

Senate Economics Reference Committee
Inquiry into Augmented Tax
Assessments

~

Commonwealth Government Response

Senate Economics Reference Committee
Inquiry into Augmented Tax Assessments
Commonwealth Government Response

BACKGROUND

On 17 November 2010, the Opposition first introduced amendments to the tax laws which would have required the Australian Taxation Office (ATO) to augment individual taxpayers' notices of assessment with personalised tax receipts.

This tax receipt would breakdown how an individual's taxes were notionally spent by the Government (into areas such as welfare, education, health and defence) based on a nominal distribution of Budget expenses. The receipt would also have purported to show the individual's 'share' of Australian Government net debt.

After comprehensively examining the proposal, the Government determined that the proposed amendments had a variety of problems.

First, the proposal unnecessarily complicated the income tax assessment process by linking the tax receipt to the service of the notice of assessment. The Commissioner of Taxation (Commissioner) is responsible for assessing a taxpayer's amount of taxable income, as well as their tax payable. After this assessment is made, the Commissioner is responsible for serving a notice of this assessment upon the taxpayer. Making the tax receipt part of this assessment process creates a significant risk that taxpayers may be able to challenge the service of their notice of assessment if there is a problem with their tax receipt. Successful challenges may also prevent the collection of any tax payable in similar situations until the problem is rectified, and a valid notice served.

Second, the other information that would be included in the tax receipt would not reflect an individual's true financial relationship with the Government, as it would not take into account Government payments and general tax expenditure, nor all taxpayers. Nor would it allow for situations where tax is assessed but never paid by an individual.

Third, calculating a taxpayer's 'share' of Australian Government net debt would be very misleading, as it would not be indicative of any personal obligation the individual taxpayer has or may have in the future.

Fourth, the proposal gave the ATO a very short timeframe for implementing the requisite system changes – they would be required to be operational by 1 July 2011.

Finally, there were a significant number of drafting problems with the proposed draft legislation. This included what appear to be incorrect references to 'financial year' in the amendment which should have been 'income year'. Additionally, it was also unclear what terms like 'the number of individual taxpayers' and 'the amount of the assessment' meant.

In light of these concerns, the Government did not support the proposed amendments and the proposal was voted down in both the House of Representatives (on 17 November 2010) and the Senate (on 22 November 2010). However, the Senate referred the proposed amendments to the Senate Economics Reference Committee (the Committee) to report by 31 March 2011.

The Committee received one submission from the public on the issue, and heard evidence from both ATO and Treasury officials at a public hearing held on 9 February 2011.

On 2 March 2011, the Opposition proposed slightly different amendments in another attempt to require the ATO to provide tax receipts to individual taxpayers. These amendments differed in that they required the ATO to use the most recently published data, as at the time the individual's notice of assessment was issued.

In effect, this modified proposal would require the information for the tax receipt to change the day after the release of the Budget, the Final Budget Outcomes (FBO) and the Mid-Year Economic and Fiscal Outlook (MYEFO) data. It would be administratively burdensome for the ATO to change this source data, and issue differently constituted tax receipts, within the same income year. Further, using the most recently published data would reduce the effectiveness of taxpayers being able to compare information contained in their tax receipt with that of others from the same income year, and could lead to confusion.

As such, the Government did not support these proposed amendments either, and the modified proposal was voted down in the House of Representatives on 2 March 2011.

On 8 April 2011, the Committee released its final report of inquiry into augmented tax assessments – which examined the Opposition's original proposed amendments (as put forward on 17 November 2010). The report comprised of three sections:

- a majority report, which was endorsed by the Coalition senators on the Committee;
- a minority report, which was endorsed by the Labor senators on the Committee; and
- additional comments, which were provided by Senator Xenophon.

The Government's formal responses to the recommendations in the majority and minority reports are provided below. The Government notes that Senator Xenophon acknowledges the limitations of the Opposition's proposal, and supports the provision of a user-friendly website which provides clear information about Government spending and budgetary measures.

SUMMARY OF GOVERNMENT RESPONSE

The Government agrees that it is important to provide taxpayers with comprehensive information about Government expenditure. However, the Government already publishes the aggregate information that would be provided in this tax receipt in its Budget and MYEFO documents. Further, the ATO had estimated that the departmental costs of implementing the original proposal put forward by the Opposition would be \$9.9 million over four years.

As such, the Government considers this proposal both unnecessary and expensive, and when considered with the other significant problems identified above, the Government agrees that the proposal should not proceed.

GOVERNMENT RESPONSE TO MAJORITY REPORT RECOMMENDATIONS

Recommendation 1

The committee recommends that the proposal be amended to allow the most recently available figure or estimate of the total number of taxpayers to be used to calculate an individual taxpayer's share of government debt.

The Government **does not accept** this recommendation.

If the tax receipt proposal was to proceed, the most recently available and reliable data on the number of taxpayers should be used to generate the receipt. However, it is unclear who would constitute a taxpayer for the purposes of calculating an individual's 'share' of government debt.

More significantly though, calculating an individual's 'share' of net debt is misleading, as it does not represent any personal obligation owed by the relevant taxpayer.

Furthermore, the ambiguity of this calculation may exacerbate the risk of a taxpayer being able to challenge the tax assessment process, since this proposal links the tax receipt (and the information contained therein) with the service of a taxpayer's notice of assessment. This significant risk is not addressed in this or any other recommendation from the Committee.

Recommendation 2

The committee recommends that consideration be given to modifying the amendments so that the names given to the functions of government expenditure correspond with those used in the documents published during the Budget process.

The Government does not support the tax receipt proposal. As such, it **does not accept** this recommendation. However, if the proposal went ahead, this recommendation would ensure that the ATO could use a convenient and reliable source of information when populating an individual's tax receipt.

The Government notes that even if the Parliament agreed to implement the Opposition's proposal, this recommendation only addresses one problem with the proposal, and does not address any of the broader problems identified earlier.

Recommendation 3

The committee recommends that an explanatory note be inserted into the amendments to allow the most up-to-date publicly available government estimates of Budget expenditure available on 30 June (of the relevant financial year) to be used in any calculations to breakdown how the amount of an individual's assessment was spent on different government functions.

The Government does not support the tax receipt proposal. As such, it **does not accept** this recommendation. However, if the proposal went ahead, this recommendation would address some of the Government's concerns about data integrity and the administrative burdens faced by the ATO in having to periodically update data sources.

The Government notes that even if the Parliament agreed to implement the Opposition's proposal, this recommendation only addresses one problem with the proposal, and does not address any of the broader problems identified earlier.

Recommendation 4

Subject to the committee's other recommendations being adopted, the committee recommends that the amendments to the Tax Laws Amendment (2010 Measures No. 4) Bill 2010 proposed by Senator Cormann on sheet 7010 be introduced as a Bill, and that the Bill be passed.

The Government **does not accept** this recommendation.

Although the Government agrees with the importance of providing taxpayers with relevant and reliable information about how their tax dollars are spent, it does not support the tax receipt proposal. As noted, a number of substantial problems with this proposal remain outstanding, and the Committee's recommendations do not mitigate the Government's concerns about them. However, the Government will continue to provide relevant information about government expenditure (as addressed in Recommendation 2 of the minority report).

GOVERNMENT RESPONSE TO MINORITY REPORT RECOMMENDATIONS

Recommendation 1

The Government should not consider supporting such a measure because information on the breakdown of spending at the time of lodgement will not be timely. At the time taxpayers expect to receive their assessment, the breakdown may not be accurate or final, and will either delay assessments or provide poor information.

The Government **accepts** this recommendation.

In light of the problems which have been identified earlier, the Government does not support the tax receipt proposal.

Recommendation 2

The Government should continue to maintain at least the current standard of accessible and available Government information on expenditure to provide the necessary transparency to all Australians.

The Government **accepts** this recommendation.

The Government will continue to provide the bulk of the information which was proposed to be included in the tax receipt, in its Budget and MYEFO documents. For example, pie charts which summarise the Government's budgeted revenues and expenses are provided in the Budget Overview document each year.