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Dear Rick

**Responses to matters raised from meetings held between
Office of the Inspector-General of Taxation and Tasmanian tax agents**

On 25 July, 2008 I provided responses to some matters raised with your office from tax agents from Tasmania.

As previously advised the breadth and range of these matters, as well as some of the context of these questions, have caused some complexity in responding to the complete set of issues.

I am pleased to be able to enclose the next set of 7 responses (*refer Attachment A2*). To assist with collation we have left the matters grouped into various parts to compliment the previous response.

The remaining 12 responses (*refer Attachment B2*) will be forwarded to you at the earliest opportunity and this is anticipated to be within the next two weeks.

Should you wish to discuss any matters arising from these responses please contact myself or Annamaria Carey, Assistant Commissioner on (02) 9374 8174.

Yours sincerely

James O'Halloran
Deputy Commissioner

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RESPONSE TO LIST OF CONCERNS FORWARDED BY THE INSPECTOR GENERAL OF TAXATION

Responses are divided into five parts:

Part A	SYSTEM ISSUES
Part B	ACTIVITY STATEMENT SYSTEM AND INCOME TAX SYSTEM INTERFACE PROBLEMS
Part C	PHONE CALL ISSUES
Part D	CORRESPONDENCE ISSUES
Part E	GENERAL

PART A: SYSTEM ISSUES

1. Objection flags stopping assessments

When a taxpayer objects to an assessment the ATO puts a 'flag' on the taxpayer's file to stop subsequent assessments from issuing. However, tax agents observe that these flags are not removed when the objection is withdrawn and changes are needed to be made to the tax return.

Tax agents ask that the ATO ensure that these holding flags are removed when objections are withdrawn.

Tax Office Response:

Dispute indicators are placed onto an account when an objection is received and must be removed when the objection is finalised, regardless of the outcome of the objection. This process is clearly mandated within the Online Resource Centre for Law Administration (ORCLA). The purpose of the dispute indicator is primarily for the management of disputed debt and does not normally stop the issue of an assessment. We would be grateful if the tax agent(s) who raised this concern could provide some specific examples where assessments had been stopped once an objection had been withdrawn, so that we can follow these up to ensure that we fix any potential systemic problems. This can be done by contacting the Relationship Manager area on 13 72 86, Fast Key Code 32.

A control process was undertaken recently to ensure that no dispute indicators were inappropriately present. This scheduled control process is regularly undertaken to ensure that all indicators are removed from the system and, where appropriate, formerly disputed amounts can be readily collected.

2. Arbitrary ATO updating of client lists

Tax agents say that in cases where a client receives a Centrelink pension (e.g. disability support pension) the ATO will remove the client from the tax agent list. The tax agent subsequently lodges the tax return and the taxpayer incurs a late lodgement penalty (even if lodged within the extended time to lodge under the tax agent's lodgment program). In one example, the tax agent said that the ATO refused to remit the late lodgment penalty and refused to acknowledge that it caused the problem.

Tax agents ask that the ATO not delete clients from their list, without first contacting and discussing the proposed deletion with agents first.

Tax Office Response:

The Centrelink Datamatch process undertaken each year results in a single year Return Not Necessary (RNN) indicator being input to the ATO record for appropriate taxpayers identified through the data matching process.

Where any of the taxpayers for whom an RNN indicator has been input is on a tax agent client list as at 31 October the lodgment due date defaults to 15 May of the following year.

It is not part of this RNN process for such taxpayers to be removed from tax agent client lists. If clients have been removed from their tax agent client list as a consequence of this RNN process, it would be appreciated if tax agents could provide details (to the Relationship Manager area on 13 72 86, Fast Key Code 32) so they can be investigated and resolved.

3. Universal updating of taxpayer's contact details through all systems

Tax agents have come across situations where despite having sent in a tax return for a client containing a new postal address, correspondence relating to other aspects of tax continue to be mailed out to the former address — for example a taxpayer that had lodged a 2006 income tax return containing a new address. In the 2007 financial year the taxpayer earned a 'one-off' level of interest which triggered the Tax Office into referring to the taxpayer's integrated client account. This account contained the taxpayer's former address and correspondence relating to the amount of interest earned was sent to the taxpayer (using the old address). Tax agent said that this problem is affecting around 6% of their clients.

It is then left up to the tax agent to manually fix the address in the relevant system/account and this can take up to 30 minutes per client— a further example of Tax Office administration being shifted on to tax agents.

Tax agents ask that the ATO ensure that a change of address included in a tax return is 'filtered' throughout the tax system – i.e. so that all systems and accounts were updated with the new address.

Tax agents also request that the ATO takes a proactive approach with returned mail and checks other ATO databases to see whether there is a recent change of address on file.

Tax Office response:

The Tax Office is aware of the current issues tax practitioners have with how addresses are stored by our Office. Although there isn't an immediate solution to this problem, the issue raised will be resolved when client register and correspondence preference changes are implemented as part of Release 3 of our Change Program.

We have started implementing the integrated core processing (ICP) system which is a single system for processing Tax Office registrations, forms, payments and accounting transactions — across all types of revenue products.

As part of ICP we are introducing a single client register to store all client addresses. Addresses will be able to be stored at the client, account and role level. Clients can have different addresses for different roles so that correspondence can be sent to the most suitable address. The number of different addresses used can however be minimised for a client by only recording the addresses at the client or account levels. This would assist in minimising the addresses that would need to be changed when required.

One of the early "quick win" improvements that we have been able to put in place with the new ICP is a synchronisation between it and our existing client register (in AIS). This synchronisation enables addresses, including residential addresses, that are being updated through the processing of an income tax return to be also updated in ICP. The addresses in ICP are then made available, by way of a manual address selection facility, when correspondence is being issued to a taxpayer. Ultimately, when all revenue products have been deployed onto the ICP system, and a tax return or other form is lodged containing a new address, the client register for that role will be updated automatically.

Ultimately it will also be possible to choose the channel to be used to deliver correspondence, by creating and maintaining correspondence preferences for a client.

Where the agent has a preference to receive correspondence on behalf of a client they will no longer need to change the client address to their address, correspondence preferences will instead be used to select the agent's address.

When correspondence is returned unclaimed, the invalid address will be automatically marked as such in the client register and this address will not be used to send any correspondence in the future.

We have developed an educational product to explain the integrated core processing system. This can be downloaded from the ato.gov.au website at www.ato.gov.au/changeprogram. - Training/educational products - About integrated core processing.

PA RT B ACTIVITY STATEMENT SYSTEM AND INCOME TAX SYSTEM INTERFACE PROBLEMS

Nil

PART C PHONE CALL ISSUES

Nil

PART D CORRESPONDENCE ISSUES

4. Multiple letters and envelopes

Tax agents say they receive multiple letters for the same taxpayer. This causes additional time and expense in opening additional envelopes, especially for tax agents with hundreds of clients.

Tax agents ask that multiple letters to the same taxpayer be inserted into one envelope.

Tax Office response:

Once again, although there isn't an immediate solution to this problem, the issue raised about multiple letters and envelopes will be resolved when the integrated core processing (ICP) system is implemented for all revenue products as part of Release 3 of our Change Program.

New processes are being built into the ICP system so that when two or more items of correspondence are being sent to the same client at the same address on the same day, they will be combined into one envelope.

Also where a tax agent has a preference to receive correspondence on behalf of the client and two or more items of correspondence are being sent to the agent's address on the same day, they will be combined into one envelope.

There will however be certain circumstances when this consolidation of correspondence into one envelope may need to be overridden by legislative requirements and therefore agents particular preferences may not be able to be accommodated.

5. Coherence of correspondence

Tax agents say that the ATO needs to work on making its correspondence more comprehensible — for example, they say that they are generally unable to understand the PAYG correspondence that is issued. Tax agents say that this inability to clearly and succinctly state the reason for the correspondence does not recognise the time and cost pressures on agents.

Tax agents ask that the ATO ensure that its correspondence is unambiguous, free of jargon and can easily be understood by taxpayers and tax agents.

Tax Office Response

The Tax Office Executive have endorsed a project to look at our communication with taxpayers. This is closely aligned with development of correspondence in the Change Program systems.

We are reviewing the content and improving letters that have been identified as confusing or causing problems for taxpayers and tax practitioners. We have identified our debt demand, payment arrangement and PAYG instalments letters as having priority for improvement.

To assist in this work we have also engaged consultants who specialise in writing clear correspondence for public and private sector organisations. The consultants are currently assisting us to rewrite the PAYG instalment letters. These will be user tested with taxpayers and tax practitioners prior to finalisation. Tax agents who are members of the various national consultative forums (including the various sub groups and the Tasmanian Regional Tax Practitioners Working Group) have been advised how they or professional associations can become involved as this process develops.

Part E GENERAL

6. Lodgment dates for ‘unclassified’ clients

One tax agent referred to his own Client List Report (provided by the Tax Office) relating to the lodgement of tax returns. On his list a number of taxpayers have been listed as ‘unclassified’. This resulted in him having to contact the Tax Office to establish whether they knew the lodgment due date for these taxpayers – further work taking up his time unnecessarily. The ATO then incorrectly told him that it was a May lodgement date. The tax agent lodged the return in February. The client then received a failure to lodge warning. This ATO error caused the taxpayer’s lack of confidence in the tax agent.

Tax agents ask that the Tax Office ensure that ‘unclassified’ clients are given a default lodgement date which will not give rise to a late lodgement penalty or non-lodgement warning.

Tax Office Response

If a client is unclassified ('uncl') a default lodgment date of 15 May will be shown on the client list generated in the Tax Agent Portal. A client list generated from ELS will not set a default date and the client will be given an 'unclassified' date. The Lodgment Program 2008-09 – details of the program, contains the following information about the 'unclassified' status.

The 2008 lodgment due dates for companies and superannuation funds are displayed on all client listings generated by the Tax Office after 14 July 2008. If a client list is generated via ELS, the lodgment due dates and corresponding lodgment category (LOD) codes will also be displayed.

Any client listing generated on or before 14 July 2008 will have lodgment due dates and LOD codes displayed as per the 2007–08 lodgment program and cannot be relied on for determining the due date for the 2008 income tax return.

The following table details lodgment and payment due dates for 30 June balancing companies and superannuation funds. The lodgment category (LOD code) is provided for information only.

Due date for lodgment	Due date for payment	Description	Lodgment category (LOD code)
15 May 2009	15 May 2009	Entities that may not have an obligation to lodge. Note: Lodgment and payment reminder letters are not sent to these entities	UNCL

In conclusion: some companies and superannuation funds are assigned an unclassified (UNCL) status. These clients are considered less likely to lodge a return for the following reasons:

- a further returns not necessary (FRNN) indicator is on record or the return year in question is recorded as NOTNEC
- an insolvency indicator has been set
- the ATO integrated system (AIS) role status shows tax concession charity (TCC) ACTIVE or PENDING and/or Deductible Gift Recipient Endorsement (DGR) ACTIVE or PENDING or ASP, or
- the registration date on AIS is after 30 June of the relevant year.

Without the benefit of case/client specific information it is difficult to conclude which of the above characteristics would trigger an 'unclassified' status against each client.

7. Tax Office auditors' views of to what extent tax agents should verify taxpayer records

Tax agents continue to have concerns about the attitudes adopted by Tax Office auditors on some occasions. Examples raised included auditors strongly 'challenging' the extent to which tax agents had undertaken verification of the material provided by clients and of the client's backgrounds. In one case a tax agent alleges that an auditor threatened to refer him to the tax agents' board for not doing what the tax agent said was unduly onerous auditing of the taxpayers' records and inconsistent with his role as a tax agent. Tax agents say in a self assessment environment, if the evidence of the claim looks reasonable then it is reliable on which to base a claim.

Tax agents ask that the ATO provide its auditors with structured training regarding the role of tax agents.

Tax Office Response:

The Tax Office's expectations of tax agents when preparing an income tax return are outlined in [Tax return preparation - important questions and answers](#).¹ Of direct relevance to the matter at hand, the document states:

It is not essential to sight the receipts and records but, if they are available, they should be examined as part of the tax return preparation process. It is good professional practice to request from a client all relevant documentation relating to their claims, noting both what you have seen and what evidence the client advises you he has, but not produced to you.

It is not part of the auditor's role to directly refer matters to the Tax Agents' Board. Where the findings from an audit or review of a taxpayer include any concerns about the role of the taxpayer's representative, that concern is referred to the Tax Agent Integrity Unit (TAIU). After consideration of the concerns, the TAIU may refer the matter to the Tax Agent's Board.

Where a tax agent has concerns about the behaviour of a tax officer, they can raise these concerns with an officer from the Relationship Manager area on 13 72 86 FKC 32.

¹ www.ato.gov.au > [Tax Professionals](#) > [Your tax practice - Tax Time 2004 essentials](#)
> [Basic topics](#) > Helpful hints

LIST OF OUTSTANDING ISSUES

Work is currently underway to obtain the information requested to the questions listed below. Responses will be forwarded to you at the earliest opportunity.

1. Inability to update client lists
2. Tax Office requesting tax agents to chase up taxpayer debts
3. Issuing final notices to lodge
4. Transfer of information between the Tax Office and other government departments
5. Problems with member contributions statements
6. Applying for a tax file number for migrants
7. Approach of the Tax Office to tax agent malpractice
8. Income Matching Errors
9. Unnecessarily cancelling the DIN for undelivered BASs
10. Non-issue of notices of assessment to full assessment taxpayers
11. Inconsistent timing of credits and debits
12. Unnecessary correspondence sent to tax agents