Australian Government
Inspector-General of Taxation
Taxation Ombudsman

Investigation and Exploration of undisputed tax debts in Australia

Key messages from the report

Context for this investigation

- Over the past few years, the Australian Taxation Office (ATO) has reported an increasing trend in the levels of collectable debt (debt which is not subject to objection or appeal or to some form of solvency administration).
- The composition and reasons underlying the growth in collectable debt are not entirely evident based on publicly available information.
- The purpose of the investigation is to understand the trends and landscape of outstanding collectable tax debts in Australia, and to present data and information to kickstart an important conversation.
- The data and information in the report can also assist to identify and gain greater insight into which segments of the economy are experiencing increases in collectable debt – that is, areas for further and targeted investigation.
- These may be areas which require further assistance or where tax administration can be improved – for example, communications.

The investigation process

- Terms of reference issued on 31 October 2019
- Initial research, information requests and early engagements with the ATO team in late 2019 and early 2020
- Investigation deferred on 9 April 2020 due to COVID-19 pandemic and the need for resources to be redeployed to aid in implementation of COVID-19 support measures
- Re-engagement with the ATO and recommencement of the investigation in September 2020, information gathering and collation of data regarding the 2020 financial year
- Preliminary draft report provided to the ATO on 1 April 2021 for initial comments
- Final draft report provided to the ATO on 1 June 2021 for formal response
- Final report released on 30 June 2021

Why Tax debt collection is important?

- The importance of tax debt recovery and collection is recognised as a key indicator of tax system design and administrative performance in a number of studies and reports released by the Organisation for Economic Cooperation and Development (**the OECD**), including:
  - 2019 - *Successful tax debt management: measuring maturity and supporting change;*
  - 2019 - *Tax Administration 2019 Comparative Information on OECD and Other Advanced and Emerging Economies*;
  - 2014 - *Working Smarter in Tax Debt Management*

OECD debt collection performance measures

- The OECD notes in 2014 (*Working Smarter in Tax Debt Management)* that at the strategic level, most tax debt collection functions track one or more of the following indicators:

  1. Size of debt book
  2. Ratio of collectable debt to net tax collections
  3. Proportion paid on time
  4. Recovery rate
  5. Costs of collection
  6. Write offs
  7. Paid against forecast

- The study in *Working Smarter in Tax Debt collection was* commissioned by the Forum of Tax Administration and included participants from 14 FTA countries including – Australia, Belgium, Canada, Chile, France, Ireland, Japan, Korea, the Netherlands, New Zealand, Singapore, Sweden, the United Kingdom and the United States of America.

- The OECD report notes that the ATO track 1,2 and 5

Why Tax Debt Collection is important

Some key reasons noted by the OECD include:

- The challenging payment environment since the global financial crisis;
- Tax administration resources are under pressure and in many countries are significantly reduced;
- Revenue bodies are expected to sustain or improve tax debt collection to repair public finances;
- Ensuring everyone pays their fair share of taxes is important in terms of the perceived fairness of the tax system. Confidence that there is a 'level playing field' supports voluntary compliance.

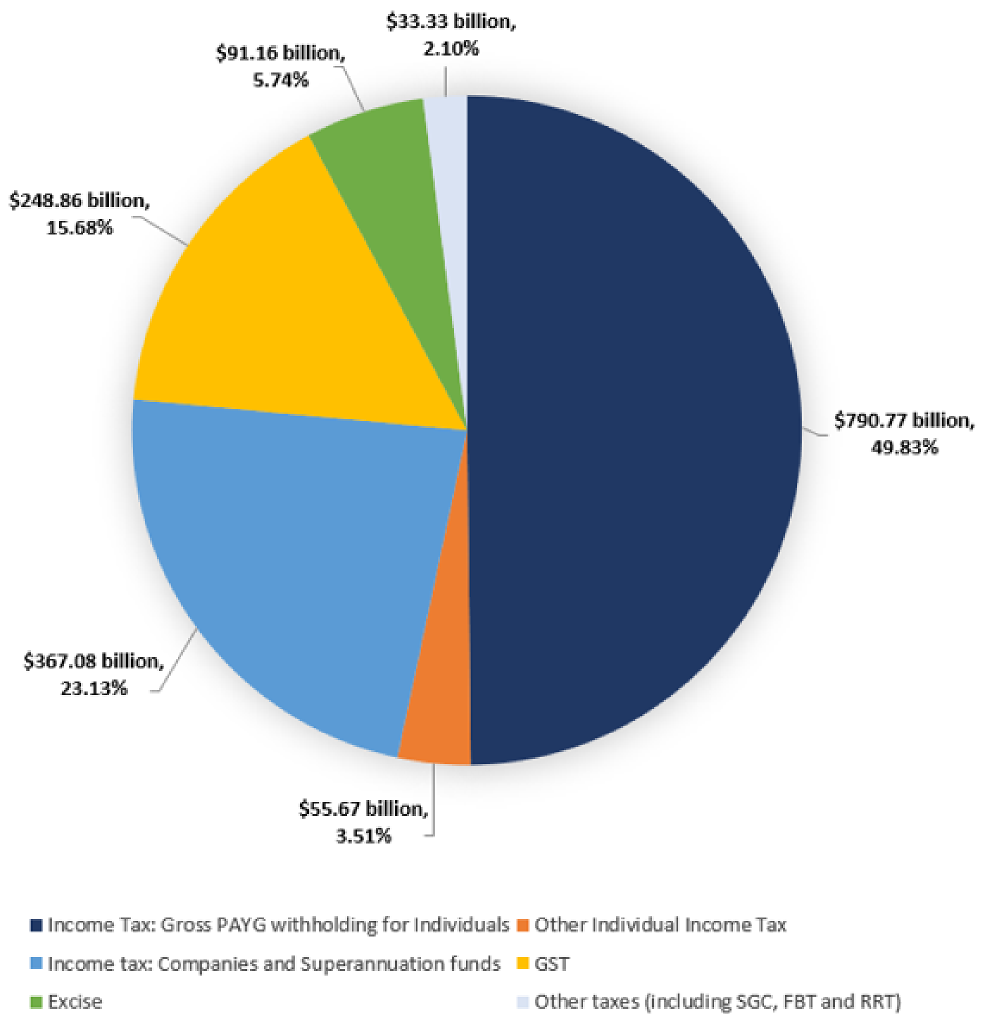
The OECD notes that *the more tax administrations succeed in making taxpayers pay as they earn, the smaller the debt book will be. Tax administrators need to make paying tax part of the normal system of doing business and as close to the event creating the liability as possible, in order to eliminate or reduce the risk of non or late payment.*

Source: *Working Smarter in Tax Debt Management* page 18

Net Tax Collections

- 50% of tax revenues comes from individual income taxes
- Liability, however, mostly rests with other business entities through the Pay As You Go Withholding (PAYGW) system – small businesses, Private or Wealthy Groups (PWGs) and Public and Multinational Businesses (PMBs)

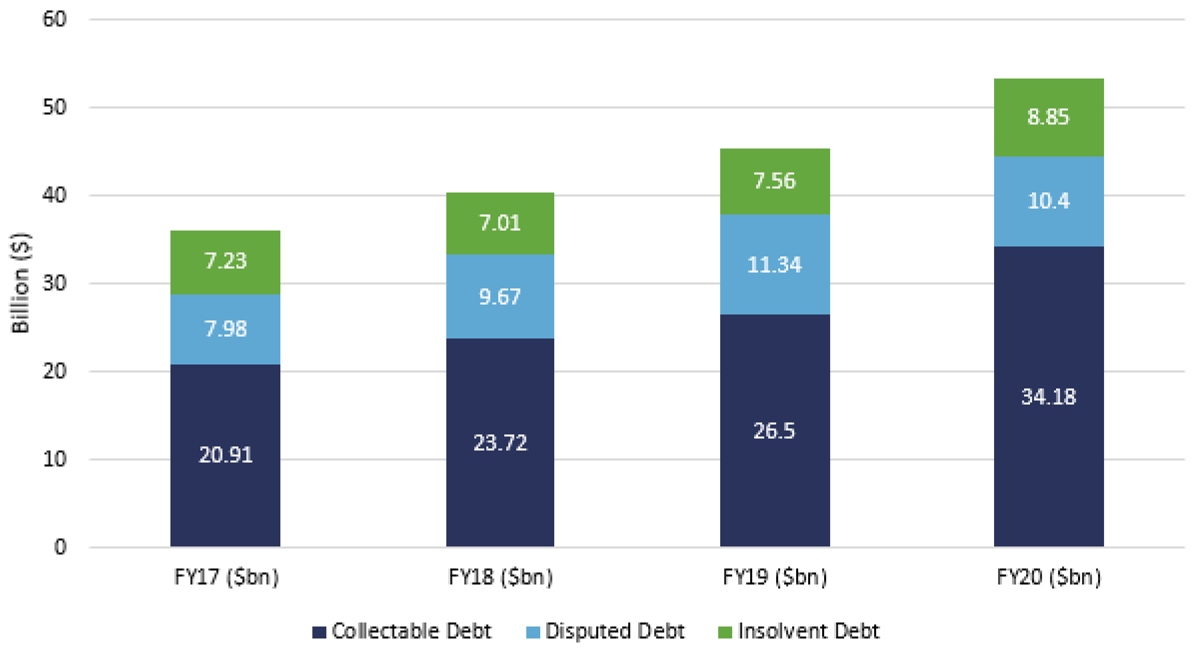
Figure 1: Cumulative net tax cash collections for four years (FY17 – FY20)



Source: IGTO Chart based on figures from ATO Annual Report 2018-19 and 2019-20.

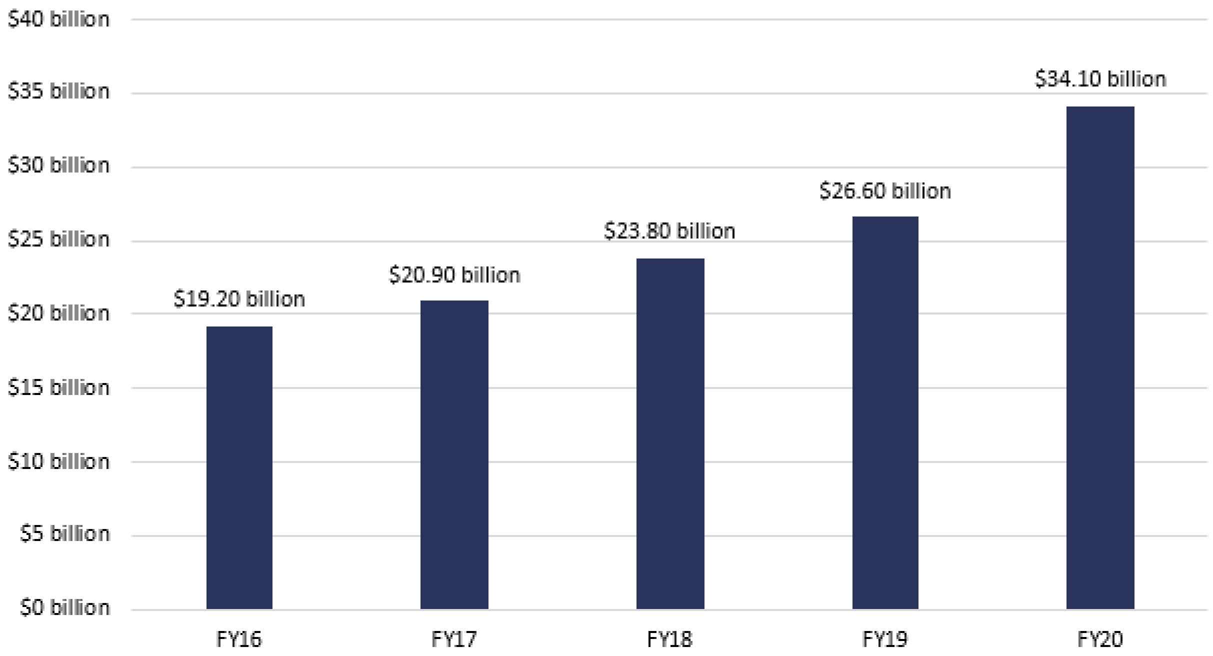
Growth in the Debt Book & Collectable Debt

Figure 2a: Total debt book by type of debt FY17-FY20



Source: Constructed from ATO-provided data

Figure 3: Collectable debt levels reported by the ATO, FY16 – FY20



ource: Constructed from ATO 2017-18, 2018-19 and 2019-20 Annual Report data

Debts which are uneconomical to pursue

- Not included in collectable debt $
- ATO cannot provide total sum of debts deemed uneconomical to pursue at a point in time
- Can only identify figures deemed uneconomical to pursue each financial year (FY)

Table 3: Value of debt deemed uneconomical to pursue and re-raised each year

Financial Year	Gross non-pursued	Re-raised	Cancelled[52]	Net amount non-pursued
FY14	$1.4bn	$-0.2bn	$-27.70m	$1.1bn
FY15	$1.8bn	$-0.3bn	$-37.66m	$1.4bn
FY16	$2.1bn	$-0.3bn	$-61.21m	$1.7bn
FY17	$2.0bn	$-0.5bn	$-18.82m	$1.4bn
FY18	$2.0bn	$-0.8bn	$-15.15m	$1.1bn
FY19	$2.2bn	$-0.8bn	$-14.60m	$1.4bn
FY20	$1.1bn	$-0.4bn	$-3.85m	$0.7bn
TOTAL (FY14-FY20)	$12.6bn	$-3.3bn	$-178.99m	$8.8bn

Payments received after the end of FY

Table 40: Amount of debt that is reported at year end, and then subsequently paid in 30, 60 and 90 days

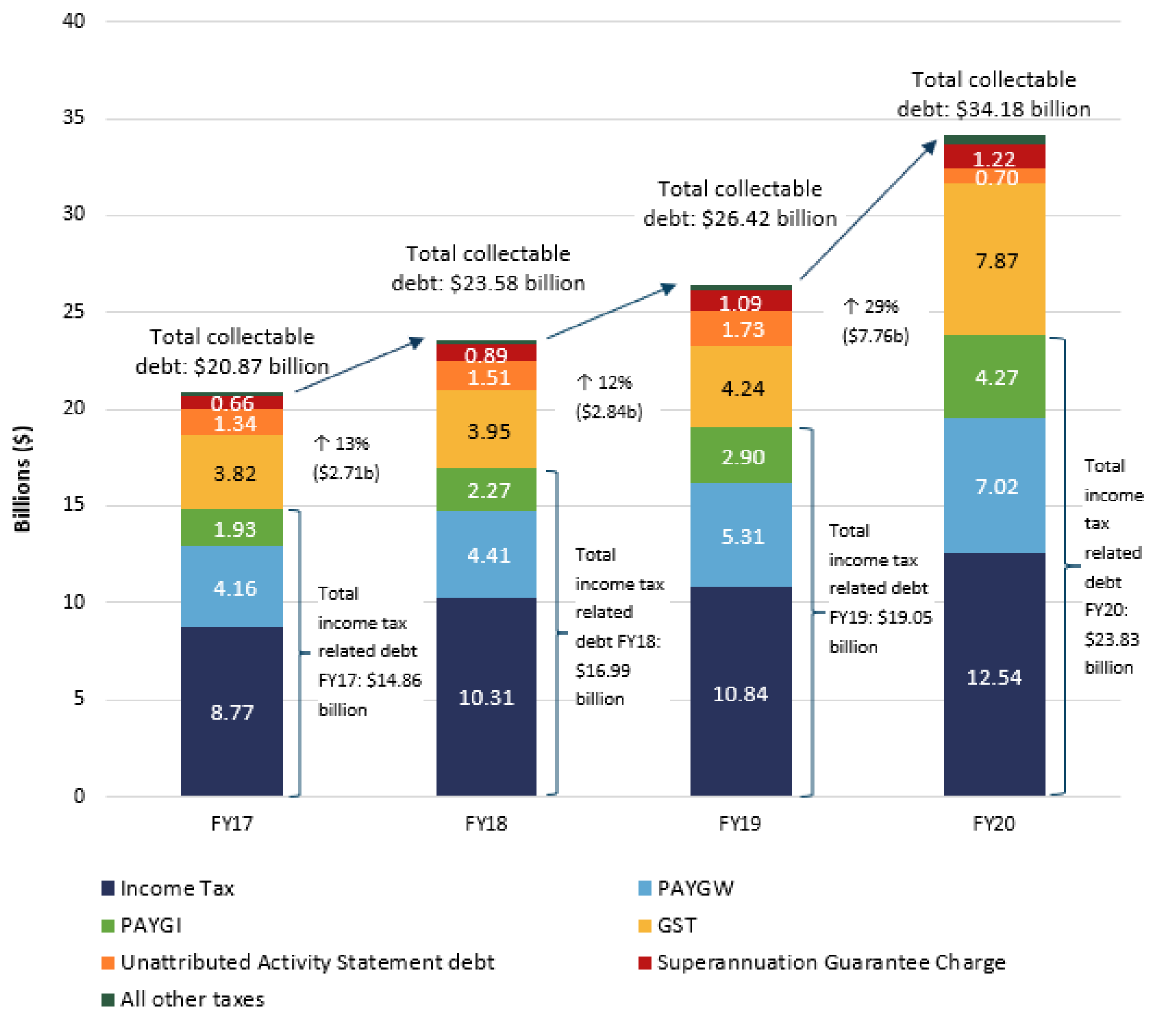
FY	Collectable debt at June 30	Value of payments received after June 30			Amount unpaid within 90 days ($)
		Within 30 days	Within 60 days	Within 90 days	
FY16	$19,136,282,244	$4,244,830,572	$8,238,554,195	$11,633,207,584	$7,503,074,660
FY17	$20,913,322,837	$4,765,619,442	$9,993,249,828	$14,457,568,977	$6,455,753,860
FY18	$22,942,894,993	$5,337,094,079	$10,948,911,478	$15,674,732,861	$7,268,162,132
FY19	$26,498,219,685	$5,889,058,378	$12,086,496,302	$16,910,139,508	$9,588,080,177
FY20	$34,178,816,906	$6,485,613,276	$12,634,570,585	$18,746,177,022	$15,432,639,884

Source: ATO. Please note, the payment figures are cumulative. For example, all figures included in the 'within 90 days' column are the total value of payments received (i.e., it includes the amounts received within 30 days and 60 days).

Heads of Tax

- Income Tax (IT) is the largest component of collectable debt (IT, PAYGW, Pay As You Go Instalments (PAYGI))
- This is consistent with net tax collections – refer Slide 7
- The ATO reports two income tax liability types (PAYGW and PAYGI) in Activity Statement Debt which may give a slightly skewed view

Figure 15: Total collectable debt by main revenue type: FY17-FY20

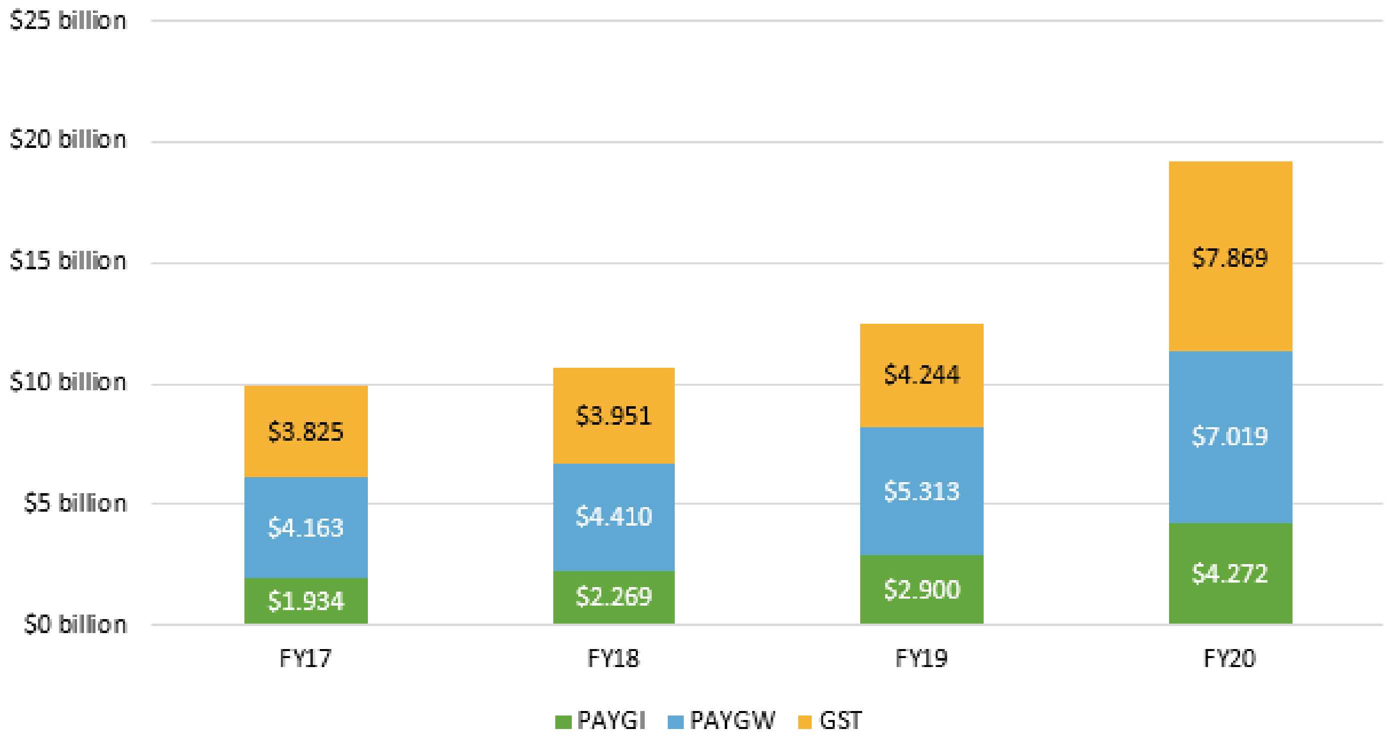


Source: ATO-provided data

Activity Statement Debt

- Goods and Services Tax (GST) and PAYGW are the largest components of Activity Statement debt
- In all but FY20, PAYGW exceeded GST in terms of debt amount outstanding

Figure 17: Activity Statement components – FY17 to FY20



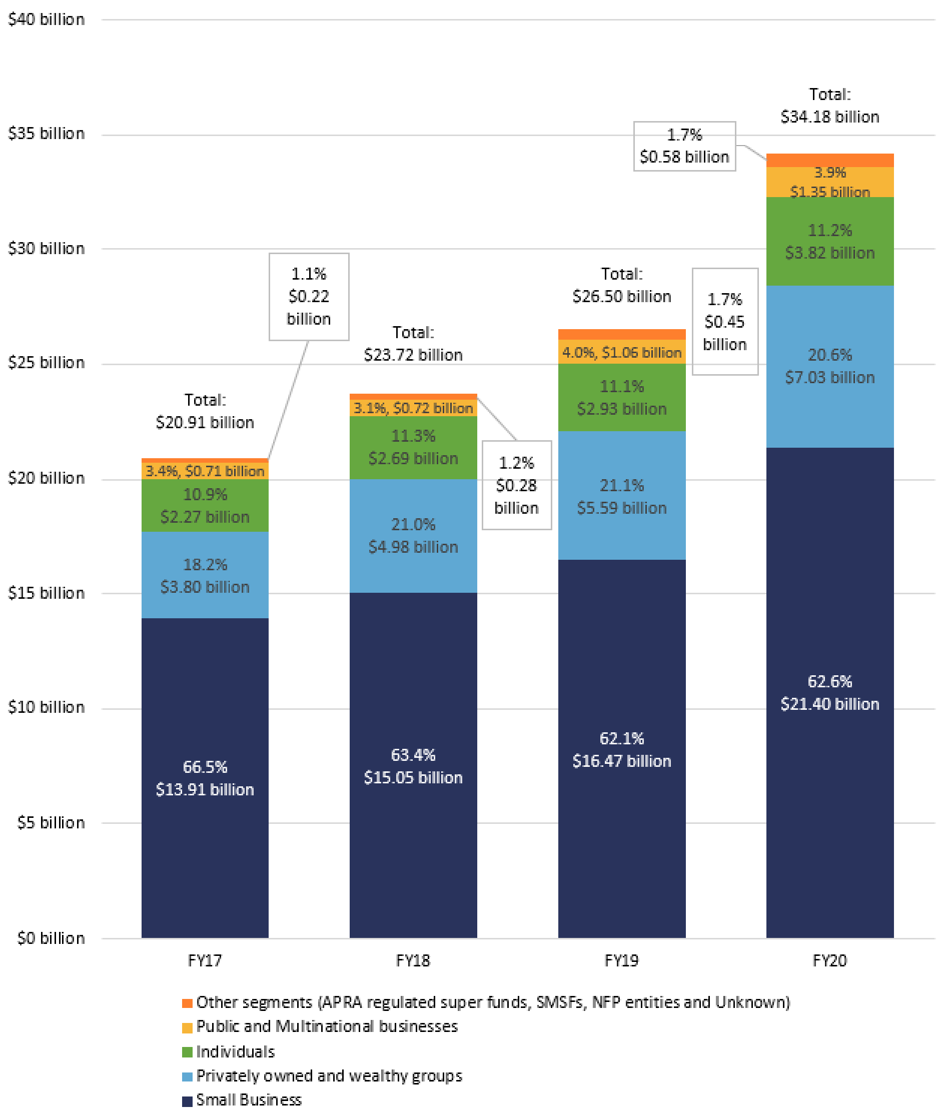
Source: ATO-provided data

Note: This chart only includes the three major components of Activity Statement debt

By Taxpayer Groups

- ATO refer to Taxpayer groups as Client Experience Groups
- The composition of collectable debt by client experience group does not change across all years examined
- Small business consistently accounted for over 60% of collectable debts, followed by PWGs (approx. 20%) and Individuals (11%)

Figure 24: Total collectable debt by client experience groups (FY17 – FY20)



Source: ATO-provided data

Debt Levels (DL)

- Debt Levels = Internal ATO stratification of debt accounts based on the quantum of debt owed in that account
- Prior to FY20, there were six DLs
- In FY20, the ATO further stratified DL6 into three separate DLs – 6.1, 6.2 and 6.3

Table 19a: Debt Level definitions – Prior to FY20

Debt Level (DL)	Quantum
DL1	$0.01 – $2,499.99
DL2	$2,500 – $7,499.99
DL3	$7,500.00 – $24,999.99
DL4	$25,000.00 – $49,999.99
DL5	$50,000.00 – $99,999.99
DL6	$100,000 +

Source: ATO

In FY20, the ATO provided greater granularity in relation to DL6, dividing it into three categories, namely:

Table 19b: Debt Level definitions – FY20

Debt Level (DL)	Quantum
DL1	$0.01 – $2,499.99
DL2	$2,500 – $7,499.99
DL3	$7,500.00 – $24,999.99
DL4	$25,000.00 – $49,999.99
DL5	$50,000.00 – $99,999.99
DL6.1	$100,000 – $499,999.99
DL6.2	$500,000 – $999,999.99
DL6.3	$1,000,000 and above

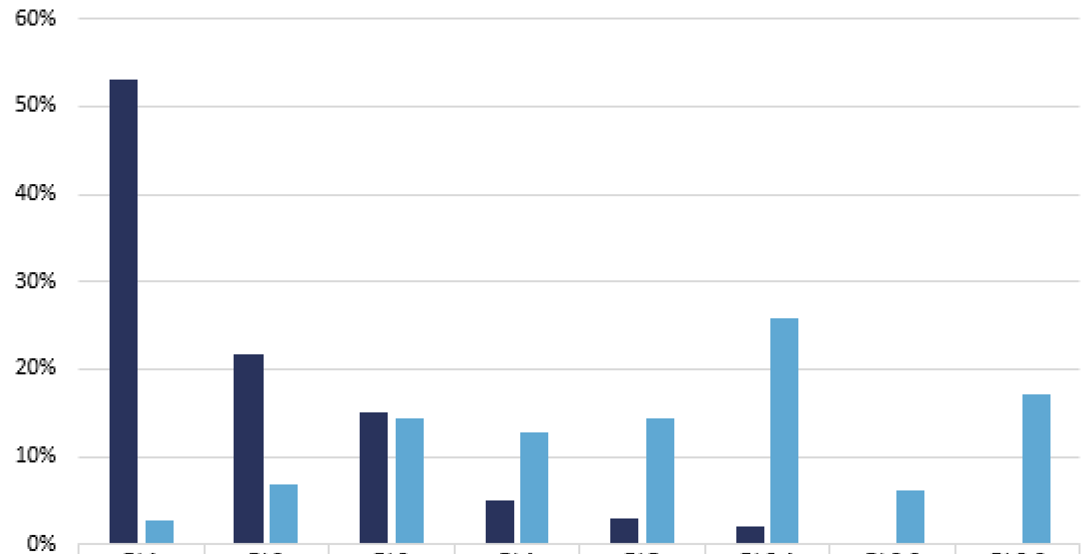
Source: ATO

Debt Levels (DLs) may be expected to influence the allocation of resources within the ATO. Firmer debt recovery action would be expected on higher DL accounts.

Debt Levels – Overall – FY20

- Across all client groups, a small % of accounts are responsible for a majority of the debt outstanding
- This experience is the same regardless of which client group is examined
- At an overall level, 5.09% were responsible for 63.41% of collectable debt (DL5 and DL6)

Figure 32b: Percentage of total accounts and total collectable debt by DL as at 30 June 2020



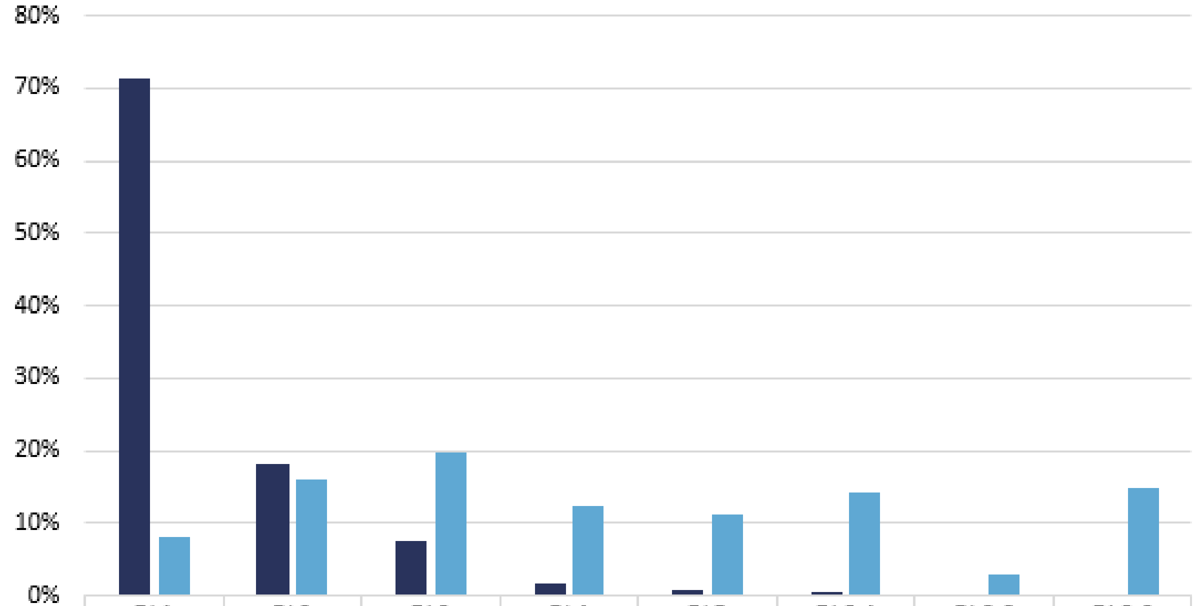
	DL1	DL2	DL3	DL4	DL5	DL6.1	DL6.2	DL6.3
% of Accounts	53.06%	21.76%	14.99%	5.09%	2.94%	1.95%	0.13%	0.08%
% of Debt	2.70%	6.80%	14.43%	12.65%	14.39%	25.74%	6.15%	17.13%

Source: Constructed from ATO-provided data

Debt Levels – FY20 - Individuals

- 1.22% of accounts represent 43.44% of Individual collectable debt – average per account is $172,070
- When only DL6.2 and DL6.3 is considered (>$500K), 0.04% of accounts or 325 accounts owed $649.53 million – an average of $1.99 million per account.
- Further investigation is necessary to understand the numbers being reported for this client group

Figure 33b: Percentage of Individual debt accounts and collectable debt by DL as at 30 June 2020



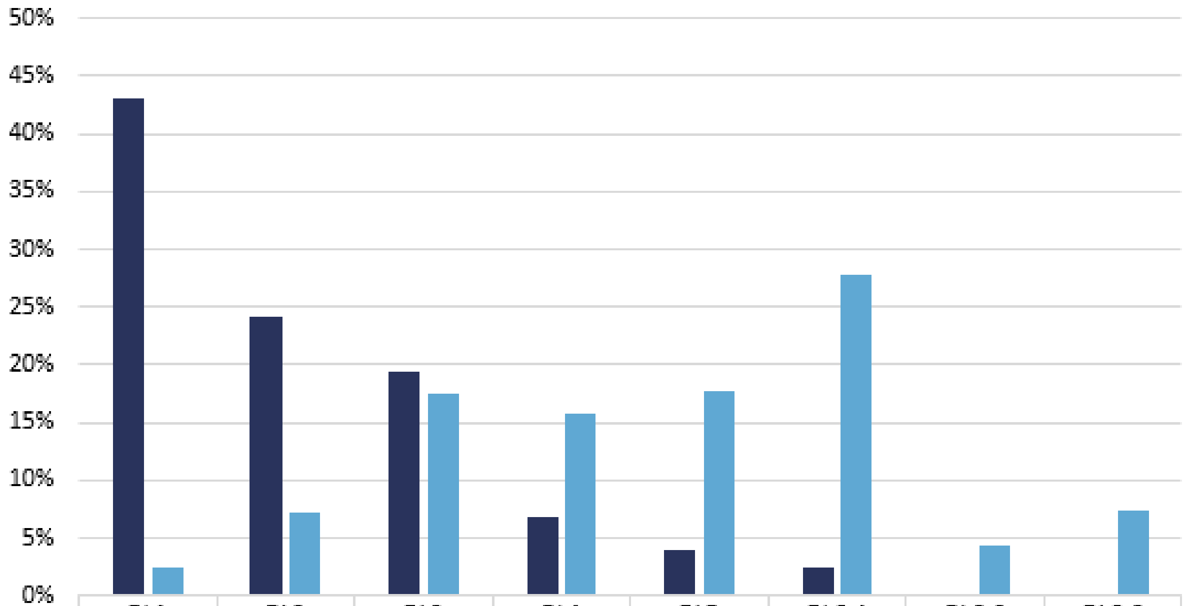
	DL1	DL2	DL3	DL4	DL5	DL6.1	DL6.2	DL6.3
% of Accounts	71.27%	18.33%	7.45%	1.73%	0.79%	0.39%	0.02%	0.02%
% of Debt	8.19%	16.18%	19.76%	12.44%	11.19%	14.22%	3.06%	14.97%

Source: Constructed from ATO-provided data

Debt Levels – FY20 – Small Businesses

- 6.43% of accounts held 57.13% of small business collectable debt (DL5 and DL6)
- An average of $135,695 per account
- At DL6.2 and DL6.3 - 1,987 accounts owed $2.51 billion – an average of $1,263,422.
- This is less than the average for individuals at the same DLs

Table 34b: Percentage of Small Business debt accounts and collectable debt by DL as at 30 June 2020



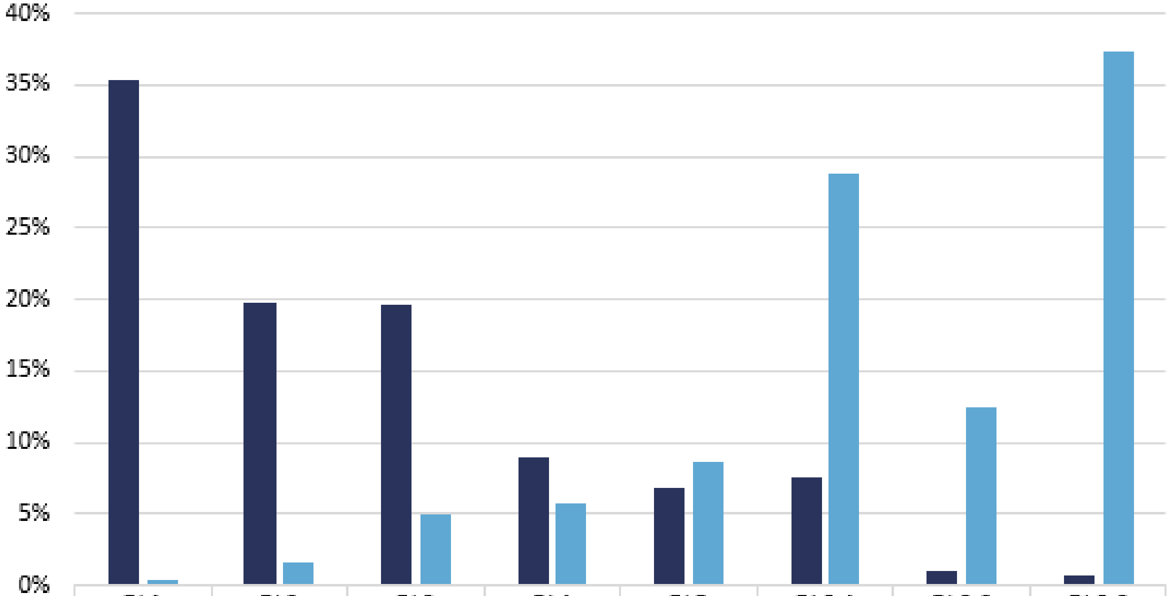
	DL1	DL2	DL3	DL4	DL5	DL6.1	DL6.2	DL6.3
% of Accounts	43.07%	24.21%	19.43%	6.87%	3.92%	2.37%	0.10%	0.04%
% of Debt	2.46%	7.11%	17.49%	15.81%	17.75%	27.75%	4.30%	7.33%

Source: Constructed from ATO-provided data

Debt Levels – FY20 - PWGs

- 16.09% of accounts owed 87.16% of PWG collectable debt (DL5 and DL6), averaging $301,786 per account
- At DL6.2 and DL6.3 – 2,184 accounts owed $3.54 billion, averaging $1,622,811.
- This average is lower than the average for Individuals (not in business, and not classified as High Net Worth Individuals)

Table 35b: Percentage of PWG debt accounts and quantum of collectable debt by DL as at 30 June 2020



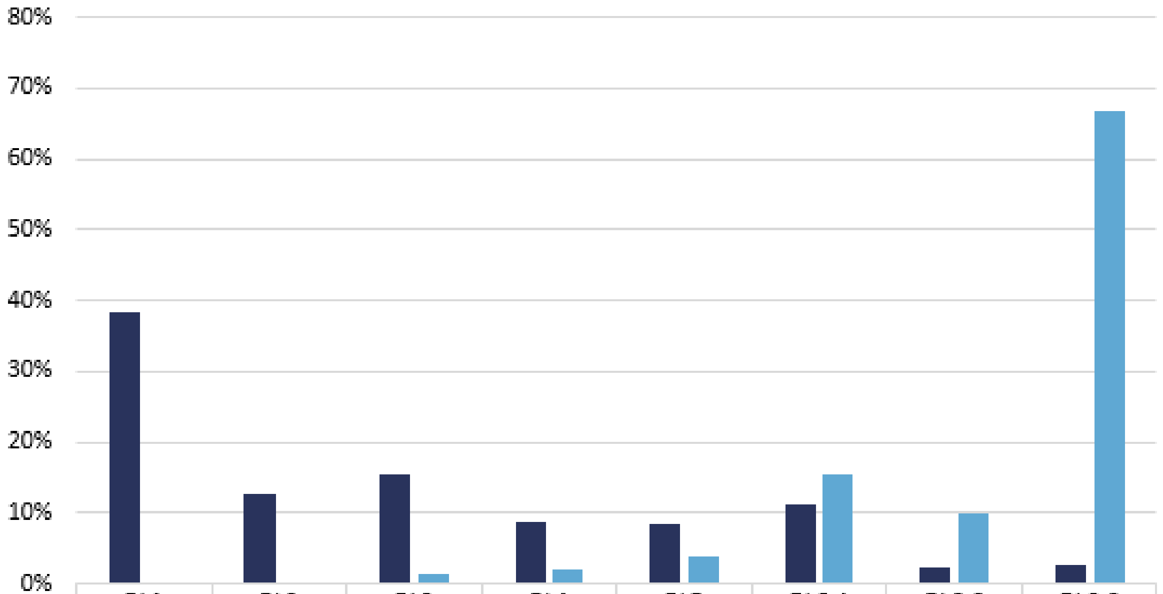
	DL1	DL2	DL3	DL4	DL5	DL6.1	DL6.2	DL6.3
% of Accounts	35.43%	19.82%	19.66%	8.99%	6.80%	7.58%	1.02%	0.69%
% of Debt	0.48%	1.61%	5.00%	5.75%	8.59%	28.74%	12.54%	37.30%

Source: Constructed from ATO-provided data

Debt Levels – FY20 - PMBs

- 24.6% of accounts owed 96.09% of PMB collectable debt
- At DL6 – 1,428 accounts owed $1.31 billion
- At DL6.2 and DL6.3 – 439 accounts owed $1.092 billion, or an average of $2,488,428

Table 36b: Percentage of PMB debt accounts and quantum of collectable debt by DL as at 30 June 2020



	DL1	DL2	DL3	DL4	DL5	DL6.1	DL6.2	DL6.3
% of Accounts	38.43%	12.68%	15.38%	8.91%	8.57%	11.10%	2.35%	2.58%
% of Debt	0.13%	0.37%	1.40%	2.02%	3.79%	15.37%	10.14%	66.79%

Source: Constructed from ATO-provided data

Industry Groups

- The ATO allocates taxpayers to particular industries using Business Industry Codes (BIC) which is a five-digit number where the first four digits are derived from the Australian and New Zealand Standard Industrial Classification (ANZSIC) system managed by the Australian Bureau of Statistics (ABS)
- Individual taxpayers not in business are not allocated to a BIC, but they are required to include an occupation on their income tax returns
- The BIC provides some insight on the occupation of the taxpayer, but not in all cases and not always aligned with the Australian and New Zealand Standard Classification of Occupations (ANZSCO) system used by the ABS

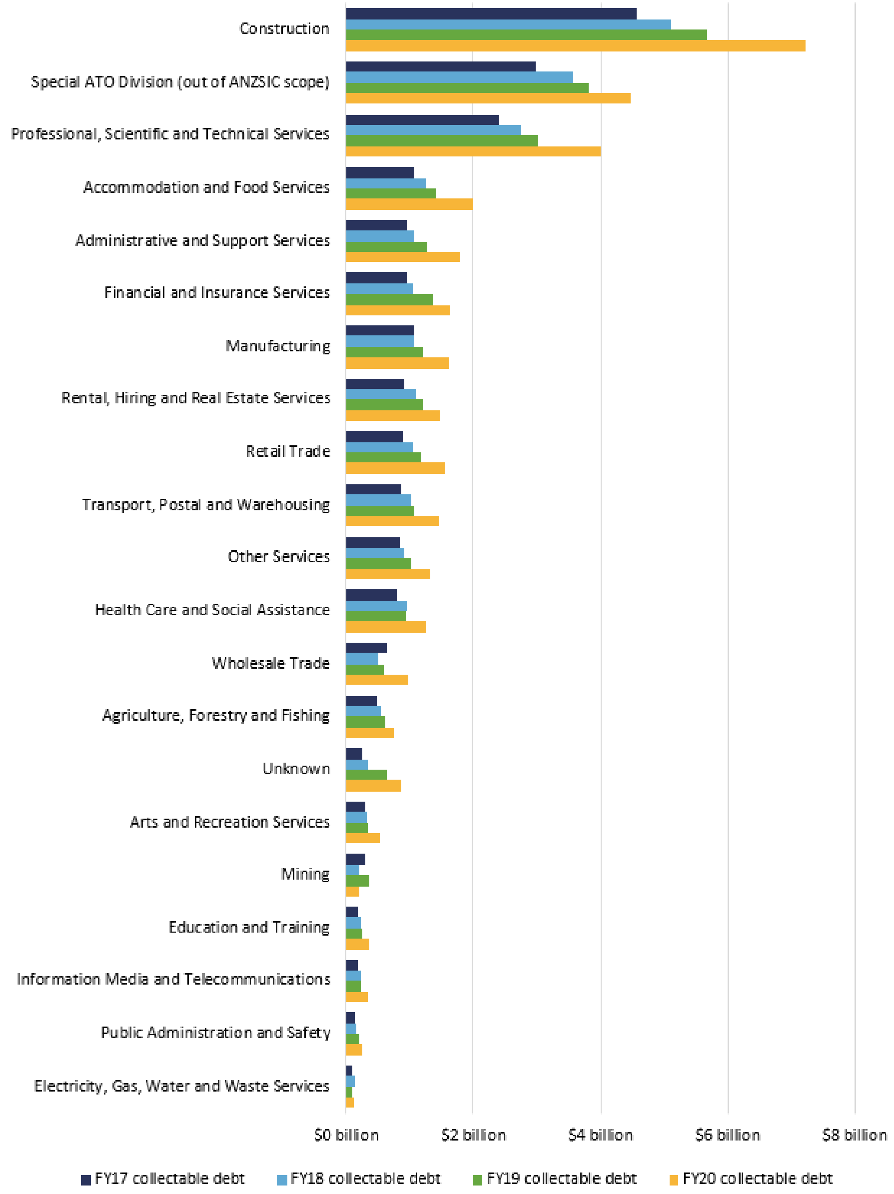
Occupation	ANZSIC	Business Industry Code	ANZSCO
Solicitor	6931 – Legal Services	69310	271311
School Teacher	P Education and Training (8010) – 8220) – but teacher unspecified	Not found	241000 (further granularity available to segment early Childhood, Primary School, Middle School and Secondary School teachers)
Tax Agent	6932 – Accounting Services	69320	Not found

Industry groups

Table 21: Total collectable debt by top 10 industries with highest levels of collectable debt for FY17, FY18, FY19 and FY20

Industry	FY17 ($)	% of total collectable debt in FY17	FY18 ($)	% of total collectable debt in FY18	FY19 ($)	% of total collectable debt in FY19	FY20 ($)	% of total collectable debt in FY20
Construction	$4.556 billion	22%	$5.118 billion	22%	$5.684 billion	21%	$7.219 billion	21%
Special ATO Division (out of ANZSIC scope)	$2.984 billion	14%	$3.567 billion	15%	$3.817 billion	14%	$4.477 billion	13%
Professional, Scientific and Technical Services	$2.411 billion	12%	$2.753 billion	12%	$3.034 billion	11%	$4.008 billion	12%
Accommodation and Food Services	$1.079 billion	5%	$1.250 billion	5%	$1.400 billion	5%	$2.003 billion	6%
Administrative and Support Services	$0.948 billion	5%	$1.063 billion	5%	$1.266 billion	5%	$1.792 billion	5%
Financial and Insurance Services	$0.952 billion	5%	$1.045 billion	4%	$1.360 billion	5%	$1.648 billion	5%
Manufacturing	$1.061 billion	5%	$1.069 billion	5%	$1.209 billion	5%	$1.605 billion	5%
Rental, Hiring and Real Estate Services	$0.910 billion	4%	$1.092 billion	5%	$1.197 billion	5%	$1.480 billion	4%
Retail Trade	$0.880 billion	4%	$1.037 billion	4%	$1.184 billion	4%	$1.554 billion	5%
Transport, Postal and Warehousing	$0.876 billion	4%	$1.018 billion	4%	$1.077 billion	4%	$1.445 billion	4%

Figure 38: Total collectable debt by industry for FY17-FY20



Source: Constructed from ATO-provided data

Industry Groups

- The second highest 'industry' group for collectable debts is Special ATO Division (outside of ANZSIC scope) … What is this?
- The ATO has informed the IGTO that a large proportion of taxpayers allocated to this Division (more than 95%) are individual salary and wage earners who are not allocated to an Industry Division (e.g., taxpayers who, having never applied for an ABN, have not reported an industry code to the ATO)
- The top six industry groups (including Special ATO Division) account for +60% of collectable debt.
- The distribution of collectable debts across industry groups has remained relatively constant between FY17 and FY20.

- A comparative analysis of collectable debt to other measures of economic contribution – namely employment levels and earnings before interest, tax, depreciation and amortisation (EBITDA) – was undertaken to remove the potential for bias (i.e., large industries are more likely to have larger amounts of debt).
- This analysis showed that the Construction and Professional, Scientific and Technical services industry groups had disproportionately higher levels of collectable debt compared with their employment levels and EBITDA.
- A number of industry groups also reported lower levels of collectable when compared to their contributions to employment and EBITDA - Agriculture, Forestry and Fishing, Manufacturing, Electricity, Gas, Water and Waste services, Wholesale trade, and Information, Media and Telecommunications.

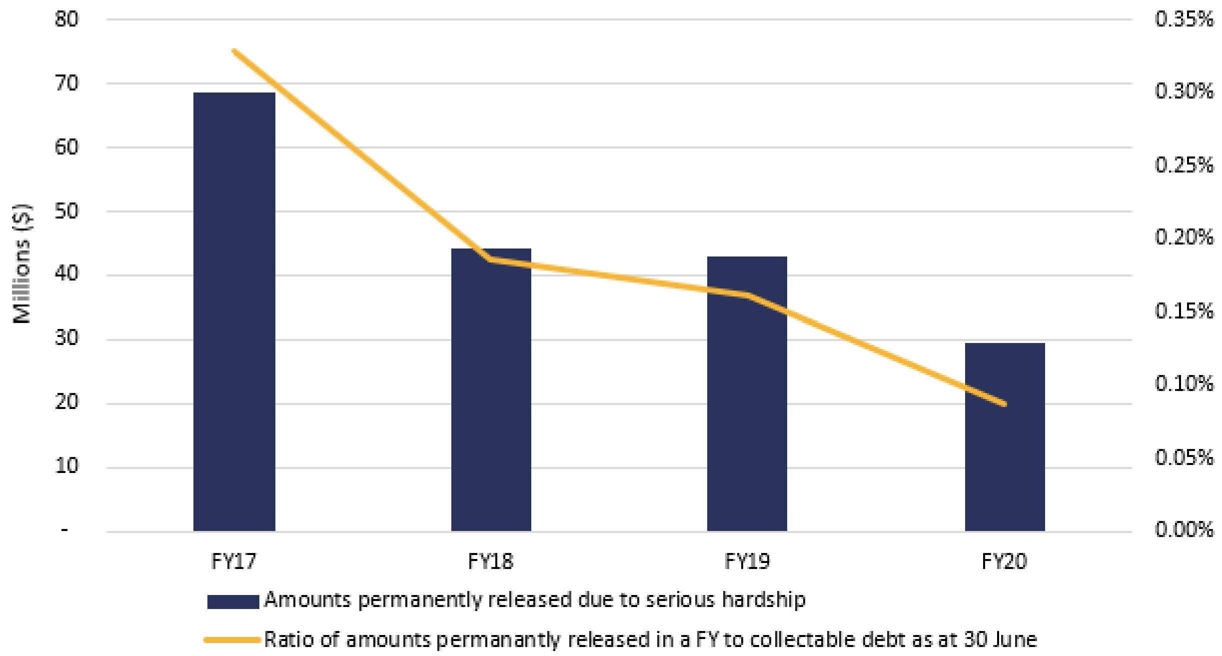
Release on grounds of serious hardship

Table 4: Permanent release of debt due to serious hardship – FY17-FY20

	FY17	FY18	FY19	FY20
Applications received	8,279	5,899	5,771	3,896
Applications successful	3,065	2,174	1,686	1,246
% of applications successful	37%	37%	29%	32%
Amounts permanently released due to serious hardship ($m)	68.50	44.20	42.90	29.63
Ratio of amounts permanently released in a FY to collectable debt as at 30 June	0.33%	0.19%	0.16%	0.09%

Source: ATO-provided data

Figure 5: Permanent release of debt due to serious hardship – FY17-FY20

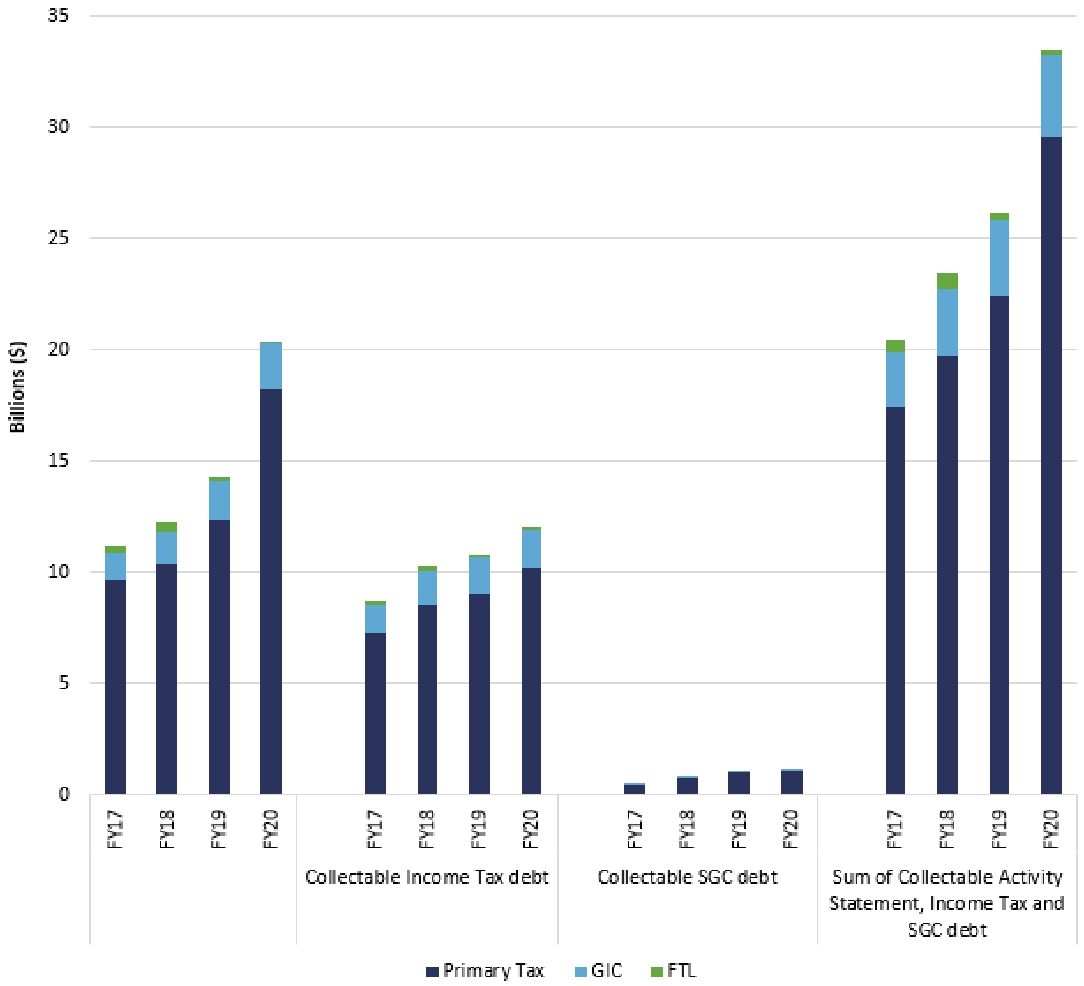


Source: Constructed from ATO-provided data

Interest and Penalties

- Anecdotally and based on complaint cases received by the IGTO, there are instances where General Interest Charge (GIC) is many times the primary tax
- However, statistics for all taxpayers shows that only approximately 11 – 12% of collectable debt is GIC
- The ATO has been unable to provide a similar breakdown by client experience group

Figure 23: Components of Collectable Debt – Primary Tax, GIC and FTL penalties – FY17-FY20



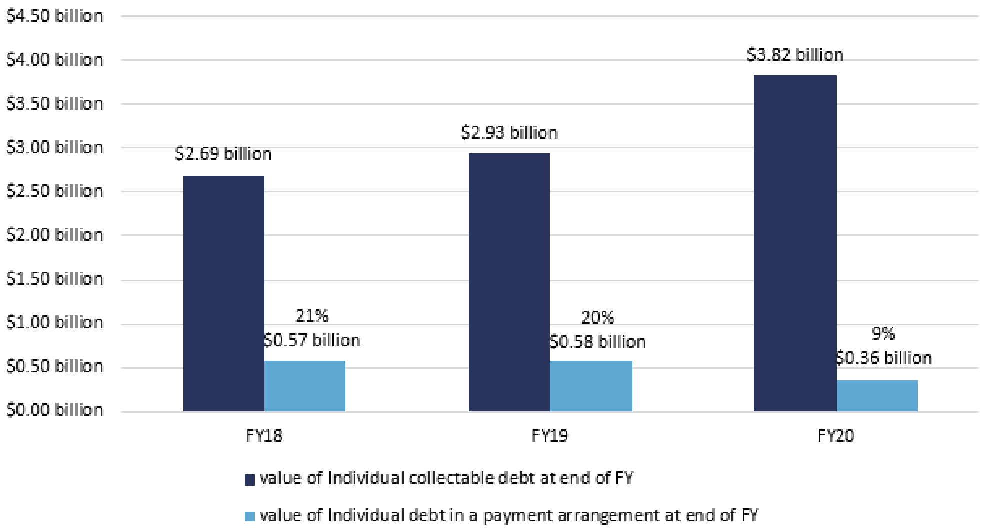
Source: Constructed from ATO-provided data

Note: The three main revenue types (income tax, activity statements and SGC) accounted for approximately 99% of total collectable tax debt in FY17, FY18, FY19 and FY20.[99]

Payment arrangements

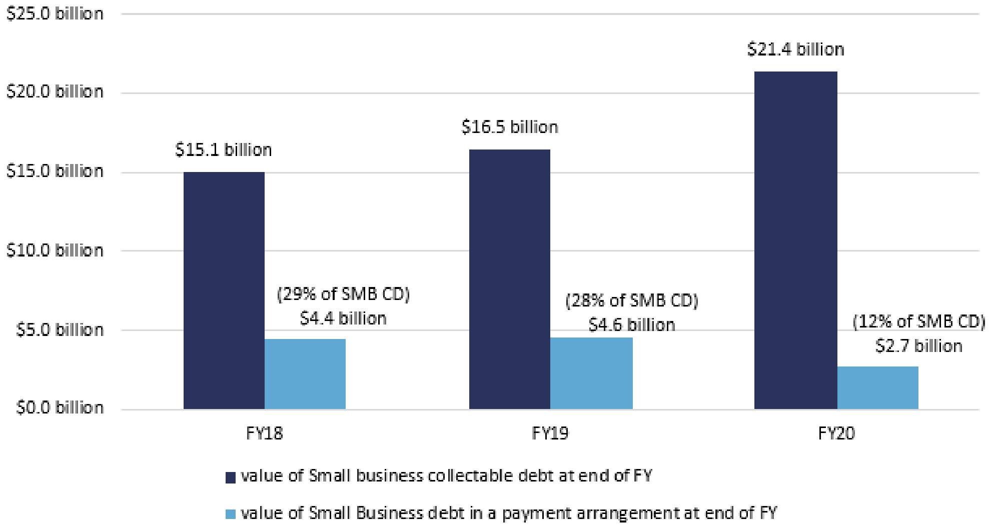
- Payment arrangements are an indication of continued engagement by taxpayers to pay off their debts
- It is a sign of a healthy tax system
- However, across all taxpayer segments, payment arrangements have consistently been in decline
- This is so, despite automated systems to make it easier to enter payment arrangements
- Further investigation is necessary to understand these trends

Figure 27: Collectable Debt and Payment Arrangements – Individuals – as at year end FY18-FY20



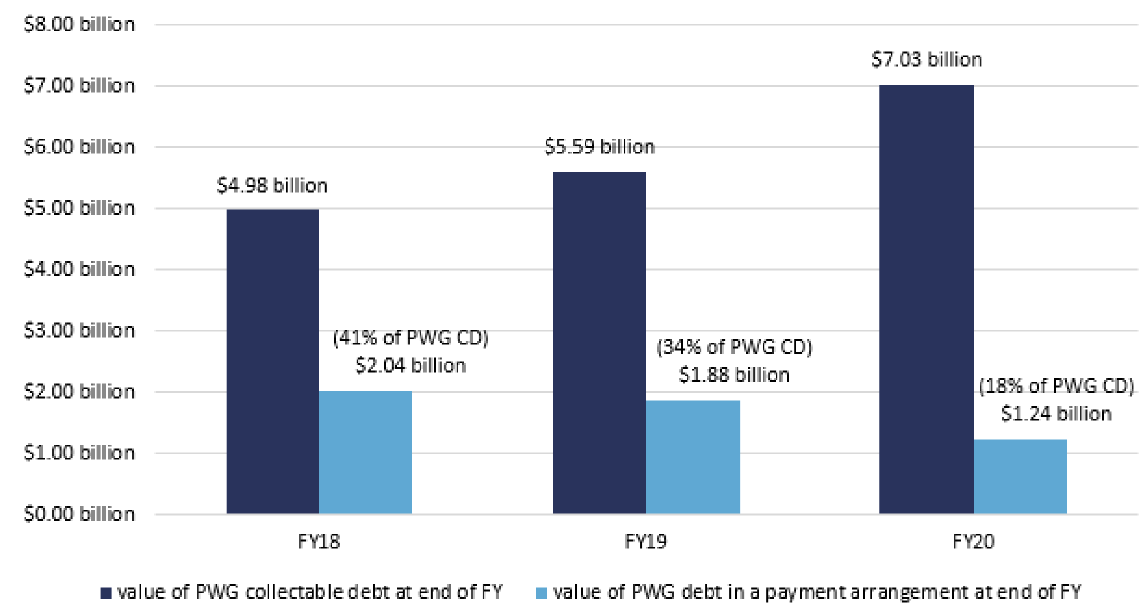
Source: Constructed from ATO-provided data

Figure 28: Collectable Debt and Payment Arrangements – Small Business – as at year end FY18-FY20



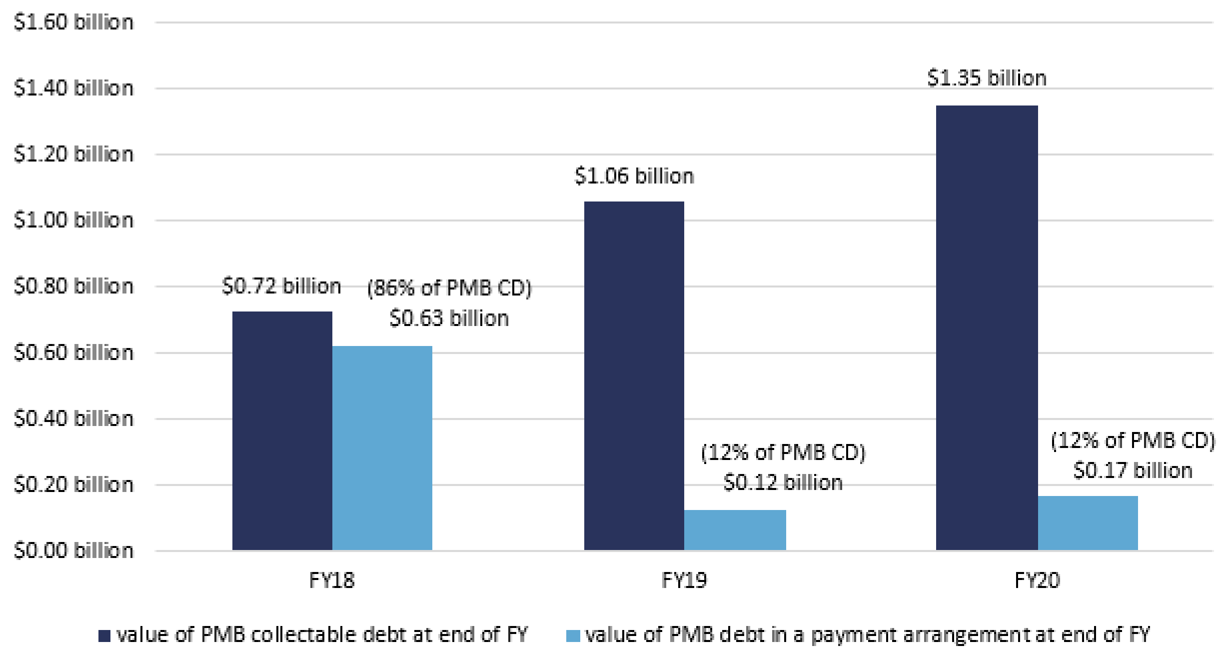
Payment Arrangements (cont)

Figure 29: Collectable Debt and Payment Arrangements – PWG – as at year end FY18-FY20



Source: Constructed from ATO-provided data

Figure 30: Collectable Debt and Payment Arrangements – PMB – as at year end FY18-FY20



Source: Constructed from ATO-provided data

Recommendation 1

The IGTO recommends that 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.

Key stakeholders and relevant participants may include:

- *Parliamentary Committees;*
- *Australian National Audit Office;*
- *The Treasury;*
- *Tax Practitioners and their Professional bodies;*
- *Peak industry bodies;*
- *Australian Small Business and Family Enterprise Ombudsman; and*
- *Academics.*

[ATO Agree]

[The full text of this recommendation is set out in the report]

Recommendations

Recommendation 2

The IGTO recommends that 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.

These metrics could be reported alongside matters identified in Recommendation 1.

- [ATO Agree]

Recommendation 3

The IGTO recommends that the ATO:

1. *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*
   - [ATO Agree]
2. *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 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.*
   - [ATO Disagree]

Recommendations

Recommendation 4

- *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.*
  - [ATO Agree]

Recommendation 5

The IGTO recommends that the ATO:

1. provide greater insight into the ATO Special Division in its reporting through segmentation based on occupation (ANZSCO) codes; and

- [ATO Agree]

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.

- [ATO Disagree]

Areas for future inquiry

1. Debt accounts at the DL6.1 or above for client experience groups in areas where high levels of debt are unexpected – such as individuals not in business and small business. This investigation may also consider if these debts are in fact ‘undisputed’ or simply not recognised as disputed within the ATO systems or are in fact insolvent;
2. Industries that consistently rank highest in relation to collectable debt amounts, the number of debtors within these industries (rather than numbers of debt accounts) and whether these debts arose following compliance activities or if they were self-reported;
3. Accounts of collectable debt aged 5 to 10 years, or older than 10 years, and the ATO’s recovery attempts;
4. SGC debt accounts and the reasons why it appears to possess a low collection efficiency;
5. Factors contributing to low levels and at times declining levels of payment arrangements and hardship release applications;
6. The impacts of new initiatives on collectable debt levels such as the expansion of DPNs to GST and the introduction of Single Touch Payroll;
7. Whether unexpected liabilities arising out of ATO compliance activities are impacting collectable debt; and
8. The efficiency and effectiveness of the PAYGW and PAYGI tax collection.

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