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The Cash Economy under the New Tax System

Commissioner of Taxation

PO Box 900
CIVIC SQUARE ACT 2608

Dear Mr Carmody

The Cash Economy Task Force is pleased to present our third report, *The Cash Economy under the New Tax System*.

Since our last report, presented in April 1998, a new tax system has been implemented. Its impact on the cash economy is a major focus of this report. Overall, the Task Force believes that the new tax system has had a significant impact on the cash economy, particularly in relation to business-to-business dealings. However, tax evasion in the cash economy continues to be a challenge for both the Tax Office and the broader community.

The Task Force has identified opportunities for optimising the impact of the tax reforms on dealings between businesses. Our report contains a number of recommendations to progress these opportunities.

The Task Force believes that business-to-consumer transactions continue to give rise to ongoing compliance risks although there is no evidence that the situation has deteriorated under the new tax system. The Task Force has identified the need to engage consumers so that this risk may be more cost-effectively addressed. While the Task Force recommends a number of ways to do this it has identified two strategies which it believes will have the greatest impact.

The first strategy is to foster greater involvement by the community in the tax system through a higher profile and more accessible community information program. This would include improving the means by which information can be provided by the consumers to the Tax Office where there are concerns about potential tax evasion and improving the feedback the Tax Office provides on the results from assessing and investigating the information provided.

The second is a broad-based campaign appealing to the wider needs of consumers – a campaign of ‘get it in writing’ for contracts, invoices and receipts. This would seek to provide consumers with peace of mind regarding important issues such as warranties and contract disputes, and also has the potential to provide better direct and indirect tax outcomes.

The Task Force would like to acknowledge the input and support provided by the staff of the Tax Office. Their contributions and guidance have been invaluable.

Finally, the Task Force members wish to thank you for the opportunity to continue our contribution to the Tax Office’s strategy development aimed at reducing tax evasion by participants in the cash economy.

The Task Force presents the report for consideration and looks forward to your response.

Yours sincerely

Neil Mann
Chair
Cash Economy Task Force

September 2003

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TERMS OF REFERENCE FOR THIS REPORT

1. The Task Force examine the strategies implemented and those being developed by the Tax Office to address the cash economy, in order to comment on the approaches being taken and to recommend strategies for the future.
2. The Task Force is to take into consideration the impact on the cash economy of changes since the last report, including changes in:
   - the tax system – both its design and its administration, and
   - the broader environment.
3. In particular, the Task Force is to consider and recommend more effective ways of dealing with the business-to-consumer sector.

TASK FORCE MEMBERSHIP FOR THIS REPORT

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The Task Force acknowledges the many others in the Australian Taxation Office who have contributed to this report.

ACRONYMS AND ABBREVIATIONS

ABN	Australian business number
ABS	Australian Bureau of Statistics
ABR	Australian Business Register
ANAO	Australian National Audit Office
ANTS	A new tax system
ANU	Australian National University
AS	Activity statement
ATAX	Australian Taxation Studies (University of NSW)
ATO	Australian Taxation Office
AUSTRAC	Australian Transactions Reports and Analysis Centre
B2B	Business-to-business
B2C	Business-to-consumer
BAS	Business activity statement
BISEP	Business, Industry, Sociological, Economic and Psychological (part of the Compliance Model)
Bizstart	Business start-up seminar program
CIR	Commissioner's instalment rate
CPA	Certified practising accountant
CTSI	Centre for Tax System Integrity
DIMIA	Department of Immigration, Multicultural and Indigenous Affairs
DIR	Department of Industrial Relations
EFTPOS	Electronic Funds Transfer at Point of Sale
E-Grant	Electronic grant (Automatic Point of Sale system for lodging diesel and alternative fuels grant scheme claims)
E-Record	Electronic record keeping
FTR Act	Financial Transactions Report Act 1988
GDP	Gross domestic product
GST	Goods and services tax
IAS	Instalment activity statement
IAWG	Inter Agency Working Group
IFTI	International Funds Transfer Instruction reports
ITAA	*Income Tax Assessment Act 1936 or 1997*
ITR	Income tax return
MOU	Memorandum of understanding
NEIS	New Enterprise Incentive Scheme
NESB	Non-English speaking background
NFA	No further action
NZIRD	New Zealand Inland Revenue Department
OECD	Organisation for Economic Co-operation and Development
PAIVS	Payment, ABN and Identification System
PAYE	Pay as you earn
PAYG	Pay as you go
PAYGI	Pay as you go instalments
PAYGW	Pay as you go withholding
PASTO	Promoters, Associates, Schemes, Taxpayers and Others profile
PPS	Prescribed Payments System
PRS	Problem Resolution Service
RK	Record keeping
RPS	Reportable Payments System
SAM	Simplified accounting method
SCTR	Significant Cash Transaction Report
TAA	*Taxation Administration Act 1953*
TAFE	Technical and Further Education
TERC	Tax Evasion Referral Centre
TFN	Tax file number
UK	United Kingdom
USA	United States of America

Executive summary

Overview

This is the third report of the Cash Economy Task Force. Since the last report in 1998, the Tax Office has modified its approaches to compliance in the cash economy in line with the recommendations in the earlier reports. These have focused on strategic partnerships with industry, and communication and education. The tax system has also undergone enormous change, centred on the introduction of the new tax system in July 2000.

The Task Force has examined the continuing development and implementation of the Tax Office's cash economy strategies, their effect on the cash economy and the extent of risk the cash economy poses.

The Task Force has also made recommendations on new strategies and directions designed to combat the cash economy.

These recommendations include:

- focusing Tax Office compliance activities on transactions between consumers and businesses
- encouraging the community to play a greater role in ensuring the integrity of their tax system
- implementing new strategies to encourage self-regulation within industries
- working with other agencies to help educate new businesses about their taxation obligations
- making taxation payments easier
- expanding the use of the Australian Business Register
- trialling new data matching initiatives, such as matching Tax Office information with local council information on building approvals and with registration lists to ensure people are registered with the Tax Office, and
- relaxing reporting requirements for businesses with good tax records whilst making reporting obligations more onerous for those with bad tax records.

Two of the key recommendations in previous reports were to develop strategic partnerships with industry, professional and community groups and to ensure that an understanding of taxpayer behaviour underpinned key elements of Tax Office policy and communication.

The Task Force has been pleased to observe how extensively the Tax Office has embraced these key recommendations and believes the Tax Office should continue to look for ways to further progress its achievements in these areas.

The Task Force considers that it is now time to focus the attention of these various industry and community partnerships on encouraging self-regulation. The Tax Office should consult with industry partners on new administrative measures and should consider jointly branding and tailoring products. It should also explore opportunities to better communicate the relevant tax norms for specific industries.

In its earlier report, the Task Force advocated the use of a compliance model to understand taxpayer behaviour in relation to compliance and to guide Tax Office strategic thinking and compliance planning. The model helps the Tax Office to understand the factors that influence compliance behaviour and helps them choose the most appropriate action. While the Tax Office has made considerable progress in embedding the compliance model at the centre of its strategy development, this report identifies more opportunities to use the model in refining policies and practices, especially in designing different and escalating responses according to taxpayer behaviour.

Setting the scene

The cash economy is economic activity which is not accounted for as required by law. Those who operate in the cash economy may simply hide income, or pay staff cash wages and not remit tax on their behalf. However, the cash economy is not limited to either of these practices, nor is it limited to amounts paid in cash alone.

The Tax Office's focus on the cash economy is not simply on omitted income. It includes those operating outside of the tax system, as evidenced by their failure to lodge or register.

The new tax system contains many features designed to increase the integrity of the tax system and to assist the Tax Office in effectively identifying and addressing non-compliance, including evasion in the cash economy. The Tax Office's Compliance Program has been made available to the public at large – evidence of it being more open and accountable. The Tax Office's expanded range of cash economy projects and related activities indicate that it is increasing its focus on identifying and addressing risks in the cash economy.

The Task Force and the ANAO have indicated their support for the directions being taken by the Tax Office in addressing cash economy issues.

The current environment

The 'new tax system' saw the introduction of:

- the Australian business number (ABN) – a unique identifier to business
- a broad-based goods and services tax (GST)
- withholding at 48.5% from business-to-business payments where no ABN is quoted.
- the activity statement reporting regime, and
- a broad field presence by tax officers.

The Task Force sees strong signs that these measures are impacting significantly on the cash economy. The design features of the reformed tax system are working together to produce a more robust tax system that is harder to evade.

Indicators include:

- Since the start of the new tax system over $135 million has been withheld from businesses that did not quote a valid ABN when supplying goods or services. This information is used to identify businesses which are not lodging but are in receipt of income.
- More ABN registrations were received than initially expected, with tens of thousands of businesses previously outside the system drawn in. Those with unmet obligations from previous years are now being pursued, with about $50 million in prior year taxes having been raised to date.
- Revenue outcomes are consistent with the achievement of the compliance dividend target of $2.6 billion over the three years to 30 June 2003, resulting from the impacts of the new tax system's design features on the cash economy.
- A survey of small business and public practice Certified Practising Accountants (CPAs) found 81% of CPAs considered their clients' bookkeeping procedures under the new tax system had improved and 68% saw improvement in invoicing procedures.

The Tax Office can make better use of the new measures to make further inroads into cash economy non-compliance. The Task Force recommends:

- a continued focus on expansion in government and community use of the Australian Business Register (ABR)
- ongoing extension of data matching based on the ABN
- further development of statistical analysis of Activity Statement data, and
- a strengthening of the Tax Office's focus on the integrity measures such as withholding when an ABN is not quoted.

The Tax Office also needs to monitor developments in the labour market and to assist people who move out of employment and into contracting, to adjust to the requirements of pay as you go instalments (PAYGI) and other business tax obligations.

Encouraging compliance

A key issue for many small business operators is their ability to understand and meet their taxation obligations. Businesses in high risk cash economy industries typically display a common range of basic problems:

- poor record keeping
- poor cash flow management practices
- inaccurate invoicing procedures, and
- poor ABN usage practices.

These problems generally arise due to a lack of understanding, rather than a deliberate intention not to comply.

The Task Force believes that the Tax Office encourages compliance through its communication and relationship management strategies. Working with intermediaries, particularly tax practitioners and industry bodies, is the key to constructing and delivering effective compliance strategies and messages.

The Tax Office has an extensive range of products and services available to assist business operators. Businesses can choose the product or service that best suits their need. Unfortunately many business operators are unaware of the services that are available.

The Task Force has made a range of recommendations for the Tax Office to continue to work with industry and business groups in developing products and processes that encourage compliance, provide incentives to encourage self-regulation, and to research cost effective incentives, including ways to make taxation payments easier.

Further recommendations focus on Tax Office support for industry and business groups to deliver taxation education and assistance. The Task Force has also highlighted the need for the Tax Office to review all products and services for small business to ensure they cover the identified four cash economy problem areas listed above, and to enhance its marketing of initiatives, products and services to small business.

The Task Force is firmly of the view that by encouraging people in business to comply with their tax obligations, long term improvements in compliance will be achieved. The tax system must be a transparent example of fairness and equity that supports those willing to comply.

Enforcing compliance

For those not willing to comply, the Tax Office has developed a range of escalating enforcement strategies. Escalating levels of enforcement are implemented through leverage, review and audit activity.

The Task Force recommends a combination of measures to address non-compliance. These include a range of escalating compliance treatments, more onerous reporting requirements for those who are not willing to comply and a wide dissemination of information regarding Tax Office prosecution of more serious offenders.

The Task Force supports the Tax Office's approach in integrating a range of different taxes and obligations into its activities, especially in regard to individuals and businesses outside of the lodgment and registration system. It has recommended that the Tax Office be more active in its efforts to re-integrate non-compliers, more actively consider whether there is a case for applying withholding and reporting systems, and increase the visibility of enforcement activities.

Business-to-consumer dealings

A particular focus of this report is on transactions between businesses and consumers. The Task Force recognises this as a difficult area to identify and address evasion, and notes Australia is not alone in this. It believes that while there is no evidence of any increase in the level of non-compliance associated with these transactions, there may be an inherently higher risk that income from them may not be reported than there is for business-to-business transactions. Also, business-to-consumer transactions are not addressed to the same degree by the new integrity measures, especially those regarding ABN and tax invoices.

The Task Force believes that a stronger focus on consumers in their relationships with businesses is needed. To achieve this, consideration of a 'get it in writing' campaign designed to educate and influence consumers has been recommended. This will inform consumers of their rights and obligations on a range of issues such as insurance, warranties, government regulations and consumer rights with subsequent tax compliance benefits. Consumers and businesses will be supported by more focussed information in the form of Tax Office brochures and other products.

The Task Force recommends that research and analysis be undertaken to identify the extent of the risk in business-to-consumer dealing within recognised pockets of the community. This includes a specific focus on moonlighting activities. Moonlighting is defined as activity associated with employees who receive payments (in money or kind) for work outside their regular employment.

It also recommends the Tax Office reviews with consumers details about transactions they have undertaken with businesses. This is to check the accuracy of information provided by those businesses.

The community is encouraged to play a greater role in identifying businesses that are not doing the right thing and in providing that information to the Tax Office. The Task Force believes that by doing so, and by providing better feedback on the value of the information received, the Tax Office will achieve a greater sense of ownership of the tax system by the community. This is the basis for a key recommendation to identify and address the risks arising from business-to-consumer transactions.

The Task Force has also identified a range of potential consumer strategies that it believes would entice greater community participation.

Other recommendations include:

- greater and more systematic provision of data by third parties – for example, local councils reporting building approvals, and
- the Tax Office negotiating for businesses to incorporate some basic record or ABN requirements as a pre-requisite to their services – for example for a building extension to be covered for insurance, the insurance company could require the work to have been undertaken by an ABN-registered business and invoices held or provided by the householder.

The way ahead

The Task Force believes that the Tax Office should continue its research program to improve its understanding of community perceptions and compliance motivators. To complement this, some compliance activities should be undertaken so that pockets of risk can be evaluated quickly.

In its ongoing effort to improve compliance in the cash economy, the Tax Office will need to maintain activity on many fronts.

Its cash economy strategy will need to observe, monitor and ask questions. It will need to promote public debate on cash economy issues and use multiple channels to deliver and receive messages.

The Tax Office should continue to pursue opportunities to share data and to work collaboratively with other agencies. The Tax Office will also need to deliver targeted strategies appropriate to the compliance history of the taxpayer. Cash economy cases should be carefully selected and appropriate active compliance processes should occur in a structured manner.

This report recommends a mix of assistance and enforcement strategies for the short and long term.

In its future discussions, the Task Force plans to monitor developments within the cash economy environment and suggest appropriate modifications to its recommendations.

Recommendations

Chapter 2: The cash economy in the current environment

2.1 The Tax Office better articulate to businesses and consumers the uses and benefits of the ABR. This may include the development of a 'tip sheet' and working with business and consumer groups to publish the uses and benefits.

2.2 The Tax Office explore the opportunities for using third party data to improve the accuracy of the ABR and Tax Office data holdings with a view to the timely development and implementation of processes to utilise this third party data.

2.3 The Tax Office maintain an ongoing program of education and integrity checks to ensure that businesses which make payments to other businesses for supplies are aware of, and are complying with, their obligation to withhold from suppliers who do not quote an ABN. For example, the Tax Office's high coverage registration integrity checks (walk-ins) should be expanded to include this approach.

2.4 The Tax Office maintain an ongoing integrity program to follow-up on businesses which do not quote an ABN when making supplies to other businesses, to ensure that the supplying businesses are complying with their lodgment and reporting obligations.

2.5 The Tax Office monitor participation in the labour market, understand the associated compliance risks, identify people moving out of PAYGW and implement strategies to manage their transition into PAYGI and prevent them from slipping into the cash economy. These strategies should also be employed to identify people who have already moved out of PAYGW and ensure that they are complying with their tax obligations.

2.6 The Tax Office undertake an education campaign to clarify when an entity should apply for an ABN or GST registration, when tax invoices may be issued and when the quotation of an ABN is appropriate. As part of this, a tip sheet or similar be developed and accompany the 'Notification of Registration' to new registrants.

2.7 The Tax Office conduct research to better understand the compliance risks arising from deferred entry into the PAYGI regime, including the common causes and characteristics for deferred entry, and triggers for entry. Based on this research, the Tax Office work with industry, business groups and tax professionals to develop a range of options to assist business to manage their potential tax debt on entry to PAYGI.

2.8 The Tax Office promote to the commercial and business sector the use of the ABN as an identifier for business on a voluntary basis and work with industry and government agencies to incorporate the ABN, preferably as a pre-requisite to registration or membership. In this regard, the various State and Territory registration requirements (for example, to practise a trade or profession and to obtain a commercial motor vehicle registration) are seen as key focus areas.

Chapter 3: Encouraging compliance

3.1 The Tax Office develop with industry and pertinent experts a new business 'starter pack' covering the requirements of business and ways to manage common problem areas.

3.2 The Tax Office provide ongoing support for industry and business groups to deliver education and assistance to small businesses.

3.3 The Tax Office work with industry, business and practitioner groups to provide information or links on these groups' websites, while also exploring opportunities for greater utilisation of the channels afforded by these groups to provide their members with key cash economy messages.

3.4 The Tax Office work with industry and business groups to develop products and processes which encourage tax compliance, with the industry having a key role in specifying and administering expectations and consequences for their industry.

This should commence with the development of:

- industry best practices (possibly including a scorecard approach)
- industry codes of conduct, and
- approaches to industry self-regulation (including options for the promotion of self-regulating industries).

These practices and approaches should be prototyped in one or two key industries such as the scrap metal, taxi industry, or the clothing industry.

3.5 The Tax Office expand the information it publishes on industry ratios to include industry ratios derived from activity statement data.

3.6 The Tax Office review its current information products to ensure they cover the identified four cash economy problem areas – poor record keeping, poor cash flow management, inappropriate invoice practices and inappropriate ABN practices – and address any gaps. Where needed, specific information products be developed to cover these four areas.

3.7 The Tax Office develop a marketing strategy and undertake an appropriate campaign to inform small businesses of the opportunities available to address cash flow management issues for tax purposes, with specific emphasis on voluntary payments and voluntary agreements. This should include pilots in both the taxi industry (voluntary payments), as well as within the building industry on major construction sites (voluntary agreements).

3.8 The Tax Office continue to work with industry groups to identify and implement ways to make payments easier, with the taxi industry to be used as a prototype for other industries.

3.9 The Tax Office call for expressions of interest from relevant groups to develop a best practice tax curriculum for small business and work with providers of business education to deliver the curriculum and accredit business operators upon successful completion of the curriculum. Further the Tax Office record such accreditation against a business's ABN and use this in its risk assessment processes.

3.10 The Tax Office, working with industry and business groups, continue its research into cost effective incentives to encourage compliance in the cash economy. This should include prototyping incentives and rewards for businesses operating in cash industries to evaluate whether they are viable in improving their record keeping, cash flow management, invoicing and ABN usage.

Chapter 4: Enforcing compliance

4.1 The Tax Office publicise its cash economy enforcement approaches, products and activities, clearly explaining what action it will take in response to detected incidents of non-compliance in areas such as record keeping, reporting and registration.

4.2 The Tax Office work with representatives of high risk industry groups to develop and implement a graduated program of increased reporting requirements as an escalation and de-escalation response to compliance outcomes.

4.3 In every tax evasion case where a jail sentence or other significant penalty is imposed by the courts, the Tax Office pursue wide dissemination of this outcome (for example, through the issue of a media release), explicitly linking the offences prosecuted and the cash economy.

4.4 The Tax Office examine data-matching opportunities with other government agencies and commercial entities to improve the identification of businesses trading but not lodging. These approaches should include working with the States and Territories to consider making the provision of a business's ABN as a pre-requisite for State or Territory licensing and registration. Data matching to identify non-lodgers should be made more systematic and regular, and the Tax Office should publicise its planned activities and results.

4.5 The Tax Office reviews its penalty policy so that the Commissioner exercises his available discretions to apply or remit penalties which differentiate more clearly between different aspects of Compliance Model behaviour. The review should consider the extent to which the Commissioner is able to have regard to the compliance history of the taxpayer or the relevant decision-maker in the business – for example, directors.

4.6 The Tax Office implement a case management system to monitor and assist in reintegrating non-compliers guilty of serious offences from 1 July 2003. This approach should be evaluated with a view to extending it to other areas of non-compliance in the cash economy.

4.7 The Tax Office evaluate in all cash economy projects the case for the application of reporting systems or extended withholding as part of a formal evaluation of risks and risk responses in those projects. Any proposal should include an analysis of the costs and benefits for business and receive wide stakeholder consultations at an early stage.

4.8 To complement the marketing of voluntary agreements, the Tax Office develop a policy for the use of voluntary agreements as an option for businesses that may otherwise be subject to mandatory PAYG withholding or PAIVS.

4.9 The Tax Office publicise enforcement approaches, activities and results more widely.

Chapter 5: Business-to-consumer transactions

5.1 The Tax Office conduct further research and analysis, including risk assessments of specific sub industries with significant business-to-consumer dealings, to identify the level of risk in the business-to-consumer sector. This can be used in part as a benchmark for measuring the effectiveness of risk mitigation strategies.

5.2 The Tax Office undertake research and other scoping work on moonlighting activity in Australia, to assess the level of risk from these activities.

5.3 The Tax Office continue its research into consumer attitudes to tax compliance and what might influence consumers to report or document cash transactions, and hence motivate the declaration of income by supplying businesses.

5.4 The Tax Office design a range of tax compliance messages suitable for inclusion in tax related correspondence. These messages be included in Tax Office correspondence to consumers (for example, tax assessment notices).

5.5 The Tax Office seek agreement from major employers and organisations with many consumer clients, to include tax compliance messages in their mail outs to their employees and clients.

5.6 The Tax Office undertake, as a high priority, research into the costs and benefits of a broad scale advertising campaign to influence community attitudes to tax compliance. This research should include working with industry and other stakeholders to develop joint approaches to achieve mutually desired outcomes.

5.7 The Tax Office consider a consumer 'get it in writing' campaign, and as part of this undertake and evaluate a pilot for householder building projects, in conjunction with industry associations and other appropriate parties.

5.8 The Tax Office work with industry and other stakeholders to develop and distribute jointly branded brochures setting out the tax responsibilities of small business in their particular industry especially in dealing with consumers. Again, prototyping and evaluation of this approach should be undertaken in one or two industries before considering wider application.

5.9 The Tax Office optimise the involvement of consumers and other members of the community in providing information about tax evasion in the cash economy, through –

- improving the means by which this can be done as well as better publicising these means, and
- providing feedback to consumers in the community regarding the value of the information provided by them.

5.10 The Tax Office:

- identify a broader range of third party information sources and negotiate with their owners to provide appropriate information on a regular and timely basis
- develop and implement more systematic and regular approaches to third party data matching
- better promote the use of the ABN to third party data holders to enhance matching capability, and
- ensure alignment of Tax Evasion Referral Centre (TERC) initiatives (including advertising) and cash economy industry projects, so members of the community are encouraged to provide information for matching on industry participants as the industry projects are underway.

5.11 The Tax Office actively promote with third parties, including industry associations and commercial organisations, the inclusion of tax requirements in their codes of practice and/or as pre-requisites to their services.

Chapter 1 –
Setting the scene

Background

Since its formation in 1996, the Cash Economy Task Force has been assisting the Tax Office to develop practical strategies for improving tax compliance in the cash economy. This is the third report of the Task Force – the last report was issued in 1998.

Since the 1998 report, the Tax Office has implemented a new tax system. This has had extensive impacts upon the way business interacts with the tax system, including businesses operating in the cash economy. The Task Force has examined the interaction of the cash economy and the new tax system and reviewed the efforts made by the Tax Office to improve cash economy compliance.

This report contains commentary, observations and recommendations on how the Tax Office can continue its endeavours to combat the cash economy.

Many other developments have influenced the tax system and the cash economy during the period since the last report. These include the Review of Business Taxation and resulting business tax reforms, the growth of electronic commerce and global trade and changes in employment patterns. Although there are cash economy implications arising from these environmental factors, the Task Force decided to maintain a tight focus on the issues it views as being of direct relevance to the cash economy, while commenting on other issues in a peripheral manner. Future Task Force discussions will pick up on pertinent issues significantly impacting upon tax compliance in the cash economy.

What is the cash economy?

'Cash economy' refers to economic activity that is not brought to account through normal channels as required by the taxation and other regulatory systems.[1] 'Shadow', 'underground' or 'black economy' are alternative terms sometimes used in other jurisdictions. The major focus of this report is the impact on Australia's tax system of evasion in the cash economy. However, activity in the cash economy interferes with compliance with regulatory systems in general and other agencies' views have been incorporated into this report.

For the tax system, the major risk arising from the cash economy is business revenue not being reported. This can occur when entities:

- are completely outside the taxation system – they are not registered and do not report activity
- have engaged with the system sufficiently to become registered, but do not report revenue as required – they do not lodge activity statements or tax returns, or
- fulfil basic registration and lodgment requirements, but do not report all their revenue.

Revenue that is not reported frequently includes payments received in cash, but this is not always the case. The Task Force considers the cash economy to include non-reporting of revenue received by any means, including cheque, credit card, electronic transfer and barter.

Cash economy does not include engaging in schemes to avoid tax through legal loopholes or aggressive tax planning where taxpayers push the boundaries of legal interpretation. Nor, for this report, does it include the avoidance of tax through illegal activities, as these are considered to be more closely related to criminal rather than revenue solutions.

Typical scenarios of cash economy behaviours are described in the following case studies.

1 Schneider F, Braithwaite V & Reinhart M, *Individual Behaviour in Australia's Shadow Economy: Facts, Empirical Findings and Some Mysteries* CTSI Working paper no 19 (Canberra 2001).

Case study:

Business-to-consumer

A GST registered tradesperson performs work for a householder. The tradesperson excludes the 10% GST from the price, provided the householder pays in cash. The tradesperson does not pay GST on this turnover and also does not report the income or pay income tax.

While the householder believes they have saved 10%, the total tax revenue lost is much higher (10% GST plus the income tax evaded).

Case Study:

Cash sales

A GST registered business reports sales made by EFTPOS or credit card, but does not report cash sales. The consumer is unaware that the GST will not be passed on. No GST is paid on these sales by the business, and the revenue is not reported for income tax. The business operator may claim the GST input tax credits and an income tax deduction for the supplies that went into the cash sales.

The loss to the revenue is the GST plus income tax on the sale.

Case Study:

Moonlighting

A person employed Monday to Friday is asked to work overtime 'cash in the hand' on weekends. No tax is withheld under PAYGW and the worker does not report the income. Alternatively, the person may do work for persons other than his week day employer, receive payment in cash or kind and not disclose this income.

By not reporting the income, the worker may also receive higher Centrelink benefits. The employer continues to claim an expense for the payment even though tax is not deducted at the source.

Case Study:

Businesses operating outside the tax system

An unregistered business transacts only with consumers and does not supply tax invoices. The business provides mainly services and has minimal inputs.

The business does not report its revenue, nor does it pay income tax or GST. Centrelink may pay benefits to the business operator, not knowing they have business income.

As well as not contributing to the community, this practice is unfair to those businesses that are doing the right thing.

Attitudes

Community attitudes to the cash economy are a continuing focus of the Centre for Tax System Integrity (CTSI).[2] Its research reveals an unreconciled gap between people's personal beliefs of the right thing to do and what they think others believe. For example, while 72% believe that they are personally honest, paradoxically, about the same number also believe that others are not.

The Task Force believes that reconciling the discrepancies between what people believe of themselves and what they attribute to the rest of the community will remain an ongoing challenge to tax administration in Australia, as dissatisfaction and disengagement result when people perceive an unfair situation: 'While I do the right thing, everybody else is cheating.' However, while the cash economy entails potentially serious non-compliance, it is limited to a small proportion of the economy, and is not the main way of operating a business.

CTSI has conducted research into the factors that are driving cash economy activity at the level of the individual taxpayer, and the kinds of activity most commonly encountered by ordinary citizens.[3] This research indicates the most visible cash economy activity involves home maintenance, home-based services, teaching, and entertainment. It also shows that while almost 20% of a survey population either paid for cash economy work or performed it themselves, the amounts involved in such activities are

2 Braithwaite V, Reinhart M, Mearns M & Graham R, *Preliminary findings from the Community hopes, fears And actions survey*, CTSI Working Paper No 3 (Canberra April 2001). A more complete discussion of the role of CTSI appears later in this chapter.

3 Braithwaite V, *Taxing Democracy*, Ashgate, Aldershot; Schneider et al, above at note 1 (CTSI Working Paper No 19); Braithwaite et al, at note 2, CTSI Working Paper No 3.

relatively small.[4] Interestingly, while people move into and out of cash economy activity, relatively few are consistent players from one year to the next.

Those who purchase cash economy labour have a very different profile from those who supply cash economy labour[5]. Purchasers are more likely to be higher income earners, better educated, married and have higher status occupations. They see vertical inequity in the tax system (that is, they believe the wealthy are not paying their fair share of tax), they are concerned about a lack of procedural justice in the system and they don't believe that personal penalisation for tax evasion is very likely or is cause for concern.

In contrast, those who supply labour are younger, are more likely to have their own businesses, and are more likely to distance themselves from the tax system.

The research of the CTSI highlights the importance of social norms in relation to the cash economy. Understanding community norms can assist with the development of change programs and in tracking the effectiveness of these programs. Community norms about the cash economy are worthy of further analysis through community consultation.

Economic measures

By its very nature, non-compliance or evasion in the cash economy is difficult to measure. Estimates of the size of evasion in the cash economy vary considerably and are shaped by the underlying assumptions used to construct them. Studies estimate non-reporting in the cash economy to range from about 3% to 15% of GDP[6]. The modelling techniques which result in estimates at the higher end of the range have been criticised by the OECD, referring to implausible results that are obtained in some specific cases.[7] The Task Force considers that higher estimates are highly improbable given the small business sector's contribution to GDP overall.

Throughout this report there is commentary on measures which may indicate changes in the cash economy – for example, the increase in businesses registered under the new tax system. The Tax Office has put considerable effort into developing a set of indicators which will allow it to measure trends in the cash economy. The Task Force believes that it is more important to monitor the movement of, and dynamics in, the cash economy, as this enables some causal analysis and faster responses to increasing risk. Economic measures can assist in tracking these trends.

4 Schneider et al, CTSI Working Paper No 19.

5 Ibid.

6 Carter, M (1987) "The Size of the Underground Economy: Problems and Evidence" Australian Tax research Foundation, Sydney

7 Organisation for Economic Co-operation and Development (OECD) Measuring the Non-Observed Economy – a Handbook, 2002

Taking effective action against the cash economy and reducing opportunities to participate in it are more important than measuring its exact size. Systemic and administrative measures include the need for a business to register for an ABN and to quote its ABN in business dealings or be subject to withholding. This improves the compliance of present cash economy operators and helps prevent new businesses from joining the cash economy.

Progress since the 1998 Task Force report

In the five years since the publication of the Task Force's second report, there have been many factors which have significantly changed the Tax Office's administration of the tax system and the means available to businesses to operate in the cash economy:

- the tax reforms (the 'new tax system') have altered the ground rules in many respects, making it harder for businesses to operate completely outside the tax system
- accelerating growth in the services industry and in global trade, facilitated by e-commerce, has opened up many new opportunities for those who are motivated to avoid reporting revenues, and
- public perceptions and attitudes have also evolved in response to the ongoing public discussion of these issues, to which the Tax Office has been a constant contributor at many levels.

Each of these factors is described in more detail below.

The new tax system

In 1998 the Government released its draft white paper on the new tax system, known as ANTS (A New Tax System),[8] explaining its plans for extensive reforms to the tax system in Australia, particularly as it affects business. The new tax system commenced on 1 July 2000.

There were two major effects of the new tax system upon the Tax Office's ability to tackle the cash economy and systemically minimise the opportunities for tax evasion. First, the legislation contained many features designed to strengthen the Tax Office's ability to detect non-compliance and to make inroads into the cash economy. Secondly, the size of the administrative task of implementing a new tax system and educating Australians on their obligations required a greater focus on assistance and hence a temporary diversion of some Tax Office resources from direct enforcement activity.

Chapter 2 of this report covers the effects of integrity features of the new tax system on compliance in the cash economy.

8 Commonwealth of Australia *Tax Reform - Not a new tax, a new tax system*, (AusInfo: Canberra 1998).

The Task Force notes that the consultative approach adopted by the Tax Office during the implementation of the new tax system was entirely consistent with the compliance model and demonstrates the Tax Office putting the recommendations of the previous Task Force report into practice.[9]

The Task Force believes that the investment in education, communication and consultation which accompanied the introduction of the new tax system was the appropriate response under the compliance model and has been, and will continue over time, to be repaid in a more informed business community, together with stronger, more broadly based relationships with business representative bodies. Research conducted on behalf of the Tax Office supports this view.[10]

Realising the intent of the new tax system

The Task Force explored how the implementation of the new tax system has affected the cash economy, considering:

- whether the new tax system features have been implemented
- whether integrity measures are operating as designed in the cash economy, and
- whether the Tax Office has been able to capitalise fully on the additional tools and methodologies available under the new tax system to combat the cash economy.

Other environmental factors

Since the last report there have been many changes in the market in which the cash economy operates. New tax system integrity features, including registration and regular reporting, have partially addressed non-compliance in the growing services sector.

However, the Task Force has identified the provision of services to consumers as an area of higher risk of non-reporting of income by business. Chapter 5 of this report discusses options to improve tax compliance in business-to-consumer transactions. Trends in arrangements for engaging labour, involving increased contracting out of work, have the potential to increase opportunities for evasion or non-compliance through the cash economy. This issue is discussed in Chapter 2.

Public discussion on the cash economy since the last report

CTSI

The CTSI is a research partnership between the Tax Office and the Australian National University (ANU) and is located within the Research School of Social Sciences in Canberra. CTSI has been established to achieve long and short-term results that will enhance understanding of, and strategic focus on, tax compliance. In the fields of regulatory compliance, trust and governance, the ANU is recognised as a leader in Australia and internationally.

CTSI Working Paper No. 19[11] deals specifically with behaviour in the cash economy. Many other working papers are also relevant. The discussions of the Task Force are informed by the participation of Dr Braithwaite, who is the Director of the Centre.

ANAO

In March 2002, the Australian National Audit Office (ANAO) tabled its performance audit report titled *ATO Progress in Addressing the Cash Economy*[12].
The ANAO said:

'The ATO strategy to address the cash economy is consistent with those of comparable countries. It offers a wide-ranging approach in dealing with the cash economy. Current operational plans are consistent with strategic directions recommended by the task force.'

The Task Force notes that the ANAO found in its report that the Tax Office had either fully or partially implemented 29 of the 34 recommendations in the 1998 report. The ANAO report acknowledges the difficulties inherent in tackling the cash economy and agrees that a broad-based approach is necessary.

Task Force activity

The Task Force has continued to be active, meeting periodically to consider cash economy issues. There was a pause in Task Force activity to give the Tax Office space to implement the new tax system. The Task Force was reactivated in 2001 and in the last six months has increasingly focused on the preparation of this report.

Inter-agency cash economy working group

This group (the IAWG) is a collaboration between Centrelink, the Tax Office and the Department of Immigration and Multicultural and Indigenous Affairs

9 Recommendation 3.4, Australian Taxation Office *Improving tax compliance in the cash economy*, April 98. (AusInfo: Canberra 1998) – that is, the 2nd Task Force report.

10 AC Nielsen, Survey of Business Experience with BAS, October 2002 and February 2003.

11 Schneider F, Braithwaite V & Reinhart M, *Individual Behaviour in Australia's Shadow Economy: Facts, Empirical Findings and Some Mysteries* CTSI Working Paper No 19 (Canberra 2001).

12 ANAO, *Progress in Addressing the Cash Economy* AGPS Canberra: 2002.

(DIMIA). It was set up as a direct response to the Task Force's recommendation in its first report in 1997. The IAWG coordinates action against cash economy activities of common interest (see Chapter 4).

Tax Office compliance program

The ATO *Compliance program 2002-03*, published by the Commissioner of Taxation in December 2002, explains the rationale behind the Tax Office's compliance activities as well as identifying high risk groups likely to be targeted directly. The publication of the program demonstrates the Tax Office's willingness to engage the community in discussion of how its tax system is being administered and to be accountable to the community for decisions on how to use scarce resources.

The program describes the challenges for the Tax Office as:

'to continue reform implementation and deliver the revenue and compliance improvements promised by the new revenue systems, while making the experience easier, cheaper and more personalised'[13].

The compliance model and the Taxpayers' charter guide the Tax Office's approach. Specifically for the cash economy, the focus is on the detection and treatment of non-compliance, with the Task Force helping to shape strategic thinking and ensure that the Tax Office has a well coordinated approach that balances education and making things easier, with more persuasive pressure and enforcement where necessary.

Tax Office cash economy activities and progress

There have been some major advancements in the Tax Office's cash economy program. While implementing the new tax system, the Tax Office focussed on infrastructure development together with help and education activities. In 2002 the Tax Office rekindled industry-based cash economy field projects, covering seven industries up to 30 June 2002[14]. This focus was broadened in the 2002–03 year to encompass additional industries[15] under the next tranche of project work.

The Tax Office was also active against the more egregious cash economy cases, which included phoenix[16], bodgie[17] and barrister non-lodgment/non-payment casework. Further details of these projects and other activities undertaken by the Tax Office to combat the cash economy, including those which were developed in response to the previous recommendations of the Task Force, are contained in Appendix 1 to this report.

The Task Force notes the considerable progress made by the Tax Office in implementing the recommendations. Both the Task Force and the Tax Office continue to adapt the previous recommendations in the evolving cash economy environment under the new tax system.

The compliance model

The Task Force has re-examined the applicability of the compliance model to the new tax system environment and has found that the model, dealing as it does with human behaviours and motivations, is as applicable now as it was in the 1990s. In fact, as the Tax Office continues to think in terms of the model and use its principles to guide strategy development, the robustness and versatility of the model becomes more evident.

The Task Force is gratified to observe how well the Tax Office has embraced the use of the compliance model to guide its activities. The model helps the Tax Office to understand the factors that influence compliance behaviour and to choose the most appropriate action. This report is based on the premise that the compliance model continues to be endorsed as the premier tool to shape strategic thinking and guide daily compliance activities. The Task Force believes that there is potential for further adaptation and refinement in the application of the compliance model to the cash economy and in joint activities between the Tax Office and other agencies. Chapters 3 and 4 contain additional recommendations in relation to the application of the compliance model.

Encouraging compliance

The majority of taxpayers are willing to comply or accept that they must (which places them at the bottom of the compliance model). The Tax Office needs a broad range of strategies to help people operating in industries at high risk of cash economy practices to understand what they need to do and make it easier for those willing to do the right thing.

13 ATO Compliance Program 2002-03, Australian Taxation Office (Canberra: 2003). The Compliance Program for 2003–04 has been issued during the progress of this report.

14 Building & Construction, Road Freight Transport, Taxi Service, Cafes, Restaurants & Takeaways, Hairdressing & Beauty Salons, Cleaning Services and Smash Repairs.

15 Clothing & Textiles, Security, Computers, Clubs, Pubs and Taverns, Second Hand Car Dealing, Fishing, Liquor Retailing, Scrap Metal & Gold Bullion, Antiques & Art Dealing, as well as Tourism and Barter.

16 Company directors starting new companies after collapsing earlier companies and leaving large debts in their wake.

17 Schemes that centre on Construction firms, which relate to PAYE/PPS remittances, the use of Labour Hire Firms, and false claims for payments to non-existent employees.

Chapter 3 explains the rationale behind the Task Force thinking on strategies to encourage compliance in the cash economy and makes a number of recommendations on how the Tax Office can make further progress.

Enforcing compliance

Taxpayers operating in the cash economy who are unwilling to comply or who have decided not to do so are best treated by stronger compliance strategies such as detection and treatment using the full force of the law. For these people, a more personalised experience of tax administration may include an enforcement action such as a demand for information or an audit. Chapter 4 looks at how the Tax Office conducts direct compliance activities in the cash economy, and makes recommendations to add to the focus of such activity and gain better leverage across the community.

Developing partnerships

Previous Task Force reports discussed how the Tax Office could work better with community bodies such as industry and business associations. The Tax Office has devoted considerable effort since then in forging relationships with a wide range of organisations, using these relationships to help educate the community, influence behaviour and spread appropriate compliance messages. The Task Force continues to support this work, and encourages the Tax Office to nurture these relationships and capitalise on the opportunities they provide for building a tax system which is well accepted by the community.

Given the way in which the Tax Office has now integrated community partnerships as 'business as usual' for its compliance efforts, this report has also integrated community partnerships into the chapters about compliance. The Task Force supports the Tax Office continuing to build strong relationships with industry and business organisations and developing more ways of using these relationships to tackle the cash economy in the detection, prevention and treatment of non-compliance.

New focus for this report

In addition to continuing the examination of existing issues, the Task Force has turned its attention to emerging and residual problem areas.

Business-to-consumer transactions

The new tax system contained measures to improve the integrity of business-to-business transactions, primarily through the combination of GST tax invoices and ABN requirements. However, business-to-consumer transactions were not a focus, and remain a high risk for non-reporting. The Task Force reviewed the integrity of the tax system in the business-to-consumer sector and considered ways of improving compliance in this difficult area. Chapter 5 of this report provides more detail.

People outside the tax system

The Task Force also looked at the problem of people who choose not to engage with the tax system. This issue has been discussed in Chapter 2, concerning the features of the new tax system, and Chapter 4, which deals with enforcing compliance.

Openness and willingness to be accountable

In recent public statements, the Commissioner has signalled an increasing openness in tax administration and willingness to be accountable for how the Tax Office administers the tax system.[18] The ATO compliance program, details not only the activities that the Tax Office will be undertaking, but also the rationale for these plans, the risk identification processes and how the Tax Office sees the current risks in the tax system.

The Task Force believes that increased understanding by the community will lead to greater acceptance, which, in turn, will support voluntary compliance. The Task Force encourages the Tax Office to continue to administer the tax system in an overt and transparent manner and to look for further opportunities to convey ideas such as those expressed in the compliance plan, to the wider Australian community. These efforts will help to move community norms further away from acceptance of tax evasion in the cash economy.

Observations and recommendations

From this analysis, and in the light of the increased openness and accountability signalled by the Commissioner, the Task Force has made observations and recommendations on how the Tax Office could improve the effectiveness of its compliance activities in the cash economy. Each chapter of this report contains discussion of the issues leading to the various recommendations. A complete list of recommendations appears at the beginning of this report.

18 See for example ATO Compliance program, December 2002. See also comment in Footnote 13.

Chapter 2 –
The current environment

Background

The introduction of the new tax system in July 2000 changed the environment in which the cash economy operates. In this chapter, the Task Force looks at how the tax system impacts on the cash economy. Design and process features of the new system and the Tax Office's administration of it in relation to the cash economy are also reviewed.

The new tax system

The Task Force sees strong signs that the new tax system is impacting significantly on the cash economy. Signs include ABN registrations that are well up on expectations, including those for businesses previously outside but now drawn into the tax system, and the income tax revenue compliance dividend that has been collected. Furthermore, the integrated design elements of the system are making it more difficult for businesses to operate in the cash economy. For example, an ABN is needed in business-to-business dealings, and a valid tax invoice containing an ABN is needed for a business to claim GST input tax credits.

Small business has commented that the new tax system has improved tax compliance. A survey of small businesses and public practice CPAs found that 81% of CPAs considered that their clients' bookkeeping procedures had improved under the new tax system and 68% saw an improvement in invoicing procedures.[19] These are particularly relevant to the compliance problems in the cash economy where poor record-keeping is a pervasive issue.

19 CPA Australia. *Small Business Survey Program Research Report* (CPA Australia: Melbourne 2001).

Design features

The new tax system design centres on the interaction of the following:

- **Australian business number (ABN)** – a unique identifier for entities, including individuals, which carry on an enterprise. It is also used across a range of government agencies.[20]
- **GST registration** – compulsory where business turnover is greater than $50,000 per annum.[21]
- **Australian Business Register (ABR)** – a public register which can be used to check business information, including GST registration and ABN validity.
- **Tax invoices** – a valid tax invoice is needed for a business to claim GST input tax credits. Invoices assist in establishing an audit trail. Only a business registered for GST can issue a valid tax invoice.
- **Activity statements**[22] – regular reports to the Tax Office summarising an entity's activities for the period and the tax consequences.[23]
- **Withholding when an ABN is not quoted** – if a supplying business does not quote its ABN in a business-to-business transaction, the paying business must withhold 48.5%[24] of the amount payable, and remit this amount to the Tax Office.

20 All entities carrying on an enterprise are entitled to register for an ABN, and all companies regardless of their activity. The ABN largely supersedes the ACN.

21 GST registration is compulsory for business entities with an annual turnover greater than $50,000, for all participants in the Taxi industry and for charities with a turnover greater than $100,000.

22 'Activity Statements' includes both Business Activity Statements (BAS) which include GST reporting and Instalment Activity Statements (IAS), where no GST is reported. Typically IAS are used by people reporting investment, rather than trading, income.

23 Generally activity statement reporting is quarterly for income tax and GST, with large GST payers reporting monthly.

24 The rate is set at the top marginal rate of personal income tax plus Medicare levy, currently a total of 48.5%.

- **Pay as you go (PAYG)** – the collection system for income tax. Under PAYG withholding (PAYGW), amounts are withheld from payments for work by employees or labour-hire workers or for supplies by businesses which do not quote their ABN. Income not covered by PAYGW falls under PAYG instalments (PAYGI), where taxpayers report their revenue and calculate their instalment via the activity statement.

Task Force observations

In assessing the effectiveness of the new tax system in combating the cash economy, the Task Force considered the following to be reasonable measures of success:

- whether it provides a strong incentive for businesses operating in the cash economy to comply
- whether it helps to re-engage cash economy operators who are not part of the tax system, but who should be
- whether it is recognised as a fair, easy and simple system for business to use, and
- whether it delivers the revenue from the cash economy expected by Government.

Registrations

The number of entities registering for an ABN has exceeded expectations. There has also been a significant increase in individual tax file number (TFN) registrations, a TFN being a pre-requisite for an ABN. Businesses previously not registered with the Tax Office have taken the first step towards compliance with the tax system by registering for an ABN. Identifying possible cash-economy operators is made easier by the wide uptake of the ABN.

Encouragement to comply

Many past non-lodgers are now re-engaged with the tax system. Sampling shows tens of thousands of entities not previously in the tax system or not in it for many years are now re-engaged. Many are having past tax obligations detected and brought to account.

Fair, easy and simple

As to whether the tax system is recognised by users as fair, easy and simple, the Task Force observes that while there were a number of transitional impacts associated with tax reform, overall these appear to have abated over the first two years and that the longer term simplicity of the system is beginning to become apparent. This is supported by small business market research findings that with repeated experience businesses are finding BAS requirements easier. The proportion regarding BAS as easy has increased significantly (up from 43% to 55%).[25]

At the same time, the Task Force notes that the Commissioner is planning a wide-ranging change program aimed at making tax administration easier, cheaper and more personalised for taxpayers. The Task Force applauds this effort.

Revenue

The Commissioner estimated that as a result of the new tax system's impact on the cash economy, an extra $2.61 billion in income tax revenue would be collected over the three years from the start of the system (that is, 1 July 2000 to 30 June 2003).

The estimate of this 'compliance dividend' was based on the Tax Office's experience of the impact of compliance activity on levels of compliance. This experience showed the introduction of the ABN and GST would encourage lodging businesses to declare more income and those that had not lodged to begin lodging returns declaring business income.

Indicators are consistent with the estimates of $400 million for the 2000-01 financial year and $1.11 billion for the 2001-2002 year having been achieved.

While it is too early to assess in relation to the estimate of $1.1 billion for the 2002-03 year, indicators are consistent with this also being achieved.

Key design features

Each of the key design features has had an effect on the cash economy, enhanced by the integrated design of the new tax system, where activity reported for one tax purpose can be compared with that reported for another. Each design feature is now discussed.

Australian business number (ABN)

This unique identifier links business with clients and government at all levels. It is designed to:

- be a pre-requisite for businesses registering for GST
- provide certainty for businesses in their withholding arrangements
- provide a tax invoice paper trail for compliance purposes
- facilitate lodgment of BAS and IAS
- provide a mechanism for collecting and distributing information, and
- make inroads into the cash economy by facilitating cross matching of data.

As at June 2003, there were 4.1 million entities with an active ABN, including 2.2 million registered for GST. In the year preceding the new tax system there were approximately 2.2 million active businesses recorded on Tax Office systems. Even allowing for economic growth and other changes contributing to this increase, the take up of the ABN has been significant.

25 AC Nielsen, Survey of Business Experience with BAS, October 2002.

Further, businesses must withhold from payments made to suppliers who do not quote their ABN. Rather than bear the burden of administering this requirement, many businesses are refusing to deal with other businesses that have not registered for an ABN. This makes it difficult for an unregistered business to operate unless they deal solely with consumers and do not wish to claim GST input tax on their business expenses.

However, the Task Force observes that while the requirement to withhold is quite effective when the payer is a large business, other factors interfere with its effectiveness in transactions where the bargaining power is on the side of the supplier. For example, where a small business operator does not want to damage its relationship with a valued supplier, or where the situation involves a sellers' market, the payer may choose to disregard the obligation to withhold in order to do business. It should be noted that registration for an ABN is not compulsory,[26] however, choosing not to register does not obviate the payer from the need to withhold.

GST registration

Registration for GST is a key design element. Without GST registration, a business cannot claim GST input tax credits. Other businesses also require a valid tax invoice to obtain their entitlements and only a business registered for GST may issue a valid tax invoice. The impact of this is a preference in the market not to deal with unregistered businesses, even though the gross cost not including any GST, may be cheaper. The lack of GST means the transaction must be handled as an exception, which is more time consuming and adds to compliance costs. There have been many anecdotes of larger businesses with a policy of not dealing with businesses not registered for GST. GST registration can be checked online by accessing the ABR.

Australian Business Register (ABR)

The ABR was created to enable businesses, consumers, the Tax Office and all levels of government to check a range of information about a business, including its GST status and ABN validity. Currently the ABR website receives one million access hits a month. This suggests acceptance of the facility's value and the integration of it into business practice.

Notwithstanding success to date, the Task Force sees potential for ongoing enhancement of the ABN and its uses to bolster the integrity of the tax system, especially in relation to cash economy risks. The Task Force believes the availability and informative intent of the ABR is not well understood by the business community. Businesses see the ABN as a tool for the Tax Office with no real benefit to them. Incorrectly, it has been suggested that some people believe the ABR is a user-pays site and that they would be charged for using it to check suppliers' registration details.

The Task Force believes businesses and other users (including consumers) should be encouraged to regularly check the validity of their suppliers' details on the ABR and so minimise inappropriate practices in the cash economy. The ABR can be searched for both trading and legal names, aiding identification. Benefits to businesses include being alerted to possible difficulties if the ABR details do not match what their suppliers hold themselves out to be and avoiding the possible consequences of not withholding where there is not a valid ABN[27]. Consumers would benefit by identifying any supplier not registered for GST but incorrectly including GST in their charges.

Recommendation 2.1:

The Tax Office better articulate to businesses and consumers the uses and benefits of the ABR. This may include the development of a 'tip sheet' and working with business and consumer groups to publish the uses and benefits[28].

Refreshing of ABN data is an issue of concern. To maximise its usefulness, information on the ABR, such as address and trading name, needs to be as current as possible. Updating the ABR from the latest income tax return data is not particularly helpful as people often do not update it to reflect changes in their trading name. The Tax Office could explore the use of data collected by third parties to provide alternative sources to verify that ABR information is current.

Recommendation 2.2:

The Tax Office explores opportunities for using third party data to improve the accuracy of the ABR and Tax Office data holdings, with a view to the timely development and implementation of processes to utilise this third party data.

26 Registration for an ABN is not compulsory however entities conducting an enterprise that meet the threshold (generally $50,000) are required to be registered for GST and ABN registration is a normal part of the GST registration process.

27 Where a business fails to withhold when an ABN is not quoted, the penalty is equal to the amount not withheld (equal to the top marginal rate plus Medicare levy, currently 48.5%).

28 Also see recommendation 2.7.

Case Study 2.1:

Australian Business Register

In the retail sector, checking of ABNs via the Australian Business Register (ABR) is quite common. Some businesses include automatic checking of registration details of their suppliers in order to assure themselves of the availability of input tax credits for their supplies. Large firms generally have an automated process of checking ABNs quoted with those registered as per the ABR. Medium firms often have a process in place to check the ABN when a new supplier is added. Checks by small firms vary, although encouraged by the Australian Retailers Association (ARA), especially when adding new clients. Comments from the ARA are that once the system has been adopted it is simpler for administration and compliance.

Tax invoices

The paper trail left by tax invoices is proving to be a useful means of identifying businesses operating in the cash economy. For example, of business payees identified by Tax Office invoice checks, about 12% have an incomplete income tax lodgment history. These cases are followed up to ensure lodgments are demanded and income reported. The checks undertaken by the Tax Office are not limited to business-to-business transactions. Whenever a transaction is recorded by way of an invoice, a paper trail exists. The Tax Office is including cross-checks of consumer held invoices and other consumer held details to determine the accuracy of supplier invoices and income declarations. Also, there is an opportunity to follow consumer transactions through to the final business supplier when businesses are identified through normal verification work undertaken by the Tax Office on non-business clients.

The Task Force supports the work of the Tax Office in using tax invoice information to identify businesses which are trading but not meeting their tax obligations.

Activity statements

Activity statements require earlier and more frequent lodgment compared to previous annual reporting regimes. This enables the Tax Office to gather intelligence and analyse data in a timelier manner. For example, the BAS provides quarterly business trading information, in most cases within one month of the end of the period. The BAS outlier methodology was developed to compare aggregated figures from different BAS labels and so benchmark industry norms and trends for each quarter. Businesses whose reported activity is significantly outside the norm for their industry are revealed as ‘outliers’ in this process. This makes it possible for the Tax Office to identify issues and trends and to follow-up on compliance risks in a timely manner. The concept of the outliers methodology is based on the assumption that businesses which are similar in characteristics (for example, the same industry and same turnover ranges) should have similar business performances, especially if the performance is measured in the form of financial ratios.

The BAS outliers methodology has been in use since July 2001 as one of the case selection tools for the cash economy industry projects. Initially 34 high risk industries were monitored under this methodology. It has since been extended to 346 industries, covering all relevant industries of interest. This methodology is continually being enhanced to improve its monitoring and detection capability.

Together the BAS and income tax return (ITR) offer trading information which can be used as a means of verifying the information from one to another. Under this process the Tax Office now has an opportunity to compare two different sources of information as a means of checking the declarations made.

Two reconciliation projects were initiated to verify whether risks exist where activity reported for GST purposes does not reconcile with activity reported for PAYGI purposes. One project looked at the reconciliation between income labels reported on the BAS, while a second project looked at the reconciliation between BAS income labels and income tax return labels.

Tax Office analysis shows that in about 3% of BAS returns, GST income does not reconcile with PAYG income. Similarly 7% of the BAS does not reconcile with the ITR. Evidence is that the percentage discrepancy is gradually reducing, which may indicate that taxpayers are becoming more familiar with the requirements of the tax system.

On the other hand Tax Office intelligence from these two pilot projects suggests that in some cases accuracy of BAS label T1 (PAYG instalment income) may be in doubt. This may be due to genuine misunderstanding or it may also be due to deliberate deferral of PAYGI obligations. More analysis is being carried out to verify the level of risks.

Case Study 2.2:

Pilot project on activity statements

To date the two pilot projects have delivered interesting results

Project 1

This ongoing project, reconciling the turnover reported at BAS labels G1 (GST turnover) and label T1, highlighted the following issues:

- *A significant number of taxpayers inadvertently overlooked reporting at label T1, and therefore paid no PAYG instalment.*
- *Some taxpayers reported net income at label T1 rather than gross as required, thus understating their PAYG instalment.*
- *Label T1 was entered as nil rather than the Commissioner's instalment rate being varied to nil, endeavouring to avoid the penalty for incorrect variation.*
- *Others chose not to report at label T1 or only report an amount that gave rise to a PAYG instalment they wanted to pay.*

Project 2

This is an ongoing project reconciling income reported on BAS and ITR and has uncovered the following issues:

- *Income from one quarter was overlooked when preparing the income tax return.*
- *Income from one of the client's product lines was not included in the tax return.*
- *Taxpayers adopt cash reporting while not eligible.*

The results in the case study indicate that there is still work to do in having business operators correctly report their turnover as required. Chapter 3 deals with activities to educate and assist businesses. Analysis of BAS labels helps to identify taxpayers in need of assistance as well as recurring problem areas.

Under the new tax system, it is not uncommon for taxpayers to prepare their own BAS and have tax agents prepare their ITR, however reconciliation between the two is often not carried out by taxpayers or their agents. By comparing the amount of turnover reported for GST with the gross income on the ITR, the Tax Office may detect cases where income has been omitted from either statement, meaning that either GST or income tax has been underpaid.

The results show the value in performing these checks to reveal substantial omissions of income that might not otherwise have come to light. The Task Force supports the increased use of the more timely data available under the activity statement regime.

Withholding when an ABN is not quoted

A business dealing with another business which does not quote its ABN must withhold from any payment made at the rate of 48.5%.[29] The high rate means the revenue is not at risk in relation to those transactions, since the withholding rate equals the maximum amount of income tax and Medicare levy payable by an individual.

The withholding business must also complete a payment summary at the time of the withholding giving full details of the payee and the transaction. The payer also sends an annual withholding report to the Tax Office detailing the transactions. This information enables the Tax Office to conduct lodgment and income matching checks on the businesses which have not quoted an ABN. Importantly, a sampling analysis has shown that more than 40% of businesses that had amounts withheld because they did not quote an ABN have subsequently registered for an ABN.

The Task Force believes that this important control measure is having the intended impact. Amounts withheld by payers when an ABN was not quoted amounted to $21.1 million in the first year of operation, $42.2 million in the second year and $71.8 million in the third year, that is the 2002–03 year. However, not all of this represents non-compliance. Surveys of payees have revealed that on occasions, some business taxpayers are deliberately not quoting their ABN in order to have amounts withheld to provide for future tax obligations.

Of the withheld amounts paid to the Tax Office when an ABN was not quoted, about 25% has not been claimed as a credit by taxpayers lodging returns. This high rate of unclaimed credits may indicate that while tax has been collected on the particular transaction, the entity has other income on which tax would be payable and prefers to remain outside the system. However, it may be that some taxpayers see the withholding as a fine and are unaware that the credit is available to them. The Tax Office is researching this issue to understand why credits are not being claimed and to detect cash economy operators. The Task Force supports this research.

The Tax Office has an ongoing integrity program to identify and follow-up businesses not quoting an ABN when dealing with another business.

Checks undertaken by the Tax Office on tax invoices show that less than 1% of taxpayers fail to quote an ABN. In many instances where an ABN is not quoted the taxpayer does hold a valid ABN, so the incidence of failure to obtain an ABN and quote it is quite low. The Tax Office has also used no-ABN withholding data

29 Under s12-190 of the 1st Schedule to the *Taxation Administration Act* 1953.

reported through activity statement lodgments to analyse taxpayers that have been subjected to no-ABN withholding and has identified a high incidence of non-lodgment (around 29%). These cases are followed up with appropriate lodgment action.

The Task Force believes the no-ABN withholding provision is an effective tool for combating the cash economy. To maximise its usefulness, the Tax Office needs to make sure that businesses are fully aware of their obligation to withhold when an ABN is not quoted.

Recommendation 2.3:

The Tax Office maintain an ongoing program of education and integrity checks to ensure that businesses which make payments to other businesses for supplies are aware of, and are complying with, their obligation to withhold from suppliers who do not quote an ABN. For example, the Tax Office's high coverage registration integrity checks (walk-ins) should be expanded to include this approach.

Recommendation 2.4:

The Tax Office maintain an ongoing integrity program to follow-up on businesses which do not quote an ABN when making supplies to other businesses, to ensure that the supplying businesses are complying with their lodgment and reporting obligations.

Pay as you go (PAYG)

The PAYG income tax collection system replaced 11 pre-existing systems for collecting income tax. Income tax instalments are paid directly by the income earner under PAYG instalments. The withholding arm was designed to replace previous withholding arrangements such as PAYE and PPS. It also simplified the legal framework[30], removing confusion surrounding labour hire arrangements and giving flexibility so that the law can be adjusted to reflect changes in the labour market.[31] The PAYG system, therefore, gives more certainty to taxpayers and simplifies administration.

Labour market trends

The Task Force observes that there appears to be a trend in the labour market of engaging people in contractor or sub-contractor relationships rather than traditional employment relationships, meaning that these people cease to be covered by PAYG withholding and need to make their own arrangements to provide for their income tax obligations. This in itself is not necessarily inappropriate. This trend has been occurring for some time, and was partially addressed by the new tax system extending PAYGW to labour hire arrangements. However, the Task Force is concerned that people continuing to move out of employment relationships to avoid withholding and reporting arrangements are at risk of slipping into the cash economy.

The increasing relevance of these arrangements heightens the risk of taxpayers not correctly reporting income and paying taxes, especially where their only previous interaction with the tax system was as an employee under the PAYGW system. Taxpayers in this situation may have little experience with business accounting and reporting requirements and may lack the cash flow management skills needed to be able to pay their taxes when they become due.

Furthermore, when people move from employment (PAYGW) to contracting (PAYGI), there is a significant increase in their compliance costs. The major contributors are the business record-keeping requirements, and the preparation of quarterly activity statements and business income tax returns. These costs could be a disincentive for compliance.

The Task Force supports research the Tax Office is currently conducting into labour market trends. This research points to the main factors driving this trend as being a desire by employers to reduce the on-costs of employment, such as payroll tax, workers' compensation premiums, superannuation contributions and leave payments and to manage the risks of employment, such as possible unfair dismissal actions, compensation and redundancy payouts, and the inflexibility of a workforce of permanent employees in a rapidly changing business environment. In the main, legally effective means have been used to engage workers other than as direct employees. However, at the margins the Tax Office has detected arrangements that it believes do not alter the substantial employment relationship and PAYGW should be applied. The Tax Office is taking steps to ensure that withholding is made where it is legally required.

The Tax Office needs to continue to build on its understanding of where cash economy risks are emerging in the labour market and to design and implement targeted risk treatment strategies to prevent people not covered by PAYGW from entering the cash economy. The Task Force identified a number of

30 In the style of the Tax Law Improvement Project which resulted in the *Income Tax Assessment Act* 1997.

31 Under s12-60(2) of the 1st Schedule to the *Taxation Administration Act* 1953, withholding can be required from payments to individuals in circumstances as specified in the regulation.

potential strategies which could be directed at people who move out of employment relationships:

- Providing timely education and assistance so they are able to understand and comply with their new tax obligations. This could be implemented through new business education programs.
- Ensuring that businesses which engage employees at common law or labour hire workers withhold amounts under PAYGW.
- Extending the scope of PAYGW by regulating for withholding from payments to workers engaged under contract (similar to labour hire workers).[32]
- Promoting the use of voluntary agreements to withhold, a mechanism to enable taxpayers to make a provision for their future tax liability and stay out of GST and the activity statement regime.[33]

The Task Force notes that the recent Royal Commission into the Building and Construction Industry also identified the increasing use of contract workers in preference to employees as a problem. The Commission's report describes the difficulties caused by the varied definitions of 'employee' in the many relevant State and Commonwealth Acts regulating the labour market and recommends that governments work together to develop a unified definition that can be applied across the board. The Tax Office has been actively involved co-operating with the Royal Commission.

Recommendation 2.5:

The Tax Office monitor participation in the labour market to understand the associated compliance risks and identify people moving out of PAYGW, and implement strategies to manage their transition into PAYGI and prevent them from slipping into the cash economy. These strategies should also be employed to identify people who have already moved out of PAYGW and to ensure that they are complying with their tax obligations.

32 See previous footnote.

33 Voluntary agreements for withholding are provided for under s 12-55, 1st Schedule to *The Taxation Administration Act* 1953. Further commentary on Voluntary Agreements appears in Ch 4 of this report.

Process features

Registration

Since the influx at the commencement of the new tax system, ABN registrations have averaged 10,000 a week and this rate is expected to continue. One of the key design features of the tax system is that businesses with a turnover greater than $50,000 are required to register for GST. A feature has been the voluntary GST registration of 720,000 entities with annual gross turnover of less than $50,000.[34] Although not required by law to register for GST or an ABN, market pressure has helped encourage registration in order to facilitate trading with other businesses.

Interestingly, there has been a shift in the make up of registrants since the initial influx in July 2000. Currently, 60% of new registrants are individuals, compared with an initial rate of 40% just after the commencement of the system. This may be a manifestation of the growth of contracting; however, it may also represent growth in micro-business activities often as an adjunct to employment.

The Tax Office followed up entities invited to register for the new tax system but who failed to do so. Checks showed that most had ceased to trade. Less than 1% of entities have not registered as required. These findings were consistent across all industry sectors including the high risk cash economy industries formerly part of PPS and RPS[35].

The Task Force observes that the new tax system has been successful in bringing people into the system by encouraging registration for an ABN. This is an essential first step towards compliance with reporting and payment obligations.

The integrity of the registration process is germane to the integrity of subsequent tax system processes. The registration process has been designed to focus on proof of identity and to deliver an ABN smoothly and swiftly. The current online registration process checks the TFN details supplied by the applicant and, if validated, delivers the ABN to the registrant during the on-line session. The question of whether the applicant is carrying on an enterprise and therefore entitled to an ABN is managed by providing the applicant with information and requiring them to self-assess whether they are carrying on an enterprise. The Task Force believes that there is some abuse of this latter test.

The Task Force considered strengthening this test, but the majority view was that this should not be at the expense of a streamlined registration process. The Task Force believes that the greater benefits are having businesses registered, rather than remaining outside

34 There are 1.2 million business entities with turnover less than $50,000 that registered for an ABN.

35 Prescribed Payments System and Reportable Payments System.

the system because of overly onerous registration processes. It prefers minimal change in the registration process, supported by an ongoing post-registration integrity program.

Some Task Force members also expressed a view that the existence of separate registration for ABN and GST combined with GST thresholds[36] and the mix of GST taxed and untaxed goods had created a degree of uncertainty and inconsistency, as well as causing additional overheads for business. Some businesses may unwittingly deal with cash economy operators because they do not understand the distinction between registration for an ABN and for GST. In these circumstances, they may attempt to claim input tax credits from payments to any business which quotes an ABN. Pre-printed invoice stationery available in the public domain contributes to this problem by almost universally containing statements to the effect that the price includes GST.

The Tax Office has an ongoing tax invoice integrity program. The program is quantifying the percentage of tax invoices which do not include correct information, the risks around non-GST registered businesses issuing tax invoices and the percentage of false ABN quoted on invoices. The project involves field officers visiting business premises to conduct invoice checks, using hand-held computers to check the ABN on tax invoices and verifying with the provider of the invoice that it is valid. The findings will form the basis of strategies to address any compliance problems detected and evaluate their effectiveness.

The Task Force also noted that, even though the new tax system had been in operation for nearly three years, there were still a number of misconceptions regarding key features of its operation. These misconceptions include:

- provision of an invoice containing an ABN means that there is a GST input tax credit available[37]
- registration for an ABN automatically includes GST registration[38]
- registration for an ABN necessarily means that the entity has to lodge activity statements,[39] and
- if people quote an ABN, this is proof they are in business and PAYGW is not required.[40]

36 see footnote 21.

37 It is not a valid tax invoice unless it is issued by a business registered for GST and includes a statement that GST is included in the price. Other details are also required depending on the amount of the transaction.

38 While an ABN is a pre-requisite for GST registration, it is not the same thing. A business with a turnover under $50,000 may choose not to register for GST.

39 Activity statements are only required from businesses which have an existing obligation to pay tax, for example GST.

40 If the worker is an employee they should be covered by PAYGW. Only if they are not an employee does quoting an ABN become pertinent. An ABN is not proof that a person is in business.

These misconceptions may detract from the integrity measures of the tax system and facilitate the operation of businesses in the cash economy. The Task Force believes these misconceptions should be corrected.

The Tax Office, as part of its ABN integrity strategies, is currently undertaking research to determine whether ABN registration issues feature highly in specific industries or are more generalised. The research is to feed into a review of the ABN registration processes to clarify registrants' eligibility for an ABN, as well as identifying the extent of the risk of abuse.

Recommendation 2.6:

The Tax Office undertake an education campaign to clarify when an entity should apply for an ABN or GST registration, when tax invoices may be issued and when the quotation of an ABN is appropriate. As part of this a tip sheet or similar be developed and accompany the 'Notification of Registration' to new registrants.

Entering PAYGI

For a new business, income tax instalments are only payable once the business has entered the PAYG Instalment system. This happens when the business lodges its first ITR declaring business income. The Tax Office calculates a Commissioner's instalment rate (CIR) based on information in the ITR. From the next activity statement period, the business will be required to report its income and pay PAYG instalments calculated using its CIR. At the same time the business will receive an assessment of tax on its first year of trading and will have to pay that amount within 30 days.

The Task Force sees some weaknesses in this process, which could be ameliorated by timely administrative interventions.

Without good cash-flow management and financial planning skills, the initial entry into PAYG instalments can be financially stressful for new business operators. Taxpayers who find themselves unprepared to pay what may be a significant tax debt, may be tempted to try to avoid or defer that debt (for example, by failing to lodge income tax returns), and thus become a non-complier within the cash economy.

The Task Force believes taxpayers should be assisted to prepare for entry into PAYGI soon after starting business and before large debts are incurred. Early interventions would help those new to business to control their cash flow and better manage their finances.

The Task Force notes that, although under recent reforms taxpayers are able to make voluntary payments in anticipation of future tax debts, there needs to be a stronger mechanism to ensure new businesses are able to meet their tax debts when they fall due. New business operators have an understandable focus on growing their businesses and reinvesting early profits – this is often not conducive to making voluntary provision for eventual tax liabilities.

The Task Force considered a range of options to managing the problems that may arise.

Some administrative options included:

1. Reminder letters to be sent out to taxpayers immediately prior to return lodgment time to remind them of their obligation as well as to provide them with their income details and industry ratio information.
2. For new to business taxpayers, latest ITR lodgment date to be 31 October with no extension for their first return. Those failing to meet the deadline would be assigned a high priority for lodgment demand actions.
3. If lodgments are not forthcoming following the above, and/or a particular industry or group is confirmed as posing a real risk based on research findings, consideration to be given to raising a default assessment for the high risk cases (determined by using industry averages).
4. Based on information provided on the BAS, identify taxpayers who may experience cash flow problems (which may lead to delayed ITR lodgment) and approach them to provide cash flow management assistance.

Case study 2.3:

Entering PAYGI

A new business commences operations on 1 July 2002. The first income tax return for the 2002–03 financial year is not due until February 2004[41]. The return is processed and the taxpayer receives an assessment of tax payable for the preceding year plus a liability to pay quarterly PAYG instalments from the next activity statement period.

In round figures, if the net business income is about $50,000, the tax payable on assessment could be in the order of $11,000, allowing for some rebates and deductions. This amount would be due as a lump sum, and a PAYGI instalment of about $2,750 would also be payable. The resulting tax to be paid of $13,750 would be more than the net business income for the entire quarter, placing severe strain on the business unless it has made provision to pay.

The situation could be compounded by the need to account for GST at the same time.

41 Depending on their tax agent's lodgment program. For the minority who do not use an agent, the return is due by 31 October 2003.

Recommendation 2.7:

The Tax Office conduct research to better understand the compliance risks arising from deferred entry into the PAYGI regime, including the common causes and characteristics for deferred entry, and triggers for entry. Based on this research, the Tax Office work with industry, business groups and tax professionals to develop a range of options to assist business to manage their potential tax debt on entry to PAYGI.

Data matching

Matching of internal and external data, including ratio calculations, is done by the Tax Office to identify inconsistencies and risks. The validity of using data matching to improve tax compliance and the quality of data on Tax Office systems was recognised in the House of Representatives Standing Committee Report *Numbers on the Run*[42]. Recommendation 9 stated:

'That the Australian Taxation Office evaluate and act on data matching opportunities provided by new Australian business number arrangements, including putting in place mechanisms to ensure that relevant data is captured and able to be used for data matching purposes.'

The use of the ABN as an identifier, and ABN services generally, has been variable amongst Commonwealth and state departments and other agencies. The Tax Office has been actively promoting the uptake of ABN and exploring potential use of ABN services with a large number of federal, state and local government agencies.

Altogether contact has been made with over 280 agencies. Memorandums of Understanding (MOUs) have been signed with 13 agencies to use ABR data and twenty-five more MOUs are in progress. Discussions are proceeding with the remainder and opportunities for including more are being explored. The Task Force supports this work and encourages the Tax Office to continue to promote the ABR vigorously. The wider the uptake, the more useful for all.

The Task Force also notes that the use of the ABN in the business community has had considerable acceptance, even though there is no legislative mandate and the Tax Office has not actively promoted this.

42 "Numbers on the Run" 'Review of ANAO Report No. 37 1998–99 on the Management of Tax File Numbers', (AGPS: Canberra 2000).

While supporting ongoing developments, the Task Force considers that there are a number of opportunities that the Tax Office could explore as a means of expanding the integration of the ABN. These opportunities include third parties to a business transaction – for example:

- business registration and licensing (already commenced)
- commercial motor vehicle registrations
- business insurance coverage
- opening accounts for commercial users of utilities – for example, gas, electricity
- opening business bank accounts and merchant accounts for EFTPOS and credit cards, and
- local council records relating to applications for land use for business purposes.

Recommendation 2.8:

The Tax Office promote to the commercial and business sector the use of the ABN as an identifier for business on a voluntary basis and work with industry and government agencies to incorporate the ABN, preferably as a pre-requisite to registration or membership. The various State and Territory registration requirements (for example, to practise a trade or profession and to obtain a commercial motor vehicle registration) are seen as key focus areas.

Conclusion

The Task Force believes that in implementing the new tax system the Tax Office has gained the use of effective new tools for improving compliance in the cash economy. The wide acceptance and take-up of the ABN is of particular note. A good start has been made on exploring the use of these tools and strengthening detection of non-compliance. As discussed above there are also many opportunities to be explored in further developments of integrity processes and detection methods using the integrated design features of the new tax system. The Task Force strongly supports this work in conjunction with the application of the compliance model and continuing consultations with business, industry and community groups.

The Task Force believes that the new tax system has been effective in tightening up compliance in the cash economy, particularly in business-to-business transactions.

Chapter 3 –

Encouraging compliance

Background

A key issue for many small business operators is their ability to understand and meet their taxation obligations.[43] Aligned with this, there is a consistent range of basic problems that are typically found in businesses in high risk cash economy industries.

These problem areas are:[44]

- record keeping, including poor quality of records and limited knowledge of record keeping procedures
- cash flow management, including not having the funds to pay taxes when they are due, both those collected from customers (GST) and employees (PAYGW) as well as those of the business itself
- invoicing, including inaccurate invoicing procedures which do not include an ABN or the correct breakdown of the payment for GST purposes, and
- ABN usage, including not using a valid ABN, quoting an ABN in inappropriate circumstances and not withholding from a business when no ABN is quoted.

These problems often arise due to a lack of understanding and low skill levels, rather than any deliberate intention not to comply. The Task Force believes that a structured range of support options for business to acquire the necessary skills and understanding in these four main problem areas would noticeably improve compliance. This chapter looks at ways that the Tax Office can address these common problems through encouraging and supporting businesses in cash economy industries.

43 For example, see Ahmed, E. & Sakurai, Y. *Small business individuals: What do we know and what do we need to know?* CTSI Working Paper No. 27.

44 A listing of the Tax Office products or approaches, that are in place or being developed, to address these problem areas is shown in Appendix 2.

The new tax system has brought with it new opportunities for the detection and evaluation of risk. With more business entities now registered and filing business activity statements, the Tax Office has a rich data source for identifying businesses with unusual trading patterns.

The Tax Office approaches its strategy development on the basis that the vast majority of businesses within industries within the cash economy wish to be compliant and as such strategies of encouragement and assistance applicable to the lower end of the compliance model are required to address these issues. The Tax Office needs an extensive range of products and delivery methods which are accessible to business operators to enable them to choose the activity which best suit their needs.

This chapter focuses on the products and methods under the following headings:

- New to business
- Strategic alliances
- Education and assistance – products and approaches
- Incentives to encourage self-regulation

'New business' market

The Task Force believes that there is merit in managing new businesses as a discrete group. It ensures that the Tax Office positions itself to take advantage of the limited window of opportunity that occurs at the beginning of its association with the client to lay the foundations for an ongoing cooperative and constructive relationship. The aim is to prevent, rather than treat, arising compliance issues.

Hallmarks of a well managed approach to encouraging new businesses to be compliant include the early identification of a business as being new, ongoing monitoring of the business in its early stages, and the timely and proactive provision of assistance if and when a potential problem arises.

Currently, the Tax Office is developing and implementing an integrated assistance and compliance plan for the new to business sector which includes the development of appropriate assistance and education products as an outcome.

The Task Force believes these products should include an information 'starter pack' addressing the specific requirements of government and industry as well as identifying and offering approaches to manage a range of common pitfalls faced by new business. Specifically, these products would assist new business, by complementing the current products and approaches, to focus on the common pitfalls of poor record keeping, poor cash flow management, incomplete or inapplicable tax invoices, incorrect use of the ABN and not applying withholding when an ABN is not quoted.

Recommendation 3.1:

The Tax Office develop, with industry and pertinent experts, a new business 'starter pack' covering the requirements of business and ways to manage common problem areas.

Marketing 'new to business' assistance measures

Marketing is essential in raising the awareness of Tax Office products and services to encourage their access by new business operators. The marketing plan for the Tax Office's 'new business service' includes a trial of wider marketing beyond just business operators, and concentrates on key intermediaries having contact with people starting a small business. These include:

- community-based small business organisations – for example, Business Enterprise Centres, New Enterprise Incentive Scheme providers, TAFEs, business incubators, chambers of commerce, industry associations, banks and other financial organisations
- other government organisations that target new business – for example, state development boards and business centres, local councils, and
- tax practitioners.

Outbound call centre for 'new to business' taxpayer assistance

With its proactive approach to new businesses, the Tax Office's strategies identify new to business registrants who appear to be having problems meeting their tax obligations – for example, self-preparers who fail to

Case Study 3.1:

A comparison

Previous new business assistance scenario

Small business operators, who have never been in business, obtain their taxation information in a variety of ways. Many contact a Tax Office call centre, but often they may not know the relevant questions to ask. It is left to the call centre operators to suggest that they might start by registering for an ABN.

Included with the ABN notification comes other general information that they may need. Sometimes a Bizstart seminar is suggested. The business operators must wade through the information received and work out how it is relevant to them. The potential for not being provided with the relevant information is high. The potential for the operator to not understand the information is also high.

In due course, the new business finds it is time to lodge its first quarterly BAS. The business may experience cash flow issues because of the inexperience of its business managers. When this is the case many prefer not to do anything and see what happens, resulting in a downward spiral regarding their tax compliance.

The Tax Office will contact the business when it has failed to lodge several BASs, which may impact even more significantly on the cash flow of the business at that time. The business may founder before the first year of operation is completed.

New to business compliance assistance scenario (now being implemented)

A new business operator is identified through Tax Office analysis shortly after registering for an ABN. The business receives a phone call suggesting an advisory visit. The field officer is informed about the new business's industry and after asking some questions to understand the particular business is able to offer practical advice and draw attention to possible cash flow problems that may arise if the business does not plan for tax.

When the first quarterly BAS is due the business operator makes a quick phone call to the advisory officer to check some details and is able to complete the BAS and lodge it on time. Next quarter the business operator can do it unassisted, but knows where to obtain help if it is needed.

lodge their first BAS on time. The business operator is phoned and his/her compliance problems discussed. The Tax Office is offering specific advice on problems being encountered and also directs the business operator to an appropriate channel for accessing further assistance. This may include receiving an appropriately tailored package of written material, receiving a visit from a Tax Office officer, attending an upcoming seminar or being directed to relevant parts of the Tax Office website.

The Task Force sees this proactive approach as a key improvement in supporting new businesses.

Education products

The Tax Office's premier education product for small business is the Bizstart seminar, targeted mainly at new business. Bizstart addresses the following topics:

- getting started in business
- reporting and paying
- obligations for employers
- record keeping
- income tax and deductions, and
- GST.

The Task Force believes that the seminars should be coupled with a program of tailored workshops with new businesses in the cash economy industries. This would ensure a well-targeted strategy for specific industries. Such a program, and the use of outbound calls, will assist small businesses in the early phase of their business, and will assist those experiencing compliance problems at the outset.

Strategic alliances with third parties to help small business

The Task Force has keenly observed the success of the tax seminars and other educational activities by the Tax Office, industry associations and other groups during the introduction of the new tax system. Education and assistance provided by third parties to complement Tax Office activities has also enabled much wider coverage and has assisted in tailoring information to the needs of specific groups. The Task Force believes the Tax Office needs to build on the earlier successes and provide ongoing support for industry and business groups to deliver education and assistance to small businesses.

Recommendation 3.2:

The Tax Office provide ongoing support for industry and business groups to deliver education and assistance to small businesses.

Tax practitioners

Tax practitioners are a key group in influencing the integrity of the tax system. Small business operators often prefer to get business advice from their tax practitioner. Even during a massive seminar and information-based education program by the Tax Office around the new tax system, surveys indicated that the number one source of information regarding the new measures was still the tax practitioner. Practitioners have a vested interest in the tax system and, because of that interest and their interaction with the business community, are aware of emerging compliance issues. There are many leverage opportunities for the Tax Office in this relationship.

A specific strategy adopted by the Tax Office in several cash economy industries[45] has been to provide seminars for tax practitioners with clients in that industry. The Task Force supports this approach as a direct means of developing meaningful partnerships with the key stakeholders in each of the high risk industries.

Industry and business associations

In early 1999, the Tax Office set up a series of consultative industry forums, termed 'industry partnerships' with a selection of key industry groups, many of which cover industries in the cash economy. These industry partnerships act as the conduit for the development of specific solutions, for educational and technical clarification. The industry partnerships have proven to be one of the key links in implementing the new tax system and should have a continuing role in the ongoing relationship with the business community.

The Tax Office should also capitalise on the contact small businesses have with their industry associations by providing information or links on the associations' websites. This will complement the current publication of relevant cash economy information or messages in industry and business magazines.

Recommendation 3.3:

The Tax Office work with industry, business and practitioner groups to provide information or links on these groups' websites, while also exploring opportunities for greater utilisation of the channels afforded by these groups to provide their members with key cash economy messages.

45 Namely, the Cleaning, Clothing & Textile and Property & Construction industries.

In its cash economy initiative, the Tax Office continues to work with industry to better understand the industry to appreciate the drivers influencing a range of compliance patterns. A cornerstone of the cash economy work and a fundamental principle of the compliance model is understanding the attitudes and motivations underlying both compliant and non-compliant behaviour.

The Task Force supports the broader based approach and encourages the Tax Office and other agencies to explore this in other industries.

Other examples of initiatives with industry and business associations which the Task Force believes would make impacts are as follows:

Industry best practices

The Task Force suggested the Tax Office work with industry and business groups to develop an agreed set of tax best practices, on an industry basis, which includes a focus on record keeping, cash flow management, invoicing and ABN usage, and adopting industry specific criteria where they exist.

This tailoring for an industry should provide greater certainty to businesses of what is required to ensure they have met their tax obligations. This approach may help identify key practices for which tailored tax rules could be developed. As an example, there is potential for a modification of the principles of the simplified accounting method used by food industries to be applied to other industry sectors. Other examples include a simple swipe card for making voluntary payments, and the electronic diesel fuel grant card which allows for automatic payments of diesel fuel grants.

Case Study 3.2:

An approach to better understand and manage compliance

The Clothing Industry Forum

The clothing industry has a large proportion of women employees and outworkers, many of whom come from non-English speaking backgrounds. There are often issues regarding pay and conditions and compliance issues across government agencies.

The Tax Office has established the Clothing Industry Forum in consultation with industry. This forum includes representatives from other government agencies (WorkCover, DIR, Centrelink, Customs and DIMIA), ethnic business groups, the industry, the union, business representation and tax practitioners.

Though it is still relatively early days, the forum has produced joint agency seminars for both business and tax practitioners involved in the clothing industry. The seminars have been well attended and well received as topics covered are specific to the industry and include workers compensation, immigration, industrial relations and taxation. There has also been specific joint compliance activity.

The forum has identified real benefits in addressing industry issues as a whole rather than focusing only on taxation.

Self-assessment scorecard

This is a refinement of the above industry-based best practice approach and is similar to the type of specified standards required in order to participate in the deferred GST scheme. The scorecard would set the bar for the particular industry for a business to be recognised as a low compliance risk or identified as a high compliance risk. It should include a risk scale available for small businesses to self-assess their compliance risks, and hence the likelihood of being selected for audit or other review.

Industry codes of conduct

This proposal includes industry and the Tax Office co-designing compliance standards which specify clearly agreed compliance practices and the consequences if a business does not comply with these agreed practices.

Further, codes of conduct which exist within industries, including the professions, should stipulate that compliance with tax obligations is expected by the industry. Such stipulations should be based on the standing of the industry/profession and the community expectation that the industry/profession is doing their part to contribute to the community.

The Task Force notes the significant progress on a voluntary code of compliance in the scrap metal industry as well as the co-design work underway in the taxi industry.

Industry regulation by peer review

The concept here is to encourage compliance in an industry through enabling an industry itself to monitor compliance and administer alternative sanctions for non-compliance.

For example, industry member compliance with industry best tax practices could be reviewed by an industry panel. If, after a peer review, the panel is not satisfied that a business operator is compliant, it could either offer alternative solutions that are reasonable and relevant in changing the non-compliant behaviour or escalate the matter to the Tax Office if they believe that stronger enforcement is necessary.

The Task Force believes that the good start made by the Tax Office and the clothing industry to work collaboratively could make the clothing industry an ideal choice to pilot this approach. There may be privacy and legislative issues to be addressed before this could proceed.

Promotion of self-regulating industries

This proposal is to encourage industries which have developed appropriate best practices, and instituted assurance processes to demonstrate that, in the main, their members are complying with those industry practices. These industries should receive the support of the Tax Office as 'good community industries'. This would help industry members to see a connection between complying with the self-regulation requirements and the public esteem of their industry. It will also encourage industry in turn to encourage compliance by otherwise non-compliant members and promote business and taxation obligations.

This proposal should be closely linked with the peer review proposal.

In summary, influential relationships and strategic alliances are the key to understanding and delivering services for small business. Credible partners will have a positive impact on compliance.

Recommendation 3.4 :

The Tax Office work with industry and business groups to develop products and processes which encourage tax compliance, with the industry having a key role in specifying and administering expectations of, and consequences for, their industry.

This should commence with the development of:

- industry best practices (including consideration of a scorecard approach)
- industry codes of conduct
- approaches to industry self-regulation (including options for the promotion of self-regulating industries).

These practices and approaches should be prototyped in one or two key industries such as the scrap metal, taxi or clothing industry.

Industry benchmarks

The Task Force notes that since its previous report, the Tax Office publishes industry ratios derived from income tax returns on an annual basis.

The Task Force supports the development and publication of financial ratios in developing benchmarks and identifying anomalies. The Task Force considers that publishing the ratios provides industry with more information regarding business performance which leads to a better informed industry more able to identify and address a range of economic and taxation risks. Tax practitioners and industry representatives continue to provide positive feedback on the Tax Office publishing industry financial ratios.

The Task Force believes that now, with the development of ratios based on activity statement data, the published ratios need to be expanded to include these.

Recommendation 3.5:

The Tax Office expand the information it publishes on industry ratios to include industry ratios derived from activity statement data.

Education and assistance: Products and approaches

Small businesses are more likely to benefit from assistance if it is readily accessible, audience specific and available at a time that is relevant for the individual business. Call centre and current internet products have significantly improved access to information for small business and other taxpayers.

During the implementation of the new tax system, the Tax Office invested significant resources in assisting business people to understand and meet their new taxation obligations. The size and scope of this operation can be appreciated from the following statistics:

- 75 million information and education products delivered
- 470,000 face to face visits with businesses
- 16 million phone inquiries in the first year of the new system
- 3,800 Tax Office speaker presentations at public forums and seminars in the lead up year, and
- 900 *Bizstart* seminars for 14,000 new business owners.

The Task Force recognises the effort of the Tax Office, the business community and their advisors in undertaking this extensive education program, with diligence and willingness.

Information products

The Task Force notes the extensive range of products and approaches currently available to assist small businesses understand and meet their obligations. *Tax basics for small business* and *Record keeping for new small business* are two key products for encouraging small business compliance, produced in easy to digest formats and plain English. The electronic record keeping product e-Record is also made available free to all businesses requiring it, including those new to business.

The Task Force believes this range of products should be reviewed and complemented by products and approaches which assist in addressing the identified four key problem areas impacting on compliance. Not all of these are tax specific.

Recommendation 3.6:

The Tax Office review its current information products to ensure they cover the identified four cash economy problem areas – poor record keeping, poor cash flow management, inappropriate invoice practices and inappropriate ABN practices – and address any gaps. Where needed, specific information products be developed to cover these four areas.

Cash flow products

Cash flow problems have been identified as a potential key driver of non-compliance in the cash economy for both new and established businesses. For this reason, the Task Force believes that the Tax Office needs to take a leading role in promoting options to business to assist in addressing their cash flow issues. Two options, arising from the introduction of the new tax system, which the Task Force believes should be marketed more strongly to small businesses, are:

a) **Voluntary payments** at times other than required (that is, through the normal activity statement and income tax return payment procedures). This should include marketing the benefits to be gained, where these can be made, how often they can be made and how payments can be made without holding a BAS remittance slip. Currently, the Tax Office and the taxi industry are working together to explore opportunities to simplify this process such as a bar coded easy-pay card.

b) **Voluntary agreements** between a payer and payee business to withhold tax from payments and remit these to the Tax Office for the payee business's benefit. This should include marketing the GST advantages to a payee business and the cash flow advantages achieved through having instalments deducted from receipts which are available as a credit against the quarterly liability.

Recommendation 3.7:

The Tax Office develop a marketing strategy and undertake an appropriate campaign to inform small business of the opportunities available to address cash flow management issues for tax purposes, with specific emphasis on voluntary payments and voluntary agreements. Pilots in both the taxi industry (voluntary payments), and in the building industry on major construction sites (voluntary agreements) are recommended.

Recommendation 3.8:

The Tax Office continue to work with industry groups to identify and implement ways to make payments easier, with the taxi industry to be used as a prototype for other industries.

Accredited and industry-based training

There are opportunities for training to include tax and compliance education, especially to address prevalent compliance problems, in accreditation schemes such as recognised business certificates. This could be achieved by the Tax Office developing and promoting a small business 'best practice' tax curriculum which enables a business to reach an approved level of competence in managing its records and meeting its tax obligations.

Assistance from educational institutions such as TAFE and universities should be sought in the design of this curriculum. Training could be delivered by a range of groups including industry bodies or self-taught.

Under one scenario, business operators successfully completing the curriculum would be accredited and this information passed to the Tax Office (linked to the ABN). Recognised accreditation by the Tax Office could contribute to a business being identified as at a lower risk of non-compliance than a business which is not accredited, all other things being equal. Regular refreshes or updates would need to be included in the strategy. Opportunities could also be explored for working with industry and business associations to include tax accreditation in their industry and other registration requirements.

Recommendation 3.9:

The Tax Office call for expressions of interest from relevant groups to develop a best practice tax curriculum for small business and work with providers of business education to deliver the curriculum and accredit business operators upon successful completion of the curriculum. Further, the Tax Office record such accreditation against a business's ABN and use this in its risk assessment processes.

Incentives to encourage self-regulation

The Task Force considers that it is not effective to try to engender compliance in the cash economy through a system that merely punishes those that are not doing the right thing. Instead, the Task Force advocates a mix of measures which offers rewards, incentives and enticements to change non-compliant behaviour.

It also understands that it is difficult to identify to whom incentives should apply. Incentives need to be structured to entice non-compliers to become compliant, while at the same time not demotivating those that are already compliant. Incentives may need to be linked with an additional process that the taxpayer has undertaken, so that the incentive is 'earned' rather than gratuitous. Incentives also need to be accessible. They should not rely on direct observation or proof of compliance, but should flow automatically from the compliant behaviour.

In its previous report, the Task Force discussed the role of incentives and recommended that the Tax Office formulate further incentives to encourage businesses to comply with their obligations. Though it noted that there is still work to be done in addressing the previous recommendations, it again considered a number of proposals for rewards and incentives. The Task Force did not reach agreement on specific incentives that it could recommend. However, the proposals considered include:

Rewards

Concessions that could be granted as rewards need to be of real benefit to the recipient. The Task Force considers that most taxpayers generally set out to do the right thing. The Tax Office could recognise past 'good' compliance behaviour when assessing whether penalties or further enforcement activities are appropriate. For example, where the Tax Office discovers inadvertent errors during an examination of a taxpayer's affairs, the focus should be on ensuring future compliance and not on imposing penalties. Follow-up contact to ensure that errors are no longer being made could be more effective than a one-off adjustment and penalty.

Recognising that different people will place differing values on various options, suggestions include:

- less onerous record keeping, or differential record keeping requirements
- less frequent reporting
- extended lodgment relief, and
- averaging or estimated payments.

Rather than applying differential reporting requirements across the board, it may be more appropriate to require additional information from taxpayers who are identified as being outside industry norms through the benchmarking process and are found to be non-compliant.

Case Study 3.3:

A scenario of how incentives may be applied

An industry's natural reporting cycle may mean it usually accounts for a certain type of activity annually. However, most members are required to lodge a BAS quarterly. Under the above proposals, in return for commitments to lodge on time, accredited members of the industry body may either report the activity annually, in line with their other reporting responsibility, or use an estimate for the intervening quarters.

If successful, more concessions could be added. Conversely, the concession would be withdrawn if compliance reviews showed high non-compliance in the industry.

The Tax Office should further consider relaxing regulatory requirements for taxpayers with exemplary compliance records. For example, taxpayers or industries which have a history of compliance, have an approved compliance program in place, or which subject themselves to a regular compliance audit by an independent assessor, would be eligible for less onerous record keeping obligations and allowed to complete a simpler return form and BAS regime.

Taxation bank accounts

Many small businesses carry out their banking through the one bank account and prepare their tax return and activity statements on the basis of the account statements. The Task Force considered the benefit of a dedicated 'taxation account' could be achieved by financial institutions undertaking to provide account details to the Tax Office to satisfy the requirement to lodge the BAS.

The Task Force is aware that the Tax Office has undertaken a substantial amount of work with software producers and financial institutions on the concept of enabling businesses to code/classify transactions (business/private/private percentage) in their bank account, and also record cash transaction events.

Early research by some financial institutions has indicated that there will be a need to educate business as to the benefits that could be achieved through this concept. In essence, such a system would amalgamate the bank account and record keeping processes for those taxpayers with simple arrangements but still give them control and responsibility. This type of account is suited to businesses with less complex arrangements and with a good compliance history, or those new to business.

While the Task Force is aware that raising business interest in the product will take some time and significant commitment from business stakeholders, it strongly encourages the Tax Office's work with the appropriate stakeholders to develop innovative systems-based record keeping and reporting methods.

Reviewing penalty cases

The current laws imposing penalties for breaches of tax laws, such as failure to keep proper records or to lodge and report as required, operate on the basis that where the breach is committed, the penalty automatically applies. However, the law does allow for the Commissioner to remit penalties in certain circumstances. Equivalent prosecution offences are based on either strict or absolute liability, that is, there is no "fault" element.

The Task Force is of the view that there is scope to tie the level of remission more closely to the compliance model approaches. For example, where a breach results from a specified range of behaviour, the penalty could be remitted in full or significantly reduced, the case referred for a review of the taxpayer's behaviour in a specified period of time and the taxpayer advised of the level of penalty which would be applied in the case of repeat breaches.

For maximum effectiveness, this strategy should be used in conjunction with a reintegration program that assists non-compliers to be re-engaged. Chapter 4 details a proposal for a reintegration strategy.

The Task Force considers that this approach comes well within the parameters of the compliance model and sees it as a natural development of the existing penalty policy.

Good compliance entitlement

In accordance with the general principles underlying the application of the compliance model, businesses with a good compliance record should be recognised and rewarded. The Tax Office is examining an approach under which compliant businesses would receive recognition of their good record. A recognised good compliance record would influence penalty considerations in the event an error in compliance is made in the future.

Good compliance certificates

Certificates of compliance, as a badge of 'good citizenship', could be offered for complying businesses to display in their premises to demonstrate to their customers that they have a good taxation compliance record. These certificates could be issued to businesses, subject to a certain level of compliance review, who reveal no significant compliance issues. The certificate could accompany the letter finalising the review.

The effectiveness of this approach would be enhanced by a communication program which encourages the community to support complying businesses. It also lends itself to be dovetailed into industry self-regulation concepts, since the practice of displaying industry awards and accreditations is well established.

Shaping the administrative system

A number of incentives are being investigated as part of the change program for small business tax administration, with a view to making tax compliance easier, cheaper and more personalised. The Task Force supports this investigation and believes that carefully crafted incentives have a place in an administration that encourages compliance.

Recommendation 3.10:

The Tax Office, working with industry and business groups, continue its research into cost effective incentives to encourage compliance in the cash economy. This should include prototyping incentives and rewards for businesses operating in cash industries, to evaluate whether they are viable in improving their record keeping, cash flow management, invoicing and ABN usage.

Conclusion

The Task Force believes that there has been much progress in encouraging compliance through the communication and relationship management strategies used by the Tax Office since the last report, especially in the implementation of the new tax system. Education programs and support have been at an all time high as part of the introduction and implementation of the new tax system.

The Task Force supports a focus on the four key areas:

- record keeping
- cash flow management
- invoicing, and
- ABN usage.

These processes have constructed a firm foundation for the Tax Office to build on, to deliver personalised messages that continue to engender support for the tax administration and encouragement for business to comply. This will entail continuing high level messages as well as personalised interactions that are tailored to the business's information needs and take into account their particular circumstances. Working with intermediaries, particularly tax practitioners and industry bodies will be the key to constructing and delivering effective compliance strategies and messages.

Future strategies and actions should include incentives which make tax compliance, easier, cheaper and more personalised for the business operator.

Chapter 4 –
Enforcing compliance

Background

This Chapter reviews developments in the Tax Office cash economy enforcement activities since the Task Force's last report and examines cash economy enforcement needs and opportunities in the current environment. It discusses the rationale for enforcement and how the Tax Office may be more effective in its activities in the cash economy. The Task Force strongly believes that the key to effective enforcement activities is visibility of appropriate and transparent actions to address non-compliance, especially where that is deliberate.

Enforcement is an integral part of the role of the Tax Office in improving compliance in the cash economy. Where encouragement and assistance to comply are not effective, the compliance model promotes an escalating regime of enforcement actions culminating in forceful and direct measures (such as audit and prosecution) for those who have chosen not to comply.

Having a range of options available for enforcement action is as important as choosing the most appropriate option. An additional consideration for enforcement activities is the need to maximise their potential effect as a deterrent to others who may be considering not complying. This is achieved through ensuring wide visibility of the enforcement action and making it relevant to others.

The Tax Office prefers to use strategies of encouragement and support, but where these are not effective it will escalate its approaches to enforcement. In some instances, Tax Office risk assessment will require the use of stronger approaches at an early stage – for example, where evidence of culpable evasion exists.

Transparency of enforcement action

The Task Force believes that in taking enforcement action in the cash economy, the Tax Office needs to manage the effect of this action not only on those directly affected, but also on the broader community. Accordingly, the Task Force encourages the following approach:

- Businesses that are participating in cash economy activities should be made aware of the compliance tools that the Tax Office uses and have a clear understanding of the consequences of the choices they make. The administration of the tax system should be seen as both transparent and fair.
- Businesses subject to enforcement action should be aware that they are seen to have not complied – despite encouragement, assistance, information and opportunity to do so.
- The transparency of the compliance program should be such that tax advisers are able to see why their clients have been selected for enforcement action, and ensure they have enough information to advise their client accurately about their choices.
- The broader community needs to be confident of the transparency of the Tax Office actions and that Tax Office enforcement options are fairly applied to non-compliant taxpayers who are aware of their responsibilities and have chosen not to comply.
- The community, business and practitioners need to be aware of the extent of the compliance program, across all levels of business, to demonstrate a fair and equitable approach to compliance.
- Finally, Tax Office staff need to know that they are working within a fair and just system that is transparent to the client, their advisor and the community, and that at any time the client can choose to comply and is entitled to receive assistance to do so. Tax Office staff also need to be aware of what next steps should be taken if the taxpayer chooses to comply or continues not to do so.

Recommendation 4.1:

The Tax Office publicise its cash economy enforcement approaches, products and activities, clearly explaining what action it will take in response to detected incidents of non-compliance in areas such as record keeping, reporting and registration.

More and escalating enforcement

Now that the new tax system is effectively implemented, the Tax Office has renewed its focus on enforcement in the cash economy, focusing on inadequate record keeping, ensuring income is reported correctly, and lodgment and registration requirements are met. Staff have been redeployed from assistance and education activities to more active compliance work.

In 2002–03, almost 50,000 businesses were contacted as part of action directed specifically at cash economy compliance issues, including about 18,500 visits conducted by 600 cash economy project officers. In 2003–04, 70,000 businesses will be contacted, including about 30,000 visits by our 660 officers specialising in cash economy reviews. In 2002–03, in addition to direct cash economy action, a further field force of about 2,400 officers identified cash economy issues as part of their general compliance reviews and will again identify these issues in 2003–04.

The Tax Office continues to deploy a range of tools and methodologies to deal with non-compliance. These include an expanding suite of graduated compliance products for field staff and expanded sanctions, such as on-the-spot penalties for breaches of the record keeping requirements[46]. A mix of traditional and newly developed cash economy compliance products are being used by field staff who examine a range of tax obligations including both income tax and GST issues. These escalating products and approaches include:

- **Customised letters** to business operators with financial ratios outside industry norms, indicating that they may not have reported all their income or may have over claimed their expenses. Letters advise the clients that their reported activity is unusual for their industry and either ask them to review their records and reporting processes or to send specific information to the Tax Office.
- **Unannounced visits** to businesses to check basic registration details and to offer assistance with any immediate tax concerns. These are generally a short visit rather than a review of the books of account. Details obtained are subsequently checked and verified, with further contact if there is a problem.
- **Health of the system checks** are visits to review a business's financial accounting systems and internal controls.
- **Specific checks** are reviews in response to a particular risk. These may involve an audit, a voluntary self-review based on a specific issue or the provision of advice.

46 s288-25 Schedule 1 of the *Taxation Administration Act* 1953, the substance of which reflects a recommendation in the Task Force's previous report.

Case study 4.1:

Unannounced visits – 'walk-ins'

The unannounced visit or walk-in is a real time, high visibility, review activity which was initially developed and trialled in the restaurants and cafes project. The activity is now used across most industries.

In 2002-03, 26,000 walk-in visits were conducted and 49 businesses which should have been registered for GST, but were not, were detected. Over 3,700 cases were escalated for follow-up action, mostly for non-lodgment of BASs. Several visits resulted in identifying taxpayers that had not lodged income tax returns for eight years or more. PAYG and GST revenue raised exceeded $6 million.

These cases included:

- *Recent activity in the taxi industry, undertaken jointly with other government agencies at Sydney airport, resulted in the identification of 10 unregistered drivers and another three who were working in Australia unlawfully.*
- *A restaurant which had turnover of $350,000 a year, which had been registered for three months but then deregistered itself, was identified as still operating and needing to be registered and lodging BASs.*
- *A seafood restaurant was not registered for GST and claimed to have turnover under the threshold of $50,000 per annum, yet the restaurant's menus stated that all prices included GST.*
- *A person who had defaulted on payment of outstanding tax debts of about $200,000 was identified, leading to the initiation of legal recovery action.*
- *A tax agent reported that walk-in activities had prompted a person to seek advice from him about lodgment of 30 years of income tax returns and three years of BASs.*

- **Activity statement reviews** are used where multiple risks have been identified. All issues covered by the statement are examined, usually through sampling. Cases may be escalated for a more in-depth examination in the event that shortcomings are detected.
- **Income/sales reviews** have a greater focus on the income of the business, recording processes, business procedures, the matching of purchases and sales, and sales being made in cash or off the books.
- **Comprehensive audits** are relatively in-depth examinations seeking to identify income omission or incorrect expense claims, usually over more than one reporting period. This approach may include a funds flow analysis.
- **Inter-agency field operations** involving agencies such as the Australian Customs Service, the Australian Federal Police, Centrelink and DIMIA.
- **Serious evasion audits** may be quite in-depth and involve a range of compliance checks, including third parties. These will often result in higher levels of penalty.
- **Prosecution activity** for the more serious or persistent cases of evasion or criminal activity. These cases may involve other agencies such as the Federal Police.

The Tax Office determines the type of products and approaches to be used for cases or particular projects, based on an assessment of risk being addressed. Cases are escalated to a more detailed level of examination when appropriate risks are identified or emerge.

The Task Force believes that the range of approaches is comprehensive and provides appropriate options to address incidents of non-compliance. It supports the Tax Office's approach that one process does not uniformly apply to all businesses reviewed. Of course, as the Tax Office's understanding grows and non-compliant behaviour changes, the Tax Office needs to continually review the effectiveness of its enforcement tools and develop new approaches in response to evolving environmental conditions.

In this regard, the Task Force also reviewed other enforcement strategies, including those referred to in its previous report, and made the following observations:

Record keeping requirements

Poor record keeping is a recognised compliance risk that contributes to the cash economy. The Cash Economy Task Force in its 1998 report recommended on the spot fines for prescribed offences such as failure to keep adequate records. The penalty regime under the New Tax System provides support for this approach and the Tax Office will commence applying administrative penalties for inadequate record keeping in the near future.

The Tax Office has developed a record keeping strategy and is finalising a policy guideline to assist in identifying and addressing non-compliance with the record keeping requirements. The strategy has a primary focus to improve record keeping behaviour. The new penalty regime will be used as part of a revisit program for those who choose not to change their behaviour. This record keeping strategy is being implemented across cash economy field activities.

A number of industry bodies are concerned that the non-compliant behaviour of a few members of their industry makes it difficult for the compliant ones to compete and that they potentially bring the whole industry into disrepute.

Under the existing legislation and administrative arrangements, the Commissioner can require a person to provide any further information, statement or document about the person's financial affairs for a year of income or a specified period. The person may need to keep certain types of records in order to satisfy these requirements.[47]

Through a more onerous though focussed reporting regime, the Tax Office can make an impact on the compliance level of an entity, high risk business groupings or industries, particularly where there is evidence of non compliance and poor record keeping.

In developing an escalating reporting regime, which may apply to certain individuals within an industry, the Tax Office should work with industry representatives to identify and design a regime which aligns with any specific requirements of the industry. This would facilitate businesses in that industry to prepare accurate activity statements and tax returns. Industry members should be educated in any changes to requirements in their industry through the joint efforts of that industry and the Tax Office.

This approach to more onerous reporting for particular members in an industry could be a bridging step before implementation of PAIVS, the mandatory payer reporting system. It could also be a de-escalation strategy where mandatory reporting has delivered improved compliance outcomes. The Task Force sees this flexible and consultative approach as an appropriate response, under the compliance model, to achieve better compliance outcomes in a specific problem area. It supports the escalation and de-escalation in direct response to compliance outcomes and believes that this will underpin development of self-regulation in these high risk industries and serve as a model for other developing risk areas.

47 Provided these records fall within the ambit of section 262A ITAA

Recommendation 4.2:

The Tax Office work with representatives of high risk industry groups to develop and implement a graduated program of increased reporting requirements as an escalation and de-escalation response to compliance outcomes.

Prosecution effectiveness

The Task Force recommended in its previous report that the Tax Office pursue prosecutions through the courts and seek penalties commensurate with the lack of community tolerance for tax evasion. The Task Force notes this was considered by the ANAO to have a number of sensitivities. A survey of levels of penalties and comments from the judiciary over recent years shows a trend towards increased length of custodial sentences and a gratifying number of comments from judges emphasising the seriousness of the offences and their intolerable impact on the community.

This includes a sentence of 3½ years jail for an offence carried out on the basis of 'greed, not need', and another, where the court considered an offender to have 'abused his position of trust' and was given a jail sentence of 4 years. In another case in August 2002, the court described a fraud for tax evasion as the '...worst of its kind' and handed down a 10 year sentence. This support from the judiciary provides a strong message to complement the Tax Office's efforts to reduce tax evasion.

While acknowledging the inherent difficulties, the Task Force believes that the Tax Office needs to continue with the aim of getting greater publicity of these decisions through the popular media, and that the link between the offences prosecuted and the cash economy should be made clear.

Recommendation 4.3:

In every tax evasion case where a jail sentence or other significant penalty is imposed by the courts, the Tax Office pursue wide dissemination of this outcome (for example, through the issue of a media release), explicitly linking the offences prosecuted and the cash economy.

Integrated approaches across revenue products

Cash economy compliance strategies are designed using an integrated approach to cover several taxes or revenue products at the same time – usually income tax, PAYG and GST. For example, in the road freight industry project, the Tax Office has used excise information on diesel fuel rebates to review compliance in that industry. In the superannuation area, information provided by employers about superannuation guarantee payments for employees assists in identifying those employees that are not lodging.

The Task Force supports these activities and encourages the Tax Office to continue to develop strategies and procedures which result in more systematic and integrated approaches to compliance across the whole of the Tax Office. For example, in the tobacco industry, excise compliance activities have highlighted the non-compliant nature of some businesses. Risk to the revenue from illegal tobacco operations occurs at all levels in the value chain – from farmer to retailer – and across a broad range of revenue products including income tax, GST and excise. Accordingly, a balanced strategy would address all aspects of those risks.

Recent additional resources provided by government have enabled the Tax Office to develop a more integrated approach across a range of revenue products.

Non-lodgers

The Tax Office has an ongoing lodgment enforcement program which includes a focus on activity statements and income tax returns. In large part, the Tax Office's core lodgment enforcement program has traditionally sought to enforce lodgment by taxpayers with an existing lodgment history on Tax Office systems.

Prior to the introduction of the ABN and ABR it was very difficult for the Tax Office to identify businesses operating entirely outside the tax system. This work was often done on a project basis, usually focusing on particular industries. An example has been the high profile legal profession project, which revealed endemic non-compliance with reporting and payment obligations at an industry level. Matching of third party data, with other registration information on Tax Office systems, has provided the information needed to conduct an extensive and successful lodgment project.

The requirements of the new tax system have also drawn in many businesses previously outside the tax system. Tens of thousands of these businesses with unmet previous year tax obligations have been identified and are being required to meet those obligations and, more importantly, are now contributing members of the tax community.

While ABN registration (and withholding when an ABN is not quoted) improves business compliance, the Task Force believes that there is value in more systematic approaches to matching Tax Office registration and lodgment data with third party data – such as industry registrations. Improvements in addressing this significant risk within the cash economy are to be achieved through expanded, more coordinated and more regular matching of third party data.

Further, to take advantage of the leverage opportunities, the Tax Office should regularly publish the extent of its planned activities, the type of data matching undertaken and the results from applications of the data.

Recommendation 4.4:

The Tax Office examine data matching opportunities with government agencies and commercial entities to improve the identification of businesses trading but not lodging. These approaches should include working with the States and Territories to consider making the provision of a business' ABN as a pre-requisite for state or territory licensing and registration. Data matching to identify non-lodgers should be made more systematic and regular, and the Tax Office should publicise its planned activities and results.

Non-lodgment penalties

While the ultimate goal is to bring non-lodging businesses into the tax system as compliant businesses in the future, the Task Force considers there is potential for a review of Tax Office lodgment and penalty policies based on the principle of response differentiation according to the level of culpability associated with the non-compliance[48]. As a general principle, the lodgment and penalty consequences should be more severe for a business which has been operating without lodging for a long period, or has a history of lodgment non-compliance, than for a newer business which has never lodged or defaults for the first time. The current degree of differentiation should be reviewed with the above principles in mind.

The Task Force notes that the Tax Office Penalty Policy statement[49] conforms to the escalating approaches under the compliance model. However, it believes that more could be done to more specifically place each non-complier on an appropriate level of the compliance pyramid. This entails systematically identifying the background issues surrounding the non-compliance, such as how long the business has operated without trading, or whether the individuals behind a corporate entity have existing poor compliance records.

The Task Force encourages the Commissioner to review his penalty policy to consider the capacity in which penalty imposition and remission may have regard to the compliance record of the individuals who are the decision-makers behind these entities. For example, where directors of a company have a history of poor lodgment compliance, either individually or as officers of previous companies, the company should be treated more severely than a similar company whose directors do not have poor compliance records. This could include specifying the time period in which past actions or behaviour is considered to be relevant in determining culpability in the action.

Recommendation 4.5:

The Tax Office reviews its penalty policy so that the Commissioner exercises his available discretions to apply or remit penalties which differentiate more clearly between different aspects of Compliance Model behaviour. The review should consider the extent to which the Commissioner is able to have regard to the compliance history of the taxpayer or the relevant decision-maker in the business – for example, directors.

Reintegrating non-compliers

The Task Force previously considered reintegrative shaming theory and recommended the Tax Office monitor research on this. The theory is that effective sanctioning involves the combination of disapproval of a person's wrongdoing combined with affirmation of that person's worth as a citizen. Research on reintegrative shaming is ongoing and CTSI is taking a lead role in monitoring this.

The Tax Office is incorporating these approaches in its ongoing development of practical ways of applying the compliance model. It is important that the relationship between the Tax Office and a non-compliant business is returned to normal as soon as possible, so that the right conditions apply for the business to be compliant on an ongoing basis.

The Tax Office believes the application of the compliance model to a non-compliant business is not fully implemented until that business is successfully reintegrated into the tax system. The Task Force believes that the Tax Office can best learn about effective reintegration by focussing on the period after an administrative solution has been effected. The approach should have regard to monitoring the subsequent compliance activity of an 'actioned' business, and by providing the correct assistance options which will both help and influence the business in remaining on a compliant path.

Recommendation 4.6:

The Tax Office implement a case management system to monitor and assist in reintegrating non-compliers guilty of serious offences from 1 July 2003. This approach should be evaluated with a view to extending it to other areas of non-compliance in the cash economy.

48 The General Interest Charge (GIC) can be distinguished from penalties in that GIC is not based on culpability.

49 ATO Practice Statement 2002/8.

Withholding and reporting systems

PAIVS – New withholding and reporting mechanisms were introduced as part of the new tax system. The Payment, ABN and Identification Verification System (PAIVS) are a suite of four provisions requiring reporting of transactions by suppliers or purchasers, or checking of the suppliers' ABN or identity. These provisions are invoked by regulations describing the transaction in terms of the nature of the supplier, the purchaser or other details.

PAIVS has features similar to the RPS system, but is strengthened by the integrity of the ABN as an identifier. PAIVS can be focused very narrowly so as to deal directly with a specific area of non-compliance while not intruding into the generally compliant sectors. This could be a very effective tool for dealing with significant or recurrent non-compliance by a discrete group, and is especially appropriate to typical cash economy behaviours such as poor record keeping or not reporting income. As well as applying on an ongoing basis, PAIVS can be applied for a limited time until compliance levels improve and good compliance behaviours are developed.

PAYG withholding – Another feature also invoked by regulation is extending PAYG withholding to payments to non-employee individuals for work or services. This mechanism could be used to require payers to withhold from payments to contractors in similar circumstances to employees or labour hire workers.

These measures are quite flexible and can have either generic application – for example, across a broad industry – or more targeted application, at narrowly defined high risk transactions.

The Task Force previously acknowledged the cost effectiveness of withholding and reporting systems, but also noted the burden they can place on third party payers. It previously made a number of observations about issues to be considered as pre-requisites to extending these systems to high risk groups, notably, undertaking an analysis of non-compliance and the costs and benefits for industry. These observations remain valid.

Though significant risk work has been undertaken in the Tax Office cash economy program, the introduction of new integrity measures as part of the new tax system has necessitated further analysis of non-compliance. From the findings in the cash economy projects, together with benchmarking data both internal and external to the Tax Office, further analysis is to be undertaken. Each of the cash economy industry projects is required to consider the appropriateness of the withholding and reporting systems in response to the risks identified in that industry.

The Task Force observes that any proposal to use extended withholding or mandatory reporting provisions would need extensive industry consultations at an early stage.

Recommendation 4.7:

The Tax Office evaluate in all cash economy projects the case for the application of reporting systems or extended withholding as part of a formal evaluation of risks and risk responses in those projects. Any proposal should include an analysis of the costs and benefits for business and receive wide stakeholder consultations at an early stage.

Voluntary agreements – The PAYG withholding legislation provides for voluntary agreements to withhold from payments to individuals holding an ABN. The advantage for payees is that the income received under the voluntary agreement is not subject to GST or PAYGI. Where this is the only source of income, the payee will not be required to complete a quarterly BAS. For the payer there are cash flow benefits and possibly increased payee loyalty.

Income subject to a withholding system has a much lower risk of omission, as payees are keen to claim their credits and withholding provides an information flow to the Tax Office, which facilitates income matching and detection of omitted income.

The uptake of voluntary agreements has not been widespread. At the beginning of the new tax system, a survey of larger payers under the PPS system indicated little support, as the administrative burden was considered too onerous. More recently the Tax Office surveyed payees who have had tax withheld under voluntary agreements[50]. Most were clearly in favour, citing cash flow management, simpler lodgment and avoiding large end-of-year tax bills as the best attributes. Some also identified cash flow benefits to their payers as further advantages. However, many felt that voluntary agreements were not well publicised and that the Tax Office should do more to promote them. Other Tax Office research, with payers of contract workers, indicates that while many considered voluntary agreements too onerous administratively and equal numbers were unaware of the facility.

Better marketing of voluntary agreements is included in Recommendation 4.8 of this report. The Task Force also believes that there is scope for voluntary agreements to be integrated with other more forceful compliance measures such as mandatory reporting under PAIVS or more onerous record keeping. Good compliance could be encouraged by excluding

50 Research conducted by Tax Office, using outbound phone calls and face to face questioning.

payments made under a voluntary agreement to withhold from the operation of more onerous record keeping or mandatory reporting.

Recommendation 4.8:

To complement the marketing of voluntary agreements, the Tax Office develop a policy for the use of voluntary agreements as an option for businesses that may otherwise be subject to mandatory PAYG withholding or PAIVS.

Increasing the visibility of enforcement activities

The importance of leverage opportunities afforded by publicising enforcement activities in the cash economy is recognised. These opportunities are being pursued through ongoing liaison arrangements with industry, practitioner and community groups, and other state and federal agencies. This activity links with the four major target audiences for the cash economy communication strategy – community, businesses, intermediaries and Tax Office staff.

The compliance model supports the notion that confidence in the tax system is one of the essentials to developing a strong level of commitment to the tax system. To achieve the required level of confidence, the community at large must see that the system is fair and that enforcement activity is carried out where necessary and across the full range of businesses.

Activities of the cash economy program must be clearly visible to the community at large, as well as to members of specific industries. This requires a mix of mass media messages (for example, via the popular press) and industry messages (via industry and business publications). These approaches assure the general community of the effectiveness of Tax Office strategies and activity as well as personalising industry messages to address any misperceptions that tax evasion in the cash economy is worth the risks.

Each cash economy industry project works with the applicable industry associations before, during and after fieldwork. Articles appear in project industry publications and the general community is informed through media channels. The cash economy is a major focus area in Tax Office publications such as the annual compliance program.

Despite the escalation of information available to the community regarding compliance activities over the last few years, including cash economy activities, the Task Force believes that more can be achieved in this area.

Recommendation 4.9:

The Tax Office publicise enforcement approaches, activities and results more widely.

Inter-agency activities

The Tax Office is involved in a range of inter-agency enforcement activities under a whole-of-government approach. This approach engenders community confidence by demonstrating an integrated and coordinated approach to enforcement across all government agencies. The clear deterrent effect arises from perceptions that the likelihood of getting caught is greater when several agencies' detection strategies are employed together.

A specific example of these approaches is the Inter Agency Cash Economy Working Group, which was established in response to recommendations of the Task Force's first report in 1997. Through this group, the Tax Office works with Centrelink, DIMIA and other government bodies to identify common risks and opportunities for collaborative cross agency enforcement efforts.

These activities have included the sharing of information across agencies, or each agency using indirect information, for example, utility registrations, and then matching this to their own data holdings to identify clients at risk of non-compliance. The use of Cross Agency team visits has allowed timely and efficient reviews of records and also, interviews with the key principals. It allows a more co-ordinated whole-of-government approach to non-compliance.[51]

In the first six months of the 2002–03 year alone, a range of activities have been identified by Centrelink as producing savings of $6.3m and identifying $14.8m in debts to be recovered. Recent overseas experience indicates that a number of countries have also developed whole-of-government approaches to compliance, focusing on the development of inter-agency teams working together to address risks associated with the cash economy. For example, as a result of a recommendation in the Grabiner Report, the UK Government has implemented Joint Shadow Economy teams to ensure a whole-of-government approach to the management of fraud associated with the cash economy in the UK.[52]

The Task Force supports the joint activities being undertaken in Australia and the move towards greater visibility of the process.

51 *See case study on clothing in Appendix 1.*

52 *The Informal Economy – A Report by Lord Grabiner QC, March 2000 [http://www.hm-treasury.gov.uk/media]*

AUSTRAC

AUSTRAC, the Australian Transaction Reports and Analysis Centre, and the Tax Office continue to work collaboratively in identifying risks in the cash economy. This includes using AUSTRAC data:

1. as a risk identification tool – to identify potential hot spots of activity, such as the increase in the flow of funds through tax havens
2. as an industry risk identification tool – by examining the trends in the cash transactions within an industry over a period of time to identify risks
3. as a case selection tool – to identify potential risk through large amounts in cash transactions or transfers and other anomalies as well as identifying any trends, and
4. as a case enhancement tool – identifying that a business is active and to use the transaction information as a source of enquiry. This information is also used extensively in identifying and addressing cases associated with particular risks. Examples include identifying substantial cash payments received but not declared, and money laundering activities.

Outcomes from the use of AUSTRAC data

Case Study 4.2:

Building and construction industry

Profiling using the AUSTRAC database identified a building construction company making weekly cash withdrawals totalling $8M over a five year period. These were checked against the taxpayer's records, which revealed that the withdrawals were recorded as purchases and supported by false invoices.

Subsequent audit activity culminated in search warrants being executed and, as a result, the cash withdrawals were found to be untaxed cash payments to employees and sub-contractors.

Tax and penalties of $3.2M were assessed and on prosecution, the directors pleaded guilty to fraud charges. The trial judge found that the directors had engaged in deliberate and systematic tax fraud. As a result, one director was sentenced to 18 months imprisonment and the other received a 12 month good behaviour bond.

The use of AUSTRAC data by the Tax Office has increased significantly in recent times with the renewed field focus on the cash economy. When comparing usage from 1999–2000 to 2002–03, there has been a 40% increase in the incidence of checking AUSTRAC data for casework. AUSTRAC reports indicate tax results achieved through the use of their data in the 2002–03 year amounted to $99.2m in revenue. AUSTRAC data has also played a significant role in achieving the prosecution of several persons involved in significant tax avoidance activities.

Case Study 4.3:

GST evasion

As a result of a tip-off, the Tax Office investigated the operations of a fuel distributor. Examination of AUSTRAC data revealed millions of dollars in cash withdrawals from one bank account over a period of about 18 months.

Searches of Tax Office data identified that the entity involved was not registered for GST and follow-up field investigation found that no records were kept. The business operated on a cash-only basis.

AUSTRAC data played a significant role in calculating the company's turnover and subsequent GST liability.

The two agencies, AUSTRAC and the Tax Office, are developing more strategic data matching capabilities, including the use of more advanced processes.

In its previous report, the Task Force listed a number of areas for extending the financial reporting requirements under the *Financial Transaction Reports Act 1988*, (FTR Act) and recommended they be given careful consideration. These included broadening the categories of specified cash dealers and the range and level of report types.

The Task Force is encouraged to learn that a review of the FTR act commenced in 2002 and includes consideration of its previous recommendations. It is intended these and other improvements, identified through AUSTRAC's consultation with partner agencies and in discussions with cash dealers, will be incorporated into a broader review of Australia's anti-money laundering system.

Conclusion

The Task Force believes that effective enforcement activities need to be visible, appropriate and transparent. This chapter contains a number of recommendations that will result in a more concerted and open approach to Tax Office compliance activity in the cash economy. However, as a general rule the Task Force believes that all enforcement activities should be developed in conjunction with these criteria and subsequently evaluated against them.

Chapter 5 – Business-to-consumer dealings

Background

Business-to-consumer transactions are all those transactions which consumers or householders enter into for domestic purposes. They include transactions for retail purchases, building improvements, mechanical repairs, restaurant meals, takeaways and household services such as gardening, cleaning and childcare.

The Task Force considers this is not an easy area in which to identify and address tax evasion, but Australia is not alone in this. A number of comparable overseas tax administrations (including those in the UK, Sweden, the USA and Canada) were canvassed and expressed similar observations. Most advised they had no quantitative assessment of the risks presented by business to consumer dealings in their country. However they identified the risks in these dealings as being significant and the Task Force shares this view in respect of Australia.

In Australia, there is little analysis to date on the size of evasion in the cash economy arising from business-to-consumer transactions. However, it is noted that there is nothing from current Tax Office compliance reviews of businesses in industries with a high percentage of business-to-consumer transactions (for example, restaurants and cafes, clubs and pubs, building and construction) to indicate any significant increase in evasion in this sector in the new environment.[53]

While many of the new tax measures systemically reduce the opportunities for non-compliance in business-to-business transactions, the impact of these measures on business-to-consumer dealings is limited.

As an example, a business supplying goods or services to another business must quote its ABN. If no ABN is quoted, the payer must withhold from the payment.

Payees in business-to-consumer transactions have fewer deterrents to non-compliance, especially where the supply is more for services than goods – this is because businesses supplying goods will want to claim the GST input tax credits included in the price they paid for the goods or materials.

Further, many of the goods and services acquired in this sector are high turnover/low value, making the practices even more difficult to identify and address as the tax consequences of each transaction are often minimal.

Commonly, goods or services are acquired by a consumer without any thought to taxation. The consumer's level of interest is to receive acceptable goods or service for an acceptable price. As price often remains paramount, other reasons or incentives need to be considered to encourage consumers to pay attention to the tax evasion consequences which flow from their choices. More research is required to establish the basis for risk identification and mitigation in this business to consumer sector.

Recommendation 5.1:

The Tax Office conduct further research and analysis, including risk assessments of specific sub industries with significant business-to-consumer dealings, to identify the level of risk in the business-to-consumer sector. This can be used in part as a benchmark for measuring the effectiveness of risk mitigation strategies.

Moonlighting

Moonlighting is believed to be a significant contributor to cash economy evasion in the business-to-consumer sector. For the purposes of this report, moonlighting is defined as activity associated with employees who receive payments (in money or kind) for work outside their regular employment.[54] These

53 Research by academics (eg Bajada 2002) indicates most of these industries to be more prone to active participation in tax evasion in the cash economy.

54 Similar activities undertaken by *regular* businesses are not included in this definition. They are considered to be part of the general risks covered throughout this report.

payments can be for additional work undertaken for their regular employer, or payments for work for parties other than their regular employer.

Academic research undertaken in Australia and overseas is limited but indicates that employees who moonlight are significant participants in evasion in the cash economy, in both numbers and in value terms.[55] The research indicates that these activities are typically labour intensive, and, if goods are required, customers may be asked to purchase these in their own name.

The Tax Office approach to detecting and addressing this evasion has included reviewing the validity of payments made by employers and other businesses to ensure they are valid business expenses. If validity is confirmed, then follow-up activity with payees can be undertaken.

Canvassing of overseas administrations generally reflects little specific activity in identifying and addressing risk in this area. One administration reported its activity had focused on projects in certain occupation groups (for example, police and teachers) as well as participants in seasonal industries. Results from these projects have indicated there is a significant risk of evasion by moonlighters.

Given the findings to date from the academic research and occupational projects, the Task Force believes that the Tax Office should undertake research and other scoping work to develop a risk assessment of evasion in the cash economy through moonlighting. Subsequent activity should be based on this assessment.

Recommendation 5.2:

The Tax Office undertake research and other scoping work on moonlighting activity in Australia to assess the level of risk from these activities.

Compliance improvement strategies

In discussing what might be appropriate approaches to the risks in this sector, the Task Force considered whether non-compliance associated with business-to-consumer transactions was driven predominantly by business or by the consumer.

The CTSI research shows many people think that others pay less than their fair share of tax and could use this perception as an excuse to minimise their own tax payments. However, the same CTSI research, and Tax Office audit results, indicates that most Australians do try to pay the correct amount of tax.

55 This research includes work by Prof Friedrich Schneider of Linz University in Austria and Dr Chris Bajada of the University of Technology in Sydney.

As business is required to comply with the tax laws, while the consumer has no regulatory obligations, there is a view that compliance improvement strategies need to be focussed on businesses. Tax Office compliance programs are in the main targeted at businesses for this reason. The Task Force believes these activities need to be complemented by an increased focus on the consumer in this relationship.

The Task Force questions the feasibility of obliging consumers to participate in activity primarily focused on tax compliance by the supplier, even if supported by regulatory systems. There would be difficulties enacting a system that obliges consumers to bear the additional compliance costs, and adverse consumer reaction could be expected. In addition, it would be extremely resource intensive to effectively enforce such obligations on such a large and diverse range of people. Experience with the PPS system, which required householders to report on home improvements costing over $10,000, would not support a similar regime aimed at consumer reporting en-masse.

Another proposal discussed by the Task Force was that of following transactions through the audit trail to the consumer. Consumer dealings with businesses could be identified through third parties, for example local council building approval areas, motor vehicle registries or State duty offices. Other examples could include identifying anomalies in the recording of income from consumers in a business's accounts, for example cash payments for household services not evidenced by invoices or receipts, or regular weekly/monthly payments in cash for which all weeks/months are not accounted in the records.

Consumers could be contacted and asked details about their transactions with businesses, such as the amount paid, whether they were aware if GST had been paid and if the supplier offered a GST free price for cash or other cash incentives. These approaches must be managed sensitively and not imply anything adverse about a business's tax compliance. While this contact could, on occasion, discover evidence of cash dealings and tax evasion, its major benefit is that over time it would increase consumer awareness that the Tax Office is active and that the consumer is an important person in the tax system.

Community attitudes

A major difficulty in dealing with consumer transactions is the lack of incentive for a consumer to deal with a business on anything other than a price or quality basis. The challenge is to influence consumers to become more concerned about the interaction they have with businesses and the behaviour of those businesses in the community. That is, to identify how consumers at this level can be encouraged to become compliance influencers. Other parties (including business and industry associations, tax practitioners and consumer groups) also have a role as compliance influencers.

Findings by CTSI show that a perceived low likelihood of being caught and a lack of social and moral obligation to pay taxes are motivators for people to participate in evasion in the cash economy[56]. The Task Force believes that strategies to manage the risks in the business-to-consumer area need to include approaches which influence these attitudes and hence behaviours.

Recommendation 5.3:

The Tax Office continue its research into consumer attitudes to tax compliance and what might influence consumers to report or document cash transactions, and hence motivate the declaration of income by supplying businesses.

Advertising and education

Most on the Task Force favour inclusion of broad scale approaches to influencing consumer attitudes and improving compliance in the business-to-consumer sector generally (for example, through advertising campaigns in the media). Inserts could also be placed in tax correspondence to consumers – for example tax assessment notices. Large employers could also be asked, through industry partnerships, to include inserts with mail outs of employees' annual payment summaries.

Even if initially only government employees and Centrelink beneficiaries received these messages, they would reach a considerable number of consumers. Other suggested channels include health insurers and superannuation funds mailing out annual tax statements, banks and other financial institutions mailing out statements containing annual interest statements for tax. Financial planners and investment brokers' portfolio reports and local government rating notices could be useful vehicles also.

A range of messages would be necessary so that consumers did not receive many repetitions of the same thing. Effective messages need to focus on assistance, encouragement and deterrence to influence social norms. These messages need to include advice on the nature of, and channels for, assistance as well as addressing perceptions of the likelihood of being caught and the consequences of that.

56 Schneider N, Braithwaite V & Reinhart M, *"Individual behaviour in the shadow economy in Australia: Facts, empirical findings and some mysteries"*. CTSI Working Paper 19, September 2001.

Recommendation 5.4:

The Tax Office design a range of tax compliance messages suitable for inclusion in tax related correspondence. These messages be included in Tax Office correspondence to consumers (for example, tax assessment notices).

Recommendation 5.5:

The Tax Office seek agreement from major employers and organisations with many consumer clients, to include tax compliance messages in their mail outs to their employees and clients.

The Task Force considered a range of Australian and overseas compliance improvement advertising campaigns targeted at the general public. Compliance messages need to be carefully crafted and tested for acceptance on the intended audience. For example, recent research undertaken for Canada Customs and Revenue Agency indicates a waning of support for general messages relying on equity approaches – for example, 'I pay my taxes, and everyone else should pay theirs.' Further, Sweden has identified a need to develop specific messages to the young, based on the misalignment of attitudes on tax compliance between the young and the rest of the community as shown by surveys in that country.

With the maxim that prevention is better than cure, the Task Force also believes that long term attitudinal change must begin with the younger members of our community and the newer members of the business community. It, therefore, supports a continuing and well-targeted focus on students and new businesses to address potential business and consumer audiences.

The Task Force recognises that advertising campaigns can be costly but believes they provide a feasible and effective way to change norms and improve compliance in this large and diverse sector. In considering the cost-benefit ratio for such activities, the Task Force emphasises the need for greater focus on longer term trends as well as on direct return on investment in the short term.

The Tax Office has education programs for young people and prospective new business operators focusing on their future tax obligations. The Task Force believes that these programs could include education on taxation from a consumer perspective so that these people do not unwittingly engage in cash transactions which assist the supplier to avoid tax.

Case study 5.1:

A campaign with an interesting twist –'"Get it in writing[57]'

This campaign idea seeks to improve compliance in the business–to-consumer market by encouraging consumers to insist on having their dealings in writing – including agreements for goods and services (especially for those of significant value) as well as receipts for goods or services provided to them.

Often the consumer's view of ensuring a business or tradesperson is providing the proper paperwork is 'What's in it for me?'. There is a need to understand the reasons why a consumer would choose one course of action over another.

The main thrust of the campaign is to have people recognise the pitfalls of dealing with people in cash – for example, no warranties and possible insurance problems. The campaign would include advertising cases where problems have arisen for consumers.

An expected key compliance benefit is a decrease in consumer dealings in cash with tradespeople and others who are adverse to written contracts and receipts, leading in turn to a decrease in evasion.

A secondary benefit to be expected is that there would be a growth in contracts, quotes and receipts in specific industries, leading to improved audit trails.

The deterrent effect could be expected to increase with an increase in the perceptions of traceability and hence the likelihood of getting caught.

To be more appealing and effective, messages should be jointly branded with relevant industry and government stakeholders – for example, those in the industry, in insurance, in consumer rights and in fair trading roles. The value to compliance improvement is readily evident, albeit the tax effect resulting from an increased focus on obtaining tax invoices and receipts may be seen as secondary.

The messages may also state that suppliers are not entitled to charge consumers GST unless the business is registered for GST. The message would advise that if GST is charged, householders are able to ask for an invoice quoting the supplier's ABN and check the Australian Business Register to confirm the registration status of the business.

57 Recently, a 'get it in writing' campaign focussing on the building industry has commenced in Canada.

58 If a business is not GST registered it can neither claim input tax credits nor charge clients GST. All businesses with a turnover >$50,000 per annum (and all those in the taxi industry regardless of turnover) are required to be registered for GST.

Recommendation 5.6:

The Tax Office undertake, as a high priority, research into the costs and benefits of a broad scale advertising campaign to influence community attitudes to tax compliance. This research should include working with industry and other stakeholders to develop joint approaches to achieve mutually desired outcomes.

Recommendation 5.7:

The Tax Office consider a consumer 'get it in writing' campaign and, as part of this, undertake and evaluate a pilot for householder building projects, in conjunction with industry associations and other appropriate parties.

Brochure – Support for small business

Business and industry representatives advise that it is often the consumer seeking a 'tax discount' by refusing to pay the GST component of the price. This may arise when the consumer has obtained a range of quotes from various small business operators. Some may be registered and are therefore charging GST, while others are not registered and are not charging GST[58]. Customers in this position can incorrectly draw the conclusion that adding GST to the price is optional.

To assist in clarifying the correct position, the Task Force recommends that the Tax Office, in conjunction with industry, produce and distribute a brochure setting out the responsibilities of small businesses in relation to tax and particularly GST. The brochure is intended for businesses to provide to consumers to show that GST is not optional and that GST registered small businesses are under a legal obligation to include GST in the price. Typically, this would be in the early stages of contact and negotiation. Additional information for consumers may include advice to assist them in contributing to the integrity of the tax system – for example, how to check the validity of a business's registration.

The Task Force recognises that the more information that is included in the brochure that relates to tax the less likely a non-compliant business is to distribute the brochure. Therefore, complementary ways of making the brochure available to consumers (for example, with local council building approvals) need to be explored.

Recommendation 5.8:

The Tax Office work with industry and other stakeholders to develop and distribute jointly branded brochures setting out the tax responsibilities of small business in the particular industry, especially in dealing with consumers. Again, prototyping and evaluation of this approach should be undertaken in one or two industries before considering wider application.

Community information

Members of the community are to be encouraged to provide information about tax evasion in the cash economy. As well as providing potentially rich intelligence, this information allows the Tax Office to gain insights into business-to-consumer dealings through some of the closest observers. Community confidence in the tax system is influenced by the ease by which this information can be provided, and Tax Office responsiveness to it.

Although the Tax Office TERC receives a significant amount of information from the community (about 40,000 contacts per year), the Task Force believes people are largely unaware that they can report what they believe to be tax evasion, and how they can report this information. It is only recently that the Tax Office has started to make widely known the methods for providing this information.

Further, to complement improvements in accessing the TERC, the Tax Office needs to continue to develop its range of responses to this information. This will ensure both a greater number and a higher proportion of cases are actioned in a timely manner. From the information received and the results arising from the casework, common issues can be identified and form the basis of more widespread education activity.

The Tax Office will build a direct and reciprocal relationship with consumers in the community, promoting the concept of joint custodianship of the tax system. An important element in facilitating this is timely feedback to the community about the outcomes from this information. The Task Force supports the encouragement of community involvement in reporting tax evasion and making the provision of community information a more open process.

Recommendation 5.9 :

The Tax Office optimise the involvement of consumers and other members of the community in providing information about tax evasion in the cash economy, through –

- improving the means by which this can be done as well as better publicising these means, and
- providing feedback to consumers in the community regarding the value of the information provided by them.[59]

Third party reporting

Some overseas revenue authorities have indicated that, rather than having obligations placed on consumers, they rely on a range of information gathering powers which allow them to access third party databases. This enables them to identify both participants in, and the extent of, certain business-to-consumer activities. This may include obtaining information from various licensing bodies about registration and payments.

While such powers are also available to the Tax Office, this information is usually supplied reactively. In the main it is not provided until the Tax Office has reason to seek it out. Better mechanisms to obtain regular flows of information will assist in detecting key risk areas. Examples might include local councils reporting building approvals for improvements to householder premises, warranty records held by manufacturers which detail the consumer and the supplier of larger household items such as whitegoods or perhaps taxi co-operatives reporting driver ABN and shifts worked.

In addition, the Task Force considers the Tax Office needs to develop a more coordinated, routine and widespread approach to obtaining third party information to identify non-compliance, especially in the business-to-consumer sector. There are also opportunities for coordinating activity in the cash economy industry projects with activity in marketing the TERC – to obtain third party information on businesses within targeted industries.

The Task Force considers that the Tax Office needs to work with various information gatherers to obtain a regular flow of suitable information. Information timeframes need to be compatible with the Tax Office's real time review process, with information focussing more on current activities in preference to older reporting periods. The closer that Tax Office activity can remain to real time, the cheaper the review process for businesses.

While some of this is already happening, the Tax Office should expand these arrangements and make them more systematic.

59 Also see TERC reference in recommendation 5.10.

60 Taxation Administration Act 1953 Schedule 1, Part 5-30.

Recommendation 5.10:

The Tax Office:

- identify a broader range of third party information sources and negotiate with their owners to provide appropriate information on a regular and timely basis
- develop and implement more systematic and regular approaches to third party data matching
- better promote the use of the ABN to third party data holders to enhance matching capability, and
- ensure alignment of TERC initiatives (including advertising) and cash economy industry projects so members of the community are encouraged to provide information for matching on industry participants as the industry projects are underway.

Third party minimum standards

Another area considered worth exploring is the incorporation of some basic record or ABN requirements as best practices by third parties of influence. Yellow pages listing requirements are that an ABN be provided as a pre-requisite and banks require a business to provide an ABN before being able to obtain EFTPOS capability. These are voluntary utilisations of the ABN, not mandated by legislation.

As a further possible example, before consumers may validly include a house improvement in their householder insurance policies, insurance companies could require that the work be completed by ABN registered businesses and invoices for the amount be held or provided by householders. These requirements would need to be met before a claim could be made. Similar arrangements could apply to repair work under warranty.

Some industry and business associations include tax practices in their codes of practice. This is an area for broader industry support and is covered in more detail in Chapter 3 of this report.

Recommendation 5.11:

The Tax Office actively promote with third parties, including industry associations and commercial organisations, the inclusion of tax requirements as pre-requisites to their services or into their codes of practice.

Conclusion

Under the new tax system there are fewer opportunities for evasion in business-to-business transactions, and hence, in relative terms, there is more risk of income from business-to-consumer transactions not being reported. The Task Force has examined various means to improve compliance in this complex area and concluded that, while regulatory regimes that compel consumers to report transactions would not be appropriate, there are benefits from intelligent management of community norms and perceptions.

However, these are mid-to-long term strategies that need to be supported by an ongoing program of widespread compliance messages. These messages, in turn, need to seek to increasingly isolate non-compliers and provide incentives for consumers to prefer to deal with businesses that meet their tax obligations. There are also some gains to be made in using third party data to trace income from consumer sales. The Tax Office needs to invest in research and small scale pilots to test the effectiveness of these approaches and build on the successes.

The Task Force believes that while no one approach to managing compliance associated with payments from consumer to businesses will succeed alone in addressing evasion, greater focus needs to be placed on the consumer in this relationship.

While it has made a number of recommendations, all of which it believes should be implemented, the Task Force sees two as key recommendations in addressing the risks in this sector. These are the development and implementation of a ‘get it in writing’ campaign and optimising community involvement through improvements in the TERC.

Appendix 1

Tax Office cash economy activities in the new tax system

This appendix provides some detail of the activities undertaken by the Tax Office in relation to the cash economy since the introduction of the new tax system. It includes an outline of the Tax Office's help and education activities in the cash economy and a range of largely field-based activities that have been focused on identified high risk industries.

Prior to the introduction of the new tax system, the Tax Office was conducting a range of field audit projects targeting the cash economy. These projects were guided by the Task Force's 1997 and 1998 reports. Particular focus was given to the building and construction industry and other high risk industries as identified in those reports. Many of these industries had specific compliance requirements under the Prescribed Payments System and the Reportable Payments System, both of which were discontinued under the new tax system.

The immense education and assistance program implemented by the Tax Office to support the introduction of the new tax system required a huge reallocation of resources, which meant that the Tax Office was unable to continue the same level of compliance activities in the cash economy at that time. However, sufficient compliance resources were retained to focus on the more egregious cases including:

- 'Bodgies', formworkers and 'Phoenix activity' in the building and construction industry
- following-up on community provided information (tip-offs), and
- investigating serious non-compliance and following through with prosecutions.

Help and education – the new tax system

To support the introduction of the new tax system, the Tax Office needed to ensure that all business operators received sufficient advice and education to enable them to comply with their new responsibilities, including business record keeping, preparation of the *Business activity statement* (BAS), and understanding GST and PAYG. The Tax Office saw this as an opportunity to give direct assistance to the many small and micro business operators who were struggling to comply with the existing system. A range of assistance products were developed, including intensive one-on-one visits, seminars and printed material.

Where possible, much of this was tailored to the industry and other demographics of the business operators. For example, seminars were conducted for many different industry sectors, for book-keepers and accountants, for payroll bureaux, labour hire and recruitment services businesses. These seminars were also able to be tailored to the level of detail and the sophistication of the participants. This meant that many business operators, in industries at high risk of cash economy practices, were able to receive timely, relevant and tailored assistance with their record keeping and reporting obligations under the new tax system. This assistance was delivered by over 2,000 field staff nationally, with wide ranging support in regional and remote areas.

These joint activities were not all one way flows of information. By working closely with industry representatives and participating in industry partnerships, the Tax Office was able to improve its understanding of prevailing practices, conditions and attitudes within cash economy industries and use this information to develop deeper and more current BISEP analyses of these industries.

Advice and education activities have continued with 300,000 contacts in 2000–01. This was reduced to 100,000 in 2001–02 as resources were reassigned progressively towards compliance activities, including the cash economy.

Post implementation compliance activity

In the 2001-02 tax year, the major education and assistance program was completed and evidence showed that businesses were generally coping well with their obligations. The Tax Office was able to refocus on activities to detect and treat non-compliance. Compliance field staff numbers built up to the current levels of about 2,400 with an additional 600 dedicated to projects targeting the cash economy.

In 2002–03 these cash economy project field staff completed some 18,500 field visits. Another 20,000 client files have been opened and cases are in progress, using a range of different approaches (refer to Chapter 4). Though over $35m in adjustments, plus several million more in the Phoenix area were made, the focus of field activities is not merely on effecting adjustments. It also includes undertaking real-time reviews, etc to identify problem areas and effect changes to a business's processes so that the business is able to get things right in the future. Field activities also include risk scoping and research.

The 2,400 field officers also identify cash economy issues as part of their general compliance reviews. These officers are undertaking a range of activities including BAS verification work, walk-in registration checks, record keeping reviews, non-lodgment work, new business checks, comprehensive audits, fraud checks and intelligence gathering.

Cash economy industry projects

The objectives of the cash economy industry projects include:

- providing a field presence in targeted cash industries, promoting voluntary compliance and industry compliance through either formal industry partnerships or other liaison arrangements, and developing suitable relationships with representatives of the industry
- identifying impacts of the new tax system on the industry, establishing the level of compliance and developing strategies to address non-compliance
- providing intelligence of the cash industry, identifying risks and trends of non-compliance and contributing towards the industry's BISEP profile, and
- educating clients in their reporting obligations.

These objectives are to be met in the context of the philosophies and principles in the Tax Office *Taxpayers' Charter* and building a compliance program based on the compliance model.

Compliance issues

The cash economy industry projects are tailored to specific industries, but all maintain a focus on compliance across revenue products, especially GST, income tax, and PAYG. Issues covered may include:

- record keeping
- omitted income
- undeclared GST and PAYG (W)
- timely lodgment of BASs and ITRs (including identifying entities operating outside the system)
- alienation of personal services income, and
- timely payment of tax obligations.

Industry selection

Industries have been chosen on the basis of previous project activities, analysis of aggregated BAS data, field intelligence, community information and AUSTRAC trends. The cash economy projects are the first wide ranging structured evaluation of compliance in the new tax system.

For most industries targeted, the projects have involved an initial analysis of industry practices and trading trends as per the BASs lodged for that industry. Industry associations have been involved in a discussion of compliance issues and a communication approach was developed by which industry bodies were engaged to disseminate compliance messages to their members.

The following industries were chosen for the first tranche of cash economy industry projects in the new tax environment:

- cafes, restaurants and takeaways
- cleaning services
- hairdressing and beauty
- property, building and construction
- road freight
- smash repairs, and
- taxi services.

The next tranche covers the following industries and is at varying stages of progress:

- barter
- clothing and textiles
- computers
- fishing
- fruit and vegetables
- liquor wholesaling and manufacturing
- pubs, clubs and taverns
- scrap metal
- security services, and
- vehicle retailing.

Several industries have been proposed for the next tranche:

- agricultural services
- gold bullion and antique/art dealing
- financial services, and
- tourism and hospitality.

Cleaning project

This industry was selected because it exhibited a number of traits signifying a possible revenue risk, including payment of cash wages, employees characterised as sub-contractors, misclassified private payments, non-lodgment of BAS and ITR and misuse of ABNs.

Concerned government agencies such as Centrelink and DIMIA, as members of the IAWG, are involved, as are WorkCover and other state government agencies. Industry involvement has also been significant and includes contacts with the Liquor, Hospitality and Miscellaneous Union, Victorian Employment Chamber of Commerce and Industry, Building Service Contractors Association of Australia (QLD), (NSW) and (VIC), WA Master Cleaners Guild and major companies in the industry.

A small sample of completed cases suggests the possibility of a large revenue shortfall from the industry. High risks identified include sales of businesses as going concerns, use of illegal immigrants and students, alienation of personal services income, high non-lodgment and business-to-business non-compliance. Poor record keeping has also been identified as a problem.

There have been some very successful seminars with agents nationally, which have promoted the Tax Office presence in the cash economy for a number of projects, not just cleaning. These seminars also provided information on the rules about alienated personal services income and raised the profile of the cleaning industry project and the compliance issues it is addressing.

Twenty per cent of completed cases in the cleaning project have required adjustments to be made to their tax liabilities, with an average adjustment of nearly $55,000 per case.

Hair and beauty project

This industry is characterised by a predominance of owner operators, cash payments, large numbers of small service transactions, low margins, strong competition, poor record keeping, low membership of industry organisations, low levels of effective regulation and high mobility of employees. There is also a widely held perception by members that not paying tax is acceptable. Tax evasion in the hairdressing and beauty industry is a common subject matter of tip-offs received through TERC. International research also identifies it as one of the most regular participants in the cash economy in Western countries.

A risk scoping exercise in this industry identified the following issues:

- poor record keeping
- a high level of non-lodgment
- low margins and strong competition putting pressure on costs, including tax, and
- low entry level requirements for participants in the industry, meaning that many have not undertaken business skill training and may be unaware of their tax obligations.

Based on these findings, the project has moved to risk mitigation focusing on:

- timely lodgments
- record keeping education
- building on industry partnerships developed earlier in the project, and
- unannounced registration integrity checks in appropriate industry segments.

A modified real time review product has been tailored and implemented on a pilot basis in this project to promote voluntary compliance in the industry. The product is designed to ensure problems are identified and remedied in ‘real time’, so that businesses get things right for the future.

The BAS lodgments of businesses visited early in the project were monitored. For their next BAS, late lodger numbers fell significantly and sales reported were nearly 15% higher than for the pre-visit BAS. This may indicate that the business operators were either better informed or more careful about their compliance after the visit by field staff. The risk mitigation strategy aims to sustain these improved outcomes.

Property, building and construction project

The Tax Office has had extensive and ongoing projects designed to improve compliance in the property, building and construction industry. The national property, building and construction project was designed as a coordinated, integrated and whole-of-client approach to managing compliance risks in the industry under the new tax system.

Broad strategic objectives are:

- effectively dealing with non-compliance while building community confidence in Tax Office activities and adopting a balanced and proportional approach to non-compliance across a range of obligations, including GST, income tax and pay as you go (PAYG)
- the community taking ownership of the tax system, while the Tax Office continues to improve and build on relationships with industry leaders, associations and government and semi-government organisations

- expanding the Tax Office's understanding of the industry and practices, particularly under the new tax system, and understanding the reasons for non-compliance in order to develop a longer-term compliance strategy.

Of the nearly 7,000 cases completed to date, nearly 30% have required adjustments, with an average adjustment of just over $20,000 per case. Many officers involved now have considerable industry experience and the Tax Office is building up a detailed understanding of the property, building and construction industry, its practices and problems with tax compliance and why these problems occur. The project is expected to continue for some time. This knowledge, gained from current work, is being used to develop longer term compliance strategies.

Various elements of this project include:

Risk scoping

Risk scoping activities in the industry included over 800 visits. Risks identified included the omission of income, incorrect claiming of personal expenses as business expenses, incorrect claims for input tax credits (for example, where suppliers are not registered for GST), and not having valid tax invoices.

Outliers

Field officers have visited over 2,000 building and construction businesses whose reported trading activities are significantly outside the norm for their sub-industry, size and entity type. The visits are designed to determine why the businesses are reporting unusual trading outcomes and to quantify and address any compliance problems, such as understated supplies or undisclosed income. The field visits also identify drivers for non-compliance, capture intelligence and share knowledge of the industry.

Display homes

This project addressed the compliance issues relating to incorrectly claiming GST input tax credits for the purchase or construction of a dwelling and its lease to an investor for use as a display home. Essentially, the project adopted a leverage approach to inform 434 targeted clients of the correct treatment, and encouraged voluntary disclosures.

Major infrastructure

This includes the monitoring of compliance levels of an entire construction or infrastructure project in each state. A top down approach will be adopted, commencing with the major contractors and moving through the tiers at various stages of construction to ensure compliance with all tax laws. The first review of compliance issues associated with entities involved with a major infrastructure project has been completed. The majority of small and medium business clients were profiled, and a number selected for review. This has resulted in $2.1m in increased tax and penalties. The review of larger clients in the project is still underway.

Phoenix and similar evasion

Projects targeting Phoenix activities in general, and specifically in the building and construction industry, have raised over $46m in tax and penalties over the last two years, with a number of successful prosecutions. Bodgies (undeclared cash payments made to bogus labour hire companies) have raised over $16m in tax and penalties over the same period – again with a number of successful prosecutions of scheme 'promoters'. These projects have raised over $200m in the past four years, uncovering significant tax evasion within the labour intensive sub-industries.

Restaurant and cafes project

A risk scoping confirmed previously identified compliance issues within the industry, including the omission of income, the incorrect use of the GST simplified accounting method (SAM) and record-keeping deficiencies. Later in the project, with more complex cases, greater use was made of third party data such as land title checks and AUSTRAC.

The Restaurant and Catering Association of Australia (RCA) was identified as the peak body operating in this industry, with a range of smaller peak bodies in various regions. Contact has also been made with these regional associations. The Hospitality Industry Tax Office Partnership was also briefed in relation to Tax Office activities.

Case studies:

Restaurant and cafes

- *Tax officers discovered a café, with an estimated turnover of $120,000pa and operating since 1997, with no ABN or GST registration. One of the partners claimed that he knew he should have registered because his turnover exceeded the $50,000 threshold but chose not to as he was ill leading up to the introduction of the new tax system. During the subsequent review of Tax Office systems, it was also discovered that one of the partners had not lodged an income tax return since 1985.*
- *A NSW restaurateur seemed to be under declaring his income. Field officers discovered the restaurateur owned several properties of which the combined mortgages were higher than the income the restaurant was earning. The Tax Office has now claimed over $200,000 in tax due and penalties.*

About 80% of clients reviewed used a cash register, but 33% did not use ‘Z’ tapes, meaning that they were not reconciling their takings against their sales records. In cases finalised to date, 68% of income is received in cash, even with increasing use of credit cards. A number of cases have been identified where the taxpayer will not accept EFTPOS or credit cards, accepting only cash. Overall, it was concluded that participants in the industry are resigned to doing the right thing.

Current activities include visiting businesses whose reported trading is outside the norm for their industry and size, undertaking walk-ins to check registration, promoting leverage by contacting master franchisors using mail-outs, targeting serious and recidivist non-lodgers and utilising third party and top down approaches.

Road freight project

A scoping project for the industry identified large amounts of undisclosed cash payments, suspect record keeping practices and overall poor compliance. Anecdotal evidence also suggested the absence of focused Tax Office activity in the industry may have been contributing to poor compliance practices. This industry is also in the top ten most frequently reported industries by community tip-offs.

Field work identified significant non-lodgment in the industry (over 30% for BAS lodgments in some periods), widespread cash flow problems, incorrect hire-purchase claims and non-disclosure of disposal of assets, problems with accounting for trade-ins, factoring, and removalists. This project demonstrated the need to have a strong upfront focus on lodgment improvement in the cash economy industries. These processes are now an integral part of the industry projects.

An upfront understanding of the industry was important, highlighting the need to collate and analyse internal Tax Office information sources – for example, Excise, GST, Income tax etc. Excise information on diesel fuel rebates assisted in developing indicators of potential income, based on average fuel consumption. Essential elements to the project included interaction with the industry and tax agents and the effective use of leverage mail outs.

The compliance maintenance strategy being implemented, now that the initial project is completed, includes regular articles in industry publications about risks but also what businesses need to do to be compliant, Tax Office presence at industry conferences and continuing communication with industry associations. This industry is a possible candidate for a tailored record keeping package, as outlined in this report.

Case study:

Road freight

A road transport business was investigated as it had returned PAYG Withholding on several BASs without any indication of income or sales. The review found the business had poor record keeping and control practices.

During the review, the business operator made a voluntary disclosure about some income omissions and his tax agent reconstructed the income amount shown on his BASs. The Tax Officer verified the income as correct. However the business's acquisitions could not be supported by available tax invoices. After further scrutiny, the Tax Officer determined that many of the claims were not allowable.

As a result, amendments to both the income and expenses of the business were made over a number of BAS periods, resulting in over $435,000 in tax and penalties. The business has now greatly improved its practices by installing an accounting software package and employing an administration manager to ensure proper records are kept and the amounts returned are correct.

Smash repair project

This industry was chosen because of a number of inherent risks to revenue, evidence of a steady increase in the number and value of outgoing cash transactions reported to AUSTRAC, and the industry being one of the most frequently reported by community tip-offs.

The project focussed on micro business smash repairers with an annual turnover between $50,000 and $2,000,000. A national BAS review program was implemented, using generic and industry specific indicators. This was supported by communication through industry bodies.

The project identified that significant changes in the industry have occurred since the last time the industry was reviewed. Of particular note is the dominance of insurance companies, which provide 90–95% of industry income, reducing the possibility of unrecorded cash transactions. It was also found that the majority of smash repairers are at the lower level of the compliance model, with the industry agreeing that the new tax system has reduced evasion in the cash economy in their industry.

There was no evidence of significant, systematic non-compliance but issues were identified with insurance and excess payments, debt factoring, poor record keeping and the purchase and sale of motor vehicles. Educational programs on these issues are proposed. Possible future activity could include a mail contact program, ongoing monitoring of BAS and ITR data, third party insurance checks and a lodgment improvement strategy. A report to key external stakeholders highlighting major issues detected is being developed. These major issues will be made public.

Taxi project

The Tax Office has had a compliance focus on the taxi industry nationally since 1994. The zero GST threshold applying in the taxi industry is partially a response to long-term poor levels of compliance in the industry. Over the years, the Tax Office has undertaken a broad range of compliance and communication strategies to improve compliance attitudes and the level of cooperation with the industry. The cash economy industry project was designed to build on these strategies.

The project has involved field work and leverage activities through the ATIA[61], the industry body, and the taxi industry partnership. To date, approximately 20% of cases have required adjustment of their tax liabilities. These were generally low adjustments for taxi drivers and some larger adjustments for taxi operators. Compliance issues identified included omissions of entire shifts from records, GST not included in taxi leases and poor registration compliance by drivers.

Two approaches to refine this project's methodologies have been identified:

- A re-focus of the project to review a sample of operators. This change in approach has been agreed with the industry and field work has commenced. This new focus is proving successful, with increased industry coverage, and virtually 100% requiring adjustments to tax liability. Spin-off cases involving taxi drivers have been identified – for example, drivers having no ABN/GST registration and quoting the ABN of their operator or others.
- Negotiating with Industry Groups to match their database with the ABR. This allows identification of an ABN being used but not active on Tax Office systems, an ABN being used where the driver has no GST role, and integrity matching with drivers' state accreditation numbers, allowing analysis of frequency of use and matching with shift records. This process is generating a base of productive cases.

Barter project

This industry was selected due to the growing nature of the barter industry and indications that small businesses may be avoiding tax through trading business services for private goods and services. The industry has experienced a dramatic expansion over the last few years.

The industry has demonstrated the traditional risks relating to record keeping and non-disclosure of income relating to barter transactions. However, there are indications of arrangements being put in place to gain benefit from the barter transactions. These include gift claims in relation to trade dollar 'donations', input tax credit claims in relation to large items purchased with trade dollars, offshore loans to facilitate the creation of units, perpetual losses, and losses claimed against unrecouped trade units when exchanges enter liquidation.

Some of the barter exchanges have been identified as a compliance risk and field action is being undertaken. Consultation with the industry has been undertaken recently. Technical issues are being determined so that a nationally consistent approach can be adopted.

To date, about eighty cases have been completed, including non-lodgment cases, resulting in revenue of $2.4m. Casework is focussed on both exchanges and members.

61 Australian Taxi Industry Association

Case studies:

Taxi industry

- *After receiving community information a taxi driver was contacted for a review of his GST obligations. It was found that the driver was not registered for GST and had not reported any supplies. He had also not lodged an income tax return for 25 years. In addition to this, he had been quoting an invalid ABN to the operator of the taxi, and did not have a valid state driver certification number. The driver was required to remit the GST and lodge previous year tax returns for verification. In addition to this, a review of the operator's records (while obtaining details of the driver's income) revealed the operator had not been reporting income from lease payments arising from the assignment of a second taxi licence he owned.*
- *A review of a NSW taxi operator concluded that widespread collusion existed among associated operators/drivers regarding record keeping practices. Issues detected included the understating of taxi shifts and the falsifying of tax invoices. With prosecution action pending, a further 60 cases totaling $430,000 in undeclared income are under review. The Tax Office is examining third party information to determine the actual shifts logged by taxi operators.*

Case study:

Barter

An exchange claimed to have provided hundreds of thousands of dollars for sponsorship and advertising. It had an invoice from a member for that amount and it had claimed GST input tax credits of 10% of the total. The member never disclosed any of these dollars as income or sales, nor collected any GST. An independent valuation of the sponsorship and advertising was that the services etc were worth about $1,000 only. Amounts above the true commercial value are not able to be claimed as a deduction for income tax, nor are they able to be claimed as a credit for GST. Fraud may be an issue in this case.

Clothing project

Activity in this industry has been undertaken based on previous Tax Office risk assessments and as a result of continuing information regarding tax avoidance practices. These are consistent with other information regarding non-compliance with other government and industry requirements, such as Workcover requirements and employment conditions. Other specific tax issues identified include failure to register for ABN and GST, non-lodgment of BAS and income tax returns, unrecorded cash transactions and cash-in-hand payments to subcontractors.

An industry forum has been established with a broad range of relevant stakeholders from government, the community, the union and industry. Joint activities have been undertaken with Centrelink and DIMIA. The Tax Office provided a submission and appeared before a Victorian government outworker inquiry. Unannounced visits have been employed to test ABN and GST registration details and to conduct head counts of staff. Seminars have been undertaken for tax practitioners with clients in the industry.

The development of an industry code of conduct is being discussed with industry representatives, and a strategy is being developed to address the non-lodgment problem in the industry.

Almost 300 cases have been completed on this project, including non-lodgment cases, resulting in revenue of $2.4m.

Case study:

Clothing

In March 2003, there were several arrests made in Sydney after a joint agency taskforce uncovered a scam involving fake brand clothing, welfare payment cheats and tax avoidance.

Pubs, clubs and taverns project

Work has been undertaken in this industry to address the large cash turnover which is evident. Compliance issues that have been identified in this industry include failure to register for ABN and GST, non-lodgment of BAS and income tax returns, withholding by employers that is not being remitted, income from non core activities not reported (for example, nightclubs), overclaimed input tax credits by not allowing for discounts, incorrectly calculating gaming revenue for GST purposes, poor record keeping and failure to apply the ‘no ABN withholding’ provisions.

At one level, the industry requires education as to the proper treatment of these and other items. To address these issues, there have been a range of mailouts and visits to industry members, industry seminars, information provided for dissemination through Clubs Australia and the Australian Hoteliers Association and a range of articles placed in industry publications throughout Australia.

Approximately 620 cases have been completed on this project, including non-lodgment cases and BAS reviews, resulting in revenue of almost $2.6m.

Scrap metal project

Activity in this industry was undertaken as a result of information indicating persistent and blatant disregard for taxation obligations.

Activities undertaken in the industry have identified failure to register for ABN and GST, non-lodgment of BAS and income tax returns, under reporting on scrap sales and overclaiming of input tax credits, misuse of recipient created tax invoices, and arrangements to avoid tax, including false ‘exports’ and dividing sales into lots of less than $50. A general practice of accepting ‘hobby statements’ in order to avoid No ABN withholding has been identified.

To address the information needs of members of the industry, mailouts, articles and seminars have been provided. Seminars have been undertaken and information has also been provided to the industry association regarding specialist areas of the industry. A draft code of conduct has been developed with the industry representatives which incorporates both legislative requirements and voluntary activities by the business.

To date, 55 cases have been completed on this project, resulting in revenue of almost $1.2m. Larger cases are still in progress. However, the majority of the effect in this industry has been gained through the contact made with the industry and the influence on businesses within the industry to alter incorrect or inappropriate behaviour – a focus on getting it right for the future.

Security project

Activity was commenced in this industry to address the reportedly high levels of moonlighting activities, inappropriate sub-contracting arrangements and cash-in–hand payments.

In addition to the above items, activities undertaken in this industry have identified failure to register for ABN and GST, non-lodgment of BAS and income tax returns, falsified invoices and incorrect ABNs being accepted. There is also a range of PAYG withholding implications.

Negotiations have been held with the NSW Police Commissioner to require more stringent identification of clients, including the need to provide an ABN, when registering for a security licence. As a result of this, negotiations are now underway with the Victorian Police Commissioner. The Security Industry Association will be addressed and industry seminars held later this year. The NSW Police Commissioner is intending to follow-up existing registrations to obtain all ABN

Other compliance activities

Other specialist staff have been looking at other issues of concern to cash economy compliance.

Community provided tax evasion information

Community tip-offs to the TERC average about 40,000 per annum. While it is not always possible to properly identify the subject entities, where practical, the Tax Office routinely examines and risk rates all community tip-offs. About one-third of the tip-offs received, identify significant non-compliance. These have been followed up, resulting in almost $70m in taxes and penalties being raised over the last two years. In addition, analysis of the information gathered from community tip-offs has yielded valuable intelligence into the range of activities and industries with significant cash economy non-compliance.

Fraud and serious non-compliance

There were 101 fraud investigation matters completed for the 2002–03 year, of which 34 were in regard to cash economy matters. These are performed by Serious Non-Compliance capability. Successful prosecutions against a number of taxpayers from traditional cash industries have provided good leverage opportunities.

Case studies:

Fraud and Serious Non-Compliance

- *A NSW brothel owner was ordered to pay almost $1m in assessed tax and penalties – following an intensive audit. The business owner had stated he had won substantial amounts at the casinos in both Melbourne and Sydney. His claims were rejected as he was unable to produce any records substantiating the alleged large gambling wins.*
- *An Adelaide restaurateur was convicted of fraud involving his keeping of two sets of books, non-lodgment of company tax returns and paying untaxed cash wages. A jail sentence of three years and four months was imposed, with a non-parole period of 18 months.*

Legal profession project

This project initially focussed on lodgment and debt for barristers and has expanded to include solicitors. Other areas of non-compliance became evident, including unusually high deduction claims, unusual corporate/trust arrangements and the use of bankruptcy and family law to avoid tax obligations.

A major success of the project has been bringing non-compliant barristers and solicitors back into the system. This is illustrated by the drop in their outstanding income tax returns from 1071 to 64 for the financial years 1994 to 2001 (as at 20 June 2003).

ABN integrity

Immediately following the introduction of the new tax system, the Tax Office began work to ensure that the integrity of the system was not at risk from the cash economy. This work included monitoring the uptake of the ABN to see how well businesses complied with the requirement to register for an ABN and to quote it on their invoices. The ABN integrity work included:

- monitoring businesses with existing obligations to ensure that they migrated successfully to the new tax system, especially those with special requirements under the previous system, such as PPS or RPS obligations
- obtaining samples of invoices from businesses to ensure that ABNs were being quoted
- following up businesses that registered without prior trading history to ensure that they had been complying with their obligations under the previous system, and
- ensuring that inappropriate use was not made of the 'safety net'[62] arrangements implemented to assist businesses which had not been able to obtain their ABN in time for the commencement of the new tax system.

Following on from this initial integrity work, the Tax Office implemented strategies to use the ABR and ABN rules to support the integrity of the tax system and to assess whether the ABN provisions were working as intended.

Businesses operating outside the system

Matching exercises were undertaken to check that small businesses existing at the introduction of the new tax system have registered. Businesses were also identified which had previously been operating outside the tax system, but which were drawn into the system by the need to obtain an ABN.

A project sampled 1,000 businesses that had registered for an ABN but were not previously reporting business income. This work identified that individuals and companies were the entity types most likely to have unreported tax liabilities and that about14% had unmet previous year obligations. Associated entities increased this to about 300 entities in the sample. This project has been expanded to include all ABN registrants which report annual turnovers greater than $50,000 on their BAS but do not lodge an ITR. In the last year this has resulted in approximately 70,000 years of income tax returns being demanded. The Tax Office is monitoring responses and selecting cases for escalated lodgment enforcement. Though this work is still progressing, a net $50m in previous year income tax and penalties has been raised to date.

Case study:

Outside the system

A successful pharmacist with an annual turnover between $1/2m and $1m had not yet lodged income tax returns from 1984 to 2002. This taxpayer was detected when registered for an Australian business number (ABN) and claiming GST refunds on Business activity statements (BAS). All income returns were demanded and lodged equating to an income tax liability of about $300,000.

ABN quotation and withholding where no ABN quoted

Sampling of invoices held by businesses show that tax invoices were being prepared correctly including quotation of the suppliers' ABN, in about 99% of cases. This sampling work is ongoing and incorporated as business-as-usual in field activities.

The new withholding obligation for business-to-business transactions has had a positive compliance effect. Businesses surveyed reported that they were generally unwilling to deal with suppliers that did not provide a tax invoice or at least quote an ABN. Where businesses receive invoices without an ABN, they are required to withhold from the payment and report the transaction.

Over 23,500 BASs have reported amounts withheld from taxpayers that had failed to quote an ABN. Some $71m in withholding has been made from these taxpayers. Findings, from a sample of over 500 of the larger cases, identified a significant number of suppliers (41%) who had registered for an ABN subsequent to the withholding event. When extrapolated over the entire population, this indicated that this measure may have resulted in over 40,000 previously unregistered suppliers entering the tax system as a direct result of the withholding provisions when an ABN is not quoted.

62 Safety Net was an arrangement where letters were given to business operators who had applied for but not received their ABN by 30 June 2000. The business was entitled to supply a copy of the safety net letter in lieu of their ABN.

An initial project was undertaken to contact payers that had reported withholding when an ABN is not quoted on their BAS. Details were obtained of the payees and matched with Tax Office data to ascertain whether the payee has outstanding tax obligations. Latest data show 1,400 payees have had lodgments demanded and will be monitored and escalated where appropriate. Potentially 34,000 non-lodgers may be identified through this process.

External data matching

The Tax Office is coordinating its approach to identifying and obtaining external data sources for use in its compliance program. This involves coordination across Tax Office business lines and with external bodies and industry associations. Several projects have investigated use of other organisations' data holdings to match with ABR data to detect unregistered businesses. An example is using data from an identified agricultural authority or board which pays grants of some $1.6 billion each year. These are assessable income and should be reported in income tax returns, but information on ITRs indicates a possible significant risk of understatement. This data is currently being obtained and matched.

Australian Customs Service and Department of Transport data has assisted in another project which matched vehicle importer and dealer licensing data with Tax Office and Centrelink information. Over 4,300 importers were examined, resulting in 1,071 non-lodgers being pursued, and over 130 Centrelink beneficiaries referred for review.

Doubtful registrations

Reviews of the ABR indicate that there may be entities that have registered but are not carrying on an enterprise. Having these non-enterprises on the register affects the data integrity and makes it more difficult to detect deliberate non-compliance.

A current project is contacting 140,000 doubtful ABN holders by letter, including deregistered companies and individuals with no tax roles (for example, GST, PAYGI, PAYGW and no reported business income in their 2001 and/or 2002 ITRs). Other categories of doubtful ABN holders will be included progressively. The expected outcome of the project is 300,000 cancellations.

Wider use of ABN

Work is continuing to expand the use of the ABN in business and Commonwealth, state and local government agencies. This expansion will enhance the Tax Office's ability to detect businesses operating outside the system and those who have registered but are not carrying on an enterprise. Other agencies will also benefit from better identification of their client base.

Appendix 2

This table provides a list of the products or approaches that the Tax Office has in place, has proposed, or is developing to address the four key problem areas identified in Chapter 3. The second column identifies the product or approach. The third column identifies the status of the product or approach, specifically whether the product or approach is currently available/operational, proposed or is in the process of being developed.

Focus area	Product or approach	C =Currently available P= Proposed
Record keeping	Record keeping guide	C
	Record keeping workshops both generic and industry specific	C
	Record keeping modules in BizStart seminars	C
	Record keeping modules in New Enterprise	C
	Incentive Scheme (NEIS) presentations	C
	E-Record – free electronic record keeping software	C
	Advisory visits for new to business clients	C
	Starter pack for new to business clients	P
	Outbound call centre assistance	P*
	Tax Office change program initiatives will provide clear, consistent rules on record keeping	P*
	Tax Office change program initiatives will seek community support for standardised records/source documents	P
	Tax Office change program initiatives will encourage electronic operations	P*
	Tax Office change program initiatives will redesign information products from a business perspective	P*
Cash flow management	Arrangements to pay	C
	Advisory visits for new to business clients	C
	Cash accounting system for small GST payers	P
	Cash accounting system in the simplified tax system	C
	Proposed starter pack for new to business clients	P
	Outbound call centre assistance	P*
	Tax Office change program initiatives will encourage electronic operations	P*
	Voluntary payments	C
	Voluntary agreements	C
	Increased marketing of voluntary payments	P
	Increased marketing of voluntary agreements	P
Invoicing	Recipient created tax invoice provision in GST legislation	C
	Advisory visits for new to business clients	C
	Proposed starter pack for new to business clients	P
	Outbound call centre assistance	P*
ABN	Australian Business Register	C
	ABN module in BizStart seminars	C
	ABN module in NEIS presentations	C
	Online registration facility	C
	Advisory visits for new to business clients	C
	Proposed starter pack for new to business clients	P
	Outbound call centre assistance	P*
	Upgrade Online Registration facility to improve integrity	P
	Tip sheet for new registrants	P
	Promotion of ABR though business and consumer group publications	P

* work in progress

The Cash Economy under the New Tax System