

ATO's compliance program 2006/07

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The ATO has recently released its compliance program for the 2006/07 financial year. Its policy with regard to ensuring compliance is to encourage voluntary compliance, and target mainly areas of high risk.

Below we outline the ATO's compliance program for the coming year.

Market segments

In this year's compliance program (as in recent years), the ATO will be dividing Australian taxpayers into 6 broad market segments. An outline of the ATO's plans for the compliance regime in respect of each of the segments, follows:

1. Individuals

44% of Australian tax revenue comes from individuals. The ATO will seek to make compliance by individuals as easy as possible, and to crack down on problem areas. The problem areas with regards to compliance by individuals include failing to register, failing to keep proper records, lodging returns late, and misreporting income and expenses.

Major issues that will be targeted for compliance in 2006/07 include:

- high income individuals
- the cash economy
- the promotion of aggressive tax planning (see further below)
- chasing outstanding tax debts
- the use of tax havens, such as those investigated under Project Wickenby

- implementation of new rules for registration and regulation of tax practitioners
- improving PAYG compliance
- non-lodgement by users of Centrelink and the Child Support Agency
- identity crime
- non-compliance with CGT by investors
- claims for the 30% child care rebate
- large amounts of tax withheld compared with salaries

2. Micro businesses (> \$1 million pa)

11% of Australia's tax revenue comes from micro businesses. Problem areas of non-compliance by micro-businesses include failing to register, failing to keep proper records and late lodgement. Again, the ATO will be seeking to make compliance easier (e.g. by encouraging electronic lodgement) and to target high risk areas.

Headline issues for micro-businesses in 2006/07 include:

- examining high risk cases more quickly and accurately with more efficient case management
- educating micro businesses about fuel tax credit arrangements and the entrepreneur's tax offset
- the cash economy
- ensuring that businesses comply with PAYG, FBT and superannuation obligations

3. Small to medium businesses (\$1 million - \$100 million pa)

Another 11% of tax revenue comes from small to medium businesses. Problem areas are similar to those for micro businesses. The major issues in relation to small to medium businesses include:

- monitoring compliance of Australia's 1,000 richest individuals
- monitoring the tax performance of privately held groups
- checking that reporting and lodgement take place appropriately
- monitoring individuals' use of business assets and cash
- checking businesses that consistently report losses
- checking on compliance with superannuation and GST obligations

4. Large businesses (> \$100 million pa)

36% of tax revenue comes from large businesses. Accordingly, because of the massive risk to revenue of non-compliance, the ATO monitors large businesses closely. For instance, the ATO tracks inconsistencies between business performance and tax outcomes, very large transactions or transactions involving tax havens, monitoring major changes in announced profits or accounting systems and checking when instalments are paid. Further, this will be supplemented by tax audits.

Headline issues in respect of large businesses include:

- developing cooperative relationships with big business
- concluding disputes under double tax treaties
- reviewing losses claimed
- reviewing significant acquisitions and divestments
- scrutinising corporate restructuring

5. Non-profit organizations

Less than 1% of revenue comes from non-profit organisations. Here, non-compliance is chiefly centred around failure to register, the failure to lodge documents and sometimes the exploitation of tax concessions (for example, income tax exemptions and concessions for FBT and GST).

The ATO will mainly be helping non-profit organisations to comply. Headline issues include:

- developing information packages for indigenous non-profit groups
- checking that taxable clubs etc are correctly reporting income from non-members
- identifying and targeting high risk private funds
- continuing to scrutinise non-profit organisations connected to aggressive tax schemes
- checking that concessions are not being claimed inappropriately

6. Government organisations

3% of tax revenue comes from government organisations. Government organisations ought to set a good example of tax compliance for the private sector. Most of the problems relating to these organizations result from complex transactions, PAYG, FBT and superannuation obligations.

The ATO intends to provide support to government organisations to help them comply and to collaborate with the Australian National Audit Office. Headline issues include:

- ensuring real property transactions are taxed properly
- ensuring GST refunds are calculated correctly and superannuation obligations met.

Key issues - applicable across market segments

For the 2006/07 year, there will also be several key issues that will draw significant attention, across market segments, namely:

- **international tax issues** - with globalisation, there is greater need to check on the international tax consequences for taxpayers; the use of tax havens will be particularly focused on, and promoters of such schemes will be targeted. Also under the spotlight will be profit shifting to overseas entities, cross-border transactions that may be designed to avoid GST and the taxation obligations of foreign residents.
- **aggressive tax planning** - the promoters of aggressive tax planning schemes are also being targeted; for example, new penalties against such promoters are to be implemented this year; superannuation schemes will be targeted; arrangements to shift assets offshore to avoid tax will be countered; and tax havens will be particularly scrutinised.
- **serious evasion and fraud** - this year the ATO will rely more on multi agency task forces such as Project Wickenby; prosecutions will be made against offenders; aggressive schemes such as money laundering and superannuation fraud will be targeted, and as will identity fraud and fraud by tax practitioners.

Conclusion

The ATO's compliance program for 2006/07 will continue the largest ever crackdown on tax fraud and evasion and also retain a focus on tax havens and wealthy individuals.