



Commissioner of Taxation

Karen Payne
The Inspector-General of Taxation and Taxation Ombudsman
GPO Box 551
SYDNEY NSW 2001

Dear Karen

Re: IGTO final draft report for the Investigation and Exploration of Undisputed Tax Debt in Australia

Thank you for the opportunity to comment on the final draft of your report for the review: An Investigation and Exploration of Undisputed Tax Debts in Australia.

Through this review we have shared with you information about the operation of Australia's tax and super system, and reflected on the environmental factors that impact and drive debt.

The level and movements of debt in Australia continue to be comparable with similar tax jurisdictions such as the UK, USA, Canada and New Zealand. Whilst debt levels had been stable over time, the unprecedented events of the bushfires and then COVID-19 have caused an out-of-pattern growth. We are pleased to see that this growth is already normalising, reflecting the strength of economic recovery in Australia.

We remain committed to supporting taxpayers by offering flexibility in payment and lodgment. Despite the extraordinary events, last financial year the ATO collected \$521.8 billion and of this 95% was paid in less than 90 days. This is consistent with prior years.

We review and refine our approach on an ongoing basis, continuously looking for ways to improve. Our debt collection practices and measures are regularly calibrated and benchmarked with other similar tax jurisdictions.

Moving forward, we will continue to explore enhancements to our debt approach and look forward to progressively sharing this with the IGTO.

Our detailed response to each recommendation is contained in **Annexure 1**.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Chris Jordan'.

Chris Jordan AO
Commissioner of Taxation
23 June 2021

Annexure 1 – ATO Response to Recommendations

IGTO Review on undisputed tax debts in Australia

ATO comments regarding the final draft report recommendations

Recommendation	ATO Comments
<p>Recommendation 1 [Page 31]</p> <p><i>The IGTO recommends the ATO consult with key stakeholders and relevant participants in the tax system to co-design enhanced reporting in relation to its debt book and debt recovery activities throughout the year. This enhanced reporting may be shared publicly or with discrete stakeholders, as appropriate.</i></p> <p><i>Key stakeholders and relevant participants may include:</i></p> <ul style="list-style-type: none"> ▪ <i>Parliamentary Committees;</i> ▪ <i>Australian National Audit Office;</i> ▪ <i>The Treasury;</i> ▪ <i>Tax Practitioners and their Professional bodies;</i> ▪ <i>Peak industry bodies;</i> ▪ <i>Australian Small Business and Family Enterprise Ombudsman; and</i> ▪ <i>Academics.</i> <p><i>The IGTO considers that the following information may be of general interest and relevance to a range of stakeholders and the community.</i></p> <ol style="list-style-type: none"> 1. <i>Debt Level data analysis, by client experience groups and industry divisions</i> 2. <i>Actions that the ATO has taken to collect these debts, differentiated by client experience groups and industries, and actual interactions with taxpayers on their outstanding debts;</i> 3. <i>The number of payment arrangements received, accepted and refused and the proportion of collectable debt subject to a payment arrangement;</i> 4. <i>The total amount of debt deemed uneconomical to pursue at any given point in time;</i> 5. <i>The estimated total amount of debt deferred or postponed due to natural disasters or other large-scale impact events;</i> 6. <i>A profile of tax accounts by age, including amounts owing that are more than 10 years old, and the age of the debtor to determine</i> 	<p>Agree</p> <p>The ATO agrees to consult with key stakeholders on our broader debt approaches, including key debt metrics.</p>

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<p><i>whether new entrants are likely to be more susceptible to fall into debt positions;</i></p> <p>7. <i>The number of applications received and approved (as well as the quantum) of tax debts released on grounds of serious financial hardship;</i></p> <p>8. <i>The number of taxpayers who are for the first time (or for the first time after many (say 5) years) becoming debtors as well as the number who have successfully cleared their tax debts</i></p> <p><i>The IGTO has also consulted with a range of key stakeholders on additional reporting or information that would assist them in their work and engagement. A brief list is set out below.</i></p> <p>9. <i>The Government, Parliamentary Committees, Treasury and the ANAO may find debt data that assists them to assess the effectiveness of support measures to be useful – for example:</i></p> <p>a. <i>data about whether or not taxpayers in receipt of Jobkeeper, and Boosting Cash Flow are likely to be able to maintain tax payment obligations; or</i></p> <p>b. <i>whether taxpayers who receive deferrals of payment obligations from the ATO as a result of natural disasters are able to repay the outstanding liabilities at the end of the deferral and able to continue complying with their obligations.</i></p> <p>10. <i>Small business, including small business advocates, may be interested in data that breaks down the debt held by small business taxpayers in a more contextualised way to assist in their messaging and assistance service:</i></p> <p>a. <i>Split between primary tax, general interest charge and penalties</i></p> <p>b. <i>The locations and industries where small business debt is accumulating</i></p> <p>c. <i>Whether the collectable debt was previously disputed, and how that dispute was ultimately resolved (e.g., by AAT, mediation, independent review...etc.)</i></p> <p>d. <i>Lodgement statistics and whether late lodgements are contributing to the accrual</i></p> <p>11. <i>The tax and legal professions, and their respective professional bodies, as well as peak industry bodies may seek relevant information to assist them to determine whether collectable tax debt issues are</i></p>	

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<p><i>matters that they need to work with their membership or work with the ATO to address. For example – there is a service commitment between the ATO and the Australian Bar Association (ABA) - where data on outstanding tax debts and trends would be informative and instructive. Such information may include debt levels at an industry or profession basis, overlaid with information about interactions and activities the ATO has taken to try and recover the debts.</i></p> <p>12. <i>Academics are likely to find information that would aid them in longitudinal studies on the compliance effects of various ATO actions. For example, information that might assist to determine whether being successful for release on grounds of serious hardship positively impacts on compliance in later years, versus alternate courses of action such as declaring bankruptcy.</i></p> <p><i>The ATO should, if it does not already do so, provide a briefing to the Minister, and the Parliament (via the relevant Committees with oversight of the ATO) on these issues annually or at more frequent intervals where necessary.</i></p>	
<p>Recommendation 2 [Page 34]</p> <p><i>The IGTO recommends the ATO develops metrics to measure its debt collection performance, including a return on investment against its efforts to collect debts in relation to different client experience groups or industry groups. For example, the cost of the ATO's debt collection activities as a percentage of the total tax debts collected.</i></p> <p><i>These metrics should be reported alongside matters identified in Recommendation 1.</i></p>	<p>Agree</p> <p>The ATO will continue to consider enhancements to its suite of metrics to measure debt collection performance. This includes assessment of a potential ROI metric, noting that the ATO's regulatory role involves debt collection irrespective of the likelihood of return.</p>
<p>Recommendation 3 [Page 35]</p> <p><i>The IGTO recommends the ATO:</i></p> <ol style="list-style-type: none"> 1. <i>report (in aggregate) to the Australian Parliament all taxpayer debts which exceed a benchmark dollar value and have been outstanding for more than (say) 100 days, by client experience and industry groups, and additionally, report information in relation to those debtors that have not engaged with the ATO about the outstanding debt (e.g., entered discussions to set up a payment arrangement); and</i> 2. <i>remind taxpayers and their advisers in writing once the taxpayer's outstanding tax debt exceeds a benchmark dollar value and has been outstanding for more than (say) 100</i> 	<p>Agree in part</p> <ol style="list-style-type: none"> 1. Agree Subject to feedback about additional reporting needs (as per response to Recommendation 1), the ATO supports the proposal to share aggregated information to Parliament. 2. Disagree Our own experience and insights into the best practice of behavioural economics suggest that anonymised and aggregated disclosure is not likely to influence the taxpayer to engage or generate payment.

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<p><i>days and advise that their data will be reported (as aggregated information) to the Australian Parliament unless they have entered an agreed ATO payment arrangement or other debt management arrangement on or before a prescribed date.</i></p>	
<p>Recommendation 4 [Page 35]</p> <p><i>The IGTO recommends that the ATO actively promote the benefits of new businesses voluntarily entering the PAYGI system and ensuring that the channels to enter, exit and vary instalments are readily accessible for both taxpayers and tax practitioners.</i></p>	<p>Agree</p> <p>The ATO will continue to promote the benefits of participating in the PAYGI system and ensure channels that are available are readily accessible.</p>
<p>Recommendation 5 [Page 36]</p> <p><i>The IGTO recommends the ATO:</i></p> <ol style="list-style-type: none"> <i>1. provide greater insight into the ATO Special Division in its reporting through segmentation based on occupation (ANZSCO) codes; and</i> <i>2. engage with the Australian Bureau of Statistics (ABS) to identify opportunities to improve segmentation and reporting of collectable debt by industry divisions and occupation codes to enable enhanced comparative analysis.</i> 	<p>Agree in part</p> <p>1. Agree</p> <p>The ATO will explore opportunities to improve its reporting related to the ATO Special Division.</p> <p>2. Disagree</p> <p>ANZSIC and ANZSCO codes are aligned with an international framework, adopted by numerous organisations for a large and diverse range of reporting and analysis across the Australian economy. For this reason, it may not be feasible to engage with the ABS for the sole purpose of improving debt reporting.</p>