

# **Review into the ATO's change program**

**Terms of Reference &  
Submission Guidelines**

**5 May 2010**



## TERMS OF REFERENCE

1.1 On 19 April 2010, the Assistant Treasurer, Senator the Hon Nick Sherry, directed the Inspector-General of Taxation (IGT) to conduct a comprehensive review of the implementation of the Australian Taxation Office's (ATO) Change Program and publicly released the following terms of reference:

*The review should include an examination of:*

- (a) the impacts of the Change Program on taxpayers, taxpayer representatives and other external clients of the Australian Taxation Office;*
- (b) the impacts of the Change Program within the Australian Taxation Office;*
- (c) the resources used to implement the Change Program and whether these resources have been efficiently applied; and*
- (d) any other related matters.*

## BACKGROUND

1.2 On 10 December 2004, the ATO approved a business case to spend \$445 million in direct costs over four years to replace all tax processing information and communications technology with one Integrated Core Processing (ICP) system. This replacement and related work has been called the Change Program. A replacement was considered necessary because the ATO's pre-existing administrative processes relied on over 180 specialised information and communication technology systems as well as a number of core processing systems. These were a source of inefficiency that contributed to a number of administrative difficulties.

1.3 The Change Program was to be implemented in three phases, with implementation to be completed by June 2008. The first two phases included the installation of a client relationship management system and a single case and work management system. The third phase was, amongst other things, the installation of the ICP system for all tax products. By December 2007, the ATO had implemented the first two phases of the program and considered it necessary to implement the third phase by deploying it in a number of smaller discrete modules. The first module to be deployed was the processing of fringe benefit tax returns for the 2007—08 year. The deployments of other modules, such as those relating to superannuation, were carried out in 2008 and 2009.

1.4 During January 2010, the ATO progressed the implementation of the third phase by deploying the module processing income tax returns and payments (the income tax release) through the new system.

1.5 Recently, the Assistant Treasurer as well as the IGT received information from taxpayers, tax practitioners and their representatives that the ATO was experiencing processing delays and errors in relation to income tax return payments and lodgements.

1.6 Tax practitioners pointed out that they understood that the implementation of the income tax release would give rise to 'teething problems'. However, particular frustration was expressed in relation to the nature of the ATO's communication of the errors, the ATO's inability to fix identified errors within reasonable times, the ATO's shifting advice on the timeframes to fix those errors and the ATO's lack of awareness of the impact that such communications and errors had on taxpayers and tax practitioners. Over time these frustrations have increased substantially.

## **SUBMISSION GUIDELINES**

2.1 In connection with the above terms of reference, we are seeking submissions which give detailed information on observations and experiences relating to the ATO's Change Program.

2.2 At the outset, it is important to acknowledge that key taxpayer and tax practitioner representatives have indicated that the immediate focus of the review be on terms of reference (a) and (b) in relation to the income tax release.

2.3 Accordingly, the IGT will take a staged approach to this review by first focusing on terms of reference (a) and (b) (to the extent that it affects taxpayers and tax practitioners) in relation to the income tax release, and then focusing on the remaining scope of the of the review as required. That being said, however, it is open to you to provide submissions on any aspect of this review.

2.4 Set out below are some guidelines for you to consider in making your submissions. This would greatly assist us to identify potential systemic issues and allow us to examine these issues more efficiently and effectively.

2.5 You should note that we have not verified the concerns set out in this document. Therefore, we ask that if you believe that concerns exist, you provide evidence to support your views.

### **Impacts on taxpayers, taxpayer representatives and other external ATO clients**

2.6 We have received information from taxpayers, tax practitioners and their representatives on ATO practices and the resulting adverse impacts. We are now seeking detailed information and examples.

#### **Identification of any errors and delays**

2.7 Where your submission deals with the impacts of the income tax release on taxpayers, tax practitioners or other external ATO clients, it is important to provide a detailed account of any specific errors and delays that you have observed or experienced. You should also provide a time line of your interactions with the ATO.

2.8 Concerns have been raised with us about ATO delays and errors in processing tax lodgements and payments. In some cases the concerns include:

- Incorrect liabilities shown on notices of assessment;

- Delays in issuing refunds and refund cheques not being attached to credit notices of assessment;
- Shifting ATO advice on when refund cheques would be issued;
- Incorrect dates of lodgement of tax returns and consequent incorrect general interest charge calculations; and
- Payment liabilities being brought forward by seven weeks incorrectly.

2.9 In addition to any errors or delays that you may have observed or experienced, you should also comment and elaborate on whether the examples above are accurate and substantiated.

2.10 You should note that the ATO has advised that the reasons for extended delays were mainly due to two human errors within the ATO, and that there are valid reasons for other delays — such as incorrectly lodged returns. Therefore, you should explain whether the errors or delays that you have experienced were due to such valid reasons or not.

2.11 To the extent that you are able, your submission should also specify whether you have noticed particular ATO income tax processing treatment of particular kinds of taxpayers or different types of assessments. You should consider whether there are common characteristics amongst those experiencing problems — for example, the type of income earned (such as primary production income), the resulting liability (such debit or credit assessments) and/or the type of non-ATO liabilities (such as Centrelink or Child Support Agency debts).

#### [ATO's management of the income tax release implementation](#)

2.12 The Change Program is a large undertaking which impacts on many aspects of tax administration. Given the scale and extent of this undertaking, you may wish to consider the ATO's management of the implementation of the income tax release.

2.13 One of the main aims of the Change Program was to improve tax administration. As the project has unfolded over the years changes have been made to the scope of the program. To the extent you are able, you should comment on the specific extent of these changes and contrast these with your expectations and its impact on you.

2.14 To the extent you are able to comment, you should consider the nature and adequacy of testing on the income tax release's interaction with end users and, to the extent you are aware, testing with other non-ATO computer systems, such as Centrelink and financial institutions.

2.15 Once again, in relation to your views on the above management issues, your submission should provide evidence for those views.

2.16 Your submission should also consider the ATO's communication during different times of its design and implementation of the income tax release:

- During the initial design and implementation of the Change Program — You should consider whether initial ATO communications on the potential impacts were well publicised and informative. How did the ATO manage taxpayer and tax practitioners' expectations and was this effective?

- Immediately before the implementation of the income tax release — If you identify delays in your submission, you should consider ATO warnings late last year concerning potential delays and whether the actual delays were in excess of that which the ATO had warned.
- In response to errors and delays that arose —Your submission should also consider the steps that the ATO took to identify and respond to those errors and delays.
  - For example, the tax professional bodies advise that when the income tax processing was implemented in January, the ATO established a daily discussion with them on emerging issues with the profession. However, at that time no issues were raised and therefore the ATO de-escalated that discussion. The ATO advises that it continues to monitor common types of inquiries raised in its call centre. You may wish to consider whether these steps allow the ATO to adequately identify and respond to emerging problems.
  - Tax practitioners have also raised concerns with the ATO’s public communication of identified issues of concern and what work is being done to fix them, including whether any interim solutions exist. If you identify this as an issue, you should also set out what alternative action the ATO could have undertaken to avoid the need for taxpayers and tax practitioners to contact the ATO about these issues of concern.
  - You should also consider the extent to which subsequent ATO communications have been sensitive to the potential negative impact that the delays and errors may have on taxpayers’ confidence in their tax practitioner.

#### Identification of impacts on taxpayers, tax practitioners and other external clients

2.17 It is also important that you provide a detailed account of the specific impacts of the problems with the income tax release. Examples that have been provided to us include:

- impacts on businesses — for example, some business models rely on expected ATO refunds, with any extended delays causing cash flow problems;
- increased time spent dealing with ATO to identify the reasons and solutions for the delays and errors, which detract from tax practitioners other work, such as lodging other taxpayers’ returns;
- stress arising from the increased workloads and unpredictability of when particular refunds would be made available by the ATO (especially when combined with the pressure of upcoming payment obligations);
- unwarranted taxpayers’ erosion of confidence in tax practitioners’ abilities — for example, taxpayers perceive that their tax practitioners have lodged their income tax returns late and delayed providing the refund to the client, perceptions which are confirmed when senior ATO staff comment that the Change Program is working well.

2.18 You should also consider how the ATO is addressing the impacts on you. For example:

- Interest on delayed refunds — Is the ATO promptly paying the correct amount of interest for the delays encountered?
- Hardship — If you experienced hardship, is the ATO appropriately responding to your concerns?

2.19 Where your submission identifies negative impacts, you should also set out any alternative actions, practices or behaviours which, in your view, could minimise those impacts.

2.20 We are also interested in receiving details on positive impacts. For example, although not a part of income tax release, the Tax Agent's portal was implemented some time ago which, amongst other things, provided tax practitioners with access to certain ATO-held taxpayer information and obviated the need to contact the ATO by phone or in writing to obtain this information.

### **Impacts within the ATO**

2.21 As stated above, we intend to take a staged approach to this review. This will mean that we will review the impacts within the ATO to the extent that they impact on taxpayers, tax practitioners and other external clients arising from the income tax release of phase 3 of the Change Program.

2.22 Where your submission recounts information on the impacts within the ATO, it is important to provide a detailed account of the specific event or practice that, in your view, impacted on taxpayers, tax practitioners and other external clients. These impacts may be positive in nature or negative.

2.23 To assist you in preparing your submission on this aspect of the terms of reference, some of the issues that have been raised with us thus far are:

- potential project fatigue;
- impacts on call centres workloads and flow on effects to other areas of the ATO;
- ATO relationship managers ability to adequately deal with some tax practitioner enquiries;
- the limited windows of opportunity in which the ATO could implement the income tax release this year and consequent costs for missing those windows;
- adequacy of ATO staff training on the new systems;
- occupational health and safety requirements in relation to the ATO officer user-system interface.

### **Efficient application of resources to implement the Change Program**

2.24 As noted above, we intend to take a staged approach to this review by first focusing on the first two terms of reference above in relation to the income tax release of phase 3 of the

Change Program. However, it is open to you to provide submissions on any aspect of this review.

2.25 Where your submission does consider whether resources were efficiently applied to implement the Change Program, it is important to provide detailed and verifiable information supporting your view.

2.26 Submissions on this aspect of the terms of reference should also have regard to the Auditor-General's recent performance audit report, *The Australian Taxation Office's implementation of the change program: a strategic overview*. It is important to note that at the time the Auditor-General finalised his report, the ATO had not deployed the income tax release of the Change Program.

### **Any other related matters**

2.27 It is also open to you to provide any information that relates to the Change Program. If you do so, please ensure that you clearly identify the underlying systemic issue to which such information relates.

### **Lodgement of submissions**

2.28 The closing date for submissions is 7 June 2010. Submissions can be sent by:

Post to:           Inspector-General of Taxation  
                      GPO Box 551  
                      SYDNEY NSW 2001

Email to:         [changeprogram@igt.gov.au](mailto:changeprogram@igt.gov.au)

### **Confidentiality**

2.29 Submissions provided to the IGT are in strict confidence (unless you specify otherwise). This means that the identity of the taxpayer, the identity of the adviser and any information contained in such submissions will not be made available to any other person, including the ATO. Sections 23, 26 and 37 of the IGT Act 2003 safeguard the confidentiality and secrecy of such information provided to the IGT — for example, the IGT cannot disclose the information as a result of an FOI request, or as a result of a court order generally. Furthermore, if such information is the subject of client legal privilege (or legal professional privilege), disclosing that information to the IGT will not result in a waiver of that privilege.