



## Tax Office focus for the year ahead

Media release 2007/41

The Tax Office today announced its compliance priorities for the current year with the release of the *Compliance Program 2007-08*.

In releasing the program Tax Commissioner Michael D'Ascenzo said Australia enjoys high levels of compliance with tax and superannuation laws.

"Our program is as much about helping people to comply as it is about dealing firmly with those who don't want to do the right thing."

Initiatives to better support individual and business taxpayers as well as tax agents are a priority in this year's program.

These initiatives include help to improve tax governance, support tools for trustees of self-managed super funds, and improved access to expert advice for tax practitioners.

"We want to work with the community to reduce red tape and minimise compliance costs," said Mr D'Ascenzo.

"For example this year we will provide more services including an assistance program for small business, more pre-filing options to help people complete their tax returns accurately and quickly, and products to assist people with their super obligations.

"We also have a commitment to deliver new legislative measures, and our approach to doing this is to consult, collaborate and co-design effective implementation with representative bodies.

"Our aim is to be as unobtrusive as possible to the majority of people who meet their obligations, but to be highly visible to those who don't.

"This is about fairness and creating a level playing field for everyone," Mr D'Ascenzo said.

International risks, corporate restructuring, mergers and acquisitions, the cash economy, self-managed super funds and super guarantee obligations are some of the areas facing increased scrutiny this year.

Serious fraud and evasion are once again high on the agenda this year.

“We are working closely with other agencies and tax jurisdictions to address international tax issues.”

Project Wickenby investigations will continue and will be complemented by an increased focus on the use of tax havens and promoters of tax exploitation schemes.

“We will take a close look at how people are using tax havens - from multinationals and complex transactions to individuals with offshore bank accounts.

New laws mean the Tax Office can also act against promoters of schemes involving offshore and other aggressive arrangements.

A copy of the *Compliance Program 2007-08*, summary of priorities and key activities, and the Commissioner’s speech are available on the Tax Office website [www.ato.gov.au](http://www.ato.gov.au)

## **COMPLIANCE PROGRAM 2007-08**

Summary of priorities and key activities<sup>1</sup>

### **Individuals**

*“Capital gains can be a complex area for people so while we will take a firm approach with those who have not tried to meet their obligations, we want to help people get over the line” – Commissioner of Taxation, Michael D’Ascenzo*

### **Priorities, p9**

- Help Australians engage with Better Super
- Monitor capital gains on disposal of property and other assets
- Focus on public company executives with remuneration of more than \$1 million to identify any under-reporting of income

### **Activities**

#### **Capital gains on disposal of property and other assets, p11**

- Write to individuals who purchased investment property, shares or units in a managed fund to tell them about CGT obligations if they dispose of these assets
- Around 6000 at-risk cases will be examined
- Continue to expand the use of data matching to identify under-reporting of capital gains

#### **High income individuals, p11**

- Investigate cases where it appears public company executives with total remuneration of more than \$1 million are not fully reporting income
- Contact some company executives and directors who have failed to lodge tax returns in the past
- Examine the tax affairs of executives of public companies assessed as being at risk, and continue risk assessing private company executives and directors

### **Work-related expenses, p12**

- Around 7.1 million individuals claimed \$12.5 billion in 2005-06 income tax returns – an increase of 9.3% over the previous year
- Write to employees identified as being at risk, before 2006-07 returns are due, pointing to information on work expenses and asking them to take care with their claims
- Conduct 15,000 reviews or audits of at-risk cases and visit 300 tax agents to review their work practices and claims
- This year we are paying special attention to work-related expense claims from:
  - tourism workers, travel consultants and guides
  - fitness and sporting industry employees
  - construction industry employees
  - guards and security employees and,
  - mining site employees.

### **Rental income and expenses, p12**

- Examine 6,000 at-risk cases and contact tax agents whose clients have unusual patterns of rental claims
- Write to new entrants to the investment property market before 2006-07 returns are due with advice on reporting rental income and deductions
- Write to people identified as being at risk of not complying to remind them to check the accuracy of their claims

### **Non-disclosure of income and benefits, p12**

- Data match over 50 million transactions this year to verify details such as:
  - employment income, including salary and wages, allowances, lump sum payments and reportable fringe benefits
  - government benefits and other payments
  - interest and dividend payments
  - health insurance premiums paid, and the period of cover

### **Aggressive tax planning, p12**

- Examine arrangements that create losses through acquisition of prepaid service warrants
- Monitor aggressive new financial products
- Examine managed investment schemes without a product ruling or that have not been implemented in accordance with a product ruling

### **Funding superannuation contributions, p12**

- Examine superannuation contributions from sources that may not have been properly taxed

### **Helping Australians engage with Better Super, p15**

- Continue to raise awareness about the consequences of not providing a tax file number to a superannuation fund
- Continue to provide practical guidance about the changes to superannuation
- Pursue compliance activities where members improperly access their superannuation early, individuals exceed the contribution limits, or undeclared reportable fringe benefits amounts lead to over-claimed co-contributions
- We will review deductions for personal superannuation contributions to ensure claimants are entitled to these deductions

### **Snapshot of activities for 2006-07, p14**

#### **Income tax**

- Reviewed 27,100 returns in relation to high-risk refunds, resulting in revenue adjustments of \$27.4 million
- Work-related expenses – wrote to 225,000 people before they lodged resulting in revenue savings of \$22 million, and completed around 15,500 reviews or audits an estimated \$13.1 million in additional revenue
- Rental income and expenses – wrote to 65,000 people before they lodged resulting in revenue savings of \$1.4 million, and completed 6,700 reviews or audits resulting in an estimated \$7 million in additional revenue
- Capital gains tax - reviewed or audited 6,100 returns resulting in revenue adjustments of \$33.3 million. Wrote to 5,200 people involved in property sales to alert them to their potential capital gains tax obligations,
- Income matching and benefits checking – identified 257,200 discrepancies, resulting in revenue adjustments of \$143.8 million

#### **Superannuation**

- 1.2 million letters were sent to people who may have lost track of their superannuation
- As part of the Better Super campaign, 1.8 million people were contacted about providing their tax file number to their fund
- We contacted members of 450 self managed superannuation funds who had inappropriately accessed their superannuation before retirement
- 15,800 income tax lodgments resulted from following up high-income earners who had not lodged, raising \$26.5 million in surcharge liabilities

### **Lodgment**

- 90,000 income and fringe benefits tax returns and 5,600 activity statements finalised resulting in \$20.5 million raised in liabilities and 900 cases referred for prosecution action

### **Micro businesses**

*“Employers who don’t meet their superannuation guarantee obligations can also expect more attention as a result of an increase in the number of staff dedicated to recovering superannuation guarantee charge on behalf of employees” – Commissioner of Taxation, Michael D’Ascenzo*

### **Priorities, p17**

- Support micro enterprises through a coordinated assistance program
- Expand debt collection capabilities
- Cash economy
- Employer obligations
- Self managed superannuation funds

### **Activities**

#### **Small Business Assistance Program, p18**

- Enhanced practical assistance tailored to meet the needs of business and making better use of local industry bodies, business assistance centres and local chambers of commerce.
- Practical help in relation to record keeping requirements including assistance with e-Record and accessing the Business Portal
- Implementing a single definition of ‘turnover’ for small business

#### **ABN registrations, p19**

- Review ABN registrations which do not appear to represent active business to minimise the number of inappropriate registrations

### **Refunds, p19**

- Monitor GST and income tax refunds that are assessed as high risk, unusual or have a high monetary value

### **Business expenses, p20**

- Examine records of micro enterprises to determine whether they are correctly claiming business expenses and to understand the causes of incorrect claims

### **Asset disposals, p20**

- Monitor a wide range of small business transactions that could result in incorrect reporting of property sales for capital gains tax and GST
- We will write to taxpayers who have bought or sold a property throughout the year to explain potential tax implications

### **Aggressive tax planning, p20**

- Focus on prepaid service warrants, some film investments and employee benefit arrangements
- We are investing more resources into detecting and acting on offshore arrangements for evading tax

### **Cash economy, p20**

- Pay more attention to transactions between consumers and business operators, while continuing to address transactions between businesses
- Develop benchmarks for trades and industries where there is a high volume of cash transactions, giving taxpayers outside those benchmarks the opportunity to adjust their behaviour, where necessary

### **Increase debt-collecting capability, p21**

- Micro enterprises account for about two-thirds of outstanding collectable debt at any point in time.
- We received \$125.7 million over four years in the 2007 Federal Budget to reduce debts more than two years old and collect superannuation guarantee charge debt owed by employers. To do this, this year we will:
  - expand the use of dialler technology
  - engage external collection agencies to collect debt on our behalf, and
  - increase the number of staff dedicated to recovering superannuation guarantee charge debts

### **Self-managed superannuation funds, p23**

- Trustees will be able to lodge a combined form covering their income tax, regulatory and member contribution statements for 2007-08
- For new funds, we will undertake a program of special compliance checks to assist trustees understand their obligations – including obtaining confirmation that a trustee declaration has been signed and can be produced
- Significant increase in compliance activity for self-managed superannuation funds generally, including follow-up of auditor contravention reports.

### **Employer obligations, p24**

- Expect to conduct around 2,700 field audits, 1,300 phone reviews, and contact 26,000 employers by letter to ensure employers are meeting their tax and superannuation obligations
- Follow up with employers on around 12,000 complaints received directly from employees about non-payment of superannuation

### **Snapshot of activities for 2006-07, p22**

#### **Supporting micro enterprises**

- Visited or telephoned 27,800 new and established micro enterprises to help them understand their tax obligations and report correct information

#### **Employer obligations**

- 2,500 field audits, 1,800 outbound phone reviews and 17,000 desk reviews of employers' compliance completed, raising revenue of \$259.9 million

#### **Income tax**

- 3,300 income tax reviews and audits completed, resulting in additional tax and penalties of \$76.4 million

#### **GST**

- 880 audits involving serious evasion and fraud raised liabilities of \$84 million in GST and \$41.5 million in other taxes
- 890 reviews and audits were undertaken in relation to property transactions, raising liabilities of \$37.6 million in GST and \$959,000 in other taxes

## **Excise**

- Conducted 590 audits and reviews, resulting in 1,700 claims being adjusted

## **Superannuation**

- 13,100 employee complaint and referral cases actioned, raising \$237.6 million in superannuation for employees
- More than 4,000 audits and reviews of self managed superannuation funds undertaken

## **Lodgment**

- 82,000 income tax and fringe benefits tax returns, and 395,000 activity statements were finalised, raising liabilities of \$502.4 million
- 4,300 cases were referred for prosecution

## **Cash economy**

- Wrote to, phoned or visited more than 62,000 businesses to check for non-compliant behaviour, raising more than \$157 million in total liabilities

## **Small to medium enterprises**

*“We will pay close attention where we see non-disclosure and under-reporting of capital gains, offshore transactions involving concealment of assets and income and the abuse of tax concessions” – Commissioner of Taxation, Michael D’Ascenzo*

## **Priorities, p27**

- High wealth individuals
- Accessing business profits
- Business exit strategies

## **Activities**

### **High wealth individuals, p34**

- Monitor the tax affairs of about 1,100 high wealth individuals (people who effectively control \$30 million or more in net wealth)
- Increase the number of staff working in our high-wealth taskforce and substantially improve our information collection and risk assessment processes
- Undertake 200 risk reviews and 40 audits of high wealth individuals

### **Extracting wealth from business, p 31**

- Concentrate on business owners who try to extract value from their business without paying the correct tax

### **Income and fringe benefits tax reviews and audits, p30**

- Undertake 390 audits and 460 reviews of small to medium enterprise groups focusing on losses, capital gains tax, wealth extraction, international transactions, service trusts, prescribed private funds, fringe benefits tax and phoenix arrangements
- Contact around 2,500 business to verify specific income and fringe benefits tax issues
- Check about 6,000 income tax returns where claims for refunds seem excessive

### **International tax issues, p31**

- Examine profit shifting and the use of tax havens
- Implement a program of advance pricing arrangements to provide businesses with certainty about the tax treatment of their transfer pricing arrangements
- Continue to investigate attempts to avoid Australian tax obligations using tax havens or countries with banking secrecy, through Project Wickenby and other investigations
- Use the new promoter penalty laws to act against promoters of aggressive schemes involving offshore and other arrangements

### **Phoenix arrangements, p32**

- Increase our emphasis on early intervention by more effectively identifying and tracking phoenix operations and examining tax agents to identify links to such behaviour

### **GST, p33**

- Continue to monitor GST refunds, undertaking pre-issue and post-issue checks to ensure the correct amounts are claimed
- Continue to monitor real property transactions with reviews and audits focusing on unreported property sales, valuations used under the margin scheme, incorrect reporting of adjustments and incorrect treatment of supplies to associates.
- Increase our use of data matching to identify taxpayers who fail to disclose or significantly under-report GST on real property transactions

### **Aggressive tax planning, p33**

- Respond to aggressively marketed schemes involving corporate limited partnerships, offshore structures and losses, and questionable

arrangements for extracting accumulated wealth from private companies

- New promoter penalty laws may apply to promoters of these schemes

#### **Fuel tax credits scheme, p34**

- Conduct 240 audits this year
- Help business manage their tax affairs
- Information and support including new products, particularly in relation to tax risks associated with business exit strategies

#### **Snapshot of activities for 2006-07, p35**

##### **Income tax**

- 990 audits, 760 reviews and 1,600 phone and letter-based verification activities completed, raising liabilities of \$338 million and disallowed current year and carried-forward losses of \$288 million
- Reviews of 210 high wealth individuals completed - audits of 22 individuals raised \$280 million

##### **Employer obligations**

- 321 field audits, 320 outbound phone reviews and 5,726 desk reviews of employers' compliance with PAYG withholding, superannuation guarantee and fringe benefits tax obligations completed, raising revenue of \$73.8 million

##### **GST**

- 510 property reviews and audits raised \$37.6 million

##### **Excise**

- 150 phone calls to check under-reporting of fuel tax credits resulting in net liabilities of \$1.4 million

##### **Lodgment**

- Nearly 9,000 non-lodgment cases were finalised resulting in 4,700 income and fringe benefits tax returns and 11,900 activity statements finalised, raising liabilities of \$308.5 million and 400 cases referred for prosecution

##### **Superannuation**

- We acted on 2,853 cases relating to employee complaints and referrals on employers' superannuation contributions, raising \$113.88 million in liabilities

## Large businesses

*"Our attention is raised where we see tax performance at odds with economic performance, and companies with low profits or persistent losses relative to market share." - Commissioner of Taxation, Michael D'Ascenzo*

## **Priorities, p37**

- Promoting good corporate governance
- Alignment of tax and economic performance
- Evolving capital markets
- International

## **Activities**

### **Good corporate governance, p39**

- Continue to encourage tax risk management as part of a company's broader risk management framework.
- Manage risks around potential weaknesses and deficiencies in business systems that capture, process and collate GST data used to prepare business activity statements
- Implement initiatives to provide certainty and reduce compliance costs such as a priority rulings process, forward compliance arrangements and advance pricing agreements

### **Alignment of tax and economic performance, p40**

- We will examine the following specific issues:
  - characterisation of income and expenses
  - consolidation
  - losses
  - profit shifting

### **Implications of evolving capital markets, p41**

- Monitor the tax implications of mergers and acquisitions that have a cross-border element and involve large private equity groups
- Examine the role of investment banks and other intermediaries in promoting or facilitating merger, acquisition and divestments which appear at risk
- Look at corporate restructures and capital gains tax, hybrid capital raisings and asset infrastructure deals

### **International tax issues, p42**

- Focus on global corporate restructures that shift assets, functions and risks offshore, and financial arrangements which rely on artificially generated tax benefits in Australia
- Look at tax havens, cross border arbitrage, transfer pricing and profit shifting
- Work with foreign counterparts to target aggressive tax planning arrangements based on international transactions

### **Advance pricing agreements, p43**

- We have around 60 advance pricing arrangements which provide taxpayers with more certainty about the tax treatment of their dealings with related parties offshore
- We have commissioned an external review of this program to evaluate its role and performance

### **GST, p43**

- Incorrect or aggressive treatment of property transactions and financial supplies to reduce GST

### **Excise, p45**

- Review large businesses to confirm they have the controls to assure the accuracy of returns and claims
- Undertake reviews and audits to deal with non-compliance

### **Large superannuation funds, p45**

- Audit several funds regulated by the Australian Prudential Regulation Authority to ensure compliance with Better Super

### **Private equity – implications for compliance, p46**

- Focus on leveraged buyouts – where substantial amounts of debt are used to acquire an entity with a turnover of more than \$100 million

### **Snapshot of activities for 2006-07, p47**

#### **Income tax**

- 40 compliance audits of large businesses and 170 comprehensive risk reviews resulted in more than \$1.5 billion in additional collections, \$2.2 billion in new income tax liabilities and more than \$1.2 billion in notional tax ( a substantial amount of which is in dispute)

- 275 private binding rulings, 90 class rulings, 10 product rulings and 690 objections completed
- Finalised 32 new advance pricing agreements and 4 mutual agreement procedures
- Finalised 4,700 lodgment cases, resulting in the finalisation of 1,800 income and fringe benefit tax returns, and 3,200 activity statements, yielding a net credit of \$22.1 million

### **Employer obligations**

- 11 field audits and more than 350 reviews of employers' compliance with their PAYG withholding, superannuation guarantee and fringe benefits tax obligations, raising \$7.8 million for employees

### **GST**

- Compliance activities raised more than \$310 million in GST liabilities
- Finalised more than 780 compliance audits
- More than 2,400 cases completed in relation to deferred GST
- Completed two forward compliance agreements (one including Excise)

### **Excise**

- Commenced three reviews

### **Superannuation**

- 17 large superannuation funds reviewed
- Six unfunded defined benefit schemes audited
- We acted on 244 cases relating to employee complaints and referrals on employers' superannuation guarantee obligations, raising \$6.63 million

### **Non profit organisations**

*“An issue of concern is that we are seeing some cases where there is an unintended blurring of boundaries between legitimate activities and those which may threaten endorsement as non-profit organisations” - Commissioner of Taxation, Michael D’Ascenzo*

### **Priorities, p49**

- Lack of tax expertise in some organisations
- Multi-party transactions that result in incorrect GST claims

### **Activities**

### **Tailored help and education, p51**

- Raise awareness of our tailored range of publications and services, and develop online information packages and problem-solving tools

#### **GST, p51**

- Focus on incorrect credit claims in multi-party transactions
- Checking the misclassification of supplies and grants as GST free

#### **Pre-endorsement checks, p51**

- Receive and check around 5,000 endorsement applications

#### **Changes in activities after endorsement, p52**

- Focus on political lobbying activities, commercial operations and prescribed private funds
- Write to 360 entities to test the level of self-review
- Review 85 cases to determine tax status is still applicable
- Review 40 prescribed private funds

#### **Snapshot of activities for 2006-07, p53**

##### **Income tax**

- 27 reviews of prescribed private fund endorsement completed resulting in lodgment of 24 outstanding information returns
- 3,350 applications for refunds of franking credits checked, with 110 applications varied down, saving \$3.2 million
- Reviewed entitlements for 130 deductible gift recipients and tax concession charities, resulting in 57 entitlements being revoked and raising \$1.66 million in tax and penalties
- Checked 5,205 applications for endorsement as a charity or deductible gift recipient, with 1,251 not endorsed

##### **Employer obligations**

- 79 field audits, 66 outbound phone reviews and 1,378 desk reviews completed, raising revenue of \$15.6 million

##### **Superannuation**

- We acted on 241 cases relating to employee complaints about their employers' super guarantee obligations, raising \$9.58 million for employees

##### **Government organisations**

*“We will work closely with chief executives, chief finance officers and tax managers to support good tax governance” - Commissioner of Taxation, Michael D’Ascenzo*

### **Priorities, p55**

- Reputation risks in relation to tax management
- Incorrect GST treatment of more complex transactions

### **Activities**

### **GST, p56**

- Focus on incorrect credit claims in multi-party transactions, and the treatment of grants and property transactions for tax purposes
- Provide advice and private rulings related to public private partnerships

### **Snapshot of activities for 2006-07, p57**

### **Employer obligations**

- 21 field audits and 40 desk reviews of employers’ compliance with their PAYG withholding, superannuation guarantee and fringe benefits tax obligations, raising revenue of \$250,000

### **Superannuation**

- Completed 71 cases related to employee complaints about their employers’ super guarantee obligations, raising \$3.88 million in liabilities
- All employers contacted to advise them of changes to their obligations under the new Better Super legislation

### **Tax practitioners**

*“This year we are focusing on co-designing a more personalised professional to professional relationship with tax practitioners and providing easier access to our specialists” – Commissioner of Taxation, Michael D’Ascenzo*

### **Priorities, p59**

- Improving services for tax practitioners
- Preparing for a new regulatory framework for tax practitioners
- Tax practitioner compliance

### **Activities**

### **Enhanced services, p60**

- Exploring ways to provide more timely resolution of cases, personalised professional to professional service and further enhance lodgment and deferral support
- Continue to work with the BAS service provider industry to develop products and services to help them

### **A new regulatory framework, p63**

- Continue to work with key stakeholders to design the administrative arrangements to support any new framework

### **Compliance and tax agent integrity, p63**

- Ensure tax practitioners comply with their personal tax obligations
- Use profiling techniques to detect non-compliant behaviour and follow-up of at risk taxpayers

### **Snapshot of activities for 2006-07, p65**

- Delivered more than 310 presentations to over 6,500 tax agents, conducted seminars at 212 venues with more than 17,500 registrations, and delivered an online presentation through our website
- Conducted over 5,100 visits to tax agents
- 186 registered agents reviewed, with 106 agents referred for review by a tax agents' board
- 175 tax practitioners prosecuted for lodgment offences
- Received 63 referrals to the tax agent integrity line - 14 are under investigation

### **Dealing with tax crime**

*“Increasingly the Tax Office is collaborating at a strategic and tactical level with other agencies to deal with a range of tax-related crime including the use of stolen identities, fraudulent behaviour by tax practitioners and cross-border evasion and fraud “ – Commissioner of Taxation, Michael D’Ascenzo*

### **Priorities, p67**

- Tackling cross-border tax crime
- Identity crime
- Promoter penalties

### **Activities**

### **Working with other agencies, p68**

- Continue to target serious evasion and fraud through multi-agency taskforces such as Project Wickenby and Project Gordian
- Use recent changes to the law along with new cross-agency governance and IT solutions to further share relevant information
- Cooperate with foreign tax administrations to target tax crime

#### **Proceeds of Crime Act, p69**

- Use powers available under the Proceeds of Crime Act to confiscate assets obtained from tax-related crime

#### **Identity crime, p69**

- Continue to work with partner agencies to clamp down on attempts to create identities for the purpose of defrauding the tax system
- Invest in analytical staff and tools to better identify and respond to suspect transactions
- Investigate and prosecute cases of tax-related identity crime

#### **Snapshot of activities for 2006-07, p71**

- Conducted 241 audits, raising liabilities of \$94 million, about half of which came from Project Wickenby
- Collected \$8 million in liabilities (plus Wickenby collections)
- Commenced 240 investigations, 80 cases prosecuted by the CDPP, 75 of which resulted in convictions
- Executed 13 search and 27 seizure warrants, and seized 7,000kg of leaf and cut tobacco
- Issued 52 excise penalty infringement notices

#### **Project Wickenby, p69 and 71**

- As at 30 June 2007:
  - 16 criminal investigations led by the ACC or AFP
  - 136 tax audits involving 234 taxpayers
  - Several investigations by ASIC
- Raised additional tax, including penalties, of \$54.64 million from over 70 amended assessments and collected \$17.79 million:
  - total amount includes seven completed full voluntary disclosures (where people have come forward before we've come to them)
- \$12.37 million has been restrained under the Proceeds of Crime Act
- Issued 531 notices under section 264
- Undertook 25 access visits with notice and 62 access visits without notice

- Our preliminary analysis indicates there has been a substantial improvement in post-Wickenby tax compliance by Wickenby participants

**Footnote:**

1 Results of our activities are based on preliminary data and are indicative only.

Final results for 2006-07 will be published in our *Annual report 2006-07*, due for release in October.

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