development, with operational work restricted to pilot studies intended to help determine where and how to deploy field compliance teams. Ties are being developed between other segments such as Revenue Analysis Branch (RAB), AUSTRAC, Knowledge Development Network (kdNet) and GST's Strategic Research & Management (SRM). The roles of these segments in the context of the cash economy initiative are still being negotiated and formalised. Better definition of responsibilities, deliverables and reporting arrangements would provide a clearer understanding of respective responsibilities throughout the ATO.

2.11 The ATO advised that it has allocated 837 full time staff and \$56.9 million to cash economy-related activities for 2001–02. The cash economy team sees its role as one of coordination, that is, targeting areas and projects, and then locating resources in the various business lines to use in agreement with the business lines' own planning arrangements. This means that its work relies on the agreement of other business lines to work on joint projects. Although both the SB and GST lines support this segment approach, there is a risk that cash economy work, with its reliance on other business lines for resources, may be side-lined by the priorities of other business line activity.

2.12 ATO experience has identified the small business micro segment¹⁴ as being most at risk of participating in the cash economy. The micro segment's Compliance Plan recognises the cash economy as a risk area that is to be specifically addressed. The plan has allocated staff resources to a number of cash economy roles including:

- verification strategies to increase community confidence and deterrence of non compliance by ensuring presence in the community;
- monitoring strategies to identify and appropriately treat emerging issues;
- research, intelligence and understanding strategy, to tailor an approach to assist taxpayers to understand and meet their obligations and further to understand the patterns of behaviours and drivers of compliance and non-compliance in the cash economy; and
- relationship management, to work with government agencies and industry partnerships to develop joint strategies and use as leverage for cash economy compliance issues.

2.13 However, the ANAO notes that in the compliance plan little mention is made of staff training in skills required for cash economy work to coincide with staff resource planning. Training is a key element supporting the coordination of appropriate resources allocated to cash economy project work.

Conclusion

2.14 Effective coordination requires well-defined communication processes. Coordination could be improved by adopting an appropriate framework that better defines responsibilities, deliverables and reporting arrangements for cash economy project work being undertaken across various business lines.

¹⁴ The micro segment is defined as those business entities with a turnover of less than two million dollars.

Negotiation

2.15 The cash economy team is negotiating for resources within the present environment of tax reform. Such negotiations with other areas of responsibility may be complicated because the team will need to resource staff for projects from different business lines (for example GST, CAM and SB). The management approach presents difficulties in achieving consistent results. For example, the cash economy team could use resources from three different business lines or units. Each one of those may be involved in multiple projects, and also undertake routine work. Therefore each team is answerable to a number of managers. This intersection of projects and managers has the potential to lead to management difficulties. Table 4 provides an example of the complexities that may be encountered.

2.16 Negotiation of resources and priorities for cash economy project work requires clear lines of communication, planning and attention to interpersonal skills between areas involved. As at October 2001, the first project initiation brief since the introduction of the new tax system had been drafted. It included an industry profile, the scope, resources required and case selection method to be used for the project.

Table 4
Example to illustrate potential project complexities

		Organisation		
		Unit A 2 teams	Unit B 5 teams	Unit C 3 teams
Project coordination team	→ Project 1	1 A team Project 1	1 B team Project 1	1 C team Project 1
	→ Project 2	1 A team Project 2	2 B teams Project 2	
	→ Project 3		2 B teams Project 3	
	→ Project 4			2 C teams Project 4
	Routine Work	All A teams Routine Work	All B teams Routine Work	All C teams Routine Work

Priorities

2.17 Adding to the complexity of the above example, a team may be geographically dispersed, with members operating in Brisbane, Melbourne and Perth. Teams may be required to undertake other projects, in addition to their cash economy tasks, their difference adding another dimension of difficulty to the management, cost and effectiveness of each project.¹⁵ It is important that the management framework is supported by communication of clear priorities so that all relevant management groups have a consistent, clear picture of those priorities.

2.18 Although there is communication between areas, we found that the communication of priorities could be improved. High-level staff communications helped the various areas to understand the issues they faced. However, lower level staff expressed some confusion regarding the management structure and responsibilities for projects. It was not possible to assess other aspects of the cash economy team's management processes because few projects had been undertaken and planning was not documented.

Conclusion

2.19 The cash economy team, as at August 2001, had planned and allocated resources to a variety of areas. At that time, there was no evidence of clearly defined plans and priorities for cash economy project work. The ANAO recognises the difficulties faced by the team with uncertainty of resource allocations. However, the ANAO suggests that, given the inherent risks in the management approach adopted, the team take a firmer approach to managing its risk by detailing responsibilities, intended action, measurement of performance and action deadlines.

Recommendation No.1

2.20 The ANAO recommends that the cash economy team review its management framework to ensure its initiatives are supported effectively with clear planning, communication, priorities, monitoring processes and project deliverables.

ATO response

2.21 The ATO agrees with this recommendation. The cash economy team has significantly developed its management framework considerably since the

¹⁵ This is also discussed in ANAO's Audit report No.37 2000–2001 *The Use of Audit in Compliance Management of Individual Taxpayers*, Chapter 3.

time of the ANAO review. Strategic and operational plans are in place complemented by a regime of project initiation briefs, monitoring templates and evaluation criteria, which are in various stages of completion. A draft cash economy communication strategy has been prepared and will ensure staff are more aware of the management structure and project responsibilities. The cash economy team now has a key place in cross-segment and cross-business line compliance executives.

Knowledge sharing

2.22 The ANAO, in examining the cash economy topic, looked for records of ATO assessment, planning, action and review. The ATO had some difficulties locating the original CETF files and documentation. Some files could not be located initially¹⁶ or were incomplete. Often the projects reported on by the original task force had not been finalised and in some instances the files were lists of figures with little or no narrative to explain the figures. In most cases, the individual projects had been completed but not noted as such within the files. Also, many of the ATO staff involved in earlier projects had moved on. Lessons learned from the previous CETF-sponsored projects are therefore difficult for the current cash economy team to access, learn from and adopt.

2.23 The Commissioner of Taxation, in October 1999, emphasised to his staff the importance of good record-keeping.¹⁷ The ATO's record-keeping instructions consider that any outputs, including paper or electronic, produced by an individual or group in the course of ATO business should be considered a record in the first instance. However, it is ultimately the value of that record that determines how it should be captured and protected and for how long it should be kept.

2.24 Individuals at all levels within the ATO are responsible for creating, capturing, maintaining and disposing of records within the contexts of their specific business and of the ATO as a whole.

2.25 Our examination of six current or proposed project files found very limited information in most files. Only one had details of key deliverables, future strategies, expected outcomes and milestones. The ANAO noted that the cash economy team has now commenced the implementation of the national system of files and records.

¹⁶ Out of 153 files listed in the Cash Economy team File Index, the ATO was unable to locate 45 files. They were subsequently located.

¹⁷ *ATO Management Instruction—Record Keeping*, October 1999.

Conclusion

2.26 Good record keeping is necessary to support the strategic use of key information as well as for maintaining an appropriate level of accountability. The difficulties in readily locating CETF files and the lack of files for the cash economy team till recently, weaken its ability to benefit from the intelligence available from previous projects. Sound record-keeping is also a strategic necessity to support knowledge sharing, particularly in the current ATO environment where staff movement between areas is common and corporate knowledge can be quickly lost.

Recommendation No.2

2.27 The ANAO recommends that the cash economy team take appropriate action to improve its knowledge sharing by maintaining a formal system of records that is nationally accessible and regularly updated.

ATO response

2.28 The ATO agrees with this recommendation. Knowledge gathering and dissemination are key issues for the ATO's cash economy initiative. The cash economy team has already commenced building on the previously established cash economy National Office filing system by extending it nationally. Electronic share directories have also been established and are being expanded.

New cash economy projects

2.29 The cash economy team is working to identify future cash economy projects. The emphasis is on strategic leverage, that is, maximising the impact of any work undertaken. The GST business line has projects under way through the more common areas of cash economy activity (for example, Building and Construction). The cash economy team intends to broaden its approach to selecting areas for new projects. In acknowledging that the cash economy is widespread across society, the team will strategically target a range of areas, including initially road freight transport, cleaning sub-contractors, smash repairers, hairdressing and beauty salons, restaurants and cafes and particular elements of the building and construction industry. It intends to cover other industries progressively.

2.30 The cash economy team is also currently testing aspects of the new tax regime to develop approaches for new projects targeting the cash economy. The ABN is seen by the ATO as a key strategic identifier that is driving the push towards improved compliance. The ATO is analysing aspects of ABN registration

to support the integrity of the system. This includes matching internal and external data to identify businesses that failed to register as well as following up a sample group of business that registered and that appear to have no lodgement history.

2.31 In addition, the cash economy team has conducted a pilot project into 'outliers'; that is, case selection based on deviation of a business from established financial ratios derived from activity statements. Based on the initial success of the testing of this selection process, a major project for compliance enforcement was to be launched from 1 July 2001. As at October 2001, projects using the outlier technique were still to be approved.

2.32 Under the 'education and assistance' approach to implementation of tax reform, field teams have been helping businesses with the use and lodgement of the Business Activity Statement (BAS). The teams have also offered advice on record keeping¹⁸ and compliance. The cash economy team expected this approach to shift in focus from advisory to verification visits from 1 July 2001. Specific cash economy projects commenced in October 2001, drawing in part on this earlier verification work.

2.33 In undertaking its project work, the cash economy team is being supported in its monitoring of taxpayer activity by kdNet, SB's data extraction specialists. Performance indicators being monitored include:

- Taxation collections, both company and individual;
- Activity statement lodgement;
- Total business income; and
- Net tax payable.

Conclusion

2.34 Using information from the new tax system, the cash economy team has developed a new approach to identifying cash economy projects. It was not possible to test the usefulness of this approach as the projects had not commenced. The use of information gained through the implementation of the new tax system such as ABN registration has the potential to be valuable, as does the outlier selection process. The shift in focus from advisory to verification activities also offers the prospect of additional intelligence to assist the ATO's understanding of the cash economy but projects utilising verification activities had been delayed.

¹⁸ For example, the restaurant and café project team devised a number of ways to help businesses in keeping their records, which they promoted through booklets and an e-record compact disc. The New Tax System booklets were targeted generally and specifically to a variety of industries such as accommodation, health, road transport, travel and tourism.

Benchmarking with other countries

2.35 In attempting to establish a benchmark for approaches to the cash economy, we contacted a number of overseas revenue and audit agencies. We received relevant information from Canada, New Zealand and the United Kingdom.¹⁹

2.36 International experience points to the benefits to be gained from targeting specific industry sectors based on an assessment of risk. The focus has been on small businesses where investigators develop sector profiles and consult with industry and trade associations. The knowledge is used to identify areas of risk. Risk modelling is used to identify both industry sector and regions where individuals may under-report their income.

2.37 Other areas of better practice include the need for education and publicity, more stringent business registration, improved data matching and coordination with other government bodies. In recognition of the difficulty in practically defining the cash economy, further research is considered necessary. One important aspect of that research is 'social marketing'—that is, how best to communicate to raise public awareness of the cash economy problem and also to targeted industries.

2.38 We found that the ATO has maintained an awareness of international initiatives and has exchanged strategy papers with comparable countries. As part of its examination of the cash economy through its task force approach, the ATO has also contributed to better practice approaches. Consistent with the experience and recommendations of other countries, the ATO has adopted a multi-dimensional approach to influence compliance behaviour.

Conclusion

2.39 We found that the ATO strategies adopted to address the cash economy are consistent with those of other countries. The strategies offer a wide-ranging approach to dealing with the cash economy.

Future directions

2.40 The ATO expects its implementation of tax reform to be the main strategy in its efforts to address the cash economy. The cash economy team, in cooperation with other business lines, is developing strategies to support that approach by coordinating activities that address the cash economy. In particular, by targeting those who omit income and those not in the system. The ATO advised that it also plans to develop a number of other approaches that seek to make it simpler for taxpayers to comply with taxation law and to increase compliance in the cash economy sector.

¹⁹ Including: *THE INFORMAL ECONOMY*, a report by Lord Gabor QC, March 2000, HM Treasury, London.

3. Task Force Recommendation Analysis

This chapter looks at the Cash Economy Task Force (CETF) recommendations within the context of the Australian Taxation Office's (ATO) current activities. The ANAO examined the implementation of the recommendations, mindful that the recommendations could impact upon all ATO business lines and implementation was not just related to the work of the Cash Economy Team (CET). The impact of tax reform was also taken into consideration.

Introduction

3.1 The CETF April 1998 report made 34 recommendations. Of these, the Commissioner agreed to thirty and required further consideration of the remainder. In summary, we found 29 have been implemented, either fully or partially. Two are no longer applicable, the Commissioner rejected one and another two were considered minor and not to warrant further action at this stage.

3.2 In addressing the recommendations, the ANAO found that many were interrelated. In addition, tax reform changed the context of how the ATO dealt with the cash economy. The ATO approach to implementing the recommendations was spread through its business lines. No team was assigned responsibility for directing or coordinating implementation activity, with many of the changes required to be brought about by the design and implementation of the new tax system.

3.3 Looking just at the implementation of an individual recommendation could mean losing sight of the overall balance of their effect. As a result, we considered that we could review the implementation of the recommendations in thematic groups. The themes identified were:

- partnerships with the community (mainly industry groups);
- communication and education strategies;
- compliance strategies based on taxpayer behaviour; and
- research that provides a fuller understanding of the issues.

3.4 This Chapter discusses the recommendations under these four main headings. Appendix 1 provides a summary of each individual recommendation.

Partnerships

3.5 The ATO recognised that it could not address the problems presented by the cash economy on its own. Building effective community partnerships was seen as an intrinsic part of achieving greater ATO presence in the community. The CETF made eight recommendations relating to forming strategic alliances with a range of representative groups throughout the community. The ATO sought to raise awareness of the cash economy to gain community support. It also sought to work with industry representatives to develop solutions to the problems of the cash economy. The relationships were seen as opportunities for communication and sharing of intelligence.

Industry Partnerships and the ATO

3.6 As part of the implementation of the New Tax System (ANTS), a number of Industry Partnerships (IP) were formed to assist with transition issues and to resolve as many technical issues as possible prior to the commencement of ANTS in July 2000. GST technical issues continue to be the main focus of the industry partnerships. Though it is difficult to quantify, industry stakeholders we consulted credit the IPs with enabling a smoother implementation of the new tax system, with a number of industry problems resolved through IP education prior to June 2000. Non-ATO members of the IP groups reported favourable results to us, commenting that the ATO was generally keen to learn, listen and deliver on tax issues during the implementation of ANTS. However, as ANTS has become bedded down, groups reported less responsiveness from the ATO. It should be noted that the groups were also less happy with the ATO's responsiveness to their industry issues before the ANTS implementation phase. Small business stated they wanted active, positive (non-intimidating) support from the ATO, declaring it to be a crucial factor in their ongoing compliance.²⁰

3.7 Each IP has a SES sponsor²¹, who is responsible for approving all reports²² for their IP group. The SES officer, GST and Tax Education Speakers & Seminars Unit (TESS) representatives attend the IP meetings along with industry representatives. Some IPs also have designated PAYG contacts, and there is scope to include other areas of the ATO when necessary. Membership of the IP is limited to major players for the industry in question. Meetings were held quarterly. The broad aim of these partnerships was to reach conclusions on key issues in each industry well before the implementation of the GST. They did

²⁰ Coleman C. & Freeman L. (1998) *To have and to hold—influences on small business owners participation in the tax system*. The University of NSW (p. 12).

²¹ Each SES officer may be responsible for more than one IP group.

²² The SES sponsor has overall responsibility for their particular group, chairing meetings, approving minutes for release and any other information to be published on the IP web site.

not focus on the cash economy although presentations on this topic have been delivered to some IPs. IP groups commenced in March 1999 and were formalised in December of the same year. Information on meetings, key issues, key decisions and contacts is found on the ATO's website.

3.8 IPs currently exist for the following sectors: Charities and Non-profit; Conservation; Education; Food; General Insurance; Government (state, federal and local); Health; Motor Vehicles & Luxury Car Tax; Mining and Energy; Property & Construction; Retirement Villages; Primary Producers; Taxis; Tourism; Telecommunication; Transport (with sub groups Shipping, and Road transport); Financial Suppliers; Gambling; Media; Pharmaceutical's; Tax professionals; Sport and Entertainment.

3.9 Some industries are more cohesive than others and are better able to formalise relationships with the ATO. As a result, the degree of formality of IPs varies. For example, those business and professional people in large disparate groups such as the fruit and vegetable industry are considered to have an informal liaison with the ATO. Other groups, such as building and construction or tourism, are more formally structured as industries and therefore easier to form a formal IP group.

The future of the Industry Partnerships

3.10 In January 2001 the ATO initiated a project into ATO consultation with external stakeholders on legislative and administrative matters in relation to the Australian taxation system. The project was later subsumed by a broader ATO focus on external stakeholders. However, a meeting had been held to discuss the past, present and future of IP groups. The group explored shared problems and experiences, for example the ownership and structure of the groups and that two-way communication was hampered by the language or jargon used.

3.11 As could be expected from a consultation initiative, the benefits varied, depending on the contributions of a range of individual representatives. Now that tax reform issues have been addressed, IPs do not meet as regularly. Although the ATO recognises the usefulness of such groups, it has been slow to act on the potential the IPs generated from the focus on ANTS. The ATO advised that it is now working to explore the full potential of IPs. We consider that the combination of industry support and positive results from the recent IP consultations demonstrates the possibilities of a useful partnership between industry and the ATO that includes cash economy issues.

Inter-Agency partnerships

3.12 In March 1997, as part of a whole of government approach consistent with one of the priority initiatives recommended by the task force, a number of Commonwealth agencies met to develop closer working relationships. They formed an Inter-Agency Working Group (IAWG) that dealt with the cash economy. Members include the ATO, Centrelink and the Departments of Immigration and Multicultural Affairs (DIMA), Family and Community Services (FACS), Industry Science and Resources (DISR) and Workplace Relations and Small Business (DWERSB).

3.13 Recent meetings (April and September 2001) sought to identify the cash economy risks for each agency, and identify the common risks, interests and possible strategies they might employ. Established methods of cooperation, including outposted officers in another agency, sharing of specific items of intelligence and joint operations, were still seen as appropriate.

State partnerships

3.14 In January 2001, a formal Memorandum of Understanding (MoU) was entered into by all State and Territory revenue authorities with the ATO to facilitate mutual cooperation and the exchange of information between agencies. To give effect to the MoU, the same parties also entered into a service level agreement that detailed supporting processes. There had been little activity between the agencies in relation to the cash economy, although discussions with the NSW Office of State Revenue have commenced.

Conclusion

3.15 Partnerships between the ATO and others can be a valuable resource in dealing with the cash economy, especially when all parties can see a benefit from such a relationship. If managed well, partnerships can bring about sound results as evidenced by the beneficial use of some Industry Partnerships during the implementation of the new tax system. However, it is important that all parties to the partnership benefit from the relationship and that the ATO continues to use the opportunity for effective two-way communication and cooperation.

Recommendation No.3

3.16 The ANAO recommends that the ATO build and improve on its current industry partnerships, utilising a model of two-way interaction:

- with regular meetings to address industry and community concerns relating to the cash economy; and

- promoting those meetings both as a forum for intelligence sharing and to gain industry based support for the ATO's cash economy projects and activities.

ATO response

3.17 The ATO agrees with this recommendation. A number of industry partnerships are already expanding beyond their initial focus relating to GST issues. Work is under way to better engage members on issues relating to planned activities and intelligence sharing, with more emphasis on two-way interaction. Contact has already been made with a number of more important partnerships to engage them in development and implementation of current and future cash economy strategies and activities. Not all industries are covered by the current industry partnership arrangements. The ATO's experience with the existing industry partnerships will be considered when creating new partnerships.

Strategies

3.18 The CETF made 17 recommendations relating to a variety of strategies that could be applied to the cash economy. These strategies reflected three main elements:

- communication and education;
- the use of AUSTRAC data; and
- the use of sanctions and incentives.

Communication and education

3.19 The Cash Economy Initiative 2001 strategies include public awareness of the key cash economy messages through communication and education activities. It describes a two-stage approach looking to influence the behaviour of participants in the cash economy. In the short term, it aims to achieve public awareness of the cash economy. This would then form part of a longer-term marketing strategy that targets business segments considered to be at risk.

3.20 Since the introduction of tax reform, we found that the ATO has relied on the advice and assistance provided to businesses to carry that communication strategy. It has also continued to track community perceptions through community surveys as well as taking note of the recent research undertaken by the Centre for Tax System Integrity.

3.21 The CETF had recognised that research also pointed to community attitudes as a significant factor that needed to be addressed by communication and education. Some market research was conducted in 1999 that examined the

change in community attitudes from the previous year and then specified what was needed as a communications approach. We found that the proposed communications strategy did not seem to have benefited from this research. Since its creation in April 2001, limited action has been taken to implement a coordinated education campaign to address community attitudes to the cash economy. The ATO has advised that further research is needed in this post-tax reform environment before an education campaign can be mounted.

Recommendation No.4

3.22 The ANAO recommends that the ATO take action to implement a coordinated education campaign to address community attitudes to the cash economy.

ATO response

3.23 The ATO agrees with this recommendation. The original Cash Economy Task Force developed and put in place a community education strategy that included a campaign to raise awareness in the general community and industry-specific campaigns raising awareness about the cash economy and how the ATO was dealing with it. The CETF considered the development of a broader community education campaign aimed at changing attitudes toward tax evasion. However, it was concluded that further research was required. Further research has been conducted by the Centre for Tax System Integrity and is currently being analysed. This research will be considered further by the CETF in 2002. It is noted that any campaign aimed at changing community attitudes would require significant funding over time. This would need to be considered further by the ATO once the recommendation of the CETF is available.

The use of AUSTRAC data

3.24 The ATO collects and has access to a large amount of intelligence. Strategic use of this information is crucial to sound management. Intelligence is gained through, for example, tax returns, Business Activity Statements, industry groups, community information and financial transaction report information held by the Australian Transaction Reports and Analysis Centre (AUSTRAC). The CETF and more recently the ANAO audit report into *The Australian Taxation Office's use of AUSTRAC Data*²³ both recommended that the ATO make greater strategic use of AUSTRAC data.

²³ The Auditor-General Audit report No.7 2000–2001.

3.25 AUSTRAC provides a number of ATO officers with access to the full range of Financial Transaction Reports (FTR) it collects. In addition, AUSTRAC provides the ATO with access to a range of macro analytical tools specifically designed to support the ATO's cash economy compliance activities. A Memorandum of Understanding²⁴ negotiated between the ATO and AUSTRAC in 1998 governs the partnership. Data contained in the AUSTRAC database can be especially helpful in analysing transactions that are used by the cash economy industries. The ANAO audit report relating to the use of AUSTRAC data, noted above, provides more detail on the use and capability of AUSTRAC data and its relationship with the ATO.

3.26 The Task Force made two recommendations relating to AUSTRAC and the FTR Act. These recommendations are as follows:

- consideration be given to amending the FTR Act to broaden the cash dealer categories and the range and level of report types; and
- AUSTRAC data be more strategically utilised by the ATO to identify high risk cash transactions.

3.27 The Commissioner agreed with both recommendations, commenting '*the ATO will continue to assist AUSTRAC identify ways of ensuring the effectiveness of the FTR Act to counter tax evasion.*' The Commissioner committed the ATO to '*making increased use of AUSTRAC data, both on a strategic level and for case selection purposes*'.²⁵ The first recommendation is being addressed in the legislative package of proposed amendments to the FTR Act²⁶ currently being considered by the Attorney-General's Department. The second recommendation is discussed below.

Usage patterns

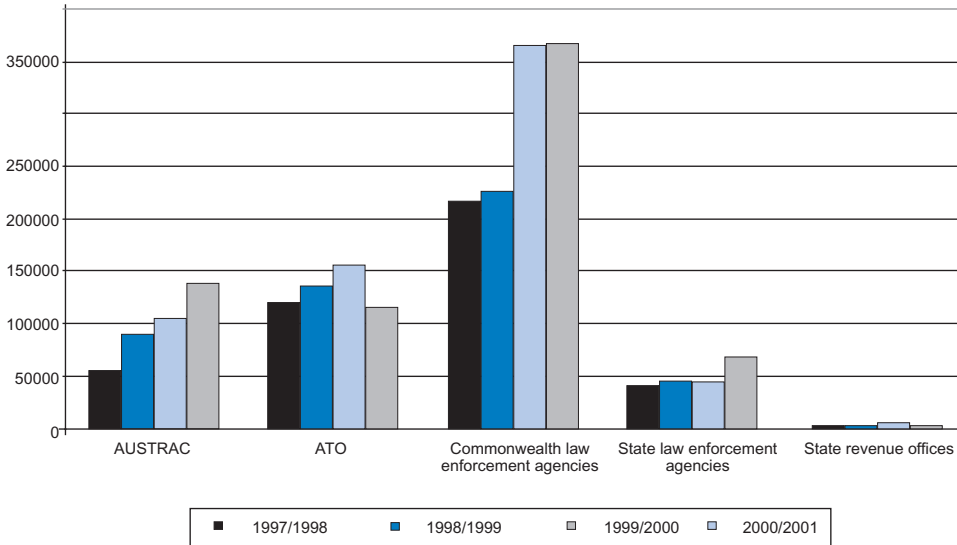
3.28 As can be seen below in Figure 1, Commonwealth law enforcement agencies, as a group, are by far the highest users of AUSTRAC data. Figure 1 also indicates a drop in usage by the ATO in 2000–01 in contrast to increases in use by other agencies. The ATO considers this a direct result of its shift from verification to assistance.

²⁴ The ATO and AUSTRAC are currently renegotiating some elements of the MoU.

²⁵ Cash Economy Task Force Recommendations—Commissioner's Response.

²⁶ In 1998, the *Report to the Minister for Justice on the review of the Financial Transaction Report Act 1988* was given to parliament and at the time of writing was with the Attorney-General's Department.

Figure 1
Agencies use of AUSTRAC data



Source AUSTRAC data

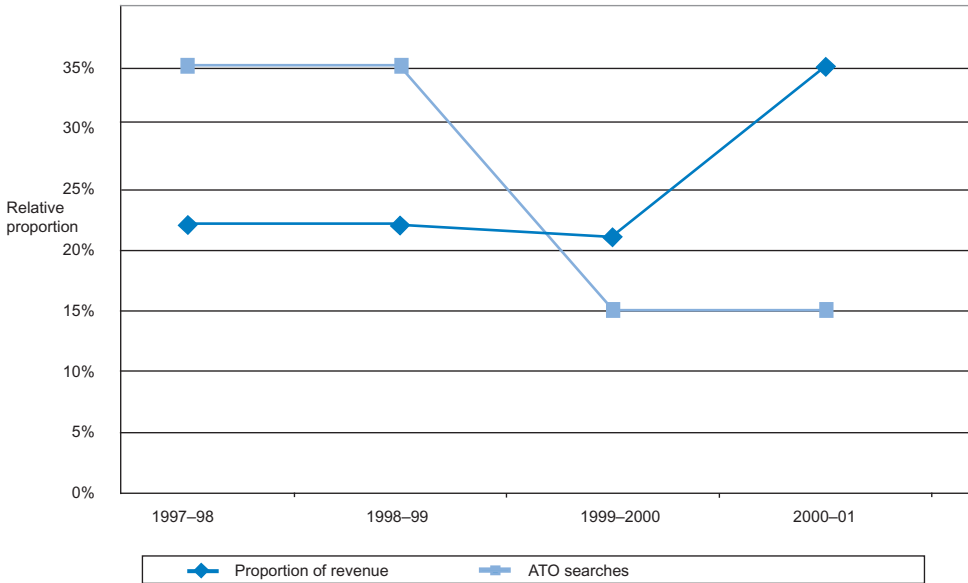
3.29 Figure 2 shows in a percentage comparison²⁷, that despite a drop in usage by the ATO, the direct revenue gain increased significantly. This increase is attributed in part to joint work undertaken in 2000–01 by the ATO’s Special Audit team and the National Crime Authority in which \$16 million additional revenue was attributed to the use of AUSTRAC. This outcome demonstrates the effect of sound strategic use of AUSTRAC data. As can be noted from previous years, higher usage does not necessarily bring about better results. In the 2000–01 financial year the ATO attributed taxation revenue of \$72 million as a direct benefit from the use of AUSTRAC²⁸ data.

²⁷ Because of the lack of numerical comparison between the areas ATO searches and amount collected, we have used a percentage comparison of both areas.

²⁸ A direct benefit is measured in dollars and occurs where the ATO raises an assessment for additional tax and penalties that is attributed either wholly, or in part, to the use of AUSTRAC information. The \$72m figure includes International Funds Transfer Instructions, Significant Cash Transaction Reports, and Suspect Transaction Reports. While significant case results can come from quite isolated events, the direct revenue gain is only one outcome from use of AUSTRAC data.

Figure 2

Comparison of direct revenue gain and number of AUSTRAC searches undertaken by the ATO over a four-year period



Source: AUSTRAC data

Knowledge and training

3.30 During the course of the audit, the ANAO found only limited knowledge of the use of AUSTRAC data within the ATO in relation to the cash economy. There were some exceptions (for example, the building and construction project team). Training in the use of AUSTRAC data had been limited. Members of the cash economy team were not familiar with the intelligence benefits to be gained from use of AUSTRAC data. The ANAO noted that the number of ATO AUSTRAC Liaison Officers had been reduced and the ATO presence at the AUSTRAC office²⁹ significantly downgraded. The ATO advised that, in response to the earlier ANAO report, this was a part of its attempt to improve its management and use of AUSTRAC data. AUSTRAC reported that, prior to the second half of the 2001 calendar year, it had received limited requests from the ATO for financial analytical assistance in the use of FTR information. During the second half of the year, the ATO's demand increased, including in relation to cash economy work.

²⁹ Within the AUSTAC office is an area set aside specifically for ATO staff.

3.31 For AUSTRAC data to be used strategically as recommended, ATO/AUSTRAC training, cooperation and the early integration of AUSTRAC data into ATO planning are essential. The ANAO noted some communication difficulties between the ATO and AUSTRAC. AUSTRAC has advised that ATO inter and intra agency communication at the tactical and operational level could still be improved, as could the level and standard of resourcing for AUSTRAC and FTR training. The ATO has advised that recent high level discussions have led to improvements in communication and that training issues are being addressed.

Conclusion

3.32 The ATO has recognised the intelligence benefit provided by the use of AUSTRAC data and some project teams have demonstrated success in its use. This use, however, was patchy and dependent on the skills of a few individuals. The level of training provided did not promote its effective use. The cash economy team, who are responsible for determining areas of risk related to the cash economy, need to be familiar with the AUSTRAC product and incorporate it as part of the team's risk analysis process. The ATO has advised that it is addressing the need to provide training to appropriate staff. In addition, senior AUSTRAC and ATO staff have been refocussing the strategy to improve its effectiveness, particularly in relation to the cash economy.

Recommendation No.5

3.33 The ANAO recommends that, to enhance ATO cash economy intelligence, the ATO takes further action to use AUSTRAC data more strategically in its cash economy project teams by:

- ensuring that, in conjunction with AUSTRAC, the lines of communication are clarified and an effective partnership established; and
- ensuring that appropriate ATO officers are fully trained in the use of AUSTRAC data for undertaking cash economy work.

ATO response

3.34 The ATO agrees with this recommendation. In reference to the earlier ANAO performance audit³⁰ into the ATO's use of AUSTRAC data, the ATO agreed then with the recommendation to improve its strategic partnership with

³⁰ The Auditor-General Audit Report No.7 2000-01.

AUSTRAC. Senior executives from the ATO in strategic and risk management areas have commenced working with senior AUSTRAC officers to identify areas where AUSTRAC data can be of greater benefit. The Assistant Commissioner responsible for the cash economy is one of these officers. In relation to skilling, an on-going process has been put in place to identify and provide skilling to appropriate staff in the use of AUSTRAC data. The cash economy team has undertaken appropriate training since the audit has been completed. In addition, an ATO senior executive has been nominated to ensure AUSTRAC data is integrated into the ATO's information management capability.

Sanctions and Incentives

3.35 The task force report made 10 recommendations related to the use of sanctions and incentives. The ATO undertook the Sanctions, Incentives & Disclosure project to examine relevant recommendations of the CETF. The team produced a progress report in April 2000. The report showed that the ATO had progressed its examination of the use of sanctions and incentives in dealing with the cash economy. In support of the recommendations, it provided a number of options for their implementation.

3.36 The ANAO found that although the report considered the CETF recommendations and was often referred to within the ATO as evidence of work undertaken, it was difficult to quantify the usefulness of the report, as there was no evidence of its options being implemented.

Penalties

3.37 An ATO Practice Statement, entitled '*Remission of penalties under The New Tax System*', was issued in November 2000 (though in effect from July 2000 to July 2001). It gave firm guidelines for the application of penalties. Further guidelines were due to be released late in 2000. At the time of writing, this had not occurred. The ATO has advised that discussions on updating the guidance are taking place with professional associations. However, while consideration of the draft is under way, the Practice Statement still applies to taxpayers, utilising the compliance model³¹ for applying penalties. This gives those taxpayers who may have made an honest mistake opportunities to have penalties remitted and escalates action for those taxpayers deliberately non-compliant, ranging from the imposition of penalties to prosecution.

³¹ The Compliance model is also discussed in chapter one and in previous audit reports including *The Use of Audit in Compliance Management of Individual Taxpayers*—Australian Taxation Office. Audit Report No.37 2000–01.

Naming of serious offenders

3.38 The CETF recommended that the ATO publicise the names of serious tax offenders in the Commissioner’s annual report. The Sanctions and Incentives report explored this option and recommended that the general naming of serious tax offenders in the Commissioner’s annual report should only be taken up in part because of the time delays associated with finalising challenges to assessments. The Commissioner announced in September 1999 his intention to name ‘...taxpayers with a substantial outstanding debt and a history of what [he] described as “playing hardball” and “serial bankruptcy”. However, [he]... subsequently received advice that doing so would be outside [his] legal powers’.³²

Compliance Strategies

3.39 The CETF promoted the introduction of the compliance model as an approach to the cash economy. It made four recommendations relating to the introduction of the model and linking it with the Taxpayers’ Charter in dealing with the cash economy. The compliance model advocates a hierarchical approach to compliance improvement. This suggests that enforcement begin with service delivery, education and promoting good record keeping, progressing to stronger methods (for example, audits) when resistance is met. Some of the cash economy project teams used the principles of the model in carrying out their projects.

3.40 The recommendations to adopt the compliance model to guide ATO strategy on dealing with the cash economy have been implemented fully. Indeed, the ATO recognised the applicability of the model to all taxes and has gone further by using the model right across its business lines.

3.41 The CETF saw the nexus between the principles espoused by the compliance model and Taxpayers’ Charter. The ATO subsequently promoted the use of both the compliance model and charter to its entire staff. A practical application was the inclusion of charter standards for service delivery in project plans.

Research

3.42 The CETF made five recommendations for further research directed at a greater understanding of the cash economy and how it can be addressed. The ATO, in its Cash Economy Initiative–Communications Strategy³³ dated April 2001, has identified information gathering/research/consultation as a first stage

³² ATO Annual Report 1999–2000.

³³ The communication strategy paper of April 2001 is the latest paper on the issue. It was meant to be an ongoing document as opposed to an annual issue. Discussions continue on strategies arising from this paper.

in identifying cash economy issues. To this end, a number of avenues are available to the cash economy team including:

- Business Activity Statement (BAS) research conducted in November 2000, which identified small business and large business operators' attitudes and beliefs;
- Tax Education Speakers and Seminars (TESS), which saw the ATO become a main source of information for small business although the high reliance of small business on tax practitioners is also recognised;
- Non-English Speaking Background accountants were found to be a key information source and communications needed to stress the consequences of non compliance; and
- other sources of research include: CTSI, the Small Business advisory group, Field intelligence, call centre intelligence, SB Alliance sources, media content analysis, external researchers and industry partnerships.

Community cost

3.43 In reviewing research into the cash economy, we found a number of researchers worldwide have attempted to analyse approaches to the cash economy. Results vary widely. In Australia, Christopher Bajada,³⁴ one researcher who is also a member of the Cash Economy Task Force, concluded that the cash economy exhibits cyclical behaviour relative to that of the legitimate economy, and that the cash economy in Australia is relatively stable as a percentage of GDP. Bajada explored the difference between business to business (BtoB³⁵) and business to consumer (BtoC³⁶) cash economy transactions and found a slightly higher percentage of BtoC transactions, as can be seen in Figure 3. The ATO does not agree with Bajada on the relative contributions to the size of the cash economy of these transactions but hold the view that BtoC transactions are a growing risk to the cash economy. The ATO has recognised that non-compliance in BtoC transactions are also difficult to address in a cost-effective manner.

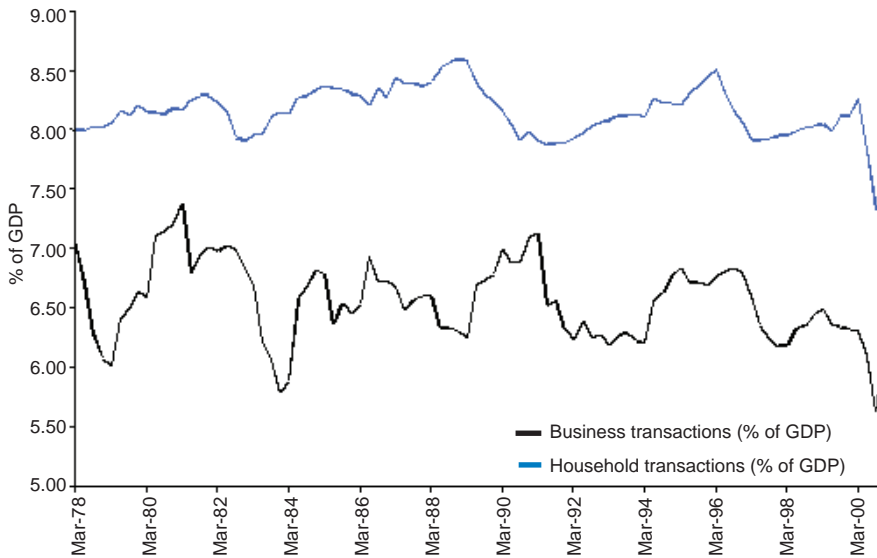
³⁴ Bajada C, 2001, *The Cash Economy and Tax Reform*, Australian Tax Research Foundation, Research Study No. 36.

³⁵ BtoB transactions are those occurring between one business and another (eg product supplier to retailer).

³⁶ BtoC transactions are those between a business (eg house cleaner) and consumer (eg home owner).

Figure 3

Comparison of cash economy transactions—Business to Consumer (ie. household transactions) and Business to Business



Source Bajada 2001

3.44 Bajada’s analysis, the most recent in Australia, also included a ranking of business contributions to the cash economy in Australia. Interestingly, Bajada’s 2001 findings were similar to those of the CETF 1998 report, which reflected intelligence arising from cash economy projects into the building and construction, clothing manufacture, fruit and vegetables, prescribed computer goods, restaurants and cafes, transport and taxi industries. The Centre for Tax System Integrity (CTSI) is also investigating aspects of the cash economy. One of its studies is surveying the attitudes and practices of households. The ATO has also advised that it is working with the Australian Bureau of Statistics to derive a measure of the cash economy in Australia.

Community attitudes

3.45 Another CTSI 2001 paper suggests that taxpayers are influenced by their perception of the social norm and such a perception can effect their tax paying behaviour and undermine taxpaying ethics.³⁷ For example, *‘public figures, wealthy individuals and powerful companies who manage to dodge their tax responsibilities can*

³⁷ Wenzel M. 2001 *Misconceptions of Social Norms about Tax Compliance (2): A field experiment*. in Working Paper No.8, June 2001. The Australian National University Australian Taxation Office—Centre for Tax System Integrity (p. 16).

quickly undermine the impact of the public's tax morality'. The implication is that these acts need to be widely and publicly condemned.³⁸

3.46 Coleman & Freeman also wrote that compliant behaviour is influenced by peer group attitudes and by personal experiences. A person will attempt to repeat a good experience and avoid a bad experience.³⁹ Therefore an experience in the cash economy which reaped an immediate reward (eg. a discount for cash) is more likely to be repeated. Coleman and Freeman go further, saying '*consumers will not change their behaviour without a change in their attitude. One of the simplest ways of bringing about a change in attitude is by the acquisition of new knowledge*'.⁴⁰ An example is an understanding that your taxes help to pay for new government services or that participation in the cash economy is a type of theft, not much different to stealing a pencil from a shop.

3.47 In a later paper, Coleman & Freeman stated that most small business owners were given the opportunity to participate in the CE and felt that there was no technical loopholes left to them (unlike their larger counterparts), and that cash represented a just reward for hard work. They also found that professionals who were paid mostly by cheque were also prepared to accept cash offers.⁴¹ Some small business taxpayers use the cash economy as a means of survival, while better-off professional taxpayers use it as a game.⁴²

3.48 Other research undertaken by the ATO in 1999⁴³ is consistent with Coleman and Freeman and concluded that a long term approach is required to achieve an effective and systematic approach to problems caused by the cash economy, and to address possible community perceptions such as:

- that it may be okay not to pay tax;
- the likelihood of detection;
- the consequences of being detected; and
- the incentives to declare cash payments or report cash transactions.

3.49 The ANAO found that the ATO's current reliance on its education about tax reform does not address the identified need to change attitudes towards the cash economy. We also observed that some internal research and summary documents on the cash economy produced by the ATO were not completed or may be widely known by author or name, but not by the content of the document.

³⁸ *ibid.*, (p. 17).

³⁹ Coleman C. & Freeman L. (1996) *Current Issues in Tax Administration*. The University of NSW.

⁴⁰ *ibid.*

⁴¹ *ibid.*

⁴² Coleman C. & Freeman L. (1998) *To have and to hold—influences on small business owners participation in the tax system*. The University of NSW (p.13).

⁴³ 1999 market research study into awareness levels of the cash economy in the community.

³⁸ *ibid.*, (p. 17).

Conclusion

3.50 Research undertaken independently or on behalf of the ATO is extensive, although it was unclear how much of this research was strategically incorporated into ATO's cash economy planning. Failure to do the latter could lead potentially to the ATO re-doing work unnecessarily; for example, identifying an area for new research, which may cover an area previously explored. The ATO has advised that research findings are now included in risk assessments which in turn are considered in deciding on strategies.

3.51 Independent research has confirmed the ATO's own conclusions that Business to Consumer transactions were of a high risk to the cash economy. Although recognising the difficulties involved in addressing Business to Consumer transactions, researchers also indicate that changing the community attitude to the cash economy is critical in dealing effectively with it. Pursuing the conclusions of this research with a targeted communication campaign would address a current lack in the ATO's activities.

4. Outcome and Performance Monitoring

This chapter examines the indicators the ATO has in place to monitor its progress in addressing the cash economy. It covers the compliance dividend, a significant public target, and the range of internal process indicators used to inform management decisions.

The Compliance Dividend

4.1 The Government, in introducing its tax reform, expected a major impact on the cash economy. It accepted the Commissioner's estimate of a \$3.5 billion compliance dividend over the first three years of operation. This compliance dividend is therefore a key indicator of the success of the ATO's implementation of tax reform.

What is the compliance dividend?

4.2 Put simply, the compliance dividend is the additional income tax revenue raised as a result of the expected impacts of the new tax system on the cash economy above those that may occur if these approaches were not in place. The ATO has four design elements which are intended to deliver the impacts:

- a business needs to be registered with a unique business identifier or is subject to withholding tax;
- GST draw-in where a business is encouraged to be part of the GST system;
- Income Tax and GST are linked to enhance their integrity; and
- a significant ATO presence in the community encourages greater compliance.

4.3 The ATO expects that the need for a business to be registered or be subject to withholding tax will encourage their being in the system. The use of the ABN as a unique identifier of a business should enable more accurate monitoring of tax-related activities.

4.4 The ATO expects that businesses previously operating outside the tax system will be drawn in by the necessity to register, so as to claim input tax credits.

4.5 A feature of the Australian system of taxation is the link between the GST and income tax. This is designed to enhance the integrity of the system because the ATO is able to match information between the two taxes.

4.6 An increased tax officer presence in the community is expected to contribute to greater compliance and better detection of non-compliance. The ATO identified overseas experience that demonstrated the necessity of a high level of field officer presence to ensure taxpayer awareness of a focus on compliance.

4.7 The compliance dividend represents the increase in revenue expected to be gained over the first three years of implementing tax reform. That is, revenue should increase as various aspects of the system take effect. After three years, the additional revenue forms the new baseline for collections as the impact of tax reform becomes permanent.

Changes to the estimate

4.8 The ANAO has found that because of changes in the legislation passed to introduce tax reform, there have been changes in the way some of the dividend was to be derived. Further ATO analysis was conducted after passage of tax reform legislation. Original assumptions made on revenue due to use of the ABN were not supported by the legislation that was passed. This reduced the revenue estimate by \$0.9 billion. The estimate of the cash economy contribution, representing returns from what was previously undeclared business income, remained at \$2.6 billion. Subsequent passage of business tax reform legislation meant that \$0.8 billion is expected to be derived from the impact of business tax reform on non-commercial losses and tax shelter schemes. The revised total of the compliance dividend is now \$3.4 billion.

4.9 It should be noted that there is no independently verifiable method for determining the accuracy of these estimates. We did find, however, that they are based on the ATO's own revenue performance information from previous years. The ATO used the same modelling methods as it uses for determining revenue estimates each year.

Timing of the measurement

4.10 There is necessarily, a significant time delay in measuring the compliance dividend. Actual results depend on the processing of income tax returns for the three years commencing with returns for 2000–01. A complete result for the first year cannot be completed until after lodgement is finalised in June 2002. Final measurement for the effect over the three years cannot be determined until after lodgement of the third year's returns are finalised in June 2004.

4.11 In the interim, progress monitoring is being undertaken based on collections, activity statements and PAYG information. These can be indicative measures only, because the complete array of income and expenses will be

determined only on the annual income tax return. In addition, projections based on revenue figures to date have led the ATO to conclude that outcomes for the 2000–01 year have exceeded expectations, which included compliance dividend estimates, despite the economy continuing to grow (in nominal terms) at a rate which was broadly in line with expectations. The ATO advised that this conclusion is supported by other analysis of the dividend related to indirect indicators.

4.12 Measurement of the compliance dividend is not a simple calculation as the additional revenue is obtained from a variety of contributing factors. The measurement is a comparison of actual revenue figures against forecast after allowances have been made for other impacts not related to the cash economy. It should be noted that the published budget revenue estimates already include the additional revenue to be derived as a compliance dividend.

Other performance indicators

4.13 Both the timing of its measurement and calculation make the compliance dividend of limited value to the ongoing management of the ATO's cash economy effort. It is more an outcome measure. In recognising this, the ATO has derived a suite of intermediate indicators that are expected to monitor the ATO's progress and allow timely management decisions on the deployment of resources.

4.14 Indicators used are:

- year-to-date collections;
- level of business registration (ABN);
- lodgement of returns and Activity Statements;
- turnover; and
- financial ratios.

4.15 Year-to-date results are compared against both estimates and prior year results for similar periods. Where external data are available, such as ABS analysis of economic activity, they are also used to compare progress. Other factors, such as the Government decision to grant extensions for BAS lodgement, are also taken into account when seeking to explain variation from estimates. The ATO is monitoring and investigating further to determine whether a more strategic intervention is required to further improve BAS lodgement.

Collections

4.16 Initial monitoring of collection information focused on the segment of small businesses with annual turnover less than \$1 million, as the major

proportion of the compliance dividend would be derived from this segment. Collection monitoring has subsequently been broadened to cover all likely contributors.

4.17 The ATO has adopted a wait and see approach to collections because:

- this was the first year of operation of activity statements;
- extensions were granted for submission of some statements; and
- changing tax agent priorities are difficult to predict.

4.18 To date, the monitoring results are relatively close to expectations. Collections to 28 February 2001 show a 20.3 per cent increase over the corresponding period for the previous year. They represent a 4.8 per cent increase over the ATO estimate for the period. That said, the ATO still has to overcome a number of data integrity issues. These include the difficulty of access to useful PAYG(I) information, the cleansing of ABN information and the changes made to the type of BAS data collected since its introduction.

ABN registration

4.19 Registration for an ABN has far exceeded ATO estimates and their initial mail out to business that were operating at the time and providing tax returns. By 30 June 2001, 3.5 million registrations had been made. This was 1.4 million above expectation. ATO examination identified a range of reasons for the high registration result, including:

- business restructuring;
- new businesses;
- existing businesses that may or may not have been required to lodge income tax returns;
- bodies corporate;
- new taxpayers during 1999 who had not lodged their returns by the date for determining the mail out list; and
- ATO data limitations.

4.20 Some of the registrants, notably those with outstanding tax returns for previous years, will still need to be monitored. The need for further research into ABN registration has been identified. At this stage, with limited evidence, it is too early to tell if the introduction of the ABN has made a difference to the cash economy.

Lodgements

4.21 Monitoring of activity statement lodgement performance has resulted in additional investigation to see whether reasons for non-lodgement can be identified and what type of assistance might improve lodgements in specific industry sectors.

4.22 The link between ABN registration and lodgement patterns provides intelligence that can be used to target compliance activity.

4.23 As at 30 June 2001, lodgement results in the high-risk cash industries⁴⁴ are up 13percent over the 1996 levels (the baseline year before the cash economy initiatives). This result compares well against the fall of 8.4 per cent for other small businesses. The results for high-risk cash industries are down by 0.7 per cent compared with the previous year but this needs to be viewed in the light of a drop of 5.2 per cent for other small businesses.

Turnover

4.24 Analysis of turnover figures includes comparison with known information about the relative growth of business income that characterised the year in question. Apart from identifying major contributors to differences between years (for example, the Olympics and pre-GST spending), the ATO has identified the need to conduct further research to obtain a greater understanding of the taxpayer population and therefore how the data can be interpreted.

4.25 Total Business Income (TBI) reported for the cash industries is up 25.1percent from the 1996 baseline. This compares with a rise of 10.5percent for other small businesses. In comparison to the previous year, the cash industries result is down 1.7percent while other small businesses are down 10.2percent.

Financial Ratios

4.26 Financial ratios are derived from comparison of information on activity statements. The use of financial ratios is primarily for identifying industry norms. They are then able to identify both trends in each industry and those businesses whose performance is outside the norm for that industry. Trends can be a measure of the relative success of tax reform implementation, whereas being outside the norm may be an indicator that further education is needed in a specific area. It may also indicate risk of non-compliance and enables the ATO to target their compliance activities.

⁴⁴ The ATO uses this term to designate those industries it needs to include in its measurement so that it can track changes in behaviour related to the cash economy.

4.27 The ratio of expenses claimed to TBI for cash industries shows a reduction of 1.8 per cent from the 1996 baseline and one per cent from the previous year. This compares with reductions of 1.3 per cent over 1996 and 1.7 per cent over the previous year for other small businesses.

Conclusion

4.28 The major component of the compliance dividend is an indirect measure of the broad outcomes of tax reform in relation to the cash economy. It is neither specific enough nor timely for use as a means of focusing compliance activity although ATO projections based on revenue-to-date show that expectations have been exceeded. In developing early performance indicators for measuring progress of a new tax approach, particularly on the cash economy, the ATO has identified a range of contributing factors. It is still too early to decide which of these indicators will remain appropriate and whether they provide adequate measurement of performance. Some issues, such as data integrity, have been identified and will need to be addressed before full reliance can be placed on these indicators.

Canberra ACT
11 March 2002



P. J. Barrett
Auditor-General

Appendices

Appendix 1

Cash Economy Task Force Recommendations analysis

This appendix gives an overview of the status of the CETF recommendations. The 1998 recommendations are listed, as is the Commissioner’s 1998 response. The ANAO assessed the implementation of the recommendations and has indicated the status of each along with a summary comment. Where relevant, more detailed comment and explanation are made in the body of the report.

The CETF April 1998 report made 34 recommendations. Of these, the Commissioner agreed to 30 and required further consideration of the remainder. In summary, we found 29 have been implemented, either fully or partially. Two are no longer relevant, the Commissioner rejected one and another two were considered relatively minor and not to warrant further action at this stage. In addressing the recommendations, the ANAO found that many were interrelated. Looking at the implementation of an individual recommendation could lose sight of the overall balance of effect.

Current Implementation Status		
Commissioners reply to the 1998 CETF recommendation	Current Status	ANAO comment
Recommendation 2.1 The ATO conduct market research to better understand the costs of the cash economy to the Australian community and identify ways to promote the importance of tax to the Australian community.	Implemented	The ATO has ongoing research into a variety of CE areas. Discussed further in Chapter 3

Recommendation 2.2	The ATO undertake market research to determine attitudes of high risk industry participants and the general community to typical cash practices.	Agreed	Partially implemented	<p>Although the ATO has undertaken projects (for example into the building and construction industry) which help to identify high risk participants, the lack of strategic use and integration of the research into the ATO's planning had been identified by the ANAO as of concern. The ATO has commissioned further research. Discussed further in Chapter 3</p>
Recommendation 2.3	The ATO undertake research into high-risk cash economy taxpayer populations to identify the causes of non-compliance and opportunities for compliance improvement initiatives.	Agreed	Partially implemented	<p>The ATO has contributed to independent research on taxpayer attitudes, encompassing risk to the CE.</p> <p>The ANAO found that the ATO was making limited use of the research it and others are undertaking into the causes of non-compliance. The ATO has advised that research is now considered in risk assessments which in turn are considered in deciding on strategies. Discussed further in Chapters 2 & 3</p>
Recommendation 2.4	The ATO adopt the compliance model to guide strategy development in addressing the cash economy.	Agreed	Implemented	<p>The compliance model is well integrated into the ATO.</p>

CETF CHAPTER 3—BUILDING COMMUNITY PARTNERSHIPS

<p>Recommendation 3.1</p>	<p>The ATO integrate the concepts behind the compliance model with the principles expressed in the Taxpayers' Charter.</p>	<p>Agreed</p>	<p>Implemented</p>	<p>Discussed in Chapter 3</p>
<p>Recommendation 3.2</p>	<p>The ATO adopt a phased approach to communication which addresses the peculiarities of different market segments.</p>	<p>Agreed</p>	<p>Implemented</p>	<p>The ATO has undertaken a communication strategy to help address this issue. The ATO has also produced a number of brochures directed at different industries and has participated in Industry Partnership groups.</p> <p>Discussed further in Chapter 3.</p>
<p>Recommendation 3.3</p>	<p>The ATO ensure that the key cash economy messages are well targeted to generate and sustain community support for the ATO.</p>	<p>Agreed</p>	<p>Partially implemented</p>	<p>The new tax system instigated an increase in ATO's communication with industry groups, including CE issues such as record keeping and ABNs.</p> <p>The nature of the CE is such that people are rewarded for participating, at a cost to society of unpaid taxes. This message is not clearly understood by taxpayers.</p> <p>Discussed further in Chapter 3</p>

<p>Recommendation 3.4</p>	<p>The ATO build partnerships with, credible groups within the Australian community who are affected by the cash economy and involve partners in its decision making about the cash economy.</p>	<p>Agreed</p>	<p>Partially implemented</p>	<p>Formal and informal Industry and Partnerships groups have been formed with ATO officers who respond to concerns from the stakeholders on a variety of issues, for example GST. However, the stakeholders reported discussion around the area of the CE as limited. The ATO has advised they are expanding the focus of the partnerships beyond issues relating to the GST. Discussed further in Chapters 1 & 3.</p>
<p>Recommendation 3.5</p>	<p>Enhance linkages between the ATO and state revenue authorities.</p>	<p>Agreed</p>	<p>Implemented</p>	<p>The ATO has in place a Memorandum of Understanding (MoU) for the exchange of information between Commonwealth, State and Territory taxation/revenue agencies. Discussions have taken place with the NSW Office of State Revenue. Discussed further in Chapter 3</p>

CETF CHAPTER 4—ENCOURAGING AND SUPPORTING COMPLIANCE

<p>Recommendation 4.1</p>	<p>The ATO ensure that client contact is consistent with the service standards and code of conduct expressed in the Taxpayers' Charter.</p>	<p>Agreed</p>	<p>Implemented</p>	<p>The ATO includes performance against the Taxpayers Charter, client service standards and code of conduct in its planning and reporting mechanisms.</p>
-------------------------------	---	---------------	--------------------	---

Recommendation 4.2	The ATO review its communication with taxpayers to improve the quality and tone. Communications should acknowledge the assistance provided by taxpayers in complying with their tax obligations.	Agreed	Implemented	The ATO, through its Problem Resolution Service and the guidelines for communication based on the compliance model and Taxpayers Charter, has acted upon this recommendation. The ATO has instituted a review of its correspondence to meet the requirements of this recommendation.
Recommendation 4.3	The ATO develop a methodology whereby it can obtain direct and timely feedback from taxpayers on the professionalism of its operations.	Agreed	Implemented	This methodology has been developed. The ATO through its Problem Resolution Service, research and surveys has access to such feedback
Recommendation 4.4	The ATO refine its help and education role and tailor it to industries	Agreed	Implemented	The ATO worked with industry groups and businesses during the implementation of the new tax system in 1999–2000. Discussed further in Chapter 3
Recommendation 4.5	The ATO explore opportunities for conducting public education programs on good record keeping to complement the reviews and real time reviews currently undertaken.	Agreed	Implemented	Prior to and during the implementation of tax reform, the ATO employed 3000 GST field staff, who as part of their fieldwork explained good record keeping practices.

<p>4.6 Recommendation</p>	<p>ATO: (a) in consultation with industry, specify record-keeping requirements for particular industry groups; (b) work with industry and community groups to promote the benefits of recording cash transactions other than for taxation purpose.</p>	<p>Agreed</p>	<p>Implemented Partially implemented</p>	<p>The ATO has worked towards specific record-keeping requirements before and during the implementation of the new tax system, for example the work done with taxi's and, restaurants and cafes which identified record-keeping specific to their industries. However, there is still further work to be done by the ATO to consolidate and complement work in this area.</p> <p>There has been some attempts by the ATO to promote good business records for reasons other than taxation, but there is further work to be undertaken given the limited understanding in the micro-community of the need to keep better records for purposes other than taxation.</p> <p>Discussed further in Chapters 1 & 3.</p>
<p>4.7 Recommendation</p>	<p>The ATO work with industry and community groups to maximise the benefits from the industry benchmarks.</p>	<p>Agreed</p>	<p>Implemented</p>	<p>The ATO is undertaking work in this area and using benchmarking for various industries.</p> <p>Discussed further in Chapter 1.</p>
<p>4.8 Recommendation</p>	<p>The ATO recognise past 'good' behaviour when imposing penalties or deciding to escalate enforcement.</p>	<p>Agreed</p>	<p>Partially implemented</p>	<p>The compliance model is well established within the ATO and promotes an escalation of compliance activity. The ATO is currently undertaking work on a Penalty Review to replace the version that lapsed in June 2001. Discussed further in Chapter 3</p>

Recommendation 4.9	The ATO further explore opportunities for introducing differential record keeping and taxation reporting requirements.	Agreed	Partially implemented	In part this recommendation was overtaken by events such as the GST and ANTS, though some work has been done regarding differential record keeping and reporting requirements with the different industries.
Recommendation 4.10	The ATO continue its research to identify cost-effective incentives that motivate taxpayers and third parties to declare cash income and document or report cash transactions.	Agreed	Implemented	The ATO undertook a project titled 'Sanctions and Incentives' in which it researched potential incentives.
Recommendation 4.11	Targeted amnesties be considered as part of an integrated approach to improving compliance in the cash economy	To be considered	Not implemented	The Commissioner did not agree to this recommendation. The Commissioner considered that there are already concessions available for voluntary disclosures and repayment of outstanding tax liabilities.
Recommendation 4.12	The ATO work with business to develop innovative industry specific regulatory solutions.	Agreed	Implemented	This recommendation was met by the Industry Partnerships in place prior to the implementation of the new tax system. Discussed further in Chapter 3.

CETF CHAPTER 5—ENFORCING COMPLIANCE

<p>Recommendation 5.1</p>	<p>Consideration be given to amending the FTR Act to broaden the cash dealer categories and the range and level of report types. Any consideration to amend the FTR Act should be accompanied by consultation with industry bodies and their representatives.</p>	<p>Agreed</p>	<p>Partially implemented</p>	<p>The ATO, in conjunction with AUSTRAC, has produced a report, suggesting amendments to the FTR Act. The ATO and AUSTRAC are currently waiting for government comment on the report.</p> <p>In 1998, the 'Report to the Minister for Justice on the review of the Financial Transaction Report Act 1988' was given to Parliament, and at the time of writing, was with the Attorney-General's Department.</p> <p>Discussed further in Chapter 3.</p>
<p>Recommendation 5.2</p>	<p>AUSTRAC data be more strategically utilised by the ATO to identify high risk cash transactions.</p>	<p>Agreed</p>	<p>Partially implemented</p>	<p>ATO could further enhance its usage of AUSTRAC data. Senior AUSTRAC and ATO staff have recently been refocussing the strategy to improve its effectiveness.</p> <p>Discussed further in Chapter 3.</p>

<p>Recommendation 5.3</p>	<p>Extending withholding and reporting requirements to additional high risk industries ought to be considered where the benefits of increased compliance – taking into account reductions in unfair price competition within the industry and increased revenue - outweigh the burden imposed on third parties.</p> <p>Any proposal to extend obligations should be undertaken in consultation with industry.</p>	<p>This is a matter for the government.</p>	<p>No longer applicable</p>	<p>This recommendation has been overtaken by events. The new Pay as you go is an integrated system for reporting and paying tax on business income and withholding amounts. The new system collapses all withholding arrangements into a single system and aims to give business greater certainty on when they should withhold tax from others.</p>
<p>Recommendation 5.4</p>	<p>The ATO publicise enforcement activities and results in industry and community publications.</p>	<p>Agreed</p>	<p>Partially implemented</p>	<p>The ATO produces media releases to publicise its enforcement activities and has had some media coverage of cases successfully prosecuted. However, further work could be undertaken with industry groups.</p>
<p>Recommendation 5.5</p>	<p>The ATO should review the perceived effectiveness of its approach to securing prosecutions and convictions for tax evasion. The ATO should consider working with the judiciary to emphasise the community costs of tax evasion.</p>	<p>Agreed</p>	<p>Not implemented</p>	<p>The ATO is in the process of negotiating a review with support from the fraud and prosecution areas, using the Centre of Tax System Integrity. A review of this nature has a number of sensitivities such as privacy provisions that will need further negotiation and analysis before it can be undertaken. Considered relatively minor.</p>

Recommendation 5.6	<p>The ATO to review the appropriateness of current sanctions with a view to increasing the range of sanctions available to the A TO and develop:</p> <ul style="list-style-type: none"> (a) a more flexible regime for minor offences; and (b) more severe sanctions for serious offences. 	Agreed	Implemented	<p>The ATO undertook a project titled 'Sanctions and incentives' in which it reported on incentives. The ATO uses the strategies advocated by the compliance model to this end.</p> <p>Discussed further in Chapters 1 & 3.</p>
Recommendation 5.7	<p>The imposition of on the spot fines for prescribed offences should be further explored by the ATO.</p>	Agreed	Partially implemented	<p>The Act has been amended to allow for an administrative penalty when a tax law prescribing records to be kept is not adhered to. The ATO advised they had not yet imposed such a fine. Considered relatively minor.</p>
Recommendation 5.8	<p>The ATO not use industry benchmarks to raise default assessments until it is confident that the benchmarks are credible.</p>	Agreed	Implemented	<p>The ATO has researched the use of industry benchmarks and is aware of the necessity of accurate measurement and as such is confident its use of industry benchmarks is credible.</p>

Recommendation 5.9	The ATO explore opportunities to make current record keeping requirements more onerous for taxpayers who have had significant omissions of cash income detected by the ATO.	Agreed	Implemented	The ATO undertook to explore record keeping requirements in a variety of ways, such as industry projects. The ATO has increased record keeping requirements for some areas where the taxpayer falls outside the norms; for example, additional details may be required from a landlord by way of a regular rental schedule.
Recommendation 5.10	Compulsory education be introduced to complement current enforcement strategies.	This may 'require legislative backing'.	Not implemented	No compulsory education strategies have been undertaken. Considered relatively minor.
Recommendation 5.11	The ATO consider naming serious tax offenders in the Commissioners annual report.	To be further explored.	No longer relevant	The Commissioner received advice that the naming of offenders would be outside his legal powers. Discussed further in Chapter 3.

Recommendation 5.12	The ATO monitor the research being done on reintegrative shaming theory and consult with relevant experts towards its application to tax offences.	Agreed	Partially implemented	The Centre for Tax System Integrity is monitoring research but the ATO is still to apply it in practice.
------------------------	--	--------	-----------------------	--

CETF CHAPTER 6—COMPLIANCE IMPROVEMENT IN THE CASH ECONOMY

Recommendation 6.1	Implementation of the compliance model be accompanied by an effective training program for staff and management of the ATO.	Agreed	Implemented	ATO staff are trained in, and aware of, reference to and use the concepts behind the compliance model.
-----------------------	---	--------	-------------	--

Index

A

ABN 7, 29-31, 34, 40, 41, 59-63, 68
Activity statement 7, 11, 17, 41, 48,
55, 60-63
ANTS 7, 30, 44, 45, 72
Attitude 17, 57, 58
AUSTRAC 7, 16, 18, 35, 47-53, 73
Australian business number 7, 30

B

BAS 7, 31, 35, 41, 55, 61, 62
Benchmark 12, 28, 31, 42
Benchmarking 42, 71
Better practice 6, 14, 42
Business tax reform 60

C

Collections 41, 60-62, 79
Community 7, 12, 15, 17, 18,
23-26, 33, 35, 36, 43, 44, 46-48,
55-60, 66-69, 71, 74
Communication 7, 12-15, 17, 18,
33-39, 43-47, 52, 54, 58, 68, 70
Compliance dividend 5, 7, 11, 13,
17, 21, 30-32, 34, 59-62, 64
Compliance model 16, 26-28, 53,
54
Compliance strategies 12, 43, 54
Compliance 7, 11-17, 23-32, 34-36,
38-44, 49, 53-64, 66-75, 77

D

Data integrity 17, 62, 64

E

Education 7, 12, 13, 15, 18,
26-28, 35, 41-45, 47, 48, 54, 55,
57, 63, 70, 76

F

Financial ratios 13, 41, 61, 63

G

GST 7, 12, 29, 31, 34-37, 40, 44, 47,
59, 63, 69, 70, 72

I

Incentives 25, 26, 47, 53, 54, 57, 72,
75
Indicators 13, 17, 32, 41, 59, 61, 64
Intelligence 13, 14, 16, 18, 27, 33,
34, 36, 40, 41, 44, 46-48, 51, 52,
55, 56, 63

L

Lodgement 11, 13, 29, 31, 41, 60,
61, 63

M

Management 14, 18, 26, 30, 32-39,
48, 51, 53, 59, 61, 77
Memorandum of understanding 46
Monitoring 12, 17, 30, 40-43, 46, 48,
49, 51, 59-63, 77

N

New Tax System 7, 17, 27, 29, 30,
37, 41, 43, 44, 46, 53, 59

O

Outcomes 12, 13, 17, 29, 31-33, 39,
61, 64
Overseas revenue agencies 12, 31,
32

P

Partnerships 12, 13, 15, 18, 26, 27,
36, 43-47, 55, 68, 69, 72
Penalties 50, 53, 71
Performance indicators 13, 17, 41,
61, 64
Performance 12-14, 17, 27, 29-31,
33, 38, 41, 52, 59-61, 63, 64, 69,
78-82
Planning 14, 16, 18, 27, 36-39, 52,
58, 67, 69, 78, 71
Plans 12, 14, 31, 38, 39, 42, 54
Priorities 14, 18, 36-38, 62
Projects 13, 18, 26, 27, 32, 36-41, 47,
54, 56, 66, 76

R

Recommendations 9, 11, 12, 14-16,
18, 26, 27, 31, 32, 42-44, 47, 49,
52, 54, 66
Registration 11, 13, 40-42, 61-63
Research 12, 15-17, 25, 35, 36, 42,
43, 47, 48, 54, 55, 57, 58, 62,
63, 66, 67, 70, 72, 77
Resources 14, 29, 33, 34, 36-38, 46,
61
Risk analysis 16, 52
Risk 16, 21, 26-29, 35, 36, 38, 42, 47,
49, 52, 53, 55, 58, 63, 67, 73, 74

S

Sanctions 26, 47, 53, 54, 72, 75
Small business 27, 30, 34, 36, 44,
46, 55, 57
Strategies 12, 13, 15, 16, 26, 30, 31,
34-36, 39, 42, 43, 46, 47, 54, 58,
67, 75, 77

T

Task force 11-14, 23, 25, 26, 31, 32,
34, 39, 42, 43, 46, 48, 49, 53, 55
Tax reform 11-13, 15, 17, 23, 29-31,
34, 37, 41-43, 44, 47, 48, 55, 57,
59, 59, 63, 64
Taxpayers' charter 16, 54
Training 16, 34, 36, 51, 52, 53, 77

Series Titles

Audit Report No.34 Assurance and Control Assessment Audit
Management of Travel—Use of Taxis

Audit Report No.33 Assurance and Control Assessment Audit
Senate Order of 20 June 2001 (February 2002)

Audit Report No.32 Performance Audit
Home and Community Care Follow-up Audit
Department of Health and Ageing

Audit Report No.31 Performance Audit
Audit Activity Report: July to December 2001
Summary of Outcomes

Audit Report No. 30 Performance Audit
Test and Evaluation of Major Defence Equipment Acquisitions
Department of Defence

Audit Report No.29 Financial Statement Audit
Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2001

Audit Report No.28 Information Support Services
An Analysis of the Chief Financial Officer Function in Commonwealth Organisations
Benchmark Study

Audit Report No.27 Assurance and Control Assessment Audit
Agency Management of Software Licensing

Audit Report No.26 Performance Audit
Management of Fraud and Incorrect Payment in Centrelink

Audit Report No.25 Assurance and Control Assessment Audit
Accounts Receivable

Audit Report No.24 Performance Audit
Status Reporting of Major Defence Acquisition Projects
Department of Defence

Audit Report No.23 Performance Audit
Broadcasting Planning and Licensing
The Australian Broadcasting Authority

Audit Report No.22 Protective Security Audit
Personnel Security—Management of Security Clearances

Audit Report No.21 Performance Audit
Developing Policy Advice
Department of Education, Training and Youth Affairs, Department of Employment, Work-
place Relations and Small Business, Department of Family and Community Services

Audit Report No.20 Performance Audit
*Fraud Control Arrangements in the Department of Agriculture, Fisheries and Forestry—
Australia (AFFA)*
Department of Agriculture, Fisheries and Forestry—Australia

Audit Report No.19 Assurance and Control Assessment Audit
Payroll Management

Audit Report No.18 Performance Audit
Performance Information in Portfolio Budget Statements

Audit Report No.17 Performance Audit
Administration of Petroleum Excise Collections
Australian Taxation Office

Audit Report No.16 Performance Audit
Defence Reform Program Management and Outcomes
Department of Defence

Audit Report No.15 Performance Audit
Agencies' Oversight of Works Australia Client Advances

Audit Report No.14 Performance Audit
Client Service Initiatives Follow-up Audit
Australian Trade Commission (Austrade)

Audit Report No.13 Performance Audit
Internet Security within Commonwealth Government Agencies

Audit Report No.12 Financial Control and Administration Audit
*Selection, Implementation and Management of Financial Management Information
Systems in Commonwealth Agencies*

Audit Report No.11 Performance Audit
Administration of the Federation Fund Programme

Audit Report No.10 Assurance and Control Assessment Audit
Management of Bank Accounts by Agencies

Audit Report No.9 Performance Audit
Learning for Skills and Knowledge—Customer Service Officers
Centrelink

Audit Report No.8 Assurance and Control Assessment Audit
Disposal of Infrastructure, Plant and Equipment

Audit Report No.7 Audit Activity Report
Audit Activity Report: January to June 2001
Summary of Outcomes

Audit Report No.6 Performance Audit
Commonwealth Fisheries Management: Follow-up Audit
Australian Fisheries Management Authority

Audit Report No.5 Performance Audit
Parliamentarians' Entitlements: 1999–2000

Audit Report No.4 Performance Audit
Commonwealth Estate Property Sales
Department of Finance and Administration

Audit Report No.3 Performance Audit
The Australian Taxation Office's Administration of Taxation Rulings
Australian Taxation Office

Audit Report No.2 Performance Audit
Examination of Allegations Relating to Sales Tax Fraud
Australian Taxation Office

Audit Report No.1 Financial Statement Audit
Control Structures as part of the Audits of the Financial Statements of Major Commonwealth Entities for the Year Ended 30 June 2001

Better Practice Guide

Life-Cycle Costing	Dec 2001
Some Better Practice Principles for Developing Policy Advice	Nov 2001
Rehabilitation: Managing Return to Work	Jun 2001
Internet Delivery Decisions	Apr 2001
Planning for the Workforce of the Future	Mar 2001
Contract Management	Feb 2001
AMODEL Illustrative Financial Statements 2001	May 2001
Business Continuity Management	Jan 2000
Building a Better Financial Management Framework	Nov 1999
Building Better Financial Management Support	Nov 1999
Managing APS Staff Reductions (in Audit Report No.47 1998–99)	Jun 1999
Commonwealth Agency Energy Management	Jun 1999
Corporate Governance in Commonwealth Authorities and Companies–Principles and Better Practices	Jun 1999
Managing Parliamentary Workflow	Jun 1999
Cash Management	Mar 1999
Management of Occupational Stress in Commonwealth Agencies	Dec 1998
Security and Control for SAP R/3	Oct 1998
Selecting Suppliers: Managing the Risk	Oct 1998
New Directions in Internal Audit	Jul 1998
Controlling Performance and Outcomes	Dec 1997
Management of Accounts Receivable	Dec 1997
Protective Security Principles (in Audit Report No.21 1997–98)	Dec 1997
Public Sector Travel	Dec 1997

Audit Committees	Jul 1997
Core Public Sector Corporate Governance (includes Applying Principles and Practice of Corporate Governance in Budget Funded Agencies)	Jun 1997
Administration of Grants	May 1997
Management of Corporate Sponsorship	Apr 1997
Telephone Call Centres	Dec 1996
Telephone Call Centres Handbook	Dec 1996
Paying Accounts	Nov 1996
Performance Information Principles	Nov 1996

