

Tax Office told again – perform better

Major shortcomings in the Tax File Number (TFN) system, including problems with data and systems quality and a failure by the Australian Taxation Office (ATO) to strategically manage its own system, are key issues featured in the report, *Numbers on the Run*, released recently by the House of Representatives Economics Committee.

"The starting point for this inquiry into the management of Tax File Numbers was the Auditor-General's finding that \$460 million in revenue was not being collected by the Tax Office," explained House Economics Committee Chairman, David Hawker, Member for Wannon (Victoria). "The weaknesses and inefficiencies we found in the Tax Office system, and the flow-on effects to other areas of government administration, make this \$460 million a conservative estimate."

For 15 years the Auditor-General and parliamentary inquiries have found shortcomings in the quality of the ATO's data and systems. *Numbers on the Run* reinforces the significant problems identified in the Auditor-General's 1999 performance audit of the Tax File Number system.

'High quality data and systems are crucial.'

During its inquiry into the management of Tax File Numbers, the House Economics Committee found:

- 65,000 potential duplicate TFNs, in addition to the 185,000 found by the Audit Office;
- 5.3 million potentially inactive (ie excess) registrations on the ATO individuals data base (an increase on the 3.2 million excess TFNs that the Audit Office reported); and
- manual rather than automated systems, including the need for operators to initiate checks for duplicate TFNs rather than the computer system automatically doing these checks.

"TFN data and systems are the basic building blocks of our tax revenue system," Mr Hawker said. "High quality data and systems are crucial to ensuring the integrity of the administration of taxation, income support, superannuation and employment generally. The operation of the Australian Business Number is also dependent on the quality of TFN data and systems. It is vital that the Tax Office focuses on getting the TFN basics right."

The House Economics Committee's report also highlights significant potential for fraud against the tax system and more broadly:

- anecdotal evidence suggests that excess TFNs are being used to commit fraud, including claims that TFNs are available from youth hostels and are being sold to set up shell companies. While the ATO considers that excess TFNs pose limited risk, the ATO could not rule out the possibility of fraud;
- there is significant scope for non-residents to choose between visa types in order to apply for the one with the best tax treatment, and to also misrepresent their taxation status to employers and on their tax return in order to lower their taxes;
- there is strong anecdotal evidence that non-residents are using fraudulently obtained TFNs as proof of work rights, particularly in the area of harvest labour; and



The *Numbers on the Run* report was presented to the House of Representatives by House Economics Committee Chair, David Hawker.

- identity fraud is a significant and growing problem that represents a significant cost to the community. Evidence on this issue included a pilot study conducted by Westpac and the NSW Registry of Births, Deaths and Marriages that found that 13% of birth certificates presented to the bank were false.

"The Tax Office must ensure it has the capacity to manage these known and emerging risks in order to guarantee the long term integrity of the TFN system," Mr Hawker added. "The ATO places significant requirements on individuals to comply with tax rules. In return, the Tax Office has an obligation to ensure a high quality system that treats people fairly and in which the government and the community can have confidence.

"The 26 recommendations featured in *Numbers on the Run* are aimed at ensuring there is ongoing quality and effective management of the Tax File Number system. Australians should be able to feel confident in the Tax Office, therefore the ATO must give a higher priority to TFN resourcing and policy development by having sufficient staff and resources to effectively manage its TFN system."

For more information on the House Economics Committee and for copies of *Numbers on the Run*:

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