

**Review into the non-lodgement of  
individual income tax returns**

**A report to the Assistant Treasurer**

**Inspector-General of Taxation  
11 June 2009**

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11 June 2009

The Hon Nick Sherry MP  
Assistant Treasurer  
Parliament House  
Canberra ACT 2600

Dear Minister

I am pleased to present to you my report on findings and recommendations in respect of the review into the non-lodgement of individual income tax returns. The report has been prepared under section 10 of the *Inspector-General of Taxation Act 2003* (the Act).

In accordance with the requirements of section 25 of the Act, I have provided the Commissioner of Taxation with the opportunity to respond to the report's findings and recommendations. The ATO's response, including the relevant covering letter, is in Appendix 2 to the report.

Overall, the review found that the Tax Office is managing the non-lodgement of individual returns well and with sophistication within the current legislative framework.

The review found that every year between 1.2 and 1.5 million individual taxpayers fail to lodge a tax return when they should. However, the review also found that this is not the result of Tax Office mismanagement, but is to be expected in a tax system that requires almost every individual with income to lodge a return annually, where administration is based on self assessment and risk management approaches, and where the Tax Office is not resourced to do everything.

Importantly, the review agreed with the Tax Office that considering the profile of the non-lodging taxpayers and the Tax Office strategies to identify high-risk non-lodgers, these non-lodged individual returns do not represent a high risk to revenue or the integrity of the tax system.

An independent community survey undertaken by an expert research company as part of the review indicated that the community expects the Tax Office to maintain individual non-lodgement at a slightly better level than the Tax Office is presently achieving. The survey also suggested that the level of individual non-lodgement has been static over recent years or may be improving slightly. The review does not however suggest that the ATO should commit more of its resources to tackling individual non-lodgement, recognising that there are bigger risks to address.

Notwithstanding the generally low risk of individual non-lodgers, they do generate some cost to the system, including for the ATO, tax practitioners and the taxpayers themselves. However, the review noted that the Commissioner's powers to either formally exempt individuals from having to lodge or to inform them that they are unlikely to be pursued, are limited. Therefore, I have recommended that the Government refer the review's findings and the results of the community survey to the Henry review of Australia's future tax system for consideration in that broader context, noting that the Henry review has specifically sought input in this area.

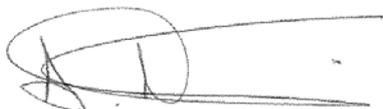
The review also found that penalties for non-lodgement of returns are very low. The review has recommended that the Government should consider increasing penalties for taxpayers that have a high revenue risk in the community.

Other recommendations are focussed on improving the Tax Office's reporting on lodgement compliance and the Tax Office's accessibility to, and the usefulness of, third-party data for lodgement compliance activity.

The ATO has not addressed the recommendations directed towards the Government, but has agreed to all other recommendations.

I note my thanks for the co-operative approach taken by the ATO, the support provided by staff from the Australian National Audit Office and the contribution of professional bodies, business groups and individuals to this review.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Ali Noroozi', written over a horizontal line.

Ali Noroozi  
Inspector-General of Taxation

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# CHAPTER 1: INTRODUCTION

## CONDUCT OF THE REVIEW

1.1 This is the report on the review undertaken by the Inspector-General of Taxation (Inspector-General) into the Australian Tax Office's (Tax Office) approach to administering the non-lodgement of individual income tax returns. The review was conducted on the initiative of the Inspector-General under subsection 8(1) of the *Inspector-General of Taxation Act 2003* (IGT Act).

1.2 The review was announced on 12 October 2007. Its terms of reference and details of how the review was conducted are provided in Appendix 1.

1.3 The decision to undertake the review was prompted by concerns raised by tax practitioners and scoping research undertaken by the Inspector-General.

1.4 A number of key recommendations are listed in Chapter 2. During the course of the Inspector-General's review, the Tax Office made or proposed a number of changes to its systems involved with the administration of non-lodged income tax returns. Some of those changes directly addressed concerns raised by the Inspector-General. All changes made or proposed by the Tax Office are noted in this report wherever relevant.

1.5 The Tax Office's detailed response to the review is in Appendix 2.

## FOCUS OF THE REVIEW

1.6 Information supplied before the commencement of the review by the Tax Office indicated to the Inspector-General that many millions of non-lodged income tax returns had accumulated which potentially involve large amounts of revenue. The focus of this review has therefore been to identify and recommend changes that will assist the Tax Office to improve how they manage the non-lodgement of individual income tax returns.

1.7 A key part of this has involved the Inspector-General working with the Tax Office to establish the level of non-lodgement of income tax returns. The initial intention was to do this for all categories of income tax returns. However, the scope of required data collection and analysis was such that it was decided to focus the review mainly on the individual taxpayer segment which represents the majority of non-lodged returns. Some of the review's findings are nevertheless relevant to other categories of non-lodging taxpayers.

1.8 The review also focused on whether the legal and administrative policy settings surrounding the lodgement of income tax returns are efficient, effective and fair, and provide the best motivation to support compliance in a contemporary self assessment environment.

1.9 The requirement for individuals to lodge income tax returns has been the subject of considerable debate within the community and, most recently, has been raised in light of the

announcement of the Government's review of Australia's future tax system (the Henry Review<sup>1</sup>). This debate quickly raises a number of sensitive issues such as the deductibility of work related expenses for employees. Consideration of policy issues is not within the scope of the work of the Inspector-General and therefore is not the focus of this review. The review has concentrated on systemic tax administration issues surrounding the Tax Office's approach to managing the non-lodgement of income tax returns by individuals.

## **ACKNOWLEDGEMENTS**

1.10 The assistance and cooperation provided by the Commissioner of Taxation and his officers to the Inspector-General and his team during the course of the review are gratefully acknowledged. The Inspector-General acknowledges with thanks the staff of the Australian National Audit Office.

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1 Announced on 13 May 2008, the review will look at the current tax system and make recommendations to position Australia to deal with the demographic, social, economic and environmental challenges of the future.

## CHAPTER 2: SUMMARY, FINDINGS AND RECOMMENDATIONS

2.1 In this review the Inspector-General has examined the Tax Office's management of the non-lodgement of income tax returns, with a particular focus on non-lodgement of individual or personal returns. Overall, the Inspector-General has found that the Tax Office is managing the non-lodgement of individual returns well and with sophistication within the current legislative framework.

2.2 The review has also found that significant numbers of individuals who are required to lodge returns fail to do so, and that a large number of outstanding returns have accumulated as a result. The Inspector-General considers that this is not the result of Tax Office mismanagement, but is to be expected in a tax system that is based on self-assessment and risk management approaches, that requires almost every individual with income to lodge a return annually, and where the Tax Office is not resourced to do everything.

2.3 Based on the profile of the non-lodging taxpayers and the Tax Office strategies to identify high-risk non-lodgers, the Inspector-General agrees with the Tax Office view that these non-lodged individual returns do not represent a high risk to revenue or the integrity of the tax system. Information on the broader picture indicates that the risks to the tax system of non-lodgement by Small to Medium Enterprises (SMEs) and Micro businesses are greater than those posed by individual non-lodgement.

2.4 Notwithstanding the generally low risk of individual non-lodgers, the review notes that the Commissioner's specific power to exempt individuals from having to lodge is limited. Low risk non-lodgements therefore accumulate in large numbers over time and they generate costs for the ATO, for taxpayers and tax practitioners.

2.5 The review asked the Commissioner to consider whether, in the interests of good management of the system, it would be appropriate for him to use his general power of administration either to make further exemptions in respect of low-risk individuals, or to inform them that they would be at low risk of being pursued by the ATO. The Commissioner advised that it would not be appropriate to use his general powers in this way, mainly because s. 161 of the ITAA was very specific about the circumstances where he could (and therefore could not) exempt taxpayers from lodgement.

2.6 The Inspector-General therefore has recommended that the Government refer the review's findings and the results of the community survey to the Henry review for consideration in that broader context, noting that the Henry review has specifically sought input in this area:

*How might the process of personal income tax returns be simplified, including by removing the requirement for some taxpayers to lodge returns?<sup>2</sup>*

2.7 As large numbers of low risk non-lodgements accumulate they can also create an incorrect impression that a risk exists that needs to be addressed. The review therefore recommends that the ATO should flag low-risk non-lodged returns in its systems and should

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2 *Australia's Future Tax System – Consultation Paper* (released 10 December 2008, consultative question 8.2 at page 169)

identify them as a separate category in its management reports to enable a clearer focus on higher risk non-lodged returns. Of course, individual returns considered low risk at one point in time can be elevated for attention if information, risk definitions and resources subsequently change.

2.8 The review also recommends that the Tax Office supplement its current public reporting on lodgement compliance by a periodic report on the broader outcomes and impacts being achieved on the level of non-lodgement.

2.9 The review highlighted that the effectiveness of Tax Office lodgement (and other) compliance activity relies heavily on information about taxpayers sourced from third parties such as banks. The Tax Office has identified sources of information that would enhance its compliance work that it currently cannot access, and sources that it can use, but where the data is not as useful as it could be. The review recommends that the Government take opportunities to increase support to the Tax Office in making key improvements to the access and usefulness of third party data, through its consultations with the state and territory governments and legislatively if necessary.

2.10 An independent community survey undertaken as part of the review indicates that the community expects the Tax Office to maintain individual non-lodgement at a slightly better level than the Tax Office is presently achieving. The survey also suggests that the level of individual non-lodgement has been static over recent years or at best may be improving slightly. The survey also indicated that some confusion about lodgement obligations still underlies individual non-lodgement, despite the ATO providing useful online assistance.

2.11 Notwithstanding that it is not quite achieving community expectations, the review does not suggest that the Tax Office should increase the resources it commits to tackling individual non-lodgement. This is consistent with the relative risk to the system.

2.12 The more detailed findings from the review are as follows.

## **HOW THE TAX OFFICE MANAGES THE RISK**

### **Risk management and assessment processes**

- Tax returns are the foundation for verifying tax and Child Support compliance and for verifying entitlements to a range of tax and other benefits and concessions.
- Under self-assessment, the Tax Office is not resourced to do everything that might be done to achieve absolute compliance. The Tax Office must make its own judgements on relative compliance risk, the strategies and actions to address them and the allocation of its resources to achieve planned outcomes.
- The Inspector-General considers that the ATO's risk assessment based approach to non-lodgement is entirely appropriate in a self-assessment system and in the context of the shifting demographics that affect taxpayers.
- As part of its risk assessment processes, the Tax Office has developed reliable approaches to predicting the assessable income of potential non-lodgers and predicting their likely tax debit or credit position.

## Strategic focus

- The Tax Office has taken important steps over recent years to strengthen its strategic focus and operational effectiveness on lodgement compliance.
- The Tax Office is gaining a better understanding of the environment taxpayers are operating in which in turn has led to more sophisticated identification of risk. Risk assessment and compliance levels are close to the level that the community expects.<sup>3</sup>

## Data matching

- The third party data accessed by the Tax Office is not as useful as it could be. The inclusion of unique identifiers (such as a TFN or ABN) in third party data would significantly enhance the Tax Office's risk interpretation and analysis and improve the identification of non-lodgers and support other compliance strategies.<sup>4</sup> There are legislative provisions that currently limit extension of the Tax Office's current practices in this area.<sup>5</sup> There is a need for either a new legislative requirement or through agreement between the states and the territories for the inclusion of unique identifiers in selected sources of third party data provided to the Tax Office.

## LODGE MENT COMPLIANCE STRATEGIES AND ACTIONS

### Projects

- The Tax Office's Child Support Agency (CSA) Project, aimed at ensuring lodgement by those having support obligations, has exceeded estimated achievements.

### Failure to Lodge Penalties

- Failing to lodge (FTL) penalties are very low with the maximum possible being \$2,750 per document for a non-compliant taxpayer who earns \$20 million or more assessable income (for the income year in which the return is required).
- Tax Office application of FTL penalties has been increasing but so have subsequent remissions and cancellations. Overall, the number of FTL penalties actually applied has increased with some 98,700 applied in 2007/08, but it is still small relative to over 1 million lodgement compliance actions and the estimated level of non-lodgement.
- The structure of FTL penalty provisions generally means that they are applied after lodgement has finally been made. Some overseas jurisdictions apply flat, non-remittable penalties as soon as lodgements are overdue.

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3 See chapter 5 for an outline of the results arising from the independent community survey conducted by Colmar Brunton.

4 The Tax Office advised the Inspector-General that in the absence of a unique identifier they require at a minimum the full name, address and date of birth of an individual in order to provide a reasonable opportunity to establish identity - ATO Minute "Information Flows into the Tax Office" (dated 3 June 2008 at page 3)

5 The Tax File Number guidelines 1992 (which were issued under section 17 of the Privacy Act 1988) are intended to protect the privacy of individuals by restricting the collection, use and disclosure of tax file number information.

- The Inspector-General considers that the FTL penalty regime should be strengthened and penalties increased for high-risk taxpayers.

### Default Assessments

- The Tax Office can issue default assessments to taxpayers who do not lodge as a means of obtaining compliance, but only does so sparingly. The Inspector-General believes that the ATO should, with due process, progressively increase the use of default assessments to support lodgement compliance.

### Prosecutions

- Tax Office prosecutions for non-lodgements are increasing. The 2007-08 totals were 1999, and for 2008-09 the Tax Office plan is for 2,200 prosecutions. While small in number relative to the 1 - 1.5 million individual non-lodgers, this seems in line with Commonwealth and Tax Office policy to pursue prosecution only in appropriate circumstances and with observations about the effectiveness of prosecutions.
- Section 8ZE of the *Taxation Administration Act 1953* (TAA 1953) requires that FTL penalties are waived immediately upon institution of prosecution against a taxpayer for failing to lodge. Where a taxpayer lodges in response to the summons, section 8ZE operates to preclude any monetary administrative penalty for failing to lodge other than by continuing with prosecution. The effect of section 8ZE has been raised within the tax community and in particular the obligatory waiving of FTL penalty once a summons has issued. The Inspector-General may consider the matter further if the application of section 8ZE is leading to unintended or unfair consequences for taxpayers.

### Allocation of resources and results achieved

#### Resourcing

- Resource allocation and work planning within the Tax Office is a complex annual cycle and is kept under constant review and monitoring. This cycle is synchronised with a wide-ranging risk assessment process called the Health of the System Assessment (HOTSAs).
- A result of this approach is that, at this time, the Tax Office does not have a good picture of the resources allocated to lodgement compliance activities.
- Given the fundamental importance of lodgement in the tax system and the substantial volume of work undertaken, the Inspector-General considers that a clearer picture of the level of resourcing should be available for management and accountability purposes.

#### Results and reporting

- As large numbers of low risk non-lodgements accumulate they can also create an incorrect impression that a risk exists that needs to be addressed. The review therefore recommends that the ATO should flag low-risk non-lodged returns in its systems and

should identify them as a separate category in its management reports to enable a clearer focus on higher risk non-lodged returns.

- Results may be double counted across the Operations and Tax Practitioner and Lodgement Strategy (TPALS) areas of the Tax Office. The Tax Office has agreed that it is possible that an outstanding return will be finalised where both Operations and TPALS have made contact and the results will be claimed by both areas. The extent to which this happens could be large, and could flow through into the Tax Office's key performance reports. However, the Tax Office has assured the Inspector-General that any issues that may exist at lower levels of reporting do not flow through to the Annual Report.<sup>6</sup>
- This issue could be overcome if the Tax Office regularly performed the analysis it undertook for the IGT during the review, which provided a clearer picture of the work done, and the results achieved by the Operations and TPALS areas.
- The review's analysis of current Tax Office reporting on lodgement compliance indicates a focus on the number of actions and finalised returns. The Inspector-General considers that this reporting should be supplemented by a periodic report on broader outcomes and impacts being achieved on the level of non-lodgement in the community. This would be in line with the Tax Office's announcement in August 2008<sup>7</sup> of methodology designed to measure the success of the ATO's compliance interventions - with a focus on outcomes rather than activities. A periodic survey similar to that undertaken as part of the review would, for example, achieve that end.

## **INDIVIDUAL TAXPAYERS - LODGEMENT COMPLIANCE**

### **The level of non-lodgement in Australia**

- Constantly shifting taxpayer demographics (employment, marital status, domicile, travel, etc) mean that it is not possible for the Tax Office, in a self-assessment system, to know precisely which taxpayers should lodge returns each year. Under self-assessment there is no requirement for taxpayers to inform the Tax Office if they have assessed that they have no requirement to lodge.
- The Australian community expects the Tax Office to maintain the level of non-lodgement of individual tax returns to no more than 8%.
- The Tax Office is currently maintaining non-lodgement at 9-10%.
- The level of non-lodgement is statistically static, but may have improved slightly over recent years.
- The number of non-lodged individual tax returns in any year can be conservatively estimated at 1.2 million to 1.5 million returns.

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6 Conference with Deputy Commissioner, Lodgment (Australian Taxation Office) 13 February 2009

7 Measuring Compliance Effectiveness - Our Methodology: Foreword - Commissioner of Taxation (August 2008)

- The number of accumulated potentially non-lodged individual returns is estimated to be 6.5 million.
- The profile of individuals who don't lodge returns when they should (required individuals) suggests that the risk to revenue and to the tax system of non-lodged individual returns is low. This view is supported by Tax Office analysis and compliance results.

## Summary

- Overall, the Inspector-General has found that the Tax Office is managing the non-lodgement of individual returns well and with sophistication within the current legislative framework.
- What is important is not so much the overall number of outstanding individual tax returns, but the associated level of risk to revenue or the integrity of the tax system. The Inspector-General's overall conclusion concurs with the Tax Office view, that the level of risk is low.

## RECOMMENDATIONS

### KEY RECOMMENDATION 1

*The Government should refer the review's findings and the results of the community survey to the Henry review of Australia's future tax system for consideration in that broader context, noting that the Henry review has specifically sought input in this area.*

### KEY RECOMMENDATION 2

*The Inspector-General recommends that the Tax Office supplement its current reporting on lodgement compliance by a periodic report on the broader outcomes and impacts being achieved on the level of non-lodgement in the community.*

### **KEY RECOMMENDATION 3**

*The Government should increase support to the Tax Office in making key improvements to the availability and usefulness of third party data used to identify non-lodgers and for other lodgement compliance activities. This could include new legislative requirements, new arrangements with Commonwealth agencies, and agreements by the states and the territories for third party data to:*

- *include unique identifiers such as a TFN or ABN*
- *where possible be an electronic transmission*
- *be promptly provided to ensure the currency of the information*
- *determine whether a taxpayer was in or out of Australia.*

### **KEY RECOMMENDATION 4**

*The Tax Office should flag low-risk non-lodged returns in its systems and should identify them as a separate category in its management reports to enable a clearer focus on higher risk non-lodged returns.*

### **KEY RECOMMENDATION 5**

*The Government should consider strengthening the failure-to-lodge penalty regime and, in particular, increasing penalties for high-risk taxpayers.*

### **KEY RECOMMENDATION 6**

*The Tax Office should progressively increase, where appropriate, the use of default assessments to further support lodgement compliance.*



## CHAPTER 3: OVERVIEW OF INCOME TAX RETURN LODGEMENT WITHIN AUSTRALIA

### LODGEMENT IN AUSTRALIA

3.1 The main objective of Australia's tax system is to raise revenue efficiently for redistribution to the community in accordance with government priorities. Tax assessments are fundamental to tax collection and represent the end result of the process of ascertaining a taxpayer's taxable income and calculating the tax payable on that income. In Australia, a critical part of the assessment process is the completion and lodgement of an income tax return.

3.2 Section 161(1) of the *Income Tax Assessment Act 1936* (ITAA 1936) provides that:

*Every person must, if required by the Commissioner by notice published in the Gazette, give to the Commissioner a return for the year of income within the period specified in the notice.*

3.3 Annually, the Commissioner of Taxation publishes a notice calling for the lodgement of income tax returns. This notice is contained in a Legislative Instrument which is registered in the Federal Register of Legislative Instruments<sup>8</sup>. Contained in the notice are the due dates for lodgement as well as the thresholds and circumstances under which taxpayers are required or not required to lodge.

3.4 The instrument is highly detailed and prescriptive and has been referred to by the Federal Court as ... *long and convoluted* ....<sup>9</sup> Exceptions are few so that effectively all individual Australian taxpayers with taxable income in excess of the prescribed threshold amount (currently \$6,000) are required to lodge a return.

### ANNUAL FILING

3.5 Under the system of self assessment, taxpayers are required to make an annual determination as to whether they have an obligation to lodge an income tax return, in accordance with the Legislative Instrument. Importantly, taxpayers do not have to advise the Tax Office where they have determined that their circumstances do not require them to

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8 The notice relating to the 2003-04 tax year was the final notice published in the *Commonwealth of Australia Gazette* before the change over to the Federal Register of Legislative Instruments (following the enactment of the *Legislative Instruments Act 2003*). The notice, titled *Lodgement of returns in accordance with the Income Tax Assessment Act 1936, the Income Tax Assessment Act 1997, the Taxation Administration Act 1953 and the Superannuation Industry (Supervision) Act 1993* can be accessed via the following link:

<http://www.comlaw.gov.au/comlaw/Legislation/LegislativeInstrument1.nsf/0/523BA0ADF552EC E5CA2574740009139B?OpenDocument>.

9 *Australian Wool Testing Authority Ltd v Federal Commissioner of Taxation* (90 ATC 4896 at 4901).

lodge an income tax return.<sup>10</sup> To support taxpayers with this task, the Tax Office has developed an interactive online tool that asks questions about a taxpayer's circumstances to help determine whether they need to lodge. The online tool reflects the requirements set out in the Legislative Instrument but in a more 'user-friendly' format.

3.6 For those taxpayers who are required to lodge, timely lodgement is important to the administration of the tax system. This fact is reinforced by the instrument which clearly sets out the penalties for non-compliance<sup>11</sup>. The Commissioner of Taxation has the discretion to provide an extension of time for an entity to lodge their income tax return<sup>12</sup>. The Commissioner's policy on granting an extension of time to lodge a return is set out in the *ATO Receivables Policy*.

3.7 The Commissioner also has the ability to request the early lodgement of returns in certain circumstances including:

- where there is a history of late or non-lodgement by a taxpayer;
- where early establishment of debt will assist in recovery (that is, persistent debtors);
- where there is a reason to believe it would otherwise be late, or not occur; and
- where a return is required for a specific purpose, for example, assessment of child support.

3.8 Personal income taxpayers (individuals) are by far the largest category required to lodge – with 11,510,959 individual returns out of the 13,509,811 income tax returns lodged (85.2 per cent) in the 2005-06 financial year.<sup>13</sup> The Australian self assessment regime has always operated on the basis that effectively all individuals who are taxpayers should lodge a return to report their assessable income and claim deductions and offsets. The main reason for this is that the current tax system is not a 'cumulative withholding' system – it does not attempt to ensure that by the end of the financial year most taxpayers have paid the correct amount of tax<sup>14</sup>.

3.9 For most individual taxpayers, lodging an annual income tax return is their only interaction with the Tax Office. The lodgement of a return provides the Tax Office with a range of information about a taxpayer's affairs, which enables the Tax Office and other agencies to accurately assess a range of obligations and entitlements, such as child support, HECS-HELP liabilities and family tax benefits. The lodgement of returns also provides the Government and the community with information about the taxpayer community that can be used for statistical analysis.

3.10 Comprehensive annual filing enables the collection of information relating to various social security payments and offsets such as a taxpayer's level and source of income.

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10 However, taxpayers have the option to complete a *Non-lodgement advice* form which is available on the Tax Office website.

11 See paragraph 4.41 for detail regarding the failure to lodge penalty.

12 Section 388-55 of Schedule 1 of the *Taxation Administration Act 1953*

13 Australian Taxation Office, *Taxation Statistics 2005-06* (published March 2008).

14 In other words, the amounts withheld throughout the year do not necessarily equate to the amount that the Tax Office would issue as a tax assessment following the lodgement of a return.

Access to this information provides the Government with the platform to in turn pay appropriate levels of support to those in need.

3.11 The lodgement of returns is also ingrained in Australian culture. A number of studies undertaken by both the Tax Office<sup>15</sup> and independent researchers have found that the concept of an annual return and the hope of receiving a refund cheque is so prevalent, that an attempt to abolish annual returns for these taxpayers would most likely encounter strong opposition and require amendment to the law<sup>16</sup>. These studies have revealed that taxpayers view the issue of a refund as their only chance to ‘recoup’ their money from the system or to have ‘a sense of control’ and ‘get their fair share’<sup>17</sup> and is a means of forced savings.

3.12 The Tax Office has made major investments to support the efficient lodgement of individual income tax returns and to reduce the administrative burden on both self preparers and tax agents. For example, lodgement of individual tax returns is now almost wholly dependent on electronic lodgement systems. In 2007-08, 88 per cent of individual income tax returns were lodged electronically (an increase of 6 per cent from 2006-07).<sup>18</sup> There is also technology to support electronic lodgement by tax agents and their practice management by providing a portal to Tax Office systems and, most recently, the *e-tax* system for individual self preparers. The efficiency and integrity of the *e-tax* system is supported by, most recently, pre-populating returns with third-party information. In Australia, users of *e-tax* have benefited over the last few years with an expansion in the range of pre-filling options, including information supplied by employers and major agencies such as Medicare and Centrelink.<sup>19</sup> Pre-population continues to grow with over 1 million of the 1.9 million people who used *e-tax* for their 2006-07 returns having used the pre-filling option.<sup>20</sup>

## **THE LEGAL FRAMEWORK ADDRESSING NON-LOGGERS IN AUSTRALIA**

3.13 Parliament has established a legal framework to support lodgement compliance, as detailed below.

### **The Commissioner may call on any person to lodge a return**

3.14 The form of action undertaken by the Commissioner to achieve lodgement varies depending on the circumstances of each case. In the majority of cases, the first step will be to make direct contact with the taxpayer or their tax agent through either a reminder letter or a telephone call. Where a taxpayer fails to comply, section 162 of the ITAA 1936 enables the

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15 ‘*Simplifying Income Tax: A Report on Forty Community Consultations*’ (Australian Taxation Office, 2000) – this research was commissioned by the ATO in 2000 as part of its Simplifying Personal Income Tax Project.

16 ‘*Tax refund versus tax return?*’, Associate Professor Cynthia Coleman (Faculty of Economics and Business, University of Sydney), (Personal Income Tax Reform Symposium – April 2007, Atax, Faculty of Law, University of New South Wales – see page 13-2).

17 ‘*Simplifying Income Tax: A Report on Forty Community Consultations*’ (Australian Taxation Office, 2000) – at page 57.

18 Tax Office *Annual Report 2007-08* (at page 31).

19 There is no legislative requirement for information providers to give information to the Tax Office for the purposes of pre-filling. They are, however, required by law to report information to the Tax Office for compliance purposes.

20 *Compliance program 2008-09* (Tax Office publication) at page 13.

Commissioner to issue a final notice requiring lodgement by a specified date. Included in the final notice are details regarding the Commissioner's ability to impose penalties or to commence prosecution action.

3.15 A number of actions are available to the Commissioner to resolve the lodgement of outstanding returns:

- impose a 'failure to lodge' penalty;
- raise a liability (for example, issuing a default assessment); and
- begin prosecution action.

### **Failure to lodge penalty**

3.16 Section 286-75 of Schedule 1 of the TAA 1953 provides the power to the Commissioner to penalise taxpayers that fail to lodge a return on time or in the appropriate form as required by a taxation law. For individual taxpayers the maximum amount of (FTL) penalty that can be imposed is five penalty units (with a 'penalty unit' of \$110 being imposed under section 4AA of the *Crimes Act 1914* for each period of 28 days, or part thereof, that a return remains outstanding).

3.17 Further discussion of the FTL penalty, including the Tax Office's practices and performance, is included in Chapter 4.

### **Raising a liability to address a taxpayer's failure to lodge**

3.18 Section 167 of the ITAA 1936 enables the Commissioner to make a default or arbitrary assessment of the amount upon which, in his judgement, income tax ought to be levied. One of the main circumstances under which the Commissioner acts is where a taxpayer has not lodged their tax return.

3.19 In making a default assessment, the Commissioner must undertake calculations in accordance with the income tax legislation and must not ignore any relevant facts, avoid investigation or make uninformed guesses (*R v DCT (WA); Ex parte Briggs (No 2)* (1987) 18 ATR 570; *FCT v Dalco* (1990) 20 ATR 1370)<sup>21</sup>.

3.20 A taxpayer is entitled to object to a default assessment and in turn appeal a decision regarding the objection. However, the onus in both circumstances is with the taxpayer to show that the assessment is excessive.

### **Prosecution action**

3.21 It is a criminal offence under paragraph 8C(1)(a) of the TAA 1953 for a person to fail to lodge outstanding tax returns if required to do so by the Commissioner. Prosecution action to encourage or secure lodgement is the strongest compliance approach. A matter should not proceed to prosecution where an administrative penalty by itself or some other administrative response will result in the current offence being rectified and future

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21 *Australian Tax Handbook 2008* - Thomson (page 1674).

compliance by the taxpayer.<sup>22</sup> It must also be remembered that administrative penalties cannot be imposed once prosecution has been instituted (further discussion regarding this issue is included in Chapter 4).

3.22 Generally, prosecution will be reserved for taxpayers who have either ignored opportunities to comply or have a history of non-compliance, or can reasonably be categorised as high-risk by their actions or inaction. In rare cases where the taxpayer has a history of poor compliance, has previously been successfully prosecuted, or in cases where urgent action is required, it may be appropriate to commence prosecution without prior contact.

3.23 Further discussion of the prosecution process, including the Tax Office's practices and performance, is included in Chapter 4.

## THE ACCUMULATION OF NON-LODGED TAX RETURNS

3.24 The late 1980s move to self assessment and to the associated risk management approach to compliance means that not every compliance issue, including the non-lodgement of some income tax returns, can be followed up. The result has been a build up over the years of a large number of non-lodged returns and the numbers continue to grow. In 1988 the Tax Office attempted to deal with the issue<sup>23</sup> through a lodgement amnesty whereby taxpayers with outstanding returns were given a 'one-off' opportunity to lodge without fear of being prosecuted or having to pay late lodgement penalties. As outlined in Table 3.1 only 28 per cent of lodgements received through the amnesty (between 31 May 1988 to 30 June 1990) were by individuals who owed money to the Tax Office. The majority (57 per cent) were by taxpayers seeking to collect money from the Tax Office.

**Table 3.1 Amnesty assessments issued during 31 May 1988 to 30 June 1990.** <sup>24</sup>

	Debit assessments	Credit assessments	Non-taxable assessments	Total
Number of assessments	245,708	510,893	133,915	890,516
Balance Payable (\$'000s)	404,673	321,798	n/a	82,875

3.25 The amnesty enabled a 'tidy-up' of the non-lodgement situation and increased public awareness of lodgement responsibilities. However, it did not provide any ongoing change in Tax Office practice or procedure regarding lodgement.

3.26 The Australian population has since increased and so has the individual lodger population. In 2007-08, 14,880,273 income tax returns were processed – an increase of 4 per cent from 2006-07.<sup>25</sup> As outlined in Chapter 5 of this report, Tax Office information shows that non-lodged returns continue to accumulate.

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22 *ATO Receivables Policy.*

23 An internal Tax Office review of lodgement enforcement activities in early 1988 indicated that traditional efforts were not achieving the result of voluntary lodgement of income tax returns by all taxpayers. It was estimated that up to 360,000 taxpayers with a liability to lodge returns were not doing so (source: *Tax Office Annual Report 1989* - at page 23).

24 *Tax Office Annual Report 1989-90* - at page 143.

25 *Tax Office Annual Report 2007-08* - at pages 43 and 44.



## CHAPTER 4: HOW THE TAX OFFICE MANAGES THE RISK

### RISK MANAGEMENT

4.1 When, as in Australia, tax administration is based on self assessment, compliance activity is inevitably based on risk management approaches. The Tax Office is not resourced by government to do everything that might be done to achieve absolute compliance. Rather, it is resourced to ensure that budgeted revenue is collected and that confidence in the system is maintained. Unless government specifically provides resources for exclusive use to address a defined compliance risk, the Tax Office must make its own judgements on relative compliance risks, the strategies and actions that will best address them, and how it needs to distribute its resources to achieve planned compliance outcomes.

4.2 This framework places great importance on the following elements of risk management in respect of non-lodgement (or any other) compliance risk:

- risk assessment processes;
- strategies and actions to address priority risks;
- investment of resources; and
- monitoring performance and effectiveness (achievement of planned outcomes).

4.3 This chapter considers the Tax Office approaches to these elements of its risk management of non-lodgement of individual income tax returns and the Inspector-General's observations on them.

### RISK ASSESSMENT PROCESSES

4.4 The Tax Office publicly identifies the importance of lodgement in the tax system ...

*Taxpayer returns (including activity statements and other reports) are the foundation for verifying compliance which is why we put so much emphasis on the need for taxpayers to lodge returns in full and on time.*<sup>26</sup>

... and it is also upfront about the impact of the risk management framework in which it works:

*However we are unable to monitor and follow up all instances of late or non-lodgement of income tax returns, and consequently cases for further pursuit are selected based on an assessment of their relevant risk.*<sup>27</sup>

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26 Tax Office publication *Compliance program 2007-08* (at page 6).

4.5 The fact that the non-lodgement of tax returns poses a risk to the integrity of the tax system and potentially the revenue is clear. However, the Tax Office is unable to follow-up all cases of non-lodgement mainly because of constantly changing taxpayer demographics such as:

- leaving and re-entering the workforce;
- extended absence from Australia due to overseas travel; and
- changes in location and relationship status.

4.6 The Tax Office, in answer to a 'question on notice' to the Senate Economics Legislation Committee regarding these challenges, concluded that:

*It is not possible to compile data showing how many individuals have 'dropped out of the tax system.'*<sup>28</sup>

## **Strategic focus**

4.7 In January 2005, following some embarrassment at the identification of a high-profile, high-wealth person who had not lodged a return for many years, the Tax Office created a new Lodgement Compliance business line to identify high-risk taxpayers as well as taxpayers who deliberately or persistently failed to meet their lodgement obligations. In July 2006, recognising the importance of tax practitioners in the tax system, especially their strong lodgement role, Lodgement Compliance was expanded to also incorporate responsibility for the relationship with tax practitioners, with the newly formed line called Tax Practitioner And Lodgement Strategy (TPALS).

4.8 The creation of TPALS was an important step as it created a strategic lodgement compliance leadership responsibility for the whole of the Tax Office for the first time since the Tax Office organised itself around client market segments. This move provided the Tax Office with a business line resourced to:

- manage lodgement risk and policy (including penalties relating to lodgement obligations);
- broaden strategies beyond the 'tax level' approach to focus on those taxpayers that either persistently or deliberately fail to meet, or only partially meet their lodgement obligations; and
- focus on ensuring lodgement compliance among taxpayers whose high profile or profession would encourage and maintain 'voluntary' compliance among other taxpayers.

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27 ATO Minute 'Non-lodgement of Income Tax Returns November 2007 – Briefing for the Inspector-General of Taxation' (Tax Office report dated 15 November 2007).

28 Answers to questions on notice – Budget Estimates hearing 30 May 2006 (*Question BET-144: Tax Returns*).

4.9 Responsibility for the operational functions that support lodgement, such as the 'front-end' lodgement enforcement activities (for example, the issuing of bulk RMS reminder letters<sup>29</sup> and demand letters to taxpayers identified by TPALS through their risk assessment processes) was assigned to the Debt business line within the Operations sub-plan.

4.10 The above mentioned three areas continue to be a focus for TPALS as outlined in its business line *Delivery Plan* for 2007-08 which states that 'business priorities' include:

- *contributing to and co-managing the strategic compliance risks, as well as our specific leadership in ensuring improvements in lodgement behaviour; and*
- *refining risk identification and assessment processes to improve case selection through the ongoing use of analytics'*<sup>30</sup>

4.11 Since the inception of the Lodgement Compliance business line in 2005, the Tax Office has continually modified and developed its lodgement risk framework into a multi-dimensional model that selects cases based on an assessment of one or more of the following risks:

- The *risk to revenue* which is based on an estimate of a taxpayer's potential liability for an outstanding lodgement obligation (the 'tax level' approach).
- The *risk to community confidence* which is based on groups of taxpayers or entities that the community expect the Tax Office to ensure meet their lodgement obligations (for example, clients with child support responsibilities, high-wealth individuals), or to support other compliance programs (for example, Project Wickenby<sup>31</sup>).
- The *risk to the integrity of the tax system* which is based on those groups of taxpayers or entities that could potentially damage the reputation of the Tax Office as a taxation administrator if they were not pursued.

4.12 With the introduction of TPALS, the Tax Office also established a Risk and Intelligence Unit to oversee the development and operation of effective intelligence and risk processes.

## Data matching

4.13 Compliance risk assessment relies on combining multiple pieces of disparate information and interpreting them to form intelligence.<sup>32</sup> Data matching is a key strategy used by the Tax Office to achieve this through identifying those individuals and businesses that have generated income at levels during a particular financial year that would warrant

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29 RMS is the *Receivables Management System* which is operated by the Debt business line.

30 *Tax Practitioner and Lodgement Strategy 2007-08 Line Delivery Plan* – at pages 3 and 4.

31 Project Wickenby is a multi-agency taskforce set up in 2004, to investigate internationally promoted tax arrangements that allegedly involve tax avoidance or evasion, and in some cases large-scale money-laundering.

32 '*Compliance Risk Management: Managing and Improving Tax Compliance*' – Forum on Tax Administration Compliance Sub-group (OECD) October 2004 – at page 15.

lodgement of a tax return, but who have failed to do so. Underlying this approach is the matching of data held on Tax Office systems<sup>33</sup> to externally sourced data:

- acquired from external parties in accordance with a legislative requirement such as payment summary statement data annually supplied by employers under section 16-153 of Schedule 1 to the TAA 1953 (during 2007-08, the Tax Office received around 78 million records via a legislative requirement);<sup>34</sup>
- acquired from government agencies under memoranda of understanding (such as data regarding significant or suspect cash transactions provided by the Australian Transaction Reports and Analysis Centre (AUSTRAC));
- purchased by the Tax Office (that is, commercially available data such as property information acquired through CITEC and RP Data Pty Ltd); and
- requisitioned by the Tax Office under legislative authority on a non-routine basis (for example, data from State and Territory authorities relative to the registration of luxury vehicles and marine vessels).

4.14 As indicated in the following diagram, the Tax Office accesses information on individuals' activities from a wide range of sources. During 2007-08, the Tax Office received around 78 million records containing income details solely from those organisations and government agencies required to do so by law.<sup>35</sup>

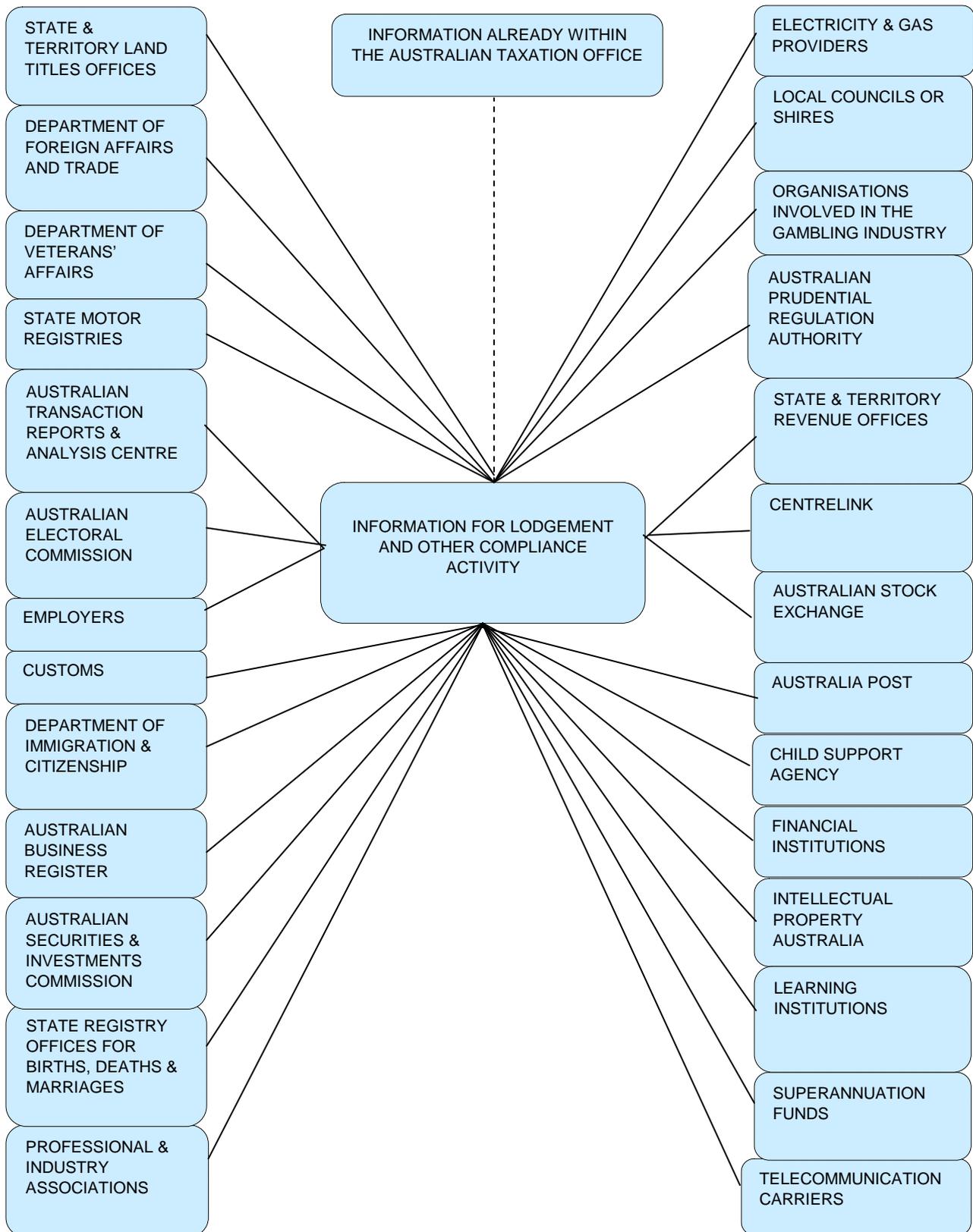
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33 Including data captured from previous tax returns, feedback obtained from audit and other programs and historical lodgement compliance data.

34 Tax Office *Compliance Program 2008-09* (at page 14).

35 Ibid.

## Information flow into the Tax office for the purposes of administering the lodgement of income tax returns



4.15 On receiving the third-party data, the Tax Office compares it with other Tax Office information to confirm the identity of the relevant person or entity. Data which does not contain a TFN or ABN is separated so that the relevant number can be attached by the Tax Office identity matching facility. Where this facility fails to establish with a sufficient level of confidence the identity of the person or entity, Tax Office staff may investigate the relevant transaction or record in order to establish a reliable link.

#### Usefulness of third-party data

4.16 The Tax Office's ability to use externally sourced data is enhanced when the data includes a unique identifier that is recognisable by Tax Office systems such as a TFN or ABN. This is because the identifier improves the ability of the Tax Office to 'locate' non-lodging taxpayers during the data matching process. The difficulty for the Tax Office is that only certain providers of data are authorised by law to *request* quotation of a TFN, including:

- employers;
- financial institutions;
- some Australian Government agencies;
- trustees for superannuation funds;
- payers under the pay-as-you-go system; and
- higher education institutions.

4.17 There are a number of other issues that affect the Tax Office's ability to use third-party data, including:

- delays experienced by the Tax Office in receiving third-party data due to the number of non-electronic formats still used by owners of the information;
- variation in formatting of third-party data obtained from different providers (particularly when dealing with agencies from different states and territories in Australia);
- delays in the referral of data by providers, both with and without a legislative requirement to report; and
- data failing to indicate a requirement to lodge or the presence of an undeclared taxable transaction, often because the provider of the data originally collected the data for its own purposes. An example is data provided by State land titles offices regarding property transfers which largely reflect taxpayers selling their own homes rather than investment properties (this particular issue also has wider application with capital gains from the disposal of property being listed as a focus in the Tax Office's *Compliance Program 2008-09* publication<sup>36</sup>).

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36 *Compliance Program 2008-09* – at page 12.

## What other data could the Tax Office use?

4.18 During the review, the Inspector-General asked the Tax Office whether there was any other data that would improve the outcomes of its lodgement models. The Tax Office responded as follows<sup>37</sup>:

*The following suggestions for additional data sources for use in lodgement models are provided:*

- *Yellow Pages Business advertisement details – This data would be most beneficial if it was accompanied by an ABN as it would be an indicator of intent to earn income.*
- *Road Transport Authority business vehicle purchase and registration data. This data would be used in a similar manner to the existing Luxury Motor Vehicle data project and would be an indicator of business activity.*
- *Business insurance data – This could be cars, real property or business assets. Again this would be most valuable if associated with an ABN.*
- *Personal asset insurance policy data. This would cover high value assets that are not registered (for example, artworks, wine collections). It would also provide valuations for assets that some registering bodies do not collect for example, marine craft. This data would be more an indicator of wealth rather than income, and may require further analysis/investigation to be useful in identification of a potential lodgement obligation.*
- *Income protection insurance data. This data may provide an indication as to the potential level of business income, and also indicate potentially inaccurate income disclosure in lodged income tax returns.*
- *Memberships of exclusive clubs could be an indication of wealth and possibly level of income.*
- *Use of real property data. A pilot program reviewing property data from State Revenue and Land Titles Offices is being undertaken by the Micro Enterprises and Individuals business line. This is a compliance program designed to ensure that taxpayers correctly return income (capital gains) on the disposal of real estate. The results of this program and the suitability of the data reported will be monitored and analysed as a further indicator of income and hence the existence of a lodgement obligation.*

## Predictive risk modelling

4.19 With the establishment of TPALS, the Tax Office realised that to target non-lodgers more effectively and to consequently apply its limited resources more efficiently, it needed a predictive model that:

- considered risk attributes not only in respect of non-lodgement (such as age and the tax level of the taxpayer), but also the taxpayer's compliance behaviour, including their lodgement and collection history and current status, profile in terms of the taxpayer including their financial status and other special circumstances;

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37 'Additional sources of data for lodgement models' – Briefing for the Inspector-General of Taxation (Tax Office report dated 12 September 2008).

- was more intuitive by incorporating expert business rules<sup>38</sup> and relational formulas;<sup>39</sup> and
- automated the decision making process.

4.20 Predictive risk modelling techniques are increasingly being adopted as a best practice to better differentiate taxpayers based on their individual circumstances, behaviours and risk profiles and to determine the most appropriate treatment strategies.<sup>40</sup>

4.21 The Tax Office has developed analytic models<sup>41</sup> that ‘select’ non-lodgers with high compliance-risk. The Lodgement Risk to Revenue Model, predicts the amount of revenue that would have been posted to a taxpayer’s account had they lodged the outstanding income tax return. This model, which was delivered in January 2006, involves a two-stage process that draws on Tax Office and external data to:

- establish the probability of a credit, debit or nil assessment; and
- estimate the magnitude of the assessment.

4.22 The Tax Office uses the model in two different ways for lodgement compliance purposes, either as:

- the primary selector of cases for lodgement compliance action; or
- the means of prioritising potential cases selected via other methods such as data matching.

4.23 For completeness, the Inspector-General notes that the predictive model is not the only case selector that supports Tax Office lodgement compliance strategies:

- Lodgement obligations identified for the large market segment – due to community expectations, as well as the potential revenue implications associated with these entities, their lodgement obligations are closely monitored and follow-up action is taken in all cases where appropriate returns are not received.
- Similarly, the lodgement obligations for entities in the ‘top end’ of the Small to Medium Enterprises (SME) market (that is, with an annual turnover of between

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38 *Expert business rules* define the cases to be sent to each type of treatment strategy. These rules are loaded into the decision management system as a series of tables. As each case is assigned to a treatment, the data warehouse is updated with details of that decision.

39 *Relational formulas* are based on the relationships between risk scores and expert business rules and predict the likelihood and consequences of applying a particular treatment strategy. Relational formulas cover mathematical and non-mathematical formulas, and help inform whether to apply a particular treatment strategy.

40 *The Report on the Survey of Country Practices in Debt Collection and Overdue Returns Enforcement*, Forum on Tax Administration, Centre for Tax Policy and Administration, OECD (March 2006).

40 Analytics technologies enable the efficient analysis of large quantities of business data when undertaking client profiling.

\$100 million and \$250 million) are also closely monitored and actioned where appropriate returns are not received.

- Micro enterprises (that is, businesses with turnover of less than \$2 million) identified as being in high-profile professions that influence the wider community (for example, the legal profession and tax practitioners).
- Individuals expected to have high-level tax liabilities (for example, 'tax level 6' taxpayers with tax payable in excess of \$20,000) or in high-profile professions that influence the wider community (for example, the legal profession and sports people).
- Individuals with 'conspicuous wealth', identified through matching information obtained from relevant external databases regarding asset acquisitions (for example, luxury cars, aircraft and marine vessels).
- Individuals with child support obligations.
- Referrals of high-risk lodgement cases from other business lines, including the cash economy and serious non-compliance projects.

4.24 The Tax Office is developing two other models to assist with lodgement compliance activities which are not yet in production:

- the Propensity To Lodge Model, which aims to predict how late a return is likely to be lodged, based on a taxpayer's history, and how late returns from taxpayers with similar attributes were lodged;<sup>42</sup>
- the Income Tax Return Not Required Model, which aims to predict the likelihood that a taxpayer is not required to lodge an income tax return, at a point in time. This model is currently being tested.

## **IGT observations on the risk assessment process**

4.25 The Inspector-General considers that the ATO's risk assessment-based approach to non-lodgement is entirely appropriate in a self assessment system and in the context of the shifting demographics that affect taxpayers. The organisational and system changes made since 2005 in particular demonstrate that the Tax Office has taken steps in recent years to strengthen its focus on managing lodgement compliance and the identification of risk. The creation of the TPALS business line to manage lodgement risk and policy and the establishment of the Risk and Intelligence Unit to oversee the development and operation of effective intelligence and risk processes are particularly important.

4.26 These changes have provided the focus which has enabled the Tax Office to broaden its approach with the addition of new methodologies, including predictive risk modelling. The Tax Office's Change Program provides an opportunity to build on that progress and to further explore and test ways to combine internal and external data to help identify lodgement obligations.

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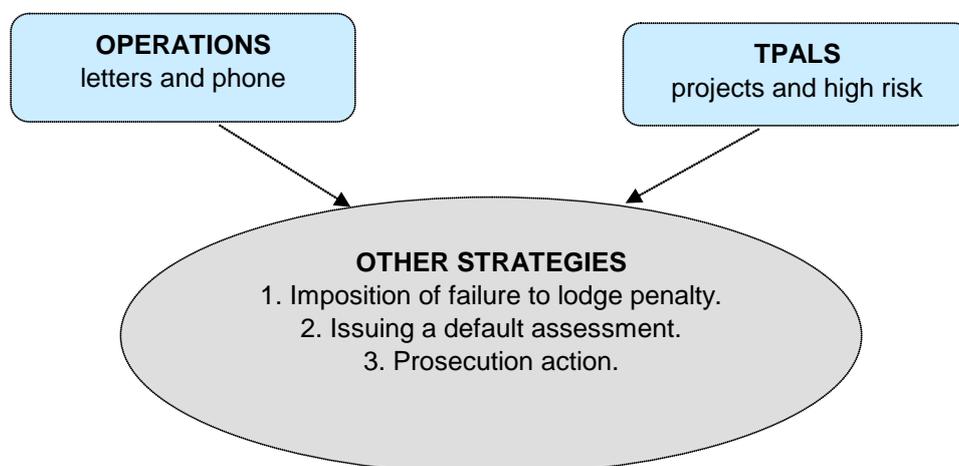
42 Ibid at page 5.

4.27 The Tax Office is gaining a better understanding of the environment taxpayers are operating in, which in turn has led to more sophisticated identification of risk. Risk assessment and compliance levels are close to the level that the community expects.<sup>43</sup>

4.28 The Tax Office highlighted to the Inspector-General the problem of the currency of some of the data it holds and the useability of the third-party data it accesses. Addressing these matters would improve the identification of non-lodgers and support other compliance strategies. The inclusion of unique identifiers (such as a TFN or ABN) in third-party data would significantly enhance the Tax Office's risk interpretation and analysis.<sup>44</sup> The Inspector-General notes that there is no compulsion for a taxpayer to provide a TFN or ABN in any of their dealings with the Tax Office and that there are legislative provisions which potentially affect any extension of the Tax Office's current practices in this area.<sup>45</sup> There is a need for either a new legislative requirement or through agreement between the states and the territories for the inclusion of unique identifiers in selected sources of third-party data provided to the Tax Office.

## STRATEGIES AND ACTIONS TO ADDRESS PRIORITY RISKS

4.29 The Tax Office's Business Model, as outlined in its *Strategic Statement 2006-10* sets out how it will conduct its business. Consistent with this Business Model, the Tax Office's corporate lodgement strategies use a balance of educational and compliance activities to improve taxpayers' understanding of lodgement obligations, and to manage taxpayers who do not meet their obligations. The Tax Office divides the work as follows:



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43 See chapter 5 for an outline of the results arising from the independent community survey conducted by Colmar Brunton.

44 The Tax Office advised the Inspector-General that, in the absence of a unique identifier, they require *at a minimum* the full name, address and date of birth of an individual in order to provide a reasonable opportunity to establish identity - ATO Minute 'Information Flows into the Tax Office' (dated 3 June 2008 at page 3).

45 The Tax File Number Guidelines 1992 (which were issued under Section 17 of the *Privacy Act 1988*) are intended to protect the privacy of individuals by restricting the collection, use and disclosure of tax file number information.

4.30 While TPALS takes the lead on strategy and risk assessment, lodgement compliance action is undertaken across various business lines in the Tax Office. Client Account Services are responsible for the registration and processing of income tax returns. The Debt business line is responsible for 'front-end' lodgement compliance activities, including the automated bulk issue of reminder to lodge letters and the resulting inbound calls and correspondence. The Client Contact business line is responsible for follow-up phone calls. The compliance business lines (for example, Large Business and International) are responsible for field intervention activities, identification of high-risk taxpayers through joint projects and undertaking high level activities for fraud cases.

### **Direct contact by letter or phone**

4.31 The administration of campaigns to directly contact taxpayers is a significant investment on behalf of the Tax Office and includes the participation of not only Operations (mainly the Debt business line) but also TPALS. Table 4.3 provides a break-up of the numbers of letters and notices sent to all taxpayers during the 2006-07 financial year as well as the respective numbers of returns finalised and liabilities raised.<sup>46</sup> A further break-up concentrating on the individual taxpayer segment is also provided in the table.

4.32 The Tax Office continues to seek ways to improve its communication with taxpayers in respect of lodgement obligations. For example, it uses SMS text messaging to remind self-preparers of key lodgement due dates.<sup>47</sup>

4.33 If a taxpayer does not respond positively to the initial contact, the Commissioner may issue a final notice to lodge. Included in the final notice are details about the possibility of penalties or prosecution action.

4.34 The review has not established how many of these letters are sent to taxpayers directly and how many are sent through tax agents. It is clear that tax agents are impacted by this strategy in terms of workloads and therefore it is important that the Tax Office monitors the situation. The Tax Office has developed technology to support electronic lodgement by tax agents and to support their practice management by providing a portal to Tax Office systems. The portal has been a particularly welcomed development. However, tax agents continue to be frustrated with the system's inability to effectively remove old clients from tax agent lodgement lists. The Inspector-General continues to receive representations from tax agents on this issue. These include concerns that, despite having accessed the portal to remove the names of former clients, agents continue to receive letters from the Tax Office regarding these former clients (including requests for the lodgement of outstanding returns). In this regard, ATO systems do not appear to be consistently recording this data nationally.

4.35 The Tax Office is attempting to address this by conducting a project whereby letters containing a list of current clients are sent to agents for their review. In the letter, the Tax Office requests that the agent advises the name of any taxpayer that is not a client and for

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46 The 'front-end' lodgement enforcement activities such as the issuing of bulk reminder letters are handled by the Debt business line.

47 This practice was adopted by the ATO following a pilot conducted in 2006 which saw approximately 79 per cent of the target population of 19,800 improving in compliance behaviour [source - *'Non-lodgement of Income Tax Returns November 2007'* - Briefing for the Inspector-General of Taxation, 14 November 2007 (at page 9)]. In 2007-8 an SMS lodgement reminder message was sent to 200,788 taxpayers who had lodged by *e-tax* or paper in 2006 but had not yet lodged by October 2007 [source: Tax Office *Annual Report 2007-08* at page 44].

approval that such taxpayers be removed from the agent's client list. The Tax Office having sent over 10,000 letters in June 2008 to agents during phase 3 of this project, has advised that the project will be ongoing.<sup>48</sup> The Inspector-General intends to continue monitoring the extent to which tax agent concerns in this area are addressed.

## **TPALS projects to secure lodgement**

4.36 A series of projects are also undertaken to address certain strategic high risk taxpayers. Project-based work is a favoured approach of the Tax Office. Currently, there are 24 projects working towards improving lodgement compliance.

### **High profile profession project**

4.37 The Tax Office reviews and follows up the lodgement compliance of members of the legal profession, politicians, tax agents, professional sports people and a sampling of others with recognised media or business profiles.

### **The Child Support Agency project**

4.38 The Child Support Agency (CSA) has entered into a memorandum of understanding with the Tax Office to exchange information as part of specific compliance action aimed at ensuring that taxpayers satisfy their obligations (including the lodgement of income tax returns). Each year around 125,000 taxpayers are referred by CSA for manual follow-up action.<sup>49</sup>

4.39 The Tax Office has advised IGT that in 2007-08 the Tax Office has finalised<sup>50</sup> 126,267 outstanding income tax returns from 68,816 taxpayers (55 per cent). These returns identified \$62.5 million in refunds, from which \$19.7 million has been transferred to the Child Support Agency. In addition, there have been 518 convictions of taxpayers failing to comply with their requirement to lodge.<sup>51</sup>

### **Project Wickenby**

4.40 The Tax Office continues to receive and use information about taxpayers and their lodgement behaviour as part of Project Wickenby – a joint taskforce of Australian Government agencies investigating revenue fraud.

## **Other strategies**

### **1. Imposition of failure to lodge penalty**

4.41 Failure to lodge (FTL) penalty is an administrative penalty which applies if a taxpayer is required to lodge a return with the Tax Office by a particular day but fails to do so. Liability to FTL penalty is provided by subsection 286-75(1) in Division 286 of Schedule 1

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48 Lodgement Working Group minutes (13 June 2008).

49 Ibid (at page 9).

50 Finalised cases include not only lodgement but also cases where no return was necessary.

51 TPALS *Focus Area HOTSAs Report* (September 2008).

to the TAA 1953. There are a number of reasons behind the establishment of the FTL penalty regime including:

- that a taxpayer who does not provide information to the Commissioner on time may gain a significant benefit or advantage over taxpayers who comply with their obligations;
- that non-lodgement of returns affects the efficient operation of the tax system; and
- that a loss of community confidence in the tax system may result from an unsupported argument being promoted as a reason for not lodging a document or documents.

4.42 Application of FTL penalty is based solely upon the period of time that the document is outstanding. It is not dependent upon a related unpaid amount or upon the Tax Office receiving the return. The penalty applies whether or not the document is ultimately lodged.

4.43 The amount of FTL penalty is calculated in accordance with section 286-80 of Schedule 1 to the TAA 1953.

4.44 The first step in the calculation of FTL penalty is to determine the base penalty amount (BPA) which consists of one penalty unit<sup>52</sup> for each 28 days (or part thereof) that the return is overdue. The maximum amount of the base penalty is five penalty units which may therefore be applied if the return is not lodged within 113 days of the lodgement due date.

4.45 This BPA may then be multiplied by two or five depending on the size of the entity:

- It is multiplied by two where the taxpayer:
  - earns more than \$1 million but less than \$20 million assessable income (for the income year in which the return is required);
  - is a 'medium withholder';<sup>53</sup> or
  - has a current GST turnover of more than \$1 million but less than \$20 million (worked out at the time in the month in which the return was required to be given).
- It is multiplied by five where the taxpayer:
  - earns \$20 million or more assessable income (for the income year in which the return is required);
  - is a 'large withholder'<sup>54</sup>; or
  - has a current GST turnover of \$20 million or more (worked out at the time in the month in which the return was required to be given).

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52 A 'penalty unit' is \$110 under section 4AA of the *Crimes Act 1914*.

53 The amounts withheld by the entity during a financial year ending before the month in which the return was required are between \$25,000 and \$1 million.

54 The amounts withheld by the entity during a financial year ending at least two months before the month in which the return was required exceeded \$1 million.

4.46 The maximum possible FTL penalty for a taxpayer with assessable income of \$20 million or more is therefore \$2,750 per document.

#### *FTL penalty imposition and remission statistics — income tax*

4.47 The following table<sup>55</sup> provides details of FTL penalty impositions for the 2004-05 to 2007-08 financial years.

**Table 4.1 Tax Office failure to lodge penalty impositions: 2005 to 2008 financial years.**

Income tax returns	2004 — 05		2005 — 06		2006— 07		2007 — 08	
	Number	\$	Number	\$	Number	\$	Number	\$
Not lodged — Manual FTL imposed	5,678	3,510,650	5,232	3,332,670	7,210	4,681,710	10,120	6,304,650
Not lodged — Bulk FTL imposed <sup>1</sup>	0	0	0	0	263	235,290	52,002	26,926,680
Late lodgement — Auto FTL imposed	53,471	23,198,230	55,106	25,013,120	57,588	26,591,070	59,316	28,551,820
Gross impositions	59,149	26,708,880	60,338	28,345,790	65,061	31,508,070	121,438	61,783,150
Remissions	3,964	1,772,990	4,823	2,151,938	8,596	4,126,595	16,002	7,877,285
Cancellations	1,522	265,100	1,007	415,360	607	313,830	6,698	2,351,470
Net impositions	53,663	24,670,790	54,508	25,778,493	55,858	27,067,645	98,738	51,554,395
FTL warnings issued	241,079	N/A	258,275	N/A	271,802	N/A	306,177	N/A

Source – ATO Minutes dated 4 June 2008 and 4 December 2008 [includes all classes of taxpayers].

#### *FTL penalty waived where prosecution is commenced*

4.48 Section 8ZE of the TAA 1953 requires that FTL penalties are waived immediately upon institution of prosecution against a taxpayer for failing to lodge. Where a taxpayer lodges in response to the summons, section 8ZE operates to preclude any monetary administrative penalty for failing to lodge other than by continuing with prosecution. We note that the background to the introduction of section 8ZE was to ensure that taxpayers were not exposed to both an administrative penalty and a prosecution for the same act or omission.

4.49 The effect of section 8ZE has been raised within the tax community and in particular the obligatory waiving of failure to lodge penalty once a summons has issued. For example, Mr Robert Williams in his paper *Prosecuting non-lodgers: to persuade or punish?*<sup>56</sup> said:

*In the current situation, taxpayers who receive a summons and then lodge are still prosecuted because they will otherwise escape any financial penalty. Taxpayers who lodge their returns should be de-escalated down the [compliance model] pyramid rather than up to prosecution. Prosecuting when a taxpayer is cooperating is contrary to the responsive philosophy of the compliance model.*

4.50 The report then went on to suggest that this needed attention by legislative amendment. The Inspector-General notes this discussion and may consider the matter

55 'Overview of failure to lodge on time penalty – Supplementary request for information dated 27 May 2008' (Tax Office report provided to IGT on 5 June 2008).

56 Published as a working paper for the Centre of Tax System Integrity (CTSI Working Paper No 12, July 2001). The Centre for Tax System Integrity is a specialised research unit set up as a partnership between the Australian National University and the Tax Office.

further if the application of section 8ZE is leading to unintended or unfair consequences for taxpayers.

## 2. Default assessments

4.51 If there is default in furnishing a return or the Commissioner has reason to believe that any person who has not furnished a return has derived taxable income, the Commissioner may make a 'default assessment' under section 167 of the ITAA 1936 of the amount upon which in his judgement income tax ought to be levied.

4.52 The Commissioner may make a default assessment upon any basis that is reasonable, taking into account the particular circumstances. This includes referring to information accessed from external sources or from an extrapolation of figures included in previous years' returns.<sup>57</sup>

4.53 A taxpayer is entitled to object to a default assessment and in turn appeal a decision regarding the objection. However, the onus in both circumstances is with the taxpayer to show that the assessment is excessive.

4.54 Overall, default assessments have been used sparingly in the past, and their effectiveness as a treatment strategy for non-lodgers is currently being tested by the Tax Office via a pilot project.<sup>58</sup> However, there are situations where a default assessment is considered appropriate, such as where there is a risk that the taxpayer in question may remove themselves or their assets from Australia.

## 3. Prosecution action

4.55 A person commits a criminal offence under paragraph 8C(1)(a) of the TAA 1953 if they fail to lodge an outstanding return as required by the Commissioner. To secure lodgement, the Commissioner has the option to take prosecution action which can ultimately lead to the courts, upon conviction, making an order pursuant to section 8G of the TAA 1953 that the taxpayer lodge the relevant return(s) with the Tax Office by a particular date. The penalty for an individual that fails to comply with such an order is a fine not exceeding \$5,500 and/or imprisonment for a period not exceeding 12 months.<sup>59</sup>

4.56 Prosecution is the severest sanction in the end-to-end process of securing lodgement of outstanding income tax returns. Where a taxpayer has failed to voluntarily comply, the Tax Office's lodgement teams apply one or a number of treatments to encourage compliance. However, a matter will not proceed to prosecution where an administrative penalty itself, or some other form of administrative response, will result in the taxpayer lodging the outstanding return.<sup>60</sup>

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57 *ATO Receivables Policy* - ATO Practice Statement *PS LA 2006/11* at 57.4.4.

58 *'Non-lodgement of Income Tax Returns November 2007'* - Briefing for the Inspector-General of Taxation (Tax Office report dated 14 November 2007 - at page 13).

59 Section 8H of the TAA 1953.

60 *ATO Receivables Policy* .

4.57 If a taxpayer fails to comply with a final notice, a pre-prosecution call is usually made by the referring area of the Tax Office.<sup>61</sup> If the taxpayer cannot be contacted by telephone, the Tax Office sends a pre-prosecution letter to either the taxpayer or their representative. However, pre-prosecution contact is not always instituted following a failure to comply with a final notice.

4.58 In accordance with the *ATO Prosecution Policy*, where lodgement has occurred before prosecution action is instituted, generally prosecution action will not commence. If lodgement occurs after the summons has been issued, the matter is considered to be in the hands of the court and the prosecution process continues.

4.59 Under the *Director of Public Prosecutions Act 1983*, the Commonwealth Director of Public Prosecutions (CDPP) has control of all Commonwealth prosecutions. However, due to the high number and nature of non-lodgement of income tax return matters, the CDPP has agreed that the Tax Office's In House Prosecution unit (IHP) can initiate and conduct prosecutions,<sup>62</sup> subject to certain restrictions, including that certain types of cases are sent to the CDPP for the conduct of the prosecution (including defended matters and matters involving high-profile defendants and 'restricted access' taxpayers).

#### *Prosecution statistics*

4.60 The following table represents the number of individual taxpayers prosecuted for failing to lodge an income tax return.

**Table 4.2 Tax Office prosecutions of individual taxpayers failing to lodge: 2005 to 2008 financial years.**

Year	Total prosecutions
2004 — 05	659
2005 — 06	1824
2006 — 07	1961
2007 — 08	1999

Sources: Conference between IGT and the Director of Government Assurance and Liaison for TPALS on 11 December 2008; ATO Minute 'Lodgement Prosecutions – Income Tax Returns' – 12 March 2008. [includes all classes of taxpayers except those referred to the CDPP].

#### *The effectiveness of prosecution*

4.61 The effectiveness of prosecution as an approach for obtaining lodgement of a tax return was also considered in the above mentioned paper by Mr Robert Williams:

*... prosecutions were only moderately successful in obtaining lodgement and that lodgement rates (for prosecuted taxpayers) reduced significantly in subsequent years. Nevertheless, these lodgement rates were still three to four times greater than those of taxpayers who were selected for prosecution but did not receive the summons issued to them.*

4.62 The study also went on to note that '*...there is not a 'universal belief' that failing to lodge a tax return is a serious offence*' and that one ATO officer interviewed said that they '*had to work*

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61 Non-lodgement cases are referred for prosecution by a number of areas in the Tax Office, predominantly Tax Practitioner and Lodgement Strategy (TPALS) but also other business lines such as Serious Non-Compliance (SNC), Goods and Services Tax (GST) and Superannuation.

62 Note that Part 4 of the memorandum of understanding between the CDPP and the ATO outlines the various offences (apart from non-lodgement) which the CDPP has allowed IHP to prosecute.

*hard to convince taxpayers that the offence they had committed was serious*'. The researcher put forward the option of more communication to the public about the seriousness of non-lodgement. Such an increase in the level of communication may go hand in hand with the need for more communication generally about lodgement obligations, as indicated by the results of the independent survey outlined in Chapter 5.

## **IGT observations on Tax Office lodgement compliance strategies and actions**

### **Projects**

- The Tax Office's Child Support Agency (CSA) Project, aimed at ensuring lodgement by those having support obligations, has exceeded estimated achievements.

### **Failure to lodge penalties**

- Failure to lodge (FTL) penalties are very low with the maximum possible being \$2,750 per document for a non-compliant taxpayer who earns \$20 million or more of assessable income.
- Tax Office application of FTL penalties has been increasing but so have subsequent remissions and cancellations. Overall, the number of FTL penalties actually applied has increased with some 98,700 applied in 2007-08, but it is still small relative to over 1 million lodgement compliance actions and the estimated level of non-lodgement.
- The structure of FTL penalty provisions generally means that they are applied after lodgement has finally been made. Some overseas jurisdictions apply flat, non-remittable penalties as soon as lodgements are overdue.
- The Inspector-General considers that the FTL penalty regime should be strengthened and penalties increased for high-risk lodgers.

### **Default assessments**

- The Tax Office can issue default assessments to taxpayers who do not lodge as a means of obtaining compliance, but only does so sparingly. The Inspector-General believes that the ATO should, with due process, progressively increase the use of default assessments to support lodgement compliance.

### **Prosecutions**

- Tax Office prosecutions for non-lodgements are increasing. The 2007-08 totals were 1,999, and for 2008-09 the Tax Office plan is for 2,200 prosecutions. While small in number relative to the 1.2 to 1.5 million individual non-lodgers, this seems in line with Government and Tax Office policy to pursue prosecution only in appropriate circumstances and with observations about the effectiveness of prosecutions.
- Section 8ZE of the TAA 1953 requires that FTL penalties are waived immediately upon institution of prosecution against a taxpayer for failing to lodge. Where a taxpayer lodges in response to the summons, section 8ZE operates to preclude any monetary administrative penalty for failing to lodge other than by continuing with prosecution. The effect of section 8ZE has been raised within the tax community and in particular

the obligatory waiving of failure to lodge penalty once a summons has issued. The Inspector-General may consider the matter further if the application of section 8ZE is leading to unintended or unfair consequences for taxpayers.

## **ALLOCATION OF RESOURCES AND THE RESULTS ACHIEVED**

4.63 A key part of this review was to determine the resources allocated to lodgement compliance by the Tax Office and what results were being achieved with them.

### **Resourcing**

4.64 Resource allocation and work planning within the Tax Office is a complex annual cycle and is kept under constant review and monitoring. This cycle is synchronised with a wide-ranging risk assessment process called the Health of the System Assessment (HOTSAs). At the micro level, resources are split across the Tax Office's five major sub-plans of Operations, Compliance, Law, People and Place and Information Technology. Another perspective on resourcing is also required at government level by major outputs specified in the Portfolio Budget Statements to Parliament.

4.65 The process of resourcing lodgement compliance work within the Tax Office is further complicated because it falls across both the Compliance and Operations sub-plans (and potentially others), and risk assessment is an input from all relevant compliance business issues.

4.66 Separating out the resources allocated to individual lodgement compliance activity is even more problematic. A Lodgement Steering Committee is charged with ensuring that there is a coordinated approach to managing compliance with lodgement obligations across products and markets. This committee meets quarterly, but does not seem to have resourcing responsibility or the benefit of a resource plan.

4.67 In response to the Inspector-General's request for an estimate of the percentage of overall Tax Office budget invested in the administering the lodgement system, the Tax Office stated:

*ATO Finance has since advised that the Tax Office costing framework does not provide the detailed data that is required to answer this request.<sup>63</sup>*

*Accordingly, we are not in a position to provide an estimate of the overall costs (at the Tax Office budget level) as requested.<sup>64</sup>*

4.68 The current position is that neither the Inspector-General nor the Tax Office has been able to determine the level of resourcing allocated to lodgement compliance across the whole ATO. The IGT notes that this is the result of the approach taken to resourcing by the Tax Office and the complexity of the Tax Office's process and not the result of any reluctance by the ATO to provide information. Nevertheless, given the fundamental importance of lodgement in the tax system and the substantial volume of work undertaken, the

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63 Tax Office minutes of meeting with the Inspector-General on 13 March 2008.

64 Ibid.

Inspector-General considers that a clearer picture of the level of resourcing should be available for management and accountability purposes.

## **RESULTS AND REPORTING**

4.69 The Tax Office maintains a constant watch on lodgement compliance. Its dominant focus is on timely lodgement. As part of this approach, it also monitors and reports internally to executive levels on the work output aimed at non-lodgers (letters and notices) and the potential results of that work in terms of net liabilities raised (debit assessments minus refund assessments).

4.70 This review has identified some issues for the Tax Office to focus on in its approaches to reporting and monitoring lodgement compliance and the results of its work.

### **Reporting low-risk non-lodgers as a separate category**

4.71 As large numbers of low risk non-lodgements accumulate they can also create an incorrect impression that a risk exists that needs to be addressed. The review therefore recommends that the ATO should flag low-risk non-lodged returns in its systems and should identify them as a separate category in its management reports to enable a clearer focus on higher risk non-lodged returns. Of course, returns considered low risk at one point in time can be elevated for attention if risks and resources subsequently change.

### **The risk that results are double counted across Operations and TPALS**

4.72 Throughout a year the Operations sub-plan, mainly through the Debt business line, issues a large number of standard letters to potential non-lodgers. At the same time, TPALS undertakes more targeted contact with selected high-risk taxpayers by using unique or tailored letters and contact. TPALS may also initiate the sending of standard letters to groups of taxpayers using the same standard letter system (the Receivables Management System – RMS) as used by Operations.

4.73 Both TPALS and Operations record and report their results in terms of returns ‘finalised’ (meaning either lodged or identified as not required) for the taxpayers they contact. Operations report results for all contacts made through their RMS systems. TPALS report results similarly.

4.74 The Tax Office has agreed that it is possible that an outstanding return will be finalised where both Operations and TPALS have made contact and the results will be claimed by both areas. The extent to which this happens could be large, and could flow through into the Tax Office’s key compliance Heartbeat report to its Compliance Executive Group. However, the Tax Office has assured the Inspector-General that any issues that may exist at lower levels of reporting do not flow through to the annual report.<sup>65</sup>

4.75 This issue can be overcome. In response to an IGT request for the review, the Tax Office’s *Risk and Intelligence Group* and the *Debt Reporting Team* ran a data query that provides a clearer picture of the distinct work done and potential results achieved by the Operations and TPALS areas. These results are discussed below and shown at Table 4.3. The

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65 Conference with Deputy Commissioner, Lodgement (Australian Taxation Office) 13 February 2009.

IGT-initiated Table 4.3 can also be compared to the *Operations Lodgement Actions Report* of its RMS actions (Table 4.4). This comparison may indicate the potential double counting of results. It shows that Operations, excluding TPALS (in Table 4.3), claims net liabilities of some \$206 million, whereas the report of results of RMS actions (in Table 4.4) indicates results of almost \$300 million in net liabilities.

Tables 4.3, 4.4 and 4.5 below show the results of Operations and TPALS lodgement compliance activities. These results are discussed after the Tables.

**Table 4.3 Tax Office lodgement compliance results 2006-07**

Business line	Operations lodgement compliance 2006-07 results (a)			TPALS lodgement compliance 2006-07 results (b)			Tax Office lodgement compliance 2006-07 results (a+b)			
	Number of taxpayers	Number of income tax returns finalised	Reportable net liabilities raised	Number of taxpayers	Number of income tax returns finalised	Reportable net liabilities raised	Number of taxpayers	Volume of letters issued	Number of income tax returns finalised	Reportable net liabilities raised
Large	473	491	\$26,703,185	1,334	1,855	\$25,531,148	1,807	1,981	2,346	\$52,234,333
Small to medium enterprise	10,375	11,187	\$80,551,444	3,635	5,253	\$88,915,826	14,010	43,389	16,440	\$169,467,270
Micro	67,612	86,294	\$127,302,954	88,364	160,557	\$123,577,559	155,976	466,785	246,851	\$250,880,513
Government	1	1	\$0	0	0	\$0	1	10	1	\$0
Not For Profit	54	70	-\$232,261	80	265	-\$31	134	89	35	-\$232,292
Individuals	37,518	63,214	\$25,094,377	57,636	93,190	\$18,949,150	95,154	419,832	156,404	\$44,043,527
<b>Total</b>	<b>116,033</b>	<b>161,257</b>	<b>\$206,013,331</b>	<b>151,049</b>	<b>261,120</b>	<b>\$205,911,356</b>	<b>267,082</b>	<b>932,486</b>	<b>422,377</b>	<b>\$411,924,687</b>

Provided by the Tax Office to IGT on 5 June 2008. 'Net liabilities' are the net result of refund and debit assessments and do not include FTL penalty or GIC

**Table 4.4 Operations Lodgement Actions Report — 2006-07**

<b>RMS actions</b>	<b>Number of income tax returns</b>	<b>\$ Net liabilities</b>
<b>No action</b>	<b>22,925</b>	<b>333,570,824</b>
<b>Automatic system generated letter/s as last action prior to finalisation:</b>	<b>277,113</b>	<b>291,927,711</b>
Last action — 1 <sup>st</sup> of any system category letter issued prior to finalisation	119,698	186,384,080
Last action — 2 <sup>nd</sup> of any 2 system category letters issued prior to finalisation	103,802	55,099,917
Last action — 3 <sup>rd</sup> of any 3 system category letters issued prior to finalisation	53,613	50,443,713
<b>Lodgement arrangement, deferral or suspension</b>	<b>47,165</b>	<b>28,446,213</b>
<b>Bars to action</b>	<b>23,207</b>	<b>43,057,563</b>
<b>Legal action</b>	<b>4,593</b>	<b>18,584,429</b>
<b>Demand phone call or manual letter issued</b>	<b>14,989</b>	<b>64,923,983</b>
<b>Negotiation</b>	<b>3,425</b>	<b>43,544,609</b>
<b>Other</b>	<b>85,704</b>	<b>35,338,541</b>
<b>Lodgement NFA — Potential Siebel case</b>	<b>1,570,465</b>	<b>153,471,925</b>
Action taken/system letter issued — Finalised	68,296	135,982,329
No action taken/no system letter issued — Finalised	9,819	17,489,596
Action taken/system letter issued — Not Finalised	1,170,562	0
No action taken/no system letter issued — Not Finalised	321,788	0
<b>Grand Total</b>	<b>2,049,586</b>	<b>1,012,865,798</b>

4.76 As part of running the special query to collate the results in Table 4.4 for IGT, the Tax Office provided the breakdown of net liabilities into total refunds and total debt amounts for TPALS and for Operations (refer below to Table 4.5).

**Table 4.5 Total finalised returns and liabilities 2007-08**

TOTAL FINALISED RETURNS AND LIABILITIES 2007-08						
Operations			TPALS		Total	
	Finalised Returns	Reportable Liabilities raised	Finalised Returns	Reportable Liabilities raised	Finalised Returns	Reportable Liabilities raised
<b>All Segments</b>						
IT debit lodged	23,843	\$284,460,006.93	82,307	\$956,778,408	106,150	\$1,241,238,414.93
IT credit lodged	50,778	-\$164,120,007.53	91,659	-\$410,532,866	142,437	-\$574,652,873.53
IT nils lodged	44,106		10,431		54,537	
IT total lodged	117,003	\$120,339,999.40	184,397	\$546,245,542	301,400	\$666,585,541.40
IT not necessary	1,816		266,109		267,925	
IT total finalised	118,818		450,506		569,324	
<b>Large</b>						
IT debit lodged	25	\$15,849,238.26	162	\$99,151,419.00	187	\$115,000,657.26
IT credit lodged	33	-\$22,827,837.07	73	-\$73,599,665.00	106	-\$96,427,502.07
IT nils lodged	115		247		362	
IT total lodged	173	-\$6,978,598.81	482	\$25,551,754.00	655	\$18,573,155.19
IT not necessary	0		1,184		1,184	
IT total finalised	173		1,666		1,839	
<b>SME</b>						
IT debit lodged	1,477	\$125,498,363.90	1,477	\$135,565,812.00	2,954	\$261,064,175.90
IT credit lodged	1,412	-\$49,645,089.73	1,412	-\$37,833,662.00	2,824	-\$87,478,751.73
IT nils lodged	4,339		4,339		8,678	
IT total lodged	7,228	\$75,853,274.17	7,228	\$97,732,150.00	14,456	\$173,585,424.17
IT not necessary	91		91		182	
IT total finalised	7,319		7,319		14,638	
<b>Micro</b>						
IT debit lodged	8,217	\$77,590,875.09	8,217	\$521,388,792	16,434	\$598,979,667.09
IT credit lodged	11,113	-\$33,188,015.68	11,113	-\$208,650,573	22,226	-\$241,838,588.68
IT nils lodged	20,783		20,783		41,566	
IT total lodged	38,677	\$44,402,859.41	38,677	\$312,738,219	77,354	\$357,141,078.41
IT not necessary	1,436		1,436		2,872	
IT total finalised	40,113		40,113		80,226	
<b>Government &amp; Not For Profit</b>						
IT debit lodged	0	\$0	23	\$48,911	23	\$48,911.00
IT credit lodged	2	-\$42,109.20	12	-\$6,325	14	-\$48,434.20
IT nils lodged	25		11		36	
IT total lodged	27	-\$42,109.20	46	\$42,586	73	\$476.80
IT not necessary	1		85		86	
IT total finalised	27		131		158	
<b>Individual</b>						
IT debit lodged	14,124	\$65,521,529.68	18,622	\$200,623,474	32,746	\$266,145,003.68
IT credit lodged	38,218	-\$58,416,955.85	30,381	-\$90,442,641	68,599	-\$148,859,596.85
IT nils lodged	18,844		1,160		20,004	
IT total lodged	70,898	\$7,104,573.83	50,163	\$110,180,833	121,061	\$117,285,406.83
IT not necessary	288		48,164		48,452	
IT total finalised	71,186		98,327		169,513	

4.77 As indicated in the tables above, the Tax Office internal reports focus mainly on the number of 'finalised returns' achieved by lodgement compliance activities such as reminder letters and final notices and prosecutions. The term 'finalised returns' embraces a number of important sub-categories of finalisation such as lodgement resulting in a refund, debit or nil assessment and lodgement not necessary. 'Net liabilities raised' is the net result of refund and debit assessments.

4.78 The sub-categories of finalised returns and the tables overall show that:

- Across all taxpayer types, about 17 per cent of Operations compliance activities result in a 'finalised' return.
- Looking at the results from lodgement compliance activities across all taxpayer types, Table 4.3 indicates that:
  - The bulk of net liabilities raised comes from actions to achieve lodgements of outstanding returns from small to medium enterprises (SMEs) and micro business.
  - Actions focussed on individuals achieve about 11 per cent of total net liabilities.
- For individual non-lodgers:
  - The Tax Office takes direct action on about 8 per cent (100,000) of the total estimated 1.2 million non-lodgers.
  - This action involves approximately 0.5 million contacts each year.
  - For 2006-07, Operations and TPALS actions resulted in 156,000 returns being 'finalised' from 95,000 taxpayers.
  - For 2007-08, the majority of finalised returns (56 per cent) resulted in refunds totalling \$148 million, and 19 per cent resulted in debits totalling \$266 million. Net liabilities raised totalled \$117 million.
  - The average amount of a debit assessment was \$8128, the average refund was \$2170 and the average net liability was \$969.

## **IGT observations on results and reporting**

- The Inspector-General considers that these results reinforce the judgement that the risks to revenue and to the integrity of the system from individual non-lodgements are low, especially relative to SME and micro enterprises.
- Although the level of individual non-lodgement is marginally higher than the community would prefer, these results and risk appraisal do not suggest that the ATO should invest significantly more resources in actions focussed on individuals.
- Improvements to third-party data sources and quality, which are also relevant to other categories of non-lodger and to broader compliance strategies, should be preferred.

## Attributing results to compliance action

4.79 There is an inherent difficulty in reliably attributing finalisation of an outstanding return to a Tax Office compliance action.

4.80 Both Operations and TPALS record results for any return that is finalised at any time after they have taken any compliance 'action'. Both these areas may take action within a short period of a return being outstanding. By the same token, a tardy taxpayer may by coincidence lodge at about the same time as the Tax Office takes action.

4.81 Such returns might be deemed 'self finalising'. The Tax Office could consider incorporating with its results reporting a rule that could reasonably allow for self finalising outstanding returns. For example, where a return becomes finalised within one week of the first compliance action taken by the ATO, it could be excluded from reported results.

4.82 Reporting of lodgement compliance results would be more meaningful, useful and transparent if current reports were broken down in the following ways:

- separately reporting TPALS and Operations results and work output; and
- separately reporting the major categories of how a return is 'finalised' either by lodgement or identified as not required.

## Measuring outcomes

4.83 The review's analysis of current Tax Office reporting on lodgement compliance indicates a focus on the number of actions and finalised returns. The Inspector-General considers that this reporting should be supplemented by a periodic report on broader outcomes and impacts being achieved on the level of non-lodgement in the community. This would be in line with the Tax Office's announcement in August 2008<sup>66</sup> of methodology designed to measure the effectiveness of the ATO's compliance interventions – with a focus on outcomes rather than activities.

4.84 The IGT notes that a periodic survey similar to that undertaken as part of the review which focuses on relevant outcomes, including a sustained improvement in the level of non-lodgement in the community, would achieve that end.

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66 *Measuring Compliance Effectiveness – Our Methodology: Foreword* – Commissioner of Taxation (August 2008).



## CHAPTER 5: INDIVIDUAL TAXPAYERS — LODGEMENT COMPLIANCE

5.1 The Inspector-General believes that it is important for the Tax Office and the community to have a sound indication of the number of taxpayers who should lodge a tax return but do not. Without that indicator, neither the Tax Office, the community or the Parliament can make an informed judgement about whether the level of non-lodgement is acceptable, whether the situation is improving, or whether the Tax Office's efforts and strategies are adequate and effective, or indeed whether existing legislation could be improved.

5.2 The Tax Office has a range of sophisticated systems and approaches to identify and address non-lodgement, but does not presently attempt to estimate and monitor non-lodgement levels. Indeed, it has publicly maintained that it cannot do so.

5.3 A combination of a self assessment system and normal demographic churn and change of circumstance are barriers to the Tax Office knowing with certainty the annual lodgement obligation of every individual taxpayer. Self assessment and permutations of other variables such as deaths, retirement, and movements of people into and out of Australia make it:

*...difficult to establish with confidence the actual number of individuals who should be lodging.<sup>67</sup>*

5.4 Individual taxpayers in Australia are required to self-assess whether they have an obligation to lodge. Changes in their circumstances may cause lodgement obligations to vary from year to year. Taxpayers do not have to advise the Tax Office where they have assessed that they do not need to lodge.<sup>68</sup> Consequently, when the Tax Office's records show that a taxpayer's income tax return has not been received for a particular year, it does not necessarily mean that they are a non-lodger, only that they are a *potential* non-lodger. The Tax Office has recently stated the outcome of these facts to a Senate Committee:

*It is not possible to compile data showing how many individuals have 'dropped out of the tax system'.<sup>69</sup>*

5.5 These variables certainly complicate the task of pinpointing exactly which individual taxpayers are not lodging when they should. However, the Inspector-General considers that the Tax Office is allowing the undeniable difficulties in identifying every non-lodger and precisely arriving at the actual number of non-lodgers, to obscure the clear opportunity for making a regular, accurate estimate of the likely non-lodgement number. The Inspector-General has been able to make a confident estimate of the number of

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67 Tax Office minutes from a meeting with IGT on 13 March 2008 (at page 2).

68 However, taxpayers have the option to complete a Non-lodgement advice form which is available on the Tax Office website.

69 Answers to questions on notice - Budget Estimates hearing 30 May 2006 (Question BET-144: Tax Returns).

individual non-lodgers. The Inspector-General has taken two approaches to meet the review's preliminary aim of establishing the level of non lodgement:

- stimulating a Tax Office analysis of tax return lodgement data; and
- engaging expert assistance from a professional social research company to undertake an independent survey of lodgement compliance.<sup>70</sup>

## **THE LEVEL OF NON-LODGE MENT — THE TAX OFFICE'S ANALYSIS**

5.6 During the review, the Tax Office undertook an analysis to identify what it termed the 'potential non-lodgement segment' which the Inspector-General believes has produced a good estimate of the likely level of individual non-lodgement. A full copy of the Tax Office analysis is included at Appendix 4. The analysis also contains various Tax Office risk assessment perspectives which this report considers; but a précis of the Tax Office process and results on the likely number of non-lodgers is as follows.

5.7 From its database, the Tax Office extracted a base population of 6.27 million individual taxpayers whom the Tax Office considered to be 'active' but who had one or more tax returns outstanding. The Tax Office then filtered this population by applying two types of indicators:

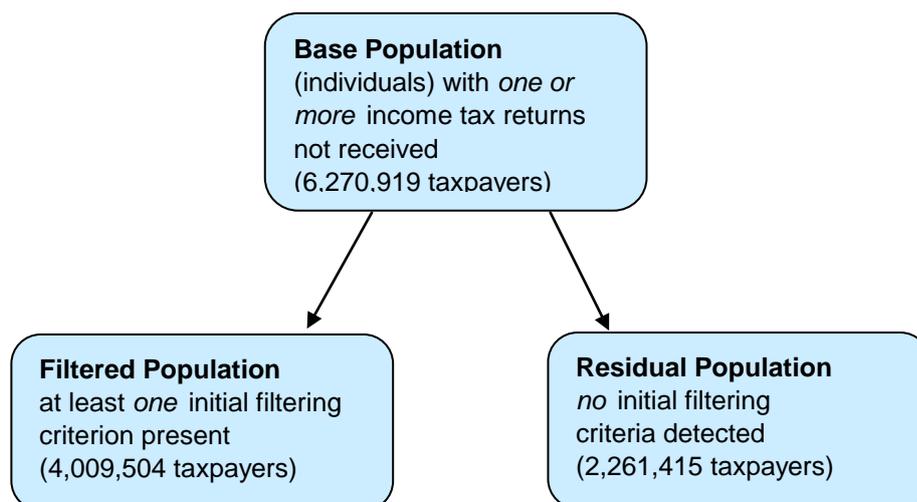
- indicators that suggested that the taxpayer was not required to lodge because they were either deceased or residing overseas; and
- indicators that suggested they may need to lodge including information that the taxpayer had either:
  - Child Support Agency obligations;
  - eligibility for a senior Australians tax offset (SATO);
  - Centrelink benefits;
  - employment income reported by an employer in a payment summary statement (PSS); or
  - interest income reported by an investment body (such as a bank).

5.8 This filtering resulted in the Tax Office concluding that 4 million of the 6.27 million taxpayers had direct indications that over recent years they had not lodged one or more tax returns that they potentially should have as shown in Figure 5.1 below. It also showed that many of these taxpayers had more than one of the 'may need to lodge' indicators, increasing the likelihood that they should have lodged.

---

70 IGT notes that the Tax Office frequently uses similar approaches and companies to monitor and report trends and performance in other areas.

**Figure 5.1: Segmentation of the individual taxpayer population with ‘not yet received’ lodgements.**<sup>71</sup>



5.9 The Tax Office broke down the 4 million taxpayers into the years they appeared not to have lodged as follows (Table 5.1). From this table of 4 million potential non-lodging taxpayers, it can also be conservatively estimated that they are potentially responsible for not lodging at least 6.5 million tax returns.<sup>72</sup>

**Table 5.1 Filtered population count of outstanding obligations.**

Filtered population count of outstanding obligations by latest return yet to be received. <sup>73</sup>								
Number of income tax returns yet to be received	2006	2005	2004	2003	2002	2001	Pre 2001	Total
1 – 2	592,218	133,528	131,260	107,586	107,654	122,379	1,049,406	2,244,031
	26.4%	6.0%	5.8%	4.8%	4.8%	5.5%	46.8%	100.0%
3 or more	1,122,865	151,508	116,116	94,804	73,139	54,891	152,150	1,765,473
	63.6%	8.6%	6.6%	5.4%	4.1%	3.1%	8.6%	100.0%
Filtered population	<b>1,715,083</b>	<b>285,036</b>	<b>247,376</b>	<b>202,390</b>	<b>180,793</b>	<b>177,270</b>	<b>1,201,556</b>	<b>4,009,504</b>

5.10 The Tax Office then focussed on the 1.7 million taxpayers who appeared not to have lodged a return that was required for the 2005-06 year. This would enable a view to be formed of the approximate number of taxpayers in any (and every) year that might be non-lodgers.

5.11 Applying the filtering indicators to the 1.7 million 2005-06 population first reduces the number by 170,000 due to recent lodgements or confirmation that a return is not required, because of deceased and living overseas indicators. Of the remaining 1.54 million, the indicators are as follows:

71 ATO Minute ‘Individual Market Segment Analysis’ – dated 7 August 2008 (at page 7).

72 Applying an average of 1.6 returns outstanding for each taxpayer in view of the break-up of the numbers of returns yet to be received contained in the two categories in Table 5.1 (that is, 1 – 2 returns and 3 or more returns).

73 ATO Minute ‘Client Population View – Individuals’ – dated 26 May 2008 (at page 11).

**Table 5.2 Filtered population where the 2005-06 return outstanding**

Filtered population where the 2005-06 income tax return is yet to be received <sup>74</sup>			
Characteristic	Client Count with this characteristic	Number of clients without the previous characteristics	Residual Population
2005-06 ITR not yet received (as at 30 March 2008)	1,715,083		1,715,083
2005-06 ITR now finalised (lodged or not necessary) or categorised as Inactive (For example, deceased) as at 23 July 2008.	84,731		1,630,352
Overseas	85,403	85,403	1,544,949
CSA Payers	235,663	235,663	1,309,286
SATO	56,262	54,957	1,254,329
Centrelink	596,482	426,016	828,313
PSS	717,805	458,006	370,307
<b>AIIR</b>	<b>732,216</b>	<b>370,307</b>	<b>0</b>

5.12 Taking that into account and applying 2005-06 as an indicative year, the Inspector-General considers that the Tax Office analysis supports a conclusion that in an average year around 1.5 million individual taxpayers do not lodge income tax returns that they should. With the Tax Office having received a total of 11,510,959 individual 2005-06 returns,<sup>75</sup> the level of lodgement represents around 87 per cent of the total required.<sup>76</sup>

### THE LEVEL OF NON-LODGE MENT — THE INDEPENDENT COMMUNITY SURVEY

5.13 The Inspector-General engaged a leading social research company, Colmar Brunton, to conduct research into the level of non-lodgement of income tax returns by individuals in Australia as well as community attitudes towards the situation.<sup>77</sup> A full copy of the Colmar Brunton report, including the methodology is at Appendix 3. Colmar Brunton state that the margin for error for the findings is +/-5 per cent.

5.14 The main survey result was that of those taxpayers required to lodge a return in the 2006-07 financial year, 90.65 per cent reported they lodged and 9.35 per cent reported they did not lodge. The Colmar Brunton survey also found that a small but significant proportion of returns are being lodged by taxpayers with no obligation to do so (4.51 per cent of the Australian population aged 16 years or older).<sup>78</sup>

74 ATO Minute 'Individual Market Segment Analysis' – dated 7 August 2008 (at page 9).

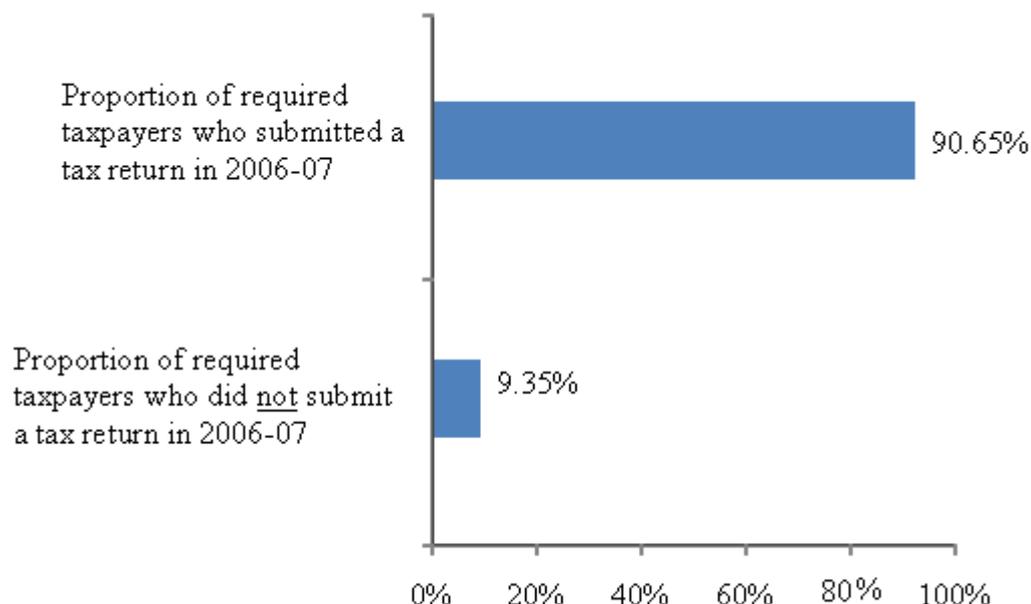
75 Tax Office publication 'Taxation statistics 2005-06' at page 9 [data for this publication was at 31 October 2007].

76 Applying the above Tax Office analysis (1.5 million fail to lodge as required) to the number of lodgements actually received in 2005-06 (11.5 million) results in an approximate population of 13 million taxpayers having a requirement to lodge in 2005-06.

77 Refer to Appendix 3 for a copy of the final Colmar Brunton report (including the research objectives). Discussion regarding the community attitudes is provided in Chapter 4 of the report.

78 Refer to Figure 5.3 of this report.

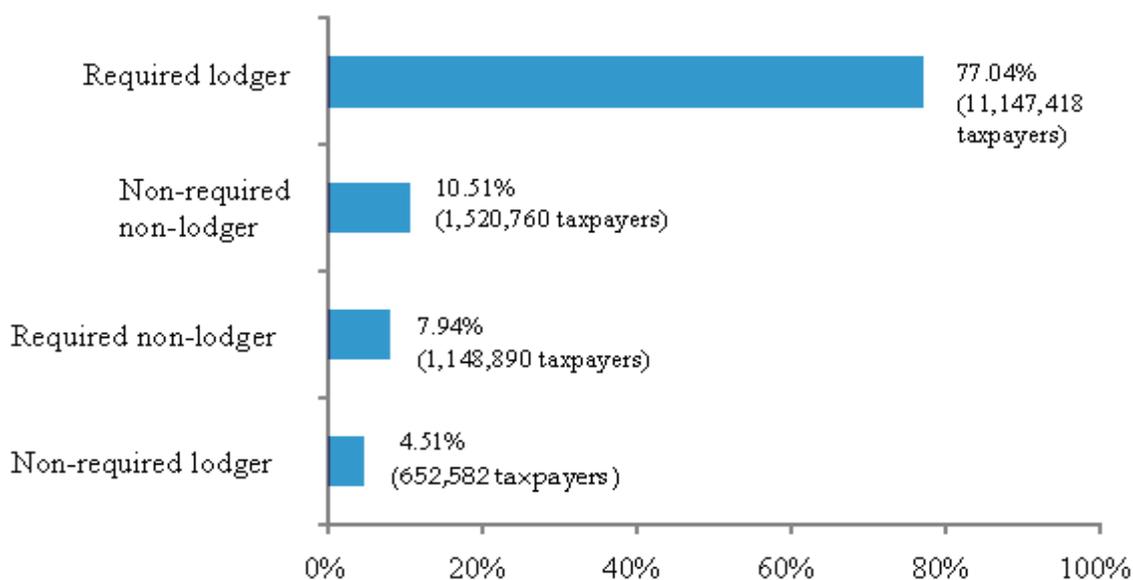
**Figure 5.2: Proportion of required taxpayers who submitted and did not submit a tax return.<sup>79</sup>**



**Applying the survey results to establish the non-lodgement population**

5.15 To establish the current individual non-lodgement population, the Inspector-General has adopted as a base, the Tax Office’s own figure<sup>80</sup> of 11,800,000 individuals lodging income tax returns annually. Applying this number to the results produced as part of the Colmar Brunton survey would lead to a total individual population as indicated below in Figure 5.3:

**Figure 5.3: Proportion of total community<sup>81</sup>**



79 Source: Appendix 3 at page 76. These results are solely a product of the Stage 1 Colmar Brunton survey.

80 Source: 2008-09 Compliance Program (Tax Office publication released on 13 August 2008 – at page 11).

81 These results are solely based on the Australian community aged 16 years or older that participated in Stage 1 of the Colmar Brunton report contained in Appendix 3 (in contrast to the required to lodge population used in Figure 5.2 of this report).

5.16 As the above indicates, the Tax Office lodgement population figure of 11,800,000 is comprised of the *required lodgers* and *non-required lodgers*. Including the non-required non-lodger and the required non-lodger figures provides a total community (Australians aged 16 or over) of 14,469,650.

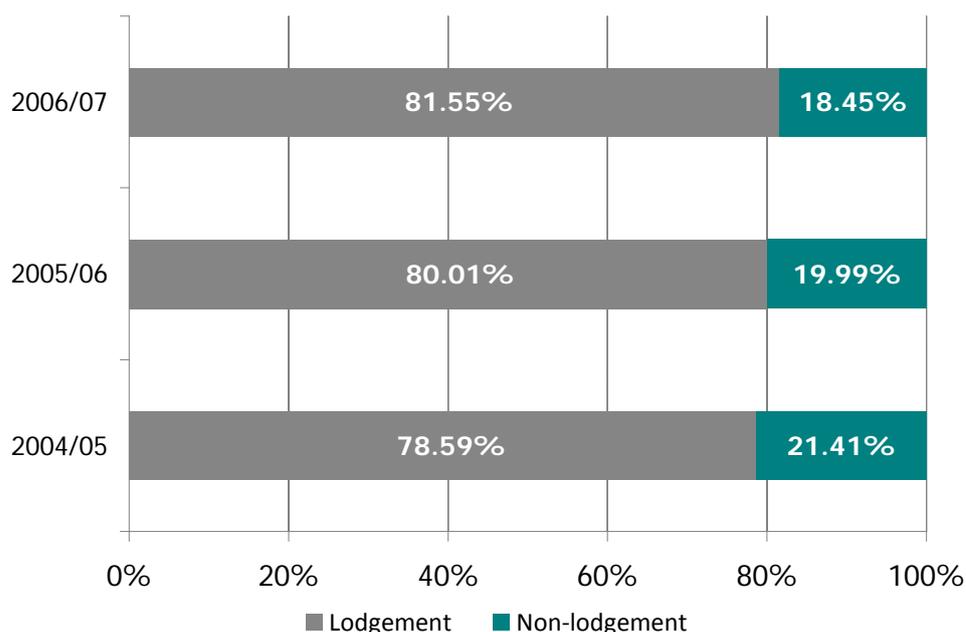
5.17 The Colmar Brunton survey therefore indicates that in 2006-07 approximately 1,149,000 individuals (7.94 per cent of the total community surveyed in stage 1) have failed to lodge – this is the equivalent of 9.35 per cent of the total number of taxpayers who had a requirement to lodge.

5.18 This estimate of the 2006-07 situation can be applied to past years and indicates the current, fairly constant level of non-lodgement in the individual taxpayer community.

5.19 The survey also indicated that 4.51 per cent of the community may have lodged returns when not required to do so. However, after analysing ATO data on this question the Inspector-General concludes that this finding probably reflects the confusion or difficulty in understanding lodgement requirements rather than an accurate indication of non-required lodgement.

5.20 Stage 1 of the survey also enabled the researcher to look at the proportion of survey respondents who have submitted a tax return over the past three financial years.

**Figure 5.4: Proportion of survey respondents who submitted a tax return<sup>82</sup>**



5.21 The survey results indicate that lodgement has remained at a consistent level of around 80 per cent. Although there has been a 2.96 per cent increase in lodgement since 2004-05, the researcher stated in its report that:

*... this does not necessarily reflect a trend of improvement. A change of this magnitude is not statistically significant and may simply be a reflection of the survey's margin of error.*<sup>83</sup>

82 Refer to Appendix 3. These results are solely a product of the Stage 1 survey.

5.22 However, the Inspector-General considers that the results suggest an improving, not worsening, situation.

## CONCLUSIONS — COMBINING TAX OFFICE AND COMMUNITY ANALYSES

5.23 There is strong convergence between the numbers reached by the Tax Office and the independent researcher. IGT is therefore of the view that, at any point in time, in any given year, it can be conservatively estimated that between 1.2 million and 1.5 million individual taxpayers fail to lodge a tax return when they should.

5.24 As indicated in Figure 5.2, the numbers of individual taxpayers that are failing to lodge annually would translate to around 9.35 per cent of those required to lodge. This is a number that would draw at least some concern. However, in its analysis, and based on its risk analysis methodology, the Tax Office opines that the risk to tax revenue of these non-lodgers is low, given their view of the likely profile of the people involved:

*The vast majority of the focus population is considered to be relatively low risk.* <sup>84</sup>

5.25 Based on the Tax Office's risk management approaches and the profiles of the non-lodging population detailed in the community survey, the Inspector-General agrees with this conclusion.

### *Community expectations*

5.26 The survey also indicates that the community expects the Tax Office to keep the level of non-lodgement lower than is presently being achieved. The community survey found that just under two-thirds (61 per cent) of the compliant taxpayer community<sup>85</sup> expect the Tax Office to keep the level of non-lodgement within the community at or below 8 per cent. Of interest, 40 per cent of the compliant community even expects the Tax Office to keep non-lodgement within the community at 0 per cent — that is, they believe that everyone who is required should submit a tax return, with no exceptions.

5.27 This suggests that the majority of the community would find the *actual* level of non-lodgement as measured in the survey (9.35 per cent) is higher than the level they expect the Tax Office to maintain.

5.28 Notwithstanding that it is not quite achieving community expectations, the review does not suggest that the Tax Office should increase the resources it commits to tackling individual non-lodgement. This is consistent with the relative risk to the system.

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83 Refer to 4.1.2 in Appendix 3.

84 ATO Minute 7 August 2008 titled '*Individual Market Segment Analysis*' (refer to Appendix 4).

85 The 'compliant community' includes the views of all survey respondents except required non-lodgers. In some instances in this report the views of required non-lodgers have been removed in order to prevent any distortion of the overall perception of the total community surveyed (refer to Appendix 3 of this report).

### *Community understanding of lodgement requirements*

5.29 In respect of required non-lodgers, the reasons for not lodging remained consistent from year to year in the survey, suggesting that one of the main reasons for not lodging, even among those required to lodge, is the belief they are not required to do so. For example, common reasons given by required non-lodgers for failing to lodge included:

- they thought they were below the income threshold (20 per cent of the required non-lodger population);
- being unemployed and not working and therefore believing there was no need to lodge (19 per cent of the required non-lodger population); and
- being on a pension or receiving Centrelink payments and therefore believing there was no need to lodge (18 per cent of the required non-lodger population).

# APPENDIX 1: TERMS OF REFERENCE AND CONDUCT OF THE REVIEW

## TERMS OF REFERENCE

A.1.1 On 12 October 2007 the Inspector-General announced the terms of reference for his review into the non-lodgement of income tax returns. These were:

*This review would seek to work with the Taxation Office to establish the non-lodgement situation across all types of income tax returns. It would then focus on whether the legal and administrative policy settings are efficient, effective and fair, and providing the best motivations to support compliance in a contemporary self assessment environment. It will also consider how well Tax Office systems and lodgement strategies are dealing with non-lodgements.*

## CONDUCT OF REVIEW

A.1.2 The Inspector-General advertised the review on his website, [www.igt.gov.au](http://www.igt.gov.au), from 12 October 2007.

A.1.3 Written submissions to the review were taken from two professional associations. The Inspector-General and the review team held a workshop in Perth with tax practitioners to understand the practical issues surrounding the lodgement of income tax returns. Similar information was gathered by the review team through participation in stakeholder meetings with tax practitioners in both Hobart and Launceston.

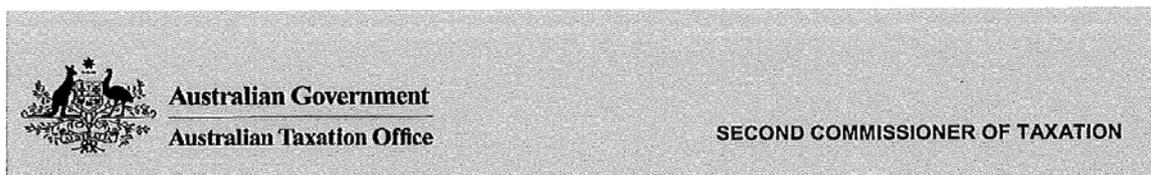
A.1.4 Members of the review team met on numerous occasions with the Deputy Commissioner of Taxation – Tax Practitioner and Lodgement Strategy and his senior executives to request and discuss information and Tax Office approaches.

A.1.5 Visits were made to the Adelaide and Hurstville branches of the Tax Office and to the Tax Office's National Office in Canberra to examine relevant files and interview relevant Tax Office staff.

A.1.6 The review also took into account a number of other inquiries relevant to this review.



## APPENDIX 2: TAX OFFICE RESPONSE



Mr Ali Noroozi  
Inspector-General of Taxation  
GPO Box 551  
Sydney, NSW 2001

Dear Ali,

### REVIEW INTO THE NON-LODGMET OF INCOME TAX RETURNS

Thank you for your final report dated 19 May 2009. I note that the report outlines your findings and makes recommendations as a result of your review.

It is pleasing that the review has found that, overall the ATO is managing the lodgment of individual returns well and with sophistication within the current legislative framework.

The findings reflect the concerted effort and investment the ATO has made to improve lodgment compliance over recent years.

We note that you have made six recommendations from this review. Three of the recommendations (recommendations 1, 3 and 5) are recommendations to government and therefore are matters for government to consider. The ATO agrees with the remaining three recommendations, although our agreement to recommendation 4 is subject to a cost benefit assessment and timing considerations given the likely interdependency of the ATO Change Program. Details for each recommendation are contained in Attachment A.

I would like to acknowledge the co-operative and professional approach that Mr. Rick Matthews, Deputy Inspector General and his team have taken throughout the course of this review.

If you require further information or clarification on any matter please contact James O'Halloran, Deputy Commissioner, Tax Practitioner and Lodgment Strategy, on (02) 6216 1516.

Yours sincerely

A handwritten signature in cursive script that reads "J Granger".

Jennie Granger  
Second Commissioner

cc: Mr Rick Matthews (Deputy Inspector-General of Taxation)

## RECOMMENDATIONS FROM THE INSPECTOR-GENERAL'S REVIEW INTO THE NON LODGMENT OF INCOME TAX RETURNS

### Recommendation 1

*The Government should refer the review's findings and the results of the community survey to the Henry review of Australia's future tax system for consideration in that broader context, noting that the Henry review has specifically sought input in this area.*

#### **ATO Response**

This is a matter for government to consider.

### Recommendation 2

*The Inspector-General recommends that the Tax Office supplement its current reporting on lodgement compliance by a periodic report on the broader outcomes and impacts being achieved on the level of non-lodgement in the community.*

#### **ATO Response**

Agree.

The Commissioner will create a specific income tax lodgment report each financial year. This will try to bring together the analysis available on the level of 'lodgment on time', 'late lodgment' and 'not lodged returns' which are already reported with insights from research through our surveys.

The content of the report will however be subject to what can be achieved from the integration of existing data sources, the systems changes arising from the Change Program and the opportunity to leverage from existing Tax Office research.

### Recommendation 3

*The Government should increase support to the Tax Office to improve the availability and usefulness of third party data used to identify non-lodgers and for other compliance activities. This could include new arrangements with Commonwealth agencies, and agreements by the states and the territories for third party data to:*

- *include unique identifiers such as a TFN or ABN;*
- *where possible be an electronic transmission;*
- *be provided within timeframes that ensure its currency; and*

- *assist in determining whether a taxpayer was in or out of Australia.*

**ATO Response**

This is a matter for government to consider.

**Recommendation 4**

*The Tax Office should flag low-risk non-lodged returns in its systems and should identify them as a separate category in its management reports to enable a clearer focus on higher risk non-lodged returns.*

**ATO Response**

Agree, subject to a cost benefit assessment and timing considerations given the high priority delivery requirements of the ATO Change Program.

The Commissioner will explore the cost and viability of developing an improved systems indicator flag, to enhance the focus on higher risk non lodged returns.

This systems indicator would be subject to the development of functionality specifications and funding availability. The costs would need to be assessed against benefits which arise from the conversion of client data into the Tax Office new record keeping systems (Integrated Core Processing system) as part of the implementation of the Change Program.

**Recommendation 5**

*The Government should improve the failure-to-lodge penalty system established by the present tax laws to strengthen the Tax Office's ability to encourage compliance by high risk (high revenue or high profile) taxpayers.*

**ATO Response**

This is a matter for government to consider.

**Recommendation 6**

*The Tax Office should progressively increase, where appropriate, the use of default assessments to further support lodgement compliance.*

**ATO Response**

Agree.

The Commissioner will, in circumstances where the Tax Office has readily available information to use that would support a default assessment, do so to support lodgment compliance.



# **APPENDIX 3: INDEPENDENT SURVEY REPORT INTO LODGEMENT BY INDIVIDUALS IN AUSTRALIA**

Final

Prepared by

## **Colmar Brunton Social Research**

PO Box 2212 Canberra ACT 2601

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Contact : Jan Young

## **The Impact of Perceptions on the Likelihood to Lodge a Tax Return: Full Report**

prepared for

## **Inspector General of Taxation**

Our ref: 70926 79

Date: 2 December 2008

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# 1 EXECUTIVE SUMMARY

Colmar Brunton Social Research (CBSR) was commissioned by the Inspector-General of Taxation to conduct research into the impact of perceptions of non-lodgement on individuals' lodgement behaviour. This report presents the findings of this research.

The primary objectives of the research were to:

- Deliver an estimate of the level of non-lodgement of individual income tax returns that exists in the community;
- Provide information around the level of individual non-lodgement which would change participants' own lodgement behaviour;
- Provide details of the level that the community expects the Tax Office to keep non-lodgement at;
- Determine whether the community accepts a regime where non-lodgers had their refunds docked or forfeited; and
- For required non-lodgers:
  - how many returns have they not lodged (1, 2, 3 or more than 3 years);
  - the main reason they have not lodged; and
  - whether they feel at risk of Tax Office compliance action.

The research consisted of 800 Computer Assisted Telephone Interviews (CA TI) with members of the Australian public aged 16 years and older (Stage 1), followed by an online survey of 317 taxpayers who were required to submit a tax return for the 2006/ 07 financial year but failed to lodge (Stage 2). Stage 1 was designed to inform IGT of the lodgement attitudes and behaviours of the general Australian population. Stage 2 was designed to capture a greater level of detail about the attitudes and behaviours of those required to submit a return but who failed to do so (referred to throughout this report as 'required non-lodgers').

## **Deliver an estimate of the level of non-lodgement of individual income tax returns that exists in the community.**

Including those persons both required and not required to submit a return, it was determined that over the last three years tax return lodgement has remained at a consistent level of around 80% (and thus non-lodgement has remained around 20%). Intention to lodge a tax return next financial year is slightly higher at 85%<sup>1</sup>.

For the 2006/ 07 financial year, 7.94% of the total community surveyed were required to submit a tax return but failed to do so. This equates to 9.35% of those actually required.

## **Provide information around the level of individual non-lodgement which would change participants' own lodgement behaviour.**

Prior to the research it was hypothesised that if people became aware of the current level of non-lodgement within Australia it may affect their likelihood to lodge a tax return.

The majority of the general community surveyed (90%) perceive the current level of non-lodgement within Australia to be 8% or higher. Perceptions of non-lodgement are very similar

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<sup>1</sup> The proportion of total survey respondents who indicated they were likely to submit a tax return in 2007/ 08 (i.e. rated 7-10 at Q2).

among required lodgers and required non-lodgers suggesting that these perceptions do not explain their different lodgement behaviour.

However there does appear to be a relationship between the perceived likelihood of the Tax Office taking action and reported lodgement behaviour. Amongst the general community surveyed, the perceived risk of the Tax Office taking action if someone failed to submit a return is only moderate – 52% believe this to be likely<sup>2</sup> while 20% believe this to be unlikely<sup>3</sup>. However, required non-lodgers are significantly more likely to believe the Tax Office would not take action than required lodgers (37% believe this to be unlikely<sup>4</sup>).

### **Provide details of the level at which the community expects the Tax Office to keep non-lodgement.**

Four in ten (40%) of the compliant community<sup>5</sup> surveyed expects the Tax Office to keep the level of non-lodgement within the community at 0% - that is, they believe that everyone who is required **should** submit a tax return. Just under two-thirds (61%) expect the Tax Office to keep non-lodgement at or below 8%. The remainder would accept higher levels of non-lodgement, particularly required non-lodgers.

This suggests that the majority of the community would find the *actual* level of non-lodgement as measured in this survey unacceptable as it is higher than what they expect the Tax Office to keep it at (9.35% of those required failed to do so).

Interesting is a comparison of the surveyed community's estimation of the level of non-lodgement and the level they expect the Tax Office to keep non-lodgement. The surveyed community's estimation of the level of non-lodgement is higher than what they expect the Tax Office to keep it at. Two-thirds (66%) perceive non-lodgement to be higher than 8%, while 61% expect the Tax Office to keep non-lodgement at 8% or less.

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<sup>2</sup> Rated 7 – 10 at Q6.

<sup>3</sup> Rated 1 – 4 at Q6.

<sup>4</sup> Rated 1 – 4 at Q6.

<sup>5</sup> The 'compliant community' includes the views of all survey respondents except required non-lodgers. In some instances in this report the views of required non-lodgers have been removed in order to prevent any distortion of the overall perception of the total community surveyed.

**Determine whether the community accepts a regime where non-lodgers had their refunds docked or forfeited.**

Overall, there is moderate compliant community support for a regime where the Tax Office docks or forfeits the returns of those who fail to lodge a tax return. Just over half (57%) of the compliant community surveyed agreed with this. One quarter (24%) disagreed.

Perhaps unsurprisingly, required non-lodgers are significantly more likely than required lodgers to slightly (7%) or strongly (32%) disagree that non-lodgers should have their refunds docked or forfeited as a punishment for not lodging.

**For required non-lodgers: how many returns have they not lodged; the main reason they have not lodged; and, whether they feel at risk of Tax Office compliance action.**

Almost two thirds (62%) of required non-lodgers identified in 2006/ 07 also failed to submit their returns in both the preceding two financial years. These taxpayers could be considered 'serial non-lodgers'. On average, each required non-lodger has 2.4 returns outstanding.

The reasons for not lodging a tax return remain relatively consistent from year to year. The findings suggest that one of the key reasons for not lodging, even among those who are required to lodge is the belief they are not required to. There appears to be some confusion in the community about whether or not one is required to submit a return, also emphasised by the 4.51% of the community who submitted a return when not required. For example, the most common reasons mentioned for not lodging a tax return in any of the past three financial years amongst the required non-lodger group include:

- Believing they didn't earn enough or were below the income threshold (20%);
- Being unemployed and not working and therefore believing there was no requirement to submit a return (19%); and
- Being on a pension or receiving Centrelink payments and therefore believing there was no requirement to submit a return (18%).

Other less mentioned reasons included laziness or being too busy, documents (e.g. group certificates) not being prepared in time and other unique personal circumstances.

Compared to required lodgers, required non-lodgers have a tendency to:

- have significantly lower intentions to lodge next financial year;
- be older and more likely to be around the retirement age (e.g. 61 – 70 years);
- have lower levels of household income (e.g. less than \$50,000 per annum); and
- are less likely to have a postgraduate education.

Though required non-lodgers have lower levels of income compared to required lodgers, 35% of required non-lodgers have medium or high<sup>6</sup> incomes. However, medium<sup>7</sup> to high<sup>8</sup> income

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<sup>6</sup> Household income of more than \$50,001 per annum

<sup>7</sup> Household income of \$50,001 - \$80,000 per annum

<sup>8</sup> Household income of more than \$80,001 per annum

required non-lodgers are more likely to have lodged their tax return in the past and more likely to do so in the future compared to their low<sup>9</sup> income counterparts.

## 2 INTRODUCTION

Colmar Brunton Social Research (CBSR) was commissioned by the Inspector-General of Taxation to conduct research into the impact of perceptions of non-lodgement on lodgement behaviour. This report presents the findings of this research.

The research consisted of 800 Computer Assisted Telephone Interviews (CATI) with members of the Australian public aged 16 years and older (Stage 1), followed by an online survey of 317 taxpayers who were required to submit a tax return for the 2006/ 07 financial year but failed to lodge (Stage 2). Stage 1 was designed to inform IGT of the lodgement attitudes and behaviours one would expect within the general Australian population. Stage 2 was designed to capture a greater level of detail about the attitudes and behaviours of those required to submit a return but who failed to do so.

The data collected in Stage 1 has been combined with that collected in Stage 2 to provide a more robust analysis of required non-lodgers than would have been possible had Stage 1 been conducted in isolation. This report therefore combines the findings of both Stages 1 and 2.

The data collection in Stage 1 took place between 12<sup>th</sup> May and 26<sup>th</sup> May 2008. Stage 2 data collection took place between 6<sup>th</sup> June and 20<sup>th</sup> June 2008.

### 2.1 BACKGROUND

The Inspector General of Taxation's (IGT) objective is to improve the administration of the tax laws for the benefit of all taxpayers.

The research program proposed in this document is part of a larger scale investigation into the Australian Taxation Office's handling of taxpayers who fail to lodge tax returns. The review aims to identify and recommend changes that will assist the Tax Office to improve the efficiency, effectiveness and fairness of the current approaches to managing the non-lodgement of income tax returns.

### 2.2 RESEARCH OBJECTIVES

The overarching aim of the research is to determine the impact of perceptions about the level of lodgement on past lodgement behaviour and the likelihood to submit a tax return in the future.

The primary objectives of the research were to:

- Deliver an estimate of the level of non-lodgement of individual income tax returns that exists in the community<sup>10</sup>;
- Provide information around the level of individual non-lodgement which would change participants' own lodgement behaviour;

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<sup>9</sup> Household income of less than \$50,000 per annum

<sup>10</sup> In order to determine the impact of perceptions about the level of lodgement on past lodgement behaviour and the likelihood to submit a tax return in the future, it was necessary to estimate both the proportion of people who were required to lodge and those who failed to lodge.

- Provide details of the level that the community expects the Tax Office to keep non-lodgement at;
- Determine whether the community accepts a regime where non-lodgers had their refunds docked or forfeited; and
- For required non-lodgers:
  - how many returns have they not lodged (1, 2, 3 or more than 3 years);
  - the main reason they have not lodged; and
  - whether they feel at risk of Tax Office compliance action.

## 3 METHODOLOGY IN BRIEF

### 3.1 SUMMARY OF METHODOLOGY

To fulfil the objectives of the research, the approach summarised in Table 1 was undertaken. Further details about the methodology can be viewed in Appendix A: Technical Notes.

This report combines the findings from Stage 1, a general population survey of Australians aged 16 years or older, and Stage 2, a detailed investigation of the required non-lodger group.

**Table 1: Outline of Research Approach**

	Challenge	Method	Output
Project scoping and questionnaire development	To establish a clear working approach to the research for all parties and effectively develop an effective data capture instrument.	CBSR and IGT collectively draft CATI and online questionnaires	<ul style="list-style-type: none"> <li>Draft questionnaires for Stages 1 and 2 data collection.</li> </ul>
Stage 1: Data Collection General Community Survey	To explore the general public's awareness and perceptions of the level of non-lodgement and its impact on their own lodgement behaviour. To identify levels of lodgement and non-lodgement generally.	n=800 10 minute Computer Assisted Telephone Interviews (CATI) with members of the Australian public aged 16 years or older	<ul style="list-style-type: none"> <li>A thorough understanding of the community's awareness and perceptions of the level of lodgement and its impact on their own lodgement behaviour.</li> <li>Short Word report (approx. 10-15 pages) outlining the findings from stage 1 data collection.</li> </ul>
Stage 2: Data Collection Detailed investigation of the required non-lodger group	To provide a greater understanding of required non-lodgers.	n=317 10 minute on-line interviews with required non-lodgers 16 years or older	<ul style="list-style-type: none"> <li>An enhanced understanding of the difference between required lodgers who lodge and those who don't and the role that awareness and perceptions of non-lodgement plays in the decision to lodge.</li> <li>Quantitative data available for analysis</li> </ul>

### 3.2 QUESTIONNAIRES

The CATI and online questionnaires were developed by CBSR in close collaboration with IGT – these can be seen in Appendix B and C. An iterative process was undertaken during which the questionnaires were refined from an initial state into a final instrument which was approved by IGT.

In Stage 1, the average CATI interview was 7 minutes and 30 seconds. Interviews ranged from 4 minutes 24 seconds to 11 minutes 22 seconds. Further call data statistics can be seen in Appendix A: Technical Notes.

The online questionnaire used in Stage 2 took approximately 10 minutes for respondents to complete.

### 3.3 DEFINITIONS

A number of terms have been used throughout this report. An explanation of these is shown below.

**Table 2: Research definitions**

Definition	Description
Lodger	A survey respondent who reported that they have lodged their tax return for the 2006/ 07 financial year regardless of whether they lodged before or after the cut-off date of 31 <sup>st</sup> October 2007
Non-lodger	A survey respondent who reported that they have not lodged their tax return for the 2006/ 07 financial year
Required lodger	A survey respondent who was required to submit a tax return in the 2006/ 07 financial year (as defined by the ATO's online decision tool) and reported that they lodged. This group includes people who lodged before and after the cut-off date of 31 <sup>st</sup> October 2007.
Required non-lodger	A survey respondent who was required to submit a tax return in the 2006/ 07 financial year (as defined by the ATO's online decision tool) but reported that they failed to lodge.
Non-required lodger	A survey respondent who was not required to submit a tax return in the 2006/ 07 financial year (as defined by the ATO's online decision tool) but who reported that they lodged one anyway. This group includes people who lodged before and after the cut-off date of 31 <sup>st</sup> October 2007
Non-required non-lodger	A survey respondent who was not required to submit a tax return in the 2006/ 07 financial year (as defined by the ATO's online decision tool) and who reported that they did not lodge.
General community	Results pertaining to the 'general community surveyed' include the four groups above, i.e. required lodgers, required non-lodgers, non-required lodgers and non-required non-lodgers. 'General community' results reported throughout this document are obtained <u>solely</u> from the stage 1 data collection phase of this study.
Compliant community	Results pertaining to all survey respondents except required non-lodgers

**Table 3: Abbreviations used in this report**

Definition	Description
IGT	Inspector General of Taxation
CBSR	Colmar Brunton Social Research
ATO	Australian Taxation Office
c.f.	The abbreviation for the Latin words <i>coactus feci</i> , meaning 'compared to'

## 3.4 INTERPRETATION OF THE RESULTS IN THIS REPORT

### 3.4.1 Interpreting charts and tables

Where in the report it is stated that X% of the general community surveyed indicated ‘Y’, these results are based on Stage 1. Stage 1 involved a general community survey whereby all survey respondents satisfying the four different taxpayer segments participated. The ‘general community’ results relate to those shown in the ‘Total %’ columns of the tables throughout the report similar to that shown below. Where ‘general community’ is also mentioned in the commentary throughout the report, this also refers to the results of stage 1.

The results for ‘required lodgers’ (column a), ‘non-required lodgers’ (column b) and ‘non-required non-lodgers’ (column d) are all derived from the general community survey (stage 1). The results for ‘required non-lodgers’ are the **combined** results of the required non-lodgers surveyed in both stage 1 (general community survey) and stage 2 (the dedicated survey of required non-lodgers). The results in sections 4.1.1 through to 4.1.4 which describe the incidence of lodgement, non-lodgement and taxpayer segments in the general community, are however the results derived from stage 1 in isolation (the general community survey).

In tables throughout the report mean scores are provided for questions whereby a scaled response was used. For example, one of the questions asked ‘On a scale of 1 to 10 where 1 is extremely unlikely and 10 is extremely likely, how likely is it that you will lodge your tax return at the end of this coming financial year?’. If for example it is shown that the mean score for a taxpayer segment is 7.9, then this can be interpreted as the average score provided in response by survey respondents in that segment.

**Table 4: Example table**

		a	b	c	d
	Total %	Required lodgers %	Non-required lodgers %	Required non-lodgers %	Non-required non-lodgers %
Response option 1	12	1	19 <sup>a</sup>	42 <sup>ab</sup>	76 <sup>abc</sup>
Response option 2	0	0	0	3 <sup>a</sup>	1
Response option 3	2	1	3	8 <sup>a</sup>	4
Response option 4	3	2	8 <sup>a</sup>	6 <sup>a</sup>	3
Response option 5	82	96 <sup>bcd</sup>	69 <sup>cd</sup>	36 <sup>d</sup>	14
Response option 6	0	0	0	5	3
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<i>Mean</i>	8.2	9.8 <sup>bcd</sup>	7.9 <sup>cd</sup>	5.3 <sup>d</sup>	2.7

### 3.4.2 Tests of Statistical Significance

In all tables in this report, groups (particularly required lodgers and required non-lodgers) are compared against each other and, where possible, differences are tested for statistical significance at the 95% confidence level.

In tables, where a result is bolded in red this indicates that this score is significantly higher than others. The subscript beside that score indicates which group the score is significantly higher than. For example a score of **28<sup>ab</sup>** indicates that this score of 28% is significantly higher than the scores in column a and b.

Where statistical significances are not noted, there are none.

## 3.5 DETERMINATION OF OBLIGATION TO SUBMIT A TAX RETURN

In order to identify whether a respondent was required to submit a tax return in the 2006/ 07 financial year, survey respondents were asked a series of eligibility questions identical to that made available to the general community by the ATO on its website. This interactive 'decision tool' can be viewed at:

<http://calculators.ato.gov.au/scripts/axos/axos.asp?CONTEXT=&KBS=Lodge.XR4&go=ok><sup>11</sup>

Survey respondents were not asked directly whether they thought they were required to submit a return in 2006/ 07 as it was hypothesised that not all people would be aware of whether they were required, and that some would be incorrect.

Due to restrictions on survey length, these eligibility questions were only able to be asked of each respondent with respect to the previous financial year (2006/ 07). Each respondent was asked whether they lodged a tax return in 2006/ 07 and the two previous financial years (2005/ 06 and 2004/ 05) however there is no way to identify whether a respondent was required to submit a return in the two preceding financial years. However, it is hypothesised that in a period of three financial years the majority of respondents are unlikely to have changed in terms of their eligibility status. This should be kept in mind when assessing the results of questions which ask about lodgement behaviour in preceding financial years, particularly:

*Q1b. For what reasons did you not lodge your tax return in 2005/06?*

*Q1c. For what reasons did you not lodge your tax return in 2004/05?*

Similar considerations should be made when assessing the results of questions which ask about *potential* lodgement behaviour in the coming financial year (2007/ 08), particularly:

*Q3. For what reasons are you unlikely to lodge (in 2007/08)?*

To ensure responses were not biased by the survey process, respondent's determined obligation to lodge a return for the 2006/ 07 financial year was not revealed to them.

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<sup>11</sup> Accessed 28 April 2008

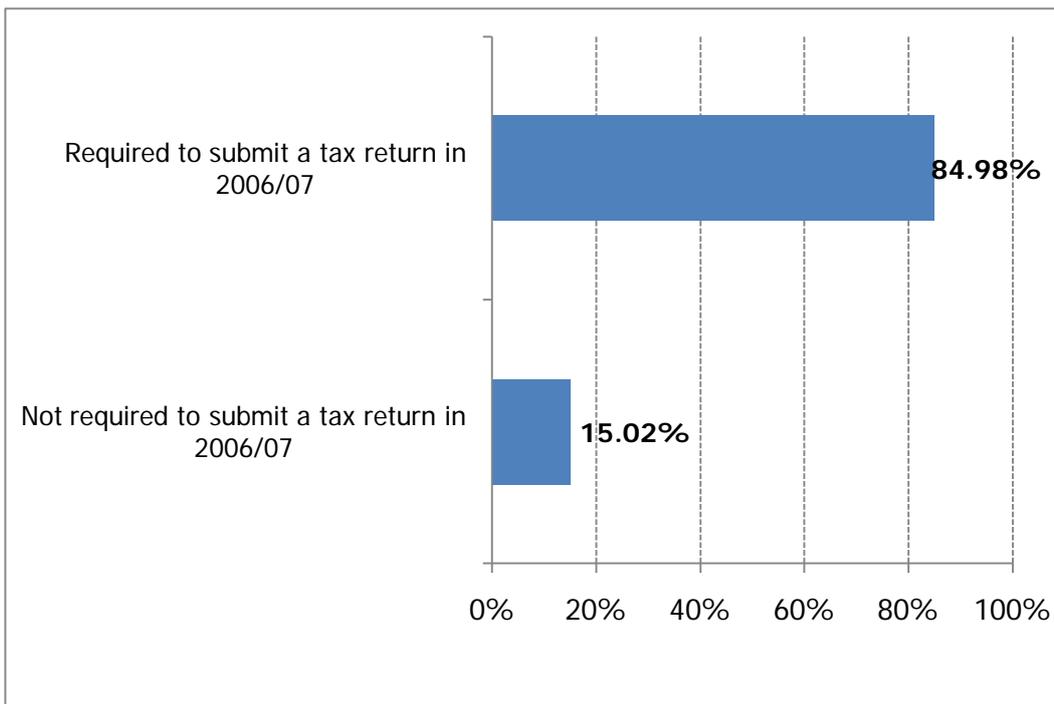
## 4 FINDINGS

### 4.1 THE LEVEL OF NON-LODGE-MENT OF INDIVIDUAL INCOME TAX RETURNS THAT EXISTS WITHIN THE COMMUNITY

#### 4.1.1 Proportion of survey respondents required to submit a tax return

Survey respondents were asked a series of questions<sup>12</sup> in order to determine whether they were required to submit a tax return for the 2006/ 07 financial year. In the general community survey (stage 1), eighty-five percent (84.98%) were required to submit a return.

**Figure 1: Proportion of survey respondents required to submit a tax return**



*Determined via ATO's online decision tool*

*Base: All survey respondents in Stage 1 data collection: general community survey (n=800)*

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<sup>12</sup> Eligibility questions were identical to those used in the ATO's interactive online decision tool to determine eligibility to lodge a tax return, available at <http://calculators.ato.gov.au/scripts/axos/axos.asp?CONTEXT=&KBS=Lodge.XR4&go=ok>  
Accessed 28 April 2008

Table 5 below profiles those respondents required and not required to submit a return demographically. Some interesting points to note include:

- Though the large majority of both men and women were required to submit a return, women have a higher tendency than men to not be required (20% c.f. 10%).
- A higher proportion of middle-aged respondents (i.e. 31-50 years) are required to submit a tax return compared to those both younger and older. A higher proportion of younger (16-30 years) and older (51 years+) respondents are not required.
- Though the large majority of all residents in all states surveyed are required to submit a return, a higher proportion of Queensland residents surveyed are not required in comparison to New South Wales (23% c.f. 12%).
- Most respondents surveyed regardless of language spoken are required to submit a return, however a higher proportion of those who speak English only are not required (16% c.f. 8% speak language other than English).
- Those not required to submit a return earn significantly less than those required. Almost one-third (29%) of respondents from low income households are not required to submit a return – significantly more than those from medium (4%) and high (5%) income households.
- Those not required to submit a return have lower education levels than those required. Almost one-quarter (22%) of those whose highest level of education is Year 12 or below are not required to submit a return – significantly more than those with post-secondary (10%) or post-graduate education (5%).

**Table 5: Proportion of survey respondents required to submit a tax return - profile according to demographics**

	Ref	Required to submit a return %	Not required to submit a return %
<b>GENDER</b>			
Male	a	90 <sup>b</sup>	10
Female	b	80	20 <sup>a</sup>
<b>AGE</b>			
16 - 30 years	c	84	16 <sup>d</sup>
31 - 50 years	d	93 <sup>ac</sup>	7
51 years+	e	78	22 <sup>d</sup>
<b>STATE</b>			
QLD	f	77	23 <sup>g</sup>
NSW	g	88 <sup>f</sup>	12
VIC	h	86	14
SA	i	91	9
WA	j	86	14
TAS	k	**	**
NT	l	**	**
ACT	m	**	**

	Ref	Required to submit a return %	Not required to submit a return %
<b>SPEAK LANGUAGE OTHER THAN ENGLISH</b>			
Speaks language other than English	n	92 <sup>o</sup>	8
Speak English only	o	84	16 <sup>r</sup>
Refused	p	**	**
<b>ABORIGINAL AND TORRES STRAIT ISLANDER IDENTIFICATION</b>			
Aboriginal and Torres Strait Islander	q	**	**
Other	r	85	15
Refused	s	**	**
<b>HOUSEHOLD INCOME</b>			
Low income (<\$50,000)	t	71	29 <sup>uvx</sup>
Medium income (\$50,001 - \$80,000)	u	96 <sup>tu</sup>	4
High income (>\$80,000)	v	95 <sup>tu</sup>	5
Don't know	w	79	21 <sup>uv</sup>
Refused	x	88 <sup>t</sup>	12
<b>EDUCATION</b>			
Secondary Education (including Year 12 or below)	y	78	22 <sup>z(aa)</sup>
Post Secondary Education (including trade certificate, apprenticeship, traineeship or any TAFE qualification, bachelors degree at university)	z	90 <sup>y</sup>	10
Post Graduate Education (Honours degree, Masters degree or PhD)	aa	95 <sup>y</sup>	5
Refused	ab	**	**

*Determined via ATO's online decision tool*

*Base: All survey respondents in Stage 1 data collection: general community survey (n=800)*

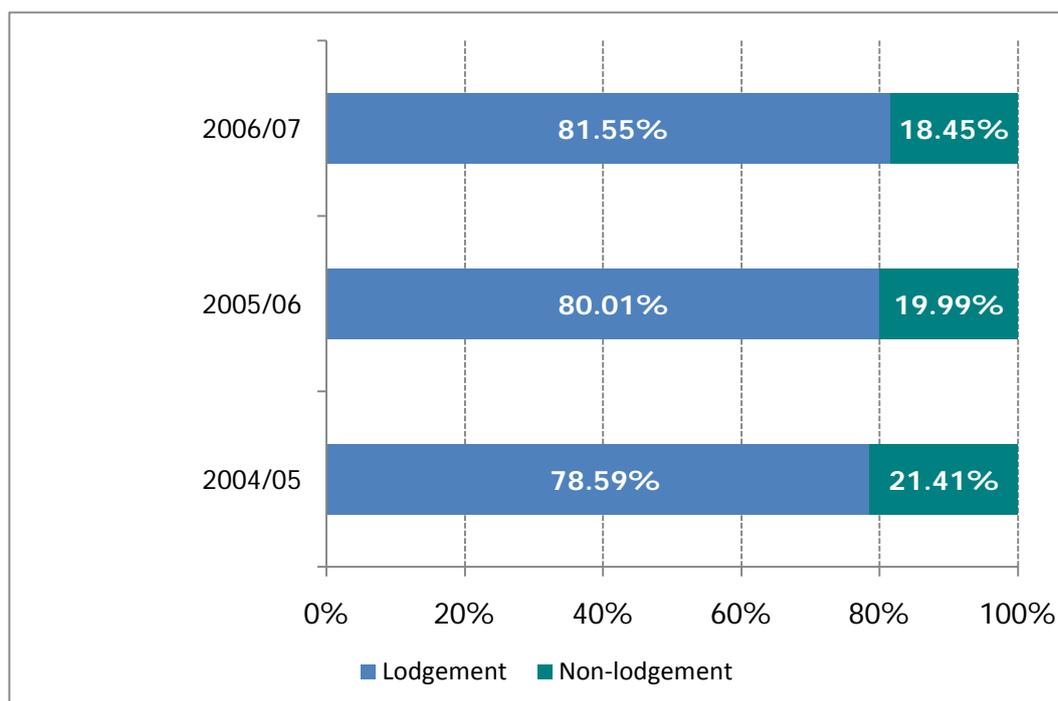
*\*\*Sample size of this group is too small for accurate results to be obtained.*

#### 4.1.2 Proportion of survey respondents who submitted a tax return

Over the last three years lodgement has remained at a consistent level of around 80%. Rounding to the nearest whole number, 82% (including both those required and not required) lodged a tax return last financial year (2006/ 07), 80% lodged in 2005/ 06 and 79% lodged in 2004/ 05. Just over one in ten (13%) of respondents did not lodge a return in any of the past three financial years. These results were obtained from the general community survey (stage 1).

Whilst there has been a 2.96% increase in lodgement since 2004/ 05, this doesn't necessarily reflect a trend of improvement. A change of this magnitude is **not** statistically significant and may simply be a reflection of the survey's margin of error<sup>13</sup>.

**Figure 2: Proportion of survey respondents who submitted a tax return**



S16. Did you lodge a personal tax return in the following financial years? READ OUT [SINGLE RESPONSE]  
Base: All survey respondents in Stage 1 data collection: general community survey (n=800)

Table 6 below profiles each demographic according to whether they lodged or did not lodge a return in 2006/ 07. Each group **includes both those required and not required**. Some interesting points to note include:

- Though both males and females are more likely to have lodged rather than not lodged, females are significantly more likely not to have done so (24% c.f. 14% males).
- There is a tendency for those who did not lodge to be slightly older as those aged 51 years or older are significantly more likely not to have lodged (26% c.f. 16% 16-30 years; 13% 31-50 years).

<sup>13</sup> In order to be able to report a statistically significant change in lodgement, a 3.88% change must be observed.

- Those who did not lodge a return earn significantly less than those who did. One-third (33%) of low income respondents did not lodge a return in 2006/ 07 compared to just 10% of medium income and 9% of high income respondents.
- Respondents who did not submit a return have lower education levels than those who lodged. One-quarter (24%) of respondents whose highest level of education is Year 12 or below did not lodge compared to just 15% of post-secondary and 9% of post-graduate educated respondents.

The demographic characteristics of those who lodged a return in 2006/ 07 are very similar to those people required to lodge. This is because the large majority of those required to lodge, lodged.

Similarly the demographic characteristics of those who did not lodge a return in 2006/ 07 are very similar to those people required – again because most people who did not lodge were not required to do so.

**Table 6: Proportion of survey respondents who submitted and did not submit a tax return in 2006/07 (including those required and not required) – profile according to demographics**

	Ref	Submitted a return in 2006/07 %	Did not submit a return in 2006/07 %
<b>GENDER</b>			
Male	a	86 <sup>a</sup>	14
Female	b	76	24 <sup>a</sup>
<b>AGE</b>			
16 - 30 years	c	84 <sup>a</sup>	16
31 - 50 years	d	87 <sup>e</sup>	13
51 years+	e	74	26 <sup>cd</sup>
<b>STATE</b>			
QLD	f	74	26
NSW	g	83	17
VIC	h	80	20
SA	i	87	13
WA	j	86	14
TAS	k	**	**
NT	l	**	**
ACT	m	**	**
<b>SPEAK LANGUAGE OTHER THAN ENGLISH</b>			
Speaks language other than English	n	87	13
Speak English only	o	80	20
Refused	p	**	**
<b>ABORIGINAL AND TORRES STRAIT ISLANDER IDENTIFICATION</b>			
Aboriginal and Torres Strait Islander	q	**	**
Other	r	81	19

	Ref	Submitted a return in 2006/07 %	Did not submit a return in 2006/07 %
Refused	s	**	**
<b>HOUSEHOLD INCOME</b>			
Low income (<\$50,000)	t	67	33 <sup>uvw</sup>
Medium income (\$50,001 - \$80,000)	u	90 <sup>tw</sup>	10
High income (>\$80,000)	v	91 <sup>tw</sup>	9
Don't know	w	78	22 <sup>uv</sup>
Refused	x	88 <sup>t</sup>	12
<b>EDUCATION</b>			
Secondary Education (including Year 12 or below)	y	75	25 <sup>z(aa)</sup>
Post Secondary Education (including trade certificate, apprenticeship, traineeship or any TAFE qualification, bachelors degree at university)	z	85 <sup>a</sup>	15
Post Graduate Education (Honours degree, Masters degree or PhD)	aa	91 <sup>a</sup>	9
Refused	ab	**	**

S16. Did you lodge a personal tax return in the following financial years? READ OUT [SINGLE RESPONSE]

Base: All survey respondents in Stage 1 data collection: general community survey (n=800)

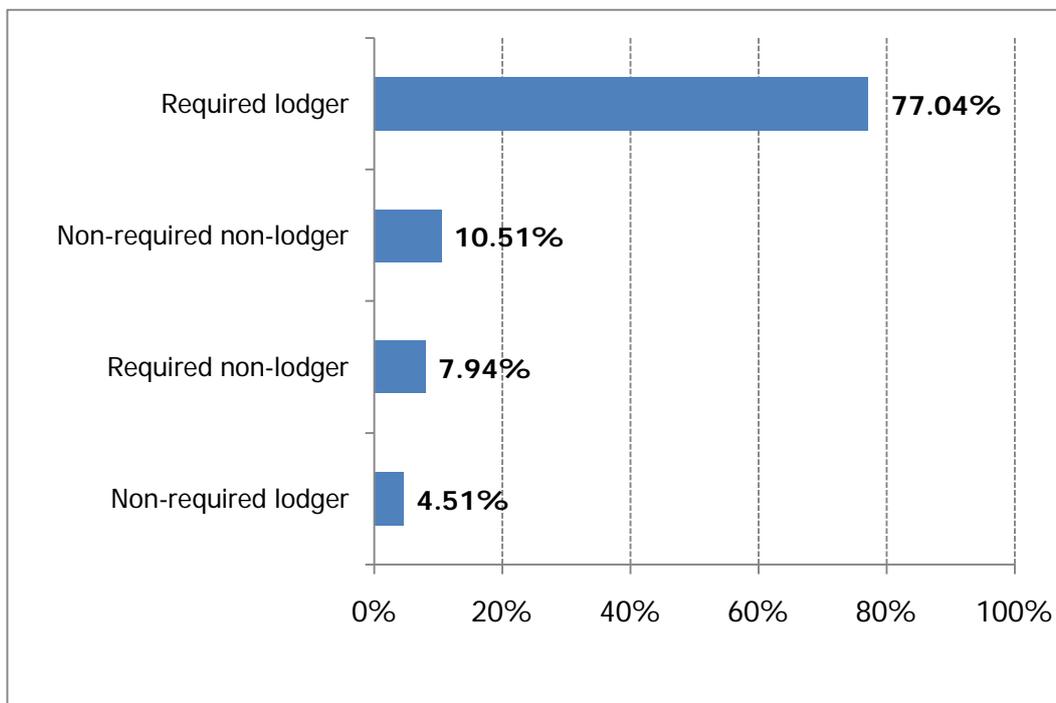
### 4.1.3 Proportion of non-lodgement within the Australian community

Based on the general community survey results 7.94% of the Australian community aged 16 years or older were required to lodge a tax return in the 2006/ 07 financial year but failed to do so (required non-lodgers). Taking the survey's margin of error into account, **it can be estimated that between 700,654 – 1,782 915 people within Australia were required to submit a return but failed to do so for the 2006/07 financial year<sup>14</sup>.**

The majority (77.04%) of the general community were required to submit a return and actually did so (required lodgers).

Whilst 10.51% of survey respondents were not required to submit a return and did not submit a return in 2006/ 07, interestingly 4.51% were not required to submit a return but did so anyway.

**Figure 3: Proportion of total community who satisfy segment criteria**



S16. Did you lodge a personal tax return in the following financial years? READ OUT [SINGLE RESPONSE]  
Base: All survey respondents in Stage 1 data collection: general community survey (n=800)

Members of each segment vary slightly in terms of some demographic characteristics. The segments are profiled demographically in Appendix D and the statistically significant differences in characteristics are noted. Tests for statistical significance were conducted in order to identify whether the required non-lodger group was any different to the required lodger group in terms of demographic characteristics.

The key characteristics of required lodgers and required non-lodgers are outlined below.

#### **Gender**

The gender split amongst required lodgers is even (50% males; 50% females). Amongst required non-lodgers there is a slight skew towards being female (42% male; 58% female).

<sup>14</sup> The margin of error of this survey is +/- 3.46%. Extrapolation calculation based on Australian Bureau of Statistics 2006 Census figures shown on page 36.

## **Age**

Around two in ten (23%) of the required lodgers surveyed are aged 16-30 years, four in ten (40%) are aged 31-50 years while a further four in ten (37%) are 51 years or older. A comparison of these age brackets amongst the required non-lodger group shows a relatively similar profile according to age. Two in ten (18%) are aged 16-30 years, four in ten (42%) are aged 31-50 years and a further four in ten (40%) are 51 years or older.

Looking at age in greater detail, required non-lodgers were however more likely to be aged 61-70 years (18% required non-lodgers c.f. 11% required lodgers) – this is likely to be linked to one of the main reasons for not submitting a return, that is, the belief they were not required as they received a pension or a Centrelink payment (this is detailed later in the report).

## **State**

The majority of required lodgers surveyed resided in New South Wales (36%), Victoria (22%) and Queensland (18%) – in line with the Australian population skew towards these states. The states in which required non-lodgers resided were relatively similar – the majority also resided in New South Wales (31%), Victoria (30%) and Queensland (22%).

## **Language spoken**

The large majority of both required lodgers and required non-lodgers are English (only) speaking residents (88% required lodgers; 89% required non-lodgers).

## **Aboriginal and Torres Strait Islander Identification**

The large majority of both required lodgers and required non-lodgers do not identify themselves as being of Aboriginal and Torres Strait Islander descent (99% required lodgers; 98% required non-lodgers).

## **Annual Household Income**

The majority of required lodgers belong to households of medium<sup>15</sup> (20%) or high<sup>16</sup> (35%) incomes. The majority of required non-lodgers belong to households of low<sup>17</sup> (46%) of medium (17%) incomes.

Looking at income in greater detail, the required non-lodgers surveyed are more likely have significantly lower household income, in particular they are:

- less likely to have an annual household income of \$80,000 or more (18% required non-lodgers c.f. 35% required lodgers) or \$100,000 or more (10% required non-lodgers c.f. 24% required lodgers); and
- more likely to have an annual household income of \$40,000 or less (40% required non-lodgers c.f. 18% required lodgers) or \$50,000 or less (46% required non-lodgers c.f. 27% required lodgers).

## **Highest Educational Qualification**

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<sup>15</sup> Household income of \$50,001 - \$80,000 per annum

<sup>16</sup> Household income of more than \$80,001 per annum

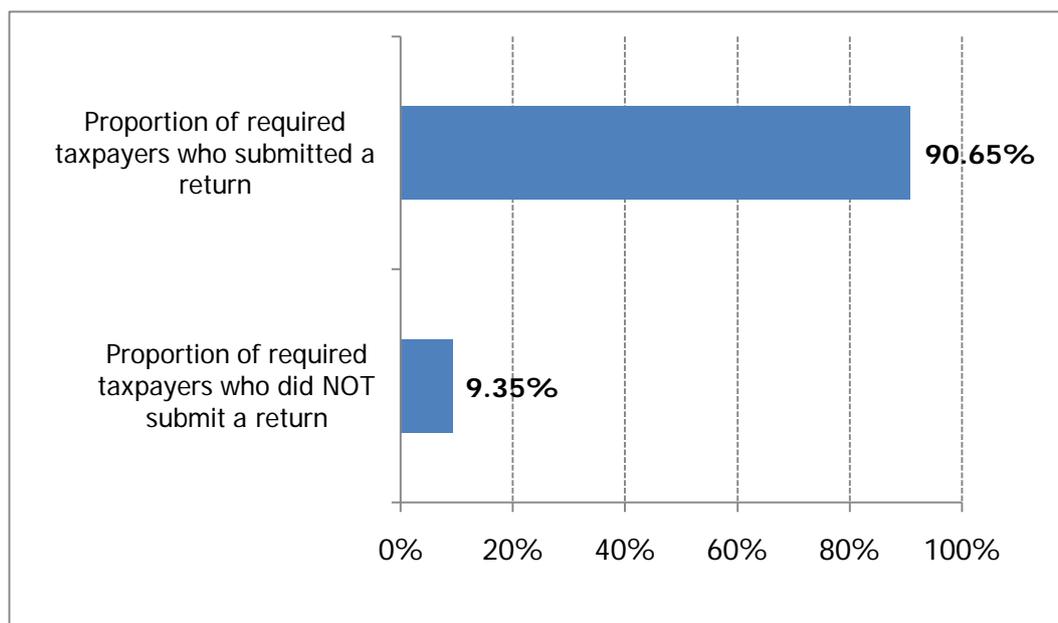
<sup>17</sup> Household income of less than \$50,000 per annum

A relatively even proportion of required lodgers' highest educational qualification was secondary (43%) or post-secondary (41%). The remainder (16%) had post-graduate qualifications. Required non-lodgers were also just as likely to have secondary qualifications (46%) as post-secondary (43%). They were however significantly less likely than required non-lodgers to have a post graduate education (i.e. Honours degree, Masters degree or PhD) (10% required non-lodgers c.f. 16% required lodgers).

#### 4.1.4 Proportion of non-lodgement amongst those required to lodge

Among those who were required to lodge a return in the 2006/ 07 financial year 90.65% reported they had lodged and 9.35% reported they did not lodge.

**Figure 4: Proportion of required taxpayers who submitted and did not submit a tax return**



S16. Did you lodge a personal tax return in the following financial years? READ OUT [SINGLE RESPONSE]  
Base: All required survey respondents in Stage 1 data collection: general community survey (n=685)

A demographic profile of both groups above is contained within Appendix D – the groups have been labelled 'required lodgers' and 'required non-lodgers'. A summary of key characteristics of both groups is contained within the previous section (4.1.3).

The reasons given by low income required taxpayers who failed to submit their tax return (shown later in this report) suggest they believed they were not required – either because they thought they were below the income threshold or because they received some sort of pension or Centrelink payment.

In order to assess the severity of the non-lodgement issue in terms of financial implications, an examination of the income status of the required non-lodger group was undertaken. Though required non-lodgers have lower levels of income than required lodgers (and 46% in total have a household income of less than \$50,000 per annum), 35% of required non-lodgers have medium or high<sup>18</sup> incomes.

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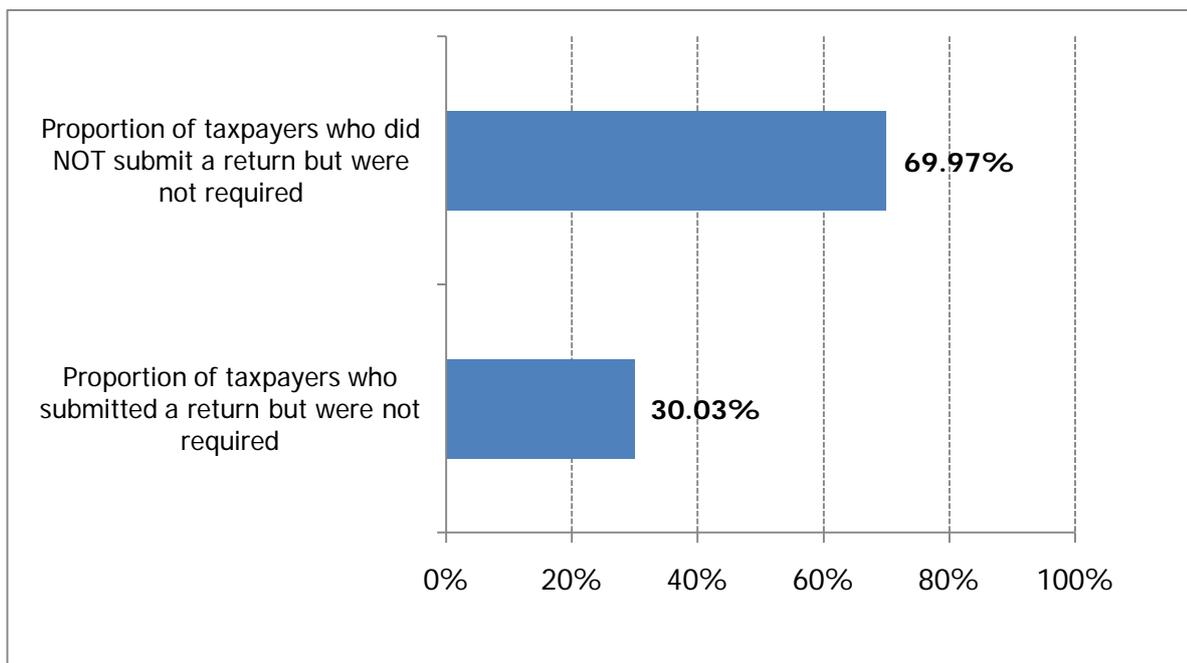
<sup>18</sup> Household income of more than \$50,001 per annum

However, medium to high<sup>19</sup> income required non-lodgers are more likely to have lodged their tax return in the past and more likely to do so in the future compared to their low<sup>20</sup> income counterparts. Their attitudes towards the likelihood of the Tax office taking action, the penalties for non-lodgement and the perceived current level of non-lodgement in Australia are the same.

#### 4.1.5 Proportion of lodgement amongst those not required to lodge

Among those who were **not** required to lodge a return in the 2006/ 07 financial year 69.97% reported they had not lodged and 30.03% reported that they did lodge. The latter figure suggests a substantial minority of taxpayers do not know or are unsure of whether they are required to submit a return.

**Figure 5: Lodging behaviour of non-required taxpayers**



S16. Did you lodge a personal tax return in the following financial years? READ OUT [SINGLE RESPONSE]  
 Base: All survey respondents in Stage 1 data collection not required to submit a return: general community survey (n=115)

A demographic profile of both groups above is contained within Appendix D – the groups have been labelled ‘non-required non-lodgers’ and ‘non-required lodgers’. A summary of key characteristics of both groups is contained within a previous section in this report (4.1.3).

#### 4.1.6 Estimated level of non-lodgement this coming financial year

Compared to 18% who didn’t lodge in 2006/ 07, 12% of respondents surveyed are unlikely<sup>21</sup> to lodge a tax return for the coming 2007/ 08 financial year, while 85% are likely<sup>22</sup>. Therefore the level of *intended* lodgement next financial year is slightly higher than reported lodgement last financial year.

<sup>19</sup> Household income of more than \$50,001 per annum

<sup>20</sup> Household income of less than \$50,000 per annum

<sup>21</sup> Rated 1 – 4 at Q2.

<sup>22</sup> Rated 7 – 10 at Q2.

As expected, required taxpayers who submitted their return for 2006/ 07 are also the most likely to do so next year (97% of required lodgers and 78% of non required lodgers are likely to lodge a return in 2007/ 08). **Required non-lodgers are significantly less likely to lodge a tax return next year (42% likely and 45% unlikely).**

**Table 7: Likelihood of lodgement next year**

		a	b	c	d
	Total %	Required lodgers %	Non-required lodgers %	Required non-lodgers %	Non-required non-lodgers %
Very unlikely (1-2)	12	1	19 <sup>a</sup>	42 <sup>ab</sup>	76 <sup>abc</sup>
Slightly unlikely (3-4)	0	0	0	3 <sup>a</sup>	1
<b>UNLIKELY (1-4)</b>	<b>12</b>	<b>1</b>	<b>19<sup>a</sup></b>	<b>45<sup>ab</sup></b>	<b>77<sup>abc</sup></b>
Neither likely or unlikely (5-6)	2	1	3	8 <sup>a</sup>	4
Slightly likely (7-8)	3	2	8 <sup>a</sup>	6 <sup>a</sup>	3
Very likely (9-10)	82	96 <sup>bcd</sup>	69 <sup>cd</sup>	36 <sup>d</sup>	14
<b>LIKELY (7-10)</b>	<b>85</b>	<b>97<sup>bcd</sup></b>	<b>78<sup>cd</sup></b>	<b>42<sup>d</sup></b>	<b>16</b>
Don't know	0	0	0	5	3
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<i>Mean</i>	8.2	9.8 <sup>bcd</sup>	7.9 <sup>cd</sup>	5.3 <sup>d</sup>	2.7

Q2. On a scale of 1 to 10 where 1 is extremely unlikely and 10 is extremely likely, how likely is it that you will lodge your tax return at the end of this coming financial year? DO NOT READ OUT [SINGLE RESPONSE]

Base: Total % results based on all survey respondents in Stage 1 data collection; All results for segments except for required non-lodgers based on data also collected in Stage 1; Results for required non-lodger group based on combined data collected in Stages 1 and 2.

Table 8 below outlines the proportion of each demographic group likely or unlikely to submit a return next financial year. The results include **both those required and not required**. Overall, the large majority of each group have indicated they are likely to submit a return.

However there are some particular groups that are less likely to submit their return in comparison with others. For example 17% of females surveyed cited they were unlikely to submit a return next financial year compared to just 10% of males. Other particular groups that are significantly **less likely** to submit their tax return next financial year include:

- Older survey respondents, specifically those aged 51 years or older (26%) are less likely than those aged 16 – 30 years old (6%) and 31 – 50 years old (7%)<sup>23</sup>. This is likely to be due to decreasing income in this age bracket and the belief that they may not be required to submit a return due to receiving a pension and/ or Centrelink payments<sup>24</sup>.
- Those people with lower levels of education, specifically those whose highest level of education is Year 12 or below (19%) are significantly less likely to submit their return next financial year compared to those people with higher levels of education, specifically post secondary education (10%) and postgraduate education (6%)<sup>25</sup>.
- Those survey respondents with annual household incomes of \$40,000 or less (39%) or \$50,000 or less (30%) are significantly less likely to submit their tax return. Again this is likely to be because there is a higher likelihood of being below the income threshold<sup>26</sup>.
- Queenslanders (20%) are less likely in comparison to those in New South Wales (11%) and Victoria (13%).

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<sup>23</sup> Percentages shown in this paragraph represent the proportion of people in each age bracket who indicated they were unlikely (rated 1-4 at Q2) to submit their return next financial year.

<sup>24</sup> Percentages shown in this paragraph represent the proportion of people in each income bracket who indicated they were unlikely (rated 1-4 at Q2) to submit their return next financial year.

<sup>25</sup> Percentages shown in this paragraph represent the proportion of people in each education group who indicated they were unlikely (rated 1-4 at Q2) to submit their return next financial year.

<sup>26</sup> Percentages shown in this paragraph represent the proportion of people in each income bracket who indicated they were unlikely (rated 1-4 at Q2) to submit their return next financial year.

**Table 8: Estimated level of lodgement and non-lodgement next year (including those both required and not required) – profile according to demographics**

	Ref	Unlikely to submit a return in 2007/08 %	Likely to submit a return in 2007/08 %
<b>GENDER</b>			
Male	a	10	87 <sup>a</sup>
Female	b	17 <sup>a</sup>	79
<b>AGE</b>			
16 - 30 years	c	6	88 <sup>e</sup>
31 - 50 years	d	7	91 <sup>e</sup>
51 years+	e	26 <sup>cd</sup>	72
<b>STATE</b>			
QLD	f	20 <sup>gh</sup>	77
NSW	g	11	86 <sup>f</sup>
VIC	h	13	83
SA	i	14	84
WA	j	14	83
TAS	k	**	**
NT	l	**	**
ACT	m	**	**
<b>SPEAK LANGUAGE OTHER THAN ENGLISH</b>			
Speaks language other than English	n	7	91 <sup>o</sup>
Speak English only	o	15	82
Refused	p	**	**
<b>ABORIGINAL AND TORRES STRAIT ISLANDER IDENTIFICATION</b>			
Aboriginal and Torres Strait Islander	q	**	**
Other	r	14	83
Refused	s	**	**
<b>HOUSEHOLD INCOME</b>			
Low income (<\$50,000)	t	30 <sup>uvwx</sup>	67
Medium income (\$50,001 - \$80,000)	u	5	94 <sup>tw</sup>
High income (>\$80,000)	v	3	92 <sup>tw</sup>
Don't know	w	15 <sup>uvx</sup>	83 <sup>i</sup>
Refused	x	4	93 <sup>i</sup>
<b>EDUCATION</b>			
Secondary Education (including Year 12 or below)	y	19 <sup>z(aa)</sup>	77
Post Secondary Education (including trade certificate, apprenticeship, traineeship or	z	10	87 <sup>i</sup>

	Ref	Unlikely to submit a return in 2007/08 %	Likely to submit a return in 2007/08 %
any TAFE qualification, bachelors degree at university)			
Post Graduate Education (Honours degree, Masters degree or PhD)	aa	6	93 <sup>yz</sup>
Refused	ab	**	**

Q2. On a scale of 1 to 10 where 1 is extremely unlikely and 10 is extremely likely, how likely is it that you will lodge your tax return at the end of this coming financial year? DO NOT READ OUT [SINGLE RESPONSE]

Base: All results above incorporate the data collected in both Stages 1 and 2.

\*\*Sample size of this group is too small for accurate results to be obtained.

Table 9 below outlines the estimated proportion of **required** respondents in each demographic group likely or unlikely to submit a return next financial year. As it was impossible for the survey to determine whether a respondent would be required to submit a return next financial year, respondents eligibility in the 2006/ 07 financial year has been used as a proxy.

The large majority of all demographic groups required to submit a return next year plan to do so. There are however some groups less likely than others to submit.

Even amongst those required, those aged 51 years or older are still the most unlikely to submit a return (8% indicated they were unlikely). Those residing in households of low income (i.e. less than \$50,000 per annum) were also the least likely to submit their return in the next financial year.

**Table 9: Estimated level of lodgement and non-lodgement next year (amongst only those required) – profile according to demographics**

	Ref	Unlikely to submit a return in 2007/08 %	Likely to submit a return in 2007/08 %
<b>GENDER</b>			
Male	a	4	93
Female	b	5	92
<b>AGE</b>			
16 - 30 years	c	2	94
31 - 50 years	d	4	94
51 years+	e	8 <sup>cd</sup>	90
<b>STATE</b>			
QLD	f	5	93
NSW	g	5	93
VIC	h	5	90
SA	i	6	91
WA	j	3	95
TAS	k	**	**
NT	l	**	**
ACT	m	**	**
<b>SPEAK LANGUAGE OTHER THAN ENGLISH</b>			
Speaks language other than English	n	5	94
Speak English only	o	5	92
Refused	p	**	**
<b>ABORIGINAL AND TORRES STRAIT ISLANDER IDENTIFICATION</b>			
Aboriginal and Torres Strait Islander	q	**	**
Other	r	5	93
Refused	s	**	**
<b>HOUSEHOLD INCOME</b>			
Low income (<\$50,000)	t	11 <sup>uv</sup>	87
Medium income (\$50,001 - \$80,000)	u	3	95 <sup>t</sup>
High income (>\$80,000)	v	2	95 <sup>t</sup>
Don't know	w	2	95
Refused	x	3	94
<b>EDUCATION</b>			
Secondary Education (including Year 12 or below)	y	6	91
Post Secondary Education (including trade certificate, apprenticeship, traineeship or	z	4	94

	Ref	Unlikely to submit a return in 2007/08 %	Likely to submit a return in 2007/08 %
any TAFE qualification, bachelors degree at university)			
Post Graduate Education (Honours degree, Masters degree or PhD)	aa	3	96
Refused	ab	**	**

Q2. On a scale of 1 to 10 where 1 is extremely unlikely and 10 is extremely likely, how likely is it that you will lodge your tax return at the end of this coming financial year? DO NOT READ OUT [SINGLE RESPONSE]

Base: All results incorporate the data in both Stages 1 and 2.

\*\*Sample size of this group is too small for accurate results to be obtained.

The reasons why respondents are unlikely to lodge a return next financial year are outlined in Section 4.5.

## 4.2 THE LEVEL THAT THE COMMUNITY EXPECTS THE TAX OFFICE TO KEEP NON-LODGE MENT

Table 10 on the following page details expectations regarding the level at which the non-lodgement should be kept by the Tax Office. To prevent any distortion of perceptions of the total community surveyed, the first column outlines those perceptions of the total **compliant** community surveyed, that is, the perceptions of required non-lodgers have not been included.

Four in ten (40%) of the compliant community surveyed expect the Tax Office to keep the level of non-lodgement within the community at 0% - that is, they believe that everyone who is required **should** submit a tax return. Just under two-thirds (61%) expect the Tax Office to keep non-lodgement at or below 8%.

This suggests that the majority of the compliant community would find the *actual* level of non-lodgement as measured in this survey unacceptable as it is higher than what they expect the Tax Office to keep it at (as shown previously in Section 4.1.4, 9.35% of those required failed to submit their return).

Those required to submit a tax return in 2006/ 07 but failed to do so (**required non-lodgers**) have a **tendency to expect the ATO to be more lenient on the level of non-lodgement within the community:**

- The average required non-lodger expects non-lodgement to be kept at '1 million - 1.5 million (8-12% of those required)' whereas the average required lodger expects non-lodgement to be kept at 'less than 500,000 people (less than 4% of those required)'.
- Compared to required lodgers, required non-lodgers are significantly more likely to believe non-lodgement should be kept at a level of 15% or higher.

**Table 10: The level at which the community expects the Tax Office to keep non-lodgement**

a	b	c	d
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	Total Compliant Community* %	Required lodgers %	Non-required lodgers %	Required non-lodgers %	Non-required non-lodgers %
0 people of those required) (0%	40	38 <sup>c</sup>	39 <sup>c</sup>	15	49 <sup>c</sup>
Less than 500,000 people (less than 4% of those required)	13	13	6	19 <sup>a</sup>	16
0.5 million - 1 million (4-8% of those required)	8	9	6	15 <sup>ad</sup>	3
1 million - 1.5 million (8-12% of those required)	10	11	3	13	9
1.5 million - 2 million (12-15% of those required)	7	7	11	9	4
2 million - 2.5 million (15-19% of those required)	4	3	6	8 <sup>a</sup>	9 <sup>a</sup>
2.5 million - 3 million (19-23% of those required)	4	4	8	4	3
3 million - 3.5 million (23-27% of those required)	3	3	0	2	4
3.5 million - 4 million (27-31% of those required)	12	12	22 <sup>d</sup>	16 <sup>d</sup>	4
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Q4c. Please complete the following sentence. I would expect the Tax Office to keep the number of people who are required to lodge but didn't lodge to....? READ OUT [SINGLE RESPONSE]

Base: Total % results based on all survey respondents in Stage 1 data collection; All results for segments except for required non-lodgers based on data also collected in Stage 1; Results for required non-lodger group based on combined data collected in Stages 1 and 2.

\* Includes the perceptions of required lodgers, non-required lodgers and non-required non-lodgers but excludes the perceptions of required non-lodgers.

The older a respondent, the more likely they are to believe that the ATO should keep the level of non-lodgement at nil:

- Those aged 51 years or older (50%) are more likely believe this, particularly:
  - those aged 71 – 80 years (68%); and
  - those aged 81 years or older (71%).
- Those aged 16 – 30 years are the least likely to believe the Tax Office should keep the level of non-lodgement at nil. Instead, they are significantly more likely to believe that the Tax Office should keep non-lodgement at a level higher than 8% (51%).

New South Wales residents have a tendency to be more lenient about the level of non-lodgement the ATO should accept:

- Compared to Queenslanders (34%) and Victorians (33%), New South Wales residents (51%) are significantly more likely to believe the ATO should accept a level non-lodgement within the community higher than 8%.

- Compared to Queenslanders (43%) and Victorians (45%), New South Wales residents (29%) are also significantly less likely to believe non-lodgement should be kept at nil.

In addition, those who speak a language other than English tend to think the ATO should be more lenient on non-lodgement – they are more likely than those who speak English only to believe that a level of 8% or higher is acceptable (c.f. 49% c.f. 39%).

**Table 11: The level at which the community expects the Tax Office to keep non-lodgement – profile according to demographics**

	Ref	At 0% %	Below 8% %	Above 8% %
<b>GENDER</b>				
Male	a	37	61	39
Female	b	41	59	41
<b>AGE</b>				
16 - 30 years	c	26	49	51 <sup>de</sup>
31 - 50 years	d	36 <sup>c</sup>	59 <sup>c</sup>	41 <sup>e</sup>
51 years+	e	50 <sup>de</sup>	68 <sup>cd</sup>	32
<b>STATE</b>				
QLD	f	43	66 <sup>g</sup>	34
NSW	g	29	49	51 <sup>ac</sup>
VIC	h	45	67 <sup>b</sup>	33
SA	i	41	55	45
WA	j	40	65	35
TAS	k	**	**	**
NT	l	**	**	**
ACT	m	**	**	**
<b>SPEAK LANGUAGE OTHER THAN ENGLISH</b>				
Speaks language other than English	n	31	51	49 <sup>o</sup>
Speak English only	o	39	61 <sup>n</sup>	39
Refused	p	**	**	**
<b>ABORIGINAL AND TORRES STRAIT ISLANDER IDENTIFICATION</b>				
Aboriginal and Torres Strait Islander	q	**	**	**
Other	r	38	60	40
Refused	s	**	**	**
<b>HOUSEHOLD INCOME</b>				
Low income (<\$50,000)	t	44	60 <sup>x</sup>	40
Medium income (\$50,001 - \$80,000)	u	37	57	43
High income (>\$80,000)	v	35	65 <sup>x</sup>	35
Don't know	w	38	61	39
Refused	x	33	44	56 <sup>iv</sup>

	Ref	At 0% %	Below 8% %	Above 8% %
<b>EDUCATION</b>				
Secondary Education (including Year 12 or below)	y	42	61	39
Post Secondary Education (including trade certificate, apprenticeship, traineeship or any TAFE qualification, bachelors degree at university)	z	37	59	41
Post Graduate Education (Honours degree, Masters degree or PhD)	aa	31	59	41
Refused	ab	**	**	**

Q4c. Please complete the following sentence. I would expect the Tax Office to keep the number of people who are required to lodge but didn't lodge to....? READ OUT [SINGLE RESPONSE]

Base: All results incorporate the data in both Stages 1 and 2.

\*\*Sample size of this group is too small for accurate results to be obtained.

### 4.3 THE RELATIONSHIP BETWEEN PERCEPTIONS OF THE LEVEL OF NON-LODGE MENT AND LODGE MENT BEHAVIOUR

The research sought to identify whether there is a relationship between perceptions of the level of non-lodgement within the Australian community and their lodgement behaviour.

Ten percent of respondents estimated that 100% or more of Australians required to submit a tax return submitted one for the last financial year. The overwhelming majority however (90%) estimated that less than 100% lodged their return. The most common estimate was less than 85% of those required (45% estimated this). This was also the median response, the most accurate measure of central tendency of responses to this question – it is expected that the average Australian aged 16 years or older would estimate that less than 85% of those required Australians submitted their tax return. The median estimate for both required lodgers and required non-lodgers was also 11 million (85% of those required). Looking at specific estimates, there are no significant differences in the perceptions about the level of non-lodgement between each group.

**This finding suggests that there is no relationship between perceptions of the level of non-lodgement within the community and lodgement behaviour.** Rather the research suggests non-lodgement is more likely to be caused by confusion about the requirement to lodge due to low income, unemployment or receipt of income support or laziness, disorganisation or forgetfulness. There also **appears to be a relationship between perceptions of whether the ATO will take action if the taxpayer does not lodge and lodgement behaviour** (see section 4.5.7).

**Table 12: Perceived level of non-lodgement within Australia**

		a	b	c	d
	Total %	Required lodgers %	Non-required lodgers %	Required non-lodgers %	Non-required non-lodgers %
More than 14 million (more than 108% of those required)	2	2	0	2	5
14 million (108% of those required)	2	2	3	2	0
13 million (100% of those required)	6	7	8	5	6
<b>100% OR MORE</b>	<b>10</b>	<b>11</b>	<b>11</b>	<b>10</b>	<b>11</b>
12 million (92% of those required)	24	22	31	21	32
11 million (85% of those required)	21	21	19	27	20
Less than 11 million (less than 85% of those required)	45	46	39	42	37
<b>LESS THAN 100%</b>	<b>90</b>	<b>89</b>	<b>89</b>	<b>90</b>	<b>89</b>
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Q4a. 13 million Australians were required to lodge a tax return last financial year. How many people do you estimate lodged their tax return? READ OUT [SINGLE RESPONSE]

Base: Total % results based on all survey respondents in Stage 1 data collection; All results for segments except for required non-lodgers based on data also collected in Stage 1; Results for required non-lodger group based on combined data collected in Stages 1 and 2.

Interesting is a comparison of the surveyed community's estimation of the level of non-lodgement and the level they expect the Tax Office to keep non-lodgement. The surveyed community's estimation of the level of non-lodgement is higher than what they expect the Tax Office to keep it at. Two-thirds (66%) perceive non-lodgement to be higher than 8%, while 61% expect the Tax Office to keep non-lodgement at 8% or less.

Looking at each demographic, there are no notable differences in the perceived level of non-lodgement in Australia (see Table 13). The large majority of each demographic believe that less than 100% of those required lodged their return for the 2006/ 07 financial year.

**Table 13: Perceived level of non-lodgement within Australia – profile according to demographics**

	Ref	100% or more %	Less than 100% %
<b>GENDER</b>			
Male	a	12	88
Female	b	10	90
<b>AGE</b>			
16 - 30 years	c	9	91
31 - 50 years	d	10	90
51 years+	e	12	88
<b>STATE</b>			
QLD	f	8	92
NSW	g	12	88
VIC	h	12	88
SA	i	8	92
WA	j	7	93
TAS	k	**	**
NT	l	**	**
ACT	m	**	**
<b>SPEAK LANGUAGE OTHER THAN ENGLISH</b>			
Speaks language other than English	n	15	85
Speak English only	o	10	90
Refused	p	**	**
<b>ABORIGINAL AND TORRES STRAIT ISLANDER IDENTIFICATION</b>			
Aboriginal and Torres Strait Islander	q	**	**
Other	r	11	89
Refused	s	**	**
<b>HOUSEHOLD INCOME</b>			
Low income (<\$50,000)	t	9	91 <sup>x</sup>
Medium income (\$50,001 - \$80,000)	u	6	94 <sup>xe</sup>
High income (>\$80,000)	v	7	93 <sup>xe</sup>
Don't know	w	17 <sup>uv</sup>	83
Refused	x	30 <sup>uv</sup>	70
<b>EDUCATION</b>			
Secondary Education (including Year 12 or below)	y	13	87
Post Secondary Education (including trade certificate, apprenticeship, traineeship or any TAFE qualification, bachelors degree at	z	9	91

	Ref	100% or more %	Less than 100% %
university)			
Post Graduate Education (Honours degree, Masters degree or PhD)	aa	8	92
Refused	ab	**	**

Q4a. 13 million Australians were required to lodge a tax return last financial year. How many people do you estimate lodged their tax return? READ OUT [SINGLE RESPONSE]

Base: All results incorporate the data in both Stages 1 and 2.

\*\*Sample size of this group is too small for accurate results to be obtained.

Survey respondents were asked how acceptable or unacceptable different levels of non-lodgement within the community were. As expected, the higher the perceived level of non-lodgement within the community, the less acceptable respondents perceive that level to be.

The average Australian aged 16 years or older, whose belief is that less than 11 million (less than 85% of those required) lodged their tax return in the 2006/ 07 financial year, cite this to be highly unacceptable. Half (49%) cite this as being very unacceptable while almost two-thirds (63%) cite this to be slightly or very unacceptable.

**Table 14: Acceptance of the perceived level of non-lodgement within Australia**

	a	b	c	d	e
	14 million or more (108% of those required or more) <sup>27</sup>	13 million (100% of those required)	12 million (92% of those required)	11 million (85% of those required)	Less than 11 million (less than 85% of those required)
Very unacceptable (1-2)	6	5	41 <sup>ab</sup>	46 <sup>ab</sup>	49 <sup>ab</sup>
Slightly unacceptable (3-4)	12	2	9	15	14
<b>UNACCEPTABLE (1-4)</b>	<b>18</b>	<b>7</b>	<b>50<sup>ab</sup></b>	<b>61<sup>ab</sup></b>	<b>63<sup>abc</sup></b>
Neither acceptable or unacceptable (5-6)	7	6	16	18	18
Slightly acceptable (7-8)	12	8	19 <sup>e</sup>	11	10
Very acceptable (9-10)	59 <sup>cde</sup>	71 <sup>cde</sup>	13 <sup>cde</sup>	9	7
<b>ACCEPTABLE (7-10)</b>	<b>71<sup>cde</sup></b>	<b>78<sup>cde</sup></b>	<b>32<sup>e</sup></b>	<b>20</b>	<b>16</b>
Don't know	5	9	2	1	3
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Mean	8.0 <sup>cde</sup>	8.8 <sup>cde</sup>	4.3 <sup>e</sup>	3.7	3.4

Q4b. On a scale of 1 to 10 where 1 is completely acceptable and 10 is completely unacceptable, how acceptable or unacceptable is it that [SHOW ANSWER AT Q4A] lodged their tax return? READ OUT [SINGLE RESPONSE]

Base: All survey respondents in Stage 1 data collection (n=800); excludes Stage 2 respondents.

<sup>27</sup> This is a combined category of the original categories 'More than 14 million (more than 108% of those required)' and '14 million (108% of those required)'. The original categories were needed to be combined for meaningful interpretation due to the number of respondents indicating each individual category being too low for accurate analysis.

#### 4.4 WHETHER THE COMMUNITY WOULD ACCEPT A REGIME WHERE NON-LODGERS HAD THEIR REFUNDS DOCKED OR FORFEITED

Table 15 details the surveyed community’s level of agreement that people who fail to lodge a tax return should have part of their refund taken by the Tax Office. To prevent any distortion of perceptions of the total community surveyed, the first column outlines those perceptions of the total **compliant** community surveyed, that is, the perceptions of required non-lodgers have not been included.

Amongst the compliant community surveyed, there is moderate community support for a regime where the Tax Office docks or forfeits the returns of those who fail to lodge a tax return. Just over half (57%) of the general community surveyed slightly or strongly agreed with this. One quarter (24%) slightly or strongly disagreed.

Compared to the required lodgers (24%), **required non-lodgers are significantly more likely to strongly disagree (32%) with non-lodgers having their refunds docked or forfeited as a punishment for not lodging.** They are also more likely to slightly or strongly disagree (40%). This is likely to be because members of this segment are the ones likely to be affected by this action.

**Table 15: Level of agreement that people who fail to lodge a tax return should have part of their refund taken by the Tax Office**

		a	b	c	d
	Total Compliant Community* %	Required lodgers %	Non-required lodgers %	Required non-lodgers %	Non-required non-lodgers %
Strongly disagree (1-2)	17	18	11	32 <sup>ad</sup>	11
Slightly disagree (3-4)	7	6	11	7	6
<b>Disagree (1-4)</b>	<b>24</b>	<b>24</b>	<b>22</b>	<b>40<sup>ad</sup></b>	<b>18</b>
Neither agree or disagree (5-6)	16	16	19	24 <sup>a</sup>	14
Slightly agree (7-8)	14	14	8	13	15
Strongly agree (9-10)	44	44 <sup>c</sup>	50 <sup>c</sup>	18	48 <sup>c</sup>
<b>Agree (7-10)</b>	<b>57</b>	<b>57<sup>c</sup></b>	<b>58<sup>c</sup></b>	<b>32</b>	<b>63<sup>c</sup></b>
Don't know	2	2	0	5	5
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<i>Mean</i>	6.8	6.8 <sup>f</sup>	7.1 <sup>f</sup>	5.0	7.4 <sup>f</sup>

Q5. On a scale of 1 to 10 where 1 is totally disagree and 10 is totally agree, please indicate the extent that you agree or disagree that people who fail to lodge a tax return should have part of their refund taken by the Tax Office? DO NOT READ OUT [SINGLE RESPONSE]

Base: Total % results based on all survey respondents in Stage 1 data collection; All results for segments except for required non-lodgers based on data also collected in Stage 1; Results for required non-lodger group based on combined data collected in Stages 1 and 2.

\* Includes the perceptions of required lodgers, non-required lodgers and non-required non-lodgers but excludes the perceptions of required non-lodgers.

Table 16 below shows that particular groups within the community are more likely to agree<sup>28</sup> that the Tax Office take this action. These include:

- Those aged 51 years or older (62%).
- Those whose first and only language spoken at home is English (58%) compared to those who speak another language at home (40%);
- Those whose highest level of education is Year 12 or below (61%) or post secondary education (e.g. trade certificate, apprenticeship, traineeship or TAFE qualification (54%), particularly in comparison to those whose highest level of education is of a post-graduate level (42%).

Apart from required non-lodgers, particular groups within the community are also more likely to disagree<sup>29</sup> the Tax Office should retain a portion of refunds of those who fail to submit a return. These include:

- Younger respondents, particularly those aged 16 – 30 years (28%) and 31 – 50 years (27%);
- Those who speak another language at home (34%) compared to those whose first and only language is English (23%);
- Community members with higher levels of education, particularly post graduate education (33%), particularly in comparison to those whose highest level of education was year 12 or below (20%); and
- Medium<sup>30</sup> (30%) and high<sup>31</sup> (28%) income respondents, particularly in comparison to low income respondents (16%).

**Table 16: Level of agreement that people who fail to lodge a tax return should have part of their refund taken by the Tax Office – profile according to demographics**

	Ref	Disagree %	Agree %
<b>GENDER</b>			
Male	a	27 <sup>b</sup>	56
Female	b	22	56
<b>AGE</b>			
16 - 30 years	c	28 <sup>c</sup>	49
31 - 50 years	d	27 <sup>c</sup>	54
51 years+	e	19	62 <sup>e</sup>
<b>STATE</b>			
QLD	f	24	58
NSW	g	21	58
VIC	h	31	51

<sup>28</sup> Rated 7-10 at Q5

<sup>29</sup> Rated 1-4 at Q5

<sup>30</sup> Household income of \$50,001 - \$80,000 per annum

<sup>31</sup> Household income of more than \$80,000 per annum

	Ref	Disagree %	Agree %
SA	i	23	57
WA	j	20	58
TAS	k	**	**
NT	l	**	**
ACT	m	**	**
<b>SPEAK LANGUAGE OTHER THAN ENGLISH</b>			
Speaks language other than English	n	34 <sup>n</sup>	40
Speak English only	o	23	58 <sup>o</sup>
Refused	p	**	**
<b>ABORIGINAL AND TORRES STRAIT ISLANDER IDENTIFICATION</b>			
Aboriginal and Torres Strait Islander	q	**	**
Other	r	25	56
Refused	s	**	**
<b>HOUSEHOLD INCOME</b>			
Low income (<\$50,000)	t	16	63 <sup>a</sup>
Medium income (\$50,001 - \$80,000)	u	30 <sup>i</sup>	52
High income (>\$80,000)	v	28 <sup>i</sup>	55
Don't know	w	32 <sup>i</sup>	43
Refused	x	25	58
<b>EDUCATION</b>			
Secondary Education (including Year 12 or below)	y	20	61 <sup>(aa)</sup>
Post Secondary Education (including trade certificate, apprenticeship, traineeship or any TAFE qualification, bachelors degree at university)	z	27	54 <sup>(aa)</sup>
Post Graduate Education (Honours degree, Masters degree or PhD)	aa	33 <sup>y</sup>	42
Refused	ab	**	**

Q5. On a scale of 1 to 10 where 1 is totally disagree and 10 is totally agree, please indicate the extent that you agree or disagree that people who fail to lodge a tax return should have part of their refund taken by the Tax Office? DO NOT READ OUT [SINGLE RESPONSE]

Base: All results incorporate the data in both Stages 1 and 2.

\*\*Sample size of this group is too small for accurate results to be obtained.

## 4.5 FOR REQUIRED NON-LODGERS: NUMBER OF RETURNS NOT LODGED, REASONS FOR NOT LODGING AND PERCEIVED RISK OF TAX OFFICE COMPLIANCE ACTION

### 4.5.1 Number of returns not lodged / lodgement history

The table below shows self-reported lodgement behaviour over the past three financial years.

Almost two thirds (62%) of required non-lodgers also failed to submit their returns in both of the preceding two financial years. On average, each required non-lodger has 2.4 returns outstanding.

**Table 17: The percentage of survey respondents who have lodged or not lodged a tax return over the past three financial years**

	Total %	a Required lodgers %	b Non-required lodgers %	c Required non-lodgers %	d Non-required non-lodgers %
<b>2006/07 financial year</b>					
Lodged	82	100	100	0	0
Did not lodge	18	0	0	100	100
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>2005/06 financial year</b>					
Lodged	80	95 <sup>bcd</sup>	83 <sup>cd</sup>	26 <sup>d</sup>	10
Did not lodge	20	5	17 <sup>a</sup>	74 <sup>ab</sup>	90 <sup>abc</sup>
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>2004/05 financial year</b>					
Lodged	79	92 <sup>bcd</sup>	72 <sup>cd</sup>	37 <sup>d</sup>	16
Did not lodge	21	8	28 <sup>a</sup>	63 <sup>ab</sup>	84 <sup>abc</sup>
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Did not lodge in any of the past 3 financial years</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>62<sup>ab</sup></b>	<b>84<sup>abc</sup></b>
<b>Average no. returns lodged</b>	<b>2.4</b>	<b>2.9<sup>bcd</sup></b>	<b>2.6<sup>cd</sup></b>	<b>.6<sup>d</sup></b>	<b>.3</b>
<b>Average no. returns NOT lodged</b>	<b>0.6</b>	<b>.1</b>	<b>.4<sup>a</sup></b>	<b>2.4<sup>ab</sup></b>	<b>2.7<sup>abc</sup></b>

S16. Did you lodge a personal tax return in the following financial years? READ OUT [SINGLE RESPONSE]

Base: Total % results based on all survey respondents in Stage 1 data collection; All results for segments except for required non-lodgers based on data also collected in Stage 1; Results for required non-lodger group based on combined data collected in Stages 1 and 2.

Looking at just the **required non-lodgers**, Table 18 below outlines the average number of returns outstanding by respondents displaying particular demographic characteristics.

Required non-lodgers aged 16-30 years and 50 years + appear to be the most prone to not lodging their returns over the past three years. The same can be said about low income required non-lodgers and those with lower levels of education – particularly those whose highest level of education is Year 12 or below, or post-secondary.

**Table 18: Number of returns outstanding by required non-lodgers – profile according to demographics**

	Ref	Did Not Lodge in 2005/06 %	Did not lodge in 2004/05 %	Average no. returns outstanding since 2004/05
<b>GENDER</b>				
Male	a	69	58	2.3
Female	b	78	68	2.5
<b>AGE</b>				
16 - 30 years	c	88 <sup>d</sup>	81 <sup>de</sup>	2.7
31 - 50 years	d	61	51	2.1
51 years+	e	81 <sup>d</sup>	69 <sup>d</sup>	2.5
<b>STATE</b>				
QLD	f	74	59	2.3
NSW	g	73	63	2.4
VIC	h	79	69	2.5
SA	i	**	**	**
WA	j	**	**	**
TAS	k	**	**	**
NT	l	**	**	**
ACT	m	**	**	**
<b>SPEAK LANGUAGE OTHER THAN ENGLISH</b>				
Speaks language other than English	n	82	75	2.6
Speak English only	o	73	62	2.3
Refused	p	**	**	**
<b>ABORIGINAL AND TORRES STRAIT ISLANDER IDENTIFICATION</b>				
Aboriginal and Torres Strait Islander	q	**	**	**
Other	r	74	63	2.4
Refused	s	**	**	**
<b>HOUSEHOLD INCOME</b>				
Low income (<\$50,000)	t	83 <sup>uv</sup>	75 <sup>uv</sup>	2.6
Medium income (\$50,001 - \$80,000)	u	62	46	2.1
High income (>\$80,000)	v	58	46	2.0
Don't know	w	80 <sup>uv</sup>	74 <sup>uv</sup>	2.5
Refused	x	78 <sup>y</sup>	65	2.4
<b>EDUCATION</b>				
Secondary Education (including Year 12 or below)	y	76 <sup>(aa)</sup>	66 <sup>(aa)</sup>	2.4
Post Secondary Education (including trade certificate, apprenticeship, traineeship or any TAFE qualification,	z	77 <sup>(aa)</sup>	66 <sup>(aa)</sup>	2.4

	Ref	Did Not Lodge in 2005/06 %	Did not lodge in 2004/05 %	Average no. returns outstanding since 2004/05
bachelors degree at university)				
Post Graduate Education (Honours degree, Masters degree or PhD)	aa	50	39	1.9

S16. Did you lodge a personal tax return in the following financial years? READ OUT [SINGLE RESPONSE]

Base: All results incorporate the data in both Stages 1 and 2.

\*\*Sample size of this group is too small for accurate results to be obtained.

#### 4.5.2 Reasons for not lodging a tax return in any of the past three financial years

The reasons for not lodging a tax return remain relatively consistent from year to year. Table 19 below summarises the reasons people gave for not lodging their tax returns over the past three financial years.

**Table 19: Reasons for not lodging a tax return in the last three financial years<sup>32</sup>**

		a	b
	Total %	Required non-lodgers %	Non-required non-lodgers %
Didn't earn enough/ Below threshold	21	20	27
Unemployed/ Not working	22	19	35 <sup>a</sup>
On a pension/ Centrelink and didn't need to	20	18	28 <sup>a</sup>
Just didn't get around to it/ Forgot/ Lazy	11	13	0
Didn't need to (no reason given)	10	10	8
Had to organise a number of different group certificates/ Not prepared	5	6	0
Didn't have time	5	6	0
Accountant hasn't finished/ got an extension	3	4	0
Had an accident/ illness	3	3	3
Living overseas	3	3	1
It is in the process of being done now	3	3	1
Usually do 2 or more years at a time	2	2	0
Other	19	22 <sup>a</sup>	3

Q1a. For what reasons did you not lodge your tax return in 2006/07? [RECORD VERBATIM]

Q1b. For what reasons did you not lodge your tax return in 2005/06? [RECORD VERBATIM]

Q1c. For what reasons did you not lodge your tax return in 2004/05? [RECORD VERBATIM]

Base: Respondents who did not submit a tax return in any of these three financial years. Total % and non-required non-lodger results based on survey respondents in Stage 1 data collection; Results for required non-lodger group based on combined data collected in Stages 1 and 2.

The most common reasons mentioned for not lodging a tax return in the past three financial years amongst the required non-lodger group included:

- Believing they didn't earn enough or were below the income threshold (20%);
- Being unemployed and not working and therefore believing there was no requirement to submit a return (19%);
- Being on a pension or receiving Centrelink payments and therefore believing there was no requirement to submit a return (18%); and
- Just didn't get around to it, forgot about it, or was too lazy (13%).

<sup>32</sup> Includes 2004/ 05, 2005/ 06 and 2006/ 07 financial years

Twenty-two percent of the reasons offered more random 'other' reasons as to why they failed to lodge. The 'other' verbatims provided in response to not lodging specifically in 2006/ 07 are listed below:

- *"I've been exempted for 20 years."*
- *"I fear the debt."*
- *"I'm against the whole thing, it's boring, and you don't get enough back. It's not worth my time. I haven't lodged it in 11 years."*
- *"I've got a phobia." x 2*
- *"I didn't put it in at the right time."*
- *"Still withholding money."*
- *"I moved states – had other priorities."*
- *"The forms for my trust fund came too late."*
- *"My accountant passed away and the papers are being sorted out currently."*
- *"I lost my group certificates."*
- *"I can't do them – too difficult."*
- *"Foul-up with Centredink who had to put in an amended payment advice. By the time they did, I was too broke to pay accountant to re-lodge affected returns and then do following."*
- *"A business tax return was lodged instead."*
- *"I stopped doing tax returns when the Tax Office sent me a bill for \$1200+ for an error that Centredink made."*
- *"Our income is below the tax threshold and our tax deductions are too small to recover without being swallowed by the cost of a tax accountant."*
- *"As my income may be shared with my spouse for taxation purposes, I did not see the requirement."*
- *"Too hard to do it on your own. Too much cost involved for an accountant. Taxation Office would not give any assistance."*
- *"It costs too much to do."*
- *"I don't really know how to go about it."*
- *"Personal difficulties that I find almost impossible to overcome, or even discuss."*
- *"I was interstate and didn't have access to my records to lodge my return."*
- *"I did lodge a tax return for my work but not from personal."*
- *"I felt that it would be a waste of time and money trying to buck the Bureaucrats."*
- *"I have lost the use of my hands - 7 operations and am now going to try + complete the missing years. Also had difficulties with an aged parent and son on drugs. There are too many important distractions that lodging tax returns don't matter."*
- *"I couldn't afford to get my tax return done"*
- *"I report my personal tax in a BAS form instead."*
- *"Too costly to lodge a tax return."*
- *"Complications with investment property."*
- *"Don't know why I didn't lodge really."*
- *"It's been too long since I did lodge a return that I just didn't this time around either."*
- *"Changing accountants."*
- *"Prefer not to answer" x 3*
- *"I am missing my group certificates plus personal problems prevented me from doing so e.g. unemployment and eviction from residence."*
- *"I still intend to lodge my return."*
- *"I missed the date as I was in Ireland and was told that I was not allowed to file one after the date had closed."*

- *“I paid no tax – I am on superannuation.”*
- *“I haven’t been able to afford the payment to HR Block.”*
- *“I sent all my papers to the tax agent and paid them for it but they never actually did it, even though they said they did. Taxation Office never received it. Lost the \$100 I paid them.”*
- *“Have been lazy + suspect I owe tax so I haven’t lodged – might come back to bite me if I do”.*
- *“You only get a return of a very small amount. It’s just not worth the effort.”*
- *“Personal reasons.”*

‘Other’ reasons for not lodging in 2005/ 04 or 2005/ 06 are very similar to that shown above.

#### **4.5.3 Reasons for not lodging a tax return in 2006/07**

A breakdown of the reasons why people fail to lodge a tax return is outlined in the following sections.

Those who failed to lodge in 2006/ 07, regardless of whether or not they were required to do so, were asked about the reasons they failed to lodge. Their verbatims were coded into themes.

Amongst required non-lodgers, the most common reasons included:

- The belief they didn’t earn enough or were below the threshold (18%);
- Being on a pension or receiving Centrelink payments and therefore believing they weren’t required to (17%); and
- Being unemployed or not working (14%).

This suggests that there may be some misconception about eligibility amongst those who didn’t lodge (i.e. they didn’t lodge because they thought they didn’t have to, even though they did). Many required non-lodgers thought that because there were certain circumstances around their finances, this meant they were exempt when in fact they weren’t. This widespread confusion about eligibility is not just isolated to those required as 30% of those not required to submit a tax return submitted one anyway for the 2006/ 07 financial year.

Other less common reasons for not lodging suggest that a smaller proportion of people knew they were required but for reasons such as laziness, lack of time, and unique personal circumstances they did not. Others still plan to submit a return for the 2006/ 07 financial year (7%).

**Table 20: Reasons for not lodging last financial year (2006/07)**

		a	b
	Total %	Required non-lodgers %	Non-required non-lodgers %
Didn't earn enough/ Below threshold	20	18	27
On a pension/ Centrelink and didn't need to	18	17	27
Unemployed/ Not working	18	14	35 <sup>a</sup>
Just didn't get around to it/ Forgot/ Lazy	10	12	0
Didn't need to (no reason given)	8	8	6
Had to organise a number of different group certificates/ Not prepared	5	5	0
Didn't have time	4	5	0
Accountant hasn't finished it/ got an extension	3	4	0
It is in the process of being done now	3	3	1
Had an accident/ illness	2	3	1
Usually do 2 or more years at a time	2	2	0
Living overseas	2	2	1
Other	10	12 <sup>b</sup>	3

Q1a. For what reasons did you not lodge your tax return in 2006/07? [RECORD VERBATIM]

Base: Respondents who did not submit a tax return in 2006/07. Total % and results for required non-lodger group based on combined data collected in Stages 1 and 2; Results for non-required non-lodgers based on data collected in Stage 1.

#### 4.5.4 Reasons for not lodging a tax return in 2005/06

Amongst those who failed to lodge a tax return for the 2005/ 06 financial year, the most common reason mentioned for not lodging in 2006/ 07 also applies – the belief that because they were unemployed or not working they did not need to lodge a tax return (18%). Other common reasons for not lodging for the 2005/ 06 financial year amongst the required non-lodger group include:

- The belief they did not earn enough or were below the income threshold (16%); and
- Being on a pension or receiving Centrelink payments therefore believing they were not required (15%).

**Table 21: Reasons for not lodging in 2005/06 financial year**

		a	b
	Total	Required non-lodgers <sup>33</sup>	Non-required non-lodgers <sup>34</sup>

<sup>33</sup> The definition of required non-lodgers is based on determined eligibility and lodgement behaviour for the 2006/ 07 financial year. It is possible that a small proportion of the required non-lodger group responses shown in this table are those belonging to people who were not required to submit a tax return for 2005/ 06. Results for the required non-lodger group in this table should therefore be used as an indicative guide only.

	%	%	%
Unemployed/ Not working	22	20	32 <sup>a</sup>
Didn't earn enough/ Below threshold	19	16	29 <sup>a</sup>
On a pension/ Centrelink and didn't need to	19	16	29 <sup>a</sup>
Didn't need to (no reason given)	9	10	6
Just didn't get around to it/ Forgot/ Lazy	4	5	0
Living overseas	3	3	2
Didn't have time	2	2	0
Had an accident/ illness	2	2	2
Other	15	19 <sup>b</sup>	2
No reason given	7	8	2

Q1b. For what reasons did you not lodge your tax return in 2005/06? [RECORD VERBATIM]

Base: Respondents who did not submit a tax return in 2006/07. Total % and results for required non-lodger group based on combined data collected in Stages 1 and 2; Results for non-required non-lodgers based on data collected in Stage 1.

#### 4.5.5 Reasons for not lodging a tax return in 2004/05

Amongst those who failed to lodge a tax return for the 2004/ 05 financial year, the most common reason amongst those who were required to do so is also the belief that because they were unemployed or not working they did not need to lodge a tax return (20%). Other common reasons for not lodging for the 2004/ 05 financial year amongst the required non-lodger group include:

- the belief they did not earn enough or were below the income threshold (16%); and
- being on a pension or receiving Centrelink payments and therefore not being required (16%).

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<sup>34</sup> The definition of non-required non-lodgers is based on determined eligibility and lodgement behaviour for the 2006/ 07 financial year. It is possible that a small proportion of the non-required non-lodger group responses shown in this table are those belonging to people who were required to submit a tax return for 2005/ 06. Results for the non-required non-lodger group in this table should therefore be used as an indicative guide only.

**Table 22: Reasons for not lodging in 2004/05 financial year**

	Total %	a Required non-lodgers <sup>35</sup> %	b Non-required non-lodgers <sup>36</sup> %
Unemployed/ Not working	22	20	32 <sup>a</sup>
Didn't earn enough/ Below threshold	19	16	29 <sup>a</sup>
On a pension/ Centrelink and didn't need to	19	16	29 <sup>a</sup>
Didn't need to (no reason given)	9	10	6
Just didn't get around to it/ Forgot/ Lazy	4	5	0
Living overseas	3	3	2
Didn't have time	2	2	0
Had an accident/ illness	2	2	2
Other	15	19 <sup>b</sup>	2
No reason given	7	8	2

Q1c. For what reasons did you not lodge your tax return in 2004/05? [RECORD VERBATIM]

Base: Respondents who did not submit a tax return in 2006/07. Total % and results for required non-lodger group based on combined data collected in Stages 1 and 2; Results for non-required non-lodgers based on data collected in Stage 1.

#### 4.5.6 Reasons for low intention to lodge a return at the end of this financial year 2007/08

Overall the most common reasons for having a low intention to lodge a return next financial year are very similar to reasons for not lodging in the past. The most common reasons overall include:

- Being unemployed or not working (30%);
- Likelihood of not earning enough or being below the threshold (28%); and
- Being on a pension or receiving Centrelink payments and therefore not required to lodge (22%).

Amongst the required non-lodger group specifically, these are also the most common reasons for a low intention to lodge in 2007/ 08 though a slightly different percentage of this group cited each. In order of most commonly cited, they are most likely to cite the following as reasons:

- Being on a pension or receiving Centrelink payments and therefore not required to lodge next financial year (24%);
- Being unemployed or not working (21%); and

<sup>35</sup> The definition of required non-lodgers is based on determined eligibility and lodgement behaviour for the 2006/ 07 financial year. As eligibility in previous financial years was unable to be determined for previous years, it is possible that a small proportion of the required non-lodger group responses shown in this table are those belonging to people who were not required to submit a tax return for 2004/ 05. Results for the required non-lodger group in this table should therefore be used as an indicative guide only.

<sup>36</sup> The definition of non-required non-lodgers is based on determined eligibility and lodgement behaviour for the 2006/ 07 financial year. It is possible that a small proportion of the non-required non-lodger group responses shown in this table are those belonging to people who were required to submit a tax return for 2004/ 05. Results for the non-required non-lodger group in this table should therefore be used as an indicative guide only.

- Likelihood of earning less than the income threshold (21%).

**Table 23: Reasons for low intention to lodge at the end of this financial year 2007/08**

		a	b	c	d
	Total %	Required lodgers** %	Non-required lodgers** %	Required non-lodgers %	Non-required non-lodgers %
Unemployed/ Not working	30	29	25	21	31
Won't earn enough/ below threshold	28	18	25	21	33
On a pension/ Centrelink and won't need to	22	18	38	24	23
Won't need to/ Told I won't need to (no reason given)	10	6	13	10	13
Won't get around to it/ Forget/ Lazy	2	6	0	0	0
Won't have time	1	0	0	1	0
Other	7	18	0	20	2
Don't know	1	12	0	3	0

Q3. For what reasons are you unlikely to lodge? [RECORD VERBATIM]

Base: Respondents who rated 1 – 6 at Q2. Total % results based on survey respondents in Stage 1 data collection; All results for segments except for required non-lodgers based on data also collected in Stage 1; Results for required non-lodger group based on combined data collected in Stages 1 and 2.

\*\*Sample sizes are particularly small – results for these groups are highly indicative and should not be relied on to extrapolate to the general population.

#### 4.5.7 Perceived risk of Tax Office compliance action

Overall the perceived risk of the Tax Office taking action if someone failed to submit a tax return is only moderately high - 52% believe this to be likely<sup>37</sup> while 20% believe this to be unlikely<sup>38</sup>.

##### **Required non-lodgers are significantly less likely to believe the Tax Office would take action.**

Compared to required lodgers, required non-lodgers were significantly more likely to cite this as being unlikely (37% c.f.18%). A significantly higher proportion of required lodgers reported this as being likely compared to required non-lodgers (56% c.f. 33%).

In addition, **required non-lodgers (15%) were significantly more likely to believe they didn't know whether the Tax Office would take action compared to required lodgers (4%)** who were much more certain the Tax Office would take action.

So whilst the perceived level of non-lodgement does not appear to impact on lodgement behaviour **there does appear to be a relationship between the perceived likelihood of the Tax Office taking action and reported lodgement behaviour.**

**Table 24: Perceived risk of Tax Office compliance action**

		a	b	c	d
	Total %	Required lodgers %	Non-required lodgers %	Required non-lodgers %	Non-required non-lodgers %
Very unlikely (1-2)	10	8	6	30 <sup>ab</sup>	16
Slightly unlikely (3-4)	10	10	22 <sup>cd</sup>	7	4
<b>UNLIKELY (1-4)</b>	<b>20</b>	<b>18</b>	<b>28</b>	<b>37<sup>ad</sup></b>	<b>20</b>
Neither likely or unlikely (5-6)	22	22	22	16	19
Slightly likely (7-8)	16	17	6	13	18
Very likely (9-10)	37	39 <sup>c</sup>	39 <sup>c</sup>	19	35 <sup>c</sup>
<b>LIKELY (7-10)</b>	<b>52</b>	<b>56<sup>c</sup></b>	<b>44</b>	<b>33</b>	<b>53<sup>c</sup></b>
Don't know	6	4	6	15 <sup>a</sup>	8
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<i>Mean</i>	6.8	7.0 <sup>f</sup>	6.6 <sup>c</sup>	5.1	6.6 <sup>c</sup>

Q6. On a scale of 1 to 10 where 1 is extremely unlikely and 10 is extremely likely, if you did not lodge a tax return, how likely or unlikely would it be that the Tax Office would take action? READ OUT [SINGLE RESPONSE]

Base: Total % results based on all survey respondents in Stage 1 data collection; All results for segments except for required non-lodgers based on data also collected in Stage 1; Results for required non-lodger group based on combined data collected in Stages 1 and 2.

Table 25 outlines the perceived risk of Tax Office compliance action amongst respondents of varying demographics.

There are very little differences according to demographic characteristics. One exception exists – older respondents are more likely to believe the Tax Office would take action. A significantly higher proportion of those aged 51 years or older cited action would be likely compared to 16 – 30 year olds (58% c.f. 43%). Significantly fewer also cited that action would be unlikely (14%).

<sup>37</sup> Rated 7 – 10 at Q6.

<sup>38</sup> Rated 1 – 4 at Q6.

**Table 25: Perceived risk of Tax Office compliance action – profile according to demographics**

	Ref	Unlikely that the Tax Office would take action %	Likely that the Tax Office would take action %
<b>GENDER</b>			
Male	a	21	53
Female	b	19	51
<b>AGE</b>			
16 - 30 years	c	27°	43
31 - 50 years	d	22°	52°
51 years+	e	14	58°
<b>STATE</b>			
QLD	f	19	51
NSW	g	23	50
VIC	h	19	49
SA	i	23	57
WA	j	14	58
TAS	k	**	**
NT	l	**	**
ACT	m	**	**
<b>SPEAK LANGUAGE OTHER THAN ENGLISH</b>			
Speaks language other than English	n	21	52
Speak English only	o	20	52
Refused	p	**	**
<b>ABORIGINAL AND TORRES STRAIT ISLANDER IDENTIFICATION</b>			
Aboriginal and Torres Strait Islander	q	**	**
Other	r	20	52
Refused	s	**	**
<b>HOUSEHOLD INCOME</b>			
Low income (<\$50,000)	t	19	52
Medium income (\$50,001 - \$80,000)	u	19	49
High income (>\$80,000)	v	24	54
Don't know	w	19	50
Refused	x	15	56
<b>EDUCATION</b>			
Secondary Education (including Year 12 or below)	y	18	53
Post Secondary Education (including trade certificate,	z	23	50

	Ref	Unlikely that the Tax Office would take action %	Likely that the Tax Office would take action %
apprenticeship, traineeship or any TAFE qualification, bachelors degree at university)			
Post Graduate Education (Honours degree, Masters degree or PhD)	aa	19	52
Refused	ab	**	**

Q6. On a scale of 1 to 10 where 1 is extremely unlikely and 10 is extremely likely, if you did not lodge a tax return, how likely or unlikely would it be that the Tax Office would take action? READ OUT [SINGLE RESPONSE]

Base: All results incorporate the data in both Stages 1 and 2.

\*\*Sample size of this group is too small for accurate results to be obtained.

## 5 TECHNICAL NOTES

### 5.1 OVERALL APPROACH TO RESEARCH

The research was split into three key stages:

1. scoping meeting between IGT stakeholders and CBSR researchers;
2. quantitative research with the members of the general population in Australia aged 16 years or older (Stage 1); and
3. a dedicated quantitative study of required non-lodgers (Stage 2).

A scoping meeting was held on Friday 2 May. This scoping meeting involved a discussion of:

- the aims and objectives of the project;
- background to the topic;
- methodology for the study; and
- a discussion of draft survey questions.

During this scoping phase, key issues regarding the study were addressed and agreement about many aspects of the survey design and implementation was obtained. The scoping phase was invaluable to ensure that the survey collected information in a way that maximised its usefulness to IGT.

### 5.2 QUANTITATIVE RESEARCH APPROACH

A Computer Assisted Telephone Interviewing (CA TI) was used to administer the survey for Stage 1. The sample for the survey was a random selection from the electronic White Pages and Random Digit Dialling. The overall sample size for the survey was 800 persons with members of the community aged 16 years or older. All members of the general community aged 16 years or older were eligible to participate regardless of their tax return lodgement behaviour.

The following sections discuss the quantitative survey methodology.

#### **Fieldwork – Stage 1**

Fieldwork for the survey was conducted by an experienced fieldwork team, who are fully accredited with Interviewer Quality Control Accreditation and have undergone training set out by these standards. A briefing, including a practice interview, was held with all interviewers and the field supervisor prior to the commencement of interviewing.

Fieldwork for Stage 1 of the survey was conducted between Tuesday 12th May and Monday 26th May 2008. Respondents to the survey were obtained in the following way:

- when someone at a selected household answered the telephone, the interviewer asked to speak to someone in the household 16 years or older (the “respondent”);
- when the respondent came to the telephone, they were asked the survey questions.

Table 26 below shows the call data for the survey.

**Table 26: Call data**

Category	Number of people
Total telephone numbers called	6661
Invalid numbers <sup>39</sup>	2120
Non-contact numbers <sup>40</sup>	240
<i>Subtotal – eligible numbers</i>	<i>4301</i>
Declined to participate (eligible)	3501
<b>Completed interviews</b>	<b>800</b>

The final response rate is the number of interviews completed as a proportion of eligible members. Thus the final response rate for the survey was  $800 / 4301 = 18.6\%$ . The average length of the survey was 7 minutes 30 seconds. Interviews ranged from 4 minutes 24 seconds to 11 minutes 22 seconds.

### Fieldwork – Stage 2

Stage 2 comprised a survey specifically with required non-lodgers. The entire purpose of Stage 2 was to ensure that between Stages 1 and 2 an adequate sample of required non-lodgers could be drawn in order to conduct robust and reliable analysis. Stage 2 therefore acted as a ‘booster’ sample for the required non-lodger group responses collected in Stage 1 – the general community survey.

Prior to commencement of Stage 1 it was expected by both CBSR and IGT that the incidence of required non-lodgers within the community would be low and most likely less than 10%. Stage 1 confirmed this – the estimated incidence of required non-lodgers in Australia was determined to be 7.9%. Because of this, CBSR and IGT agreed to undertake the dedicated survey of required non-lodgers (Stage 2) using an online survey - the low incidence of the target respondent would significantly increase the costs of a CATI methodology (as it would be significantly harder to achieve interviews in comparison to the general community survey).

The online survey was administered by CBSR utilising Colmar Brunton’s online panel. Colmar Brunton’s online panel consists of 100,000 ‘active’ panellists (i.e. undertake surveys on a regular basis) with thousands more defined as ‘inactive’ (i.e. irregularly undertake surveys). This panel is demographically and geographically representative according to ABS population figures.

### Percentages and averages

Respondents who completed a survey but did not answer a particular question are excluded from the tabulation of results and calculation of statistics for that question.

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<sup>39</sup> Includes numbers that were for businesses, mobile phones, persons who could not speak English and households without a person 16 years or older, once the quota was met.

<sup>40</sup> These are numbers where no contact could be made with the selected respondent within the survey period. At least 3 unsuccessful attempts – at different times and days – were made to contact these numbers.

Percentages are generally rounded to whole numbers. Some percentages may not add to 100 percent due to rounding.

Some survey questions asked respondents to give a rating from 1 to 10. The classification used with **likelihood** ratings was as follows:

- a rating of 1 or 2 is classified as very unlikely;
- a rating of 3 or 4 is classified as slightly unlikely;
- a rating of 5 or 6 is classified as neither likely or unlikely;
- a rating of 7 or 8 is classified as slightly likely; and
- a rating of 9 or 10 is classified as very likely.

The classification used with **agreement** ratings is as follows:

- a rating of 1 or 2 is classified as strongly disagree;
- a rating of 3 or 4 is classified as slightly disagree;
- a rating of 5 or 6 is classified as neither agree nor disagree;
- a rating of 7 or 8 is classified as slightly agree; and
- a rating of 9 or 10 is classified as strongly agree.

Average ratings are rounded to one decimal place.

Note that average ratings **cannot** be translated into percentages. For example, an average rating of 7.3 out of 10 cannot be interpreted as meaning 73% of people.

### **Sorting of results**

In all tables, rows are sorted from most frequent response to least.

### **Rounding**

Most percentages shown in this report are rounded to whole numbers for ease of readability. Some percentages may not add to 100 percent due to rounding.

The exception to this is where IGT have indicated they may wish to extrapolate the percentages into estimates of real population figures.

### 5.3 WEIGHTING

To ensure the survey results are representative of the Australian population, they were adjusted, or **weighted**, using population information from the Australian Bureau of Statistics. This is done because the sample data on its own is biased. For example, in telephone surveys typically greater proportions of females participate than males, when compared to the proportion of females in the population. Similarly, we need to adjust because approximately the same numbers of people were interviewed in each state, whereas the population of Australia is distributed unevenly by state.

What weighting does is adjust the proportions of these demographics in the sample so they are the **same** as the proportions in the wider population. For example, in the general population survey about 53.1% of the respondents to the survey were female with 46.9% being male. In the Australian population the actual figures are approximately 51.2% females and 48.8% males. In weighting the sample we ensure that the responses of females have only 51.2% influence over the total rather than **53.1%**.

The results from the general population survey (stage 1) were weighted by gender and age as the sample collected differed slightly from that within the total Australia population aged 16 years or older. The sample collected was representative of the population distribution by state and therefore the results were not required to be weighted by this variable.

The following table shows how weights for this survey were calculated and applied. Column A shows how many interviews were achieved among men and women in each age bracket. Column B shows the total male and female Australian population aged 16 years and older in each age bracket according to the Australian Bureau of Statistics 2006 Census data. Column C shows the proportion of the Australian population represented by each cell. The adjusted sample size, correcting for any disproportions in the sample, is shown in Column D. Column E shows the needed weight factor to achieve the proportionate sample shown in Column D.

**Table 27: Statistics used in weighting**

	A	B	C	D	E
	Disproportionate sample n=	Population N=	% N	Proportionate sample n=	Weight applied
Male 16 - 20 yrs	37	690,216	4.41%	35	0.95422
Male 21 - 30 yrs	65	1,308,691	8.37%	67	1.02988
Male 31 - 40 yrs	54	1,410,178	9.02%	72	1.33581
Male 41 - 50 yrs	62	1,430,936	9.15%	73	1.18057
Male 51 - 60 yrs	59	1,235,278	7.90%	63	1.07097
Male 61 - 70 yrs	53	812,820	5.20%	42	0.78448
Male 71 - 80 yrs	27	476,792	3.05%	24	0.90329
Male 81+ yrs	18	270,010	1.73%	14	0.76731
Female 16 - 20 yrs	17	659,113	4.21%	34	1.98324
Female 21 - 30 yrs	68	1,305,747	8.35%	67	0.98223
Female 31 - 40 yrs	95	1,477,343	9.45%	76	0.79547
Female 41 - 50 yrs	91	1,479,757	9.46%	76	0.83179
Female 51 - 60 yrs	76	1,251,520	8.00%	64	0.84234
Female 61 - 70 yrs	40	825,815	5.28%	42	1.05606
Female 71 - 80 yrs	26	548,058	3.50%	28	1.07824
Female 81+ yrs	12	457,331	2.92%	23	1.94946
<b>Total</b>	<b>800</b>	<b>15,639,605</b>	<b>100%</b>	<b>800</b>	

*N.B. The Australian Census of Population and Housing is the official count of population and dwellings and collects details of age, sex, and other characteristics of the population. The Census aims to measure the number and key characteristics of people in Australia on Census Night. All people in Australia on Census Night are in scope except for foreign diplomats and their families. Visitors to Australia are counted regardless of how long they have been in the country or how long they plan to stay. Australian residents not in the country on Census Night are out of scope of the Census.*

Following Stage 2, an analysis was undertaken to determine whether the characteristics of the sample collected from required non-lodgers in Stages 1 and 2 were similar. The two samples were very similar and thus when analysis of this group using the combined data was undertaken in order to derive the results specifically for this group for this report, the results are unweighted. The sample collected in Stage 1 for required non-lodgers was treated as the 'true population' and therefore the Stage 2 respondents, who were similar in characteristics, were not required to be weighted for the purpose of analysis.

However for some analysis, particularly when trying to determine whether particular demographics were influencing particular behaviours or attitudes across the total sample collected across both stages, Stage 2 data was weighted when combined with Stage 1. The combined data was weighted to ensure that the required non-lodgers only had 7.9% influence on the sample (the incidence of the determined required non-lodger group in the general community survey) in addition to the same age and gender weights applied to Stage 1. Without weighting the required non-lodger sample collected in Stage 2, the overall sample results would have been completely biased towards the perceptions and behaviours of the required non-lodgers in these instances.

## Why do researchers weight data?

The raw data from the survey is biased and therefore it would be misleading to use it as a basis of coming to an understanding about the topic at hand. For example, the sample has a greater proportion of female respondents than male respondents. As female respondents may have different activities or views than male respondents, reporting on raw data would lead to a bias towards what females do or think. Weighting the data overcomes this problem because it ensures that the results are representative of the target population.

The weighting approach adopted by Colmar Brunton Social Research is used by the ABS for its many population surveys and they always publish weighted results rather than raw data.

## 5.4 ERROR

All surveys are subject to errors. There are two main types of errors: sampling errors and non-sampling errors.

### Sampling error

The sampling error is the error that arises because not every single member of the population was included in the survey. Naturally it is simply not feasible to survey the whole population to avoid this type of error. One can, however, estimate how big this error component is, using statistical theory. This theory indicates that with a sample of 800 people from a population of 100,000 people or more, the maximum margin of sampling error on an estimate of a proportion is 3.5%.

The way this can be interpreted is as follows. The survey results estimate that 9.2% of respondents who were required to submit a tax return for 2006/ 07 financial year failed to do so. The maximum margin of error on this estimate is 3.5%. Hence, one can be 95% confident that the actual proportion of people in the population that were required to submit a tax return but failed to do so last financial year is between 5.7% and 12.7%. Another way to phrase this is: if CBSR had taken 100 samples of 1,000 people, 95 of those samples would yield an estimate of the proportion of people that were required to submit a tax return but failed to do so last financial year is between 5.7% and 12.7%. Hence, one can be very confident in our estimate of the proportion of people who were required to submit a tax return but failed to do so last financial year.

In all tables in this report, groups are compared against each other and, where possible, differences are tested for statistical significance at the 95% confidence level.

In tables, where a result is bolded in red this indicates that this score is significantly higher than others. The subscript beside that score indicates which group the score is significantly higher than. For example a score of **28<sup>ab</sup>** indicates that this score of 28% is significantly higher than the scores in column a and b.

## **Non-sampling error**

All surveys, regardless of whether they are samples or censuses, are subject to other types of error called non-sampling error. Non-sampling error includes things like interviewer keying errors and respondents misunderstanding a question.

Every attempt has been made to minimise the non-sampling error in this study. For example, use of Computer Assisted Telephone Interviewing (CATI) reduces the number of keying errors and ensures interviewers ask the right questions. However, some types of error are out of the control of the researcher. In particular, the study is reliant on accurate reporting of behaviours and views by respondents. For example, a respondent may forget that they played tennis nine months ago and fail to report this activity.

## 8 APPENDIX D: SAMPLE PROFILE

**Table 28: Gender**

	Total	%	a Required lodgers %	b Non-required lodgers %	c Required non-lodgers %	d Non-required non-lodgers %
Male	47		50	33	42	37
Female	53		50	67	58	63
<b>TOTAL</b>	<b>100</b>		<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Sample size (n)	800		622	36	382	79

**Table 29: Age**

	Total	%	a Required lodgers %	b Non-required lodgers %	c Required non-lodgers %	d Non-required non-lodgers %
16 - 20 years	7		5	14	5	14 <sup>ac</sup>
21 - 30 years	17		18	17	13	9
31 - 40 years	19		19	25	21 <sup>d</sup>	8
41 - 50 years	19		21	6	21	10
51 - 60 years	17		19	3	18	10
61 - 70 years	12		11	17	18 <sup>a</sup>	14
71 - 80 years	7		5	14 <sup>c</sup>	3	20 <sup>ac</sup>
81+ years	4		2	6 <sup>c</sup>	1	15 <sup>ac</sup>
<b>TOTAL</b>	<b>100</b>		<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Sample size (n)	800		622	36	382	79

**Table 30: State**

	Total	%	a Required lodgers %	b Non-required lodgers %	c Required non-lodgers %	d Non-required non-lodgers %
QLD	20		18	31	22	32 <sup>a</sup>
NSW	34		36	22	31	25
VIC	22		22	19	30 <sup>a**</sup>	22
SA	8		9	6	7	5
WA	10		10	17	8	8
TAS	3		3	3	1	6 <sup>c</sup>
NT	1		1	3	0	0
ACT	3		3	0	1	3
<b>TOTAL</b>	<b>100</b>		<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Sample size (n)	800		622	36	382	79

\*\*Note: It is possible that the statistically significant difference between required lodgers and required non-lodgers in Victoria is due to the nature of the sample. The Stage 2 sample of required non-lodgers was slightly skewed towards the Victorian population in comparison to the Stage 1 sample of the general Australian community. CBSR advise IGT not to report that required non-lodgers are more likely to be located in Victoria.

**Table 31: Location**

	Total	%	a Required lodgers %	b Non-required lodgers %	c Required non-lodgers %	d Non-required non-lodgers %
Brisbane	8		7	8	11	10
QLD other than Brisbane	12		11	22	11	22 <sup>a</sup>
Sydney	15		16	3	16	9
NSW other than Sydney	20		20	19	15	16
Melbourne	13		13	17	24 <sup>a</sup>	14
VIC other than Melbourne	8		9	3	6	8
Adelaide	4		4	6	6	3
SA other than Adelaide	4		5 <sup>c</sup>	0	1	3
Perth	6		7	0	5	4
WA other than Perth	4		3	17 <sup>ac</sup>	2	4
Hobart	1		1	0	0	1
TAS other than Hobart	2		1	3	1	5
Darwin	1		1	3	0	0
NT other than Darwin	0		0	0	0	0
ACT	3		3	0	1	3
<b>TOTAL</b>	<b>100</b>		<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Sample size (n)	800		622	36	382	79

\*\*Note: It is possible that the statistically significant difference between required lodgers and required non-lodgers in Melbourne is due to the nature of the sample. The Stage 2 sample of required non-lodgers was slightly skewed towards the Melbourne population in comparison to the Stage 1 sample of the general Australian community. CBSR advise IGT not to report that required non-lodgers are more likely to be located in Melbourne.

**Table 32: Speak language other than English**

	Total %	a Required lodgers %	b Non-required lodgers %	c Required non-lodgers %	d Non-required non-lodgers %
Speaks language other than English	10	12	6	10	5
Speak English only	90	88	94	89	95
Refused	0	0	0	1	0
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Sample size (n)	800	622	36	382	79

**Table 33: Aboriginal and Torres Strait Islander Identification**

	Total %	a Required lodgers %	b Non-required lodgers %	c Required non-lodgers %	d Non-required non-lodgers %
Aboriginal and Torres Strait Islander	1	1	6 <sup>a</sup>	1	1
Other	99	99 <sup>b</sup>	92	98	99
Refused	0	0	3	1	0
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Sample size (n)	800	622	36	382	79

**Table 34: Household annual income - summary**

	Total %	a Required lodgers %	b Non-required lodgers %	c Required non-lodgers %	d Non-required non-lodgers %
Low income (<\$50,000)	32	27	50 <sup>a</sup>	46 <sup>a</sup>	65 <sup>ac</sup>
Medium income (\$50,001 - \$80,000)	18	20 <sup>d</sup>	8	17 <sup>d</sup>	5
High income (>\$80,000)	31	35 <sup>bcd</sup>	8	18	11
Don't know	11	9	22	10	14
Refused	9	9	11	9	5
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Sample size (n)	800	622	36	382	79

**Table 35: Household annual income – detailed breakdown**

	Total	%	a Required lodgers %	b Non-required lodgers %	c Required non-lodgers %	d Non-required non-lodgers %
\$40,000 or less	24		18	39 <sup>a</sup>	40 <sup>a</sup>	62 <sup>ac</sup>
\$40,001 - \$50,000	8		9	11	6	3
\$50,001 - \$60,000	7		7	3	8	1
\$60,001 - \$70,000	6		7	0	6	4
\$70,001 - \$80,000	5		6 <sup>c</sup>	6	3	0
\$80,001 - \$90,000	6		6	0	5	0
\$90,001 - \$100,000	4		5	3	3	3
\$100,001 or more	21		24 <sup>cd</sup>	6	10	9
Don't know	11		9	22	10	14
Refused	9		9	11	9	5
<b>TOTAL</b>	<b>100</b>		<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Sample size (n)	800		622	36	382	79

**Table 36: Highest educational qualification**

	Total	%	a Required lodgers %	b Non-required lodgers %	c Required non-lodgers %	d Non-required non-lodgers %
Secondary Education (including Year 12 or below)	48		43	61	46	73 <sup>ac</sup>
Post Secondary Education (including trade certificate, apprenticeship, traineeship or any TAFE qualification, bachelors degree at university)	38		41 <sup>d</sup>	31	43 <sup>d</sup>	24
Post Graduate Education (Honours degree, Masters degree or PhD)	15		16 <sup>cd</sup>	8	10	3
Refused	0		0	0	1	0
<b>TOTAL</b>	<b>100</b>		<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Sample size (n)	800		622	36	382	79

*This document takes into account the particular instructions and requirements of our Client. It is not intended for and should not be relied upon by any third party and no responsibility is undertaken to any third party.*

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# APPENDIX 4: TAX OFFICE ANALYSIS OF THE LEVEL OF NON-LODGEMENT IN AUSTRALIA

ATO MINUTE	IGT06-LODG-2008	7 AUGUST 2008	<b>IN CONFIDENCE</b>
FORMAT	MINUTE NO.	ISSUE DATE	CLASSIFICATION



**Australian Government**  
**Australian Taxation Office**

## ATO MINUTE TO THE INSPECTOR-GENERAL OF TAXATION

FILE REF: [FILE NO.]

TO:	Rick Matthews, Deputy Inspector-General of Taxation
COPIES TO:	Peter Glass, Advisor, Inspector-General of Taxation James O'Halloran, Deputy Commissioner, Tax Practitioner and Lodgment Strategy Bruce Thompson, Assistant Commissioner, Tax Practitioner and Lodgment Strategy Ian Fargher, Assistant Commissioner, Tax Practitioner and Lodgment Strategy

FROM:	James O'Halloran, Deputy Commissioner	
BUSINESS LINE:	Tax Practitioner and Lodgment Strategy	SECTION:
CONTACT OFFICER:	Graeme Browne	CONTACT PHONE: (08) 7422 2772
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IGT REVIEW:	Non Lodgment of Income Tax Returns	

CATEGORY:	<input type="radio"/> Information relating to proposed IGT Review <input type="radio"/> Information relating to current IGT Review <input type="radio"/> Provision of general information
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ISSUE DATE:	07 August 2008	RESPONSE DATE:
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SUBJECT:	Individual Market Segment Analysis
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## PURPOSE OF PAPER

1. Provide a view of the Individual market segment potential non lodgment population.

## BACKGROUND

2. There are currently over 31 million entities registered for a tax file number on the Tax Office Client Register, including:
  - 23.6 million individuals,
  - 2.5 million companies,
  - 2.2 million partnerships,
  - 1.9 million trusts and
  - 750 thousand superannuation funds.
3. Registration for a tax file number does not equate to an obligation to lodge an income tax return. Similarly, where a registered entity has an income tax obligation in any year it does not indicate an obligation to lodge in prior or subsequent years. Entities may only need to lodge income tax returns infrequently, depending upon their individual circumstances.
4. The Income Tax Rates Act 1986 and the Income Tax Act 1986 together declare and impose income tax on all categories of taxpayers. The annual income tax return is the vehicle by which taxpayers meet their lodgment obligations against these and other Acts (eg The Medicare Levy Act 1986).
5. Annually the Commissioner of Taxation issues a Legislative Instrument <sup>1</sup> calling for lodgment of income tax returns. The instrument sets due dates and also states relevant thresholds and circumstances under which an individual is required to lodge an income tax return.
6. Under the system of self assessment, taxpayers are required to self determine under the Legislative Instrument whether they have an obligation to lodge, but they do not have to advise the Tax Office where they have determined that their circumstances do not require them to lodge an income tax return. Consequently, where a taxpayer's income tax record shows that an income tax return has not been received for a particular year, it does not necessarily mean that there is an obligation to lodge.
7. The Inspector-General of Taxation is currently conducting a review into the non-lodgment of income tax returns. Three formal meetings have been held with the Inspector General of Taxation on the 13<sup>th</sup> December 2007, the 13<sup>th</sup> March 2008 and the 5<sup>th</sup> June 2008.
8. At the meeting on the 13<sup>th</sup> of December, a split of the client register by market segment categorised as 'active' or 'inactive' according to entity type and number of potentially outstanding returns was provided. The "Active" population have one or more income tax returns that have not yet been received but do not necessarily equate to the *actual* number of outstanding lodgments.

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<sup>1</sup> <http://atolaw/view.htm?DocID=OPS/TPAL2007001/00001>

9. At a meeting held in Canberra on the 13<sup>th</sup> of March 2008, the Deputy Inspector-General of Taxation requested that the Tax Office develop a view of the client register, to better identify those with a potential lodgment obligation.
10. It was agreed that the initial view should focus on individual taxpayers within the Individual market segment for whom the Tax Office were yet to receive one or more income tax returns.
11. A draft of this view was provided at the meeting held on the 5<sup>th</sup> June 2008.
12. It was requested that further analysis should concentrate on those taxpayers categorised in the initial draft of the paper as the “Filtered Population” for whom an income tax return for the 2005/ 06 year had yet to be received. Refer to *attachment A* for the fuller analysis.

## METHODOLOGY

13. The draft view provided at the meeting of 5<sup>th</sup> June 2008 segmented the target population into clusters of clients with similar characteristics.
14. This paper provides a more refined view of the Filtered Population for whom we have yet to receive a 2005/ 06 income tax return.

## TERMINOLOGY

### Base Population

15. The base population used for this analysis was individual taxpayers categorised as “Active” within the Individual market segment for whom the Tax Office were yet to receive one or more income tax returns (relating to 6.27 million tax file numbers).  
*NB: It is recognised that this number represents the base population at a particular point in time only, and it is expected that this base population figure will change over time*

### Filtered Population

16. The ‘base population’ was initially filtered according to the level of information (potential indicators of a lodgment obligation) held in the Tax Office (from both internal and external sources).
17. The *initial criteria* used to filter the population were:
  - Deceased indicator<sup>2</sup> (now deleted from the analysis)
  - Overseas indicator<sup>3</sup>
  - Child Support Agency indicator<sup>4</sup>
  - Senior Australian Tax Offset (SA TO) eligibility indicator<sup>5</sup>

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<sup>2</sup> These taxpayers should be classified as “Inactive”, and have been removed from this analysis.

<sup>3</sup> A taxpayer has an ‘overseas’ indicator where the current address on file is an overseas address.

<sup>4</sup> This information is provided by the Child Support Agency for their clients currently recorded as CSA payers.

<sup>5</sup> A taxpayer has a SA TO indicator if, from the information available, they met all of the relevant conditions. The conditions relate to an age test, eligibility for Commonwealth age pension or similar type payments

- Centrelink indicator<sup>6</sup>
- Payment Summary Statements (PSS) available<sup>7</sup>
- Annual Investment Income Report (income greater than zero)<sup>8</sup>

18. These criteria provide information about the client, including potential income received. All clients which had at least one of the initial filtering criteria were categorised as the 'filtered population'. *NB: The existence of one or more of these criteria however does not of itself indicate that a lodgment obligation exists. For example, an annual investment income report indicator only, where the income reported is less than \$100 points to no obligation to lodge*

#### Residual Population

19. All taxpayers that did not have any of the above initial filtering criteria were categorised as the 'residual population'.

### SUMMARY

20. Not all registered entities have an annual obligation to lodge income tax returns. Obligation to lodge is based on an assessment by a taxpayer of their circumstances in accordance with the Lodgment Instrument.
21. The majority of taxpayers who need to lodge income tax returns voluntarily meet their lodgment obligations. The Tax Office's Business Model, as outlined in our Strategic Statement 2006-10 sets out how we will conduct our business. Consistent with this Business Model, our corporate lodgment strategies use a balance of educational and compliance activities to improve taxpayers understanding of their lodgment obligations, and subsequently manage those who do not meet their obligations.
22. The Tax Office recognises the important role played by Tax Agents in the administration of the taxation system and especially their role in the lodgment of income tax returns (accounting for approximately three quarters of all income tax returns lodged annually).
23. The Lodgment Working Group, involving representatives from the Tax Office, Tax Agents and professional associations, is one avenue that allows the Tax Office to work with the profession in a collaborative nature. Meeting regularly, the forum discusses relevant lodgment issues. The primary example is the annual Lodgment Program, which allows a series of concessional lodgment due dates for tax agent prepared returns and statements, and which is co-designed in consultation with this group.
24. The Tax Office is conscious of the potential risk to revenue and also community confidence in the taxation system and consequent impact on future voluntary compliance where taxpayers do not meet their income tax lodgment obligations.
25. The Tax Office uses differentiated, risk based treatments to prioritise our lodgment compliance activities. Risks considered include:

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from the Department of Veterans' Affairs, taxable income thresholds and whether the taxpayer has been in jail for the income year.

<sup>6</sup> This information is provided by Centrelink for clients registered for benefits during the 2005/ 06 year.

<sup>7</sup> A taxpayer has been reported on a payment summary statement as having tax withheld from earnings. PSS data for the 2005/ 06 year only has been included in this analysis.

<sup>8</sup> A taxpayer has been included on an Annual Investment Income Report on as having received reportable earnings. AIIR data for the 2005/ 06 year only has been included in this analysis.

- the risk to revenue,
- the risk to community confidence, and
- the risk to the integrity of the tax system.

26. In accordance with the Inspector-General of Taxation request, the attachment to this paper provides a view of individual taxpayers within the Individual market segment, concentrating on those taxpayers categorised as the “Filtered Population” for whom an income tax return for the 2005/ 06 year has yet to be received.

## **ANALYSIS OF THE INDIVIDUAL MARKET FOR INSPECTOR GENERAL OF TAXATION**

### **1.0 Updating in Base Population figures (as per figures provided at meeting of 5<sup>th</sup> June 2008)**

As discussed at the meeting on the 5<sup>th</sup> June 2008, there had been a move in the population figures that were originally provided to the Inspector-General of Taxation at the 13<sup>th</sup> December meeting. Details of these shifts as at the end of March 2008 can be summarised as:

- A decrease of over 1.05 million (from 7.32 million to 6.27 million) to the overall number of clients with one or more income tax returns not yet received.
- A corresponding increase of over 711,000 clients (from 7.48 million to 8.19 million) to the “Nil outstanding” category (eg due to late lodgments received either voluntarily or as a result of compliance action undertaken by the Tax Office).
- A decrease of 337,000 (from 14.8 million to 14.465 million) in the overall “Active” population of individual taxpayers in the Individual market segment.  
NB: This can be attributed to a number of reasons including the movement of taxpayers across market segments (eg from individuals segment to the micro business segment), as well as a shift from being categorised from an Active to an Inactive taxpayer (eg due to the taxpayer having an “Further Returns Not Necessary” indicator input on their file, or the taxpayer being insolvent).

### **2.0 Stratification**

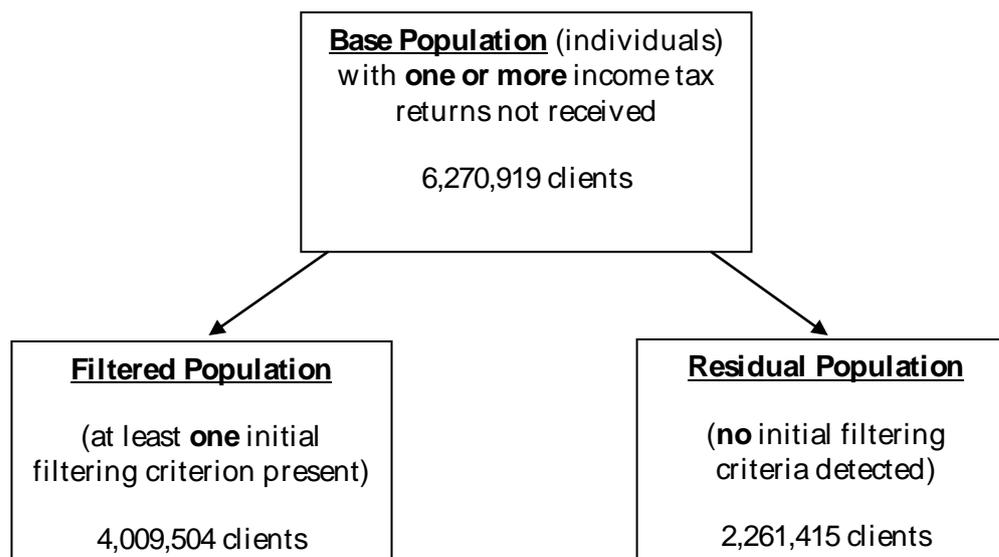
As outlined on page 3 of this paper, the base population was filtered according to a number of *initial filtering criteria*. (NB: The existence of one or more of these criteria does not of itself indicate that a lodgment obligation exists)

Table 1 and Figure 1 (below) provide details of this initial segmentation of the population, into those with at least one of the initial filtering criteria (ie the Filtered Population) and those without any of the criteria (the Residual population).

**Table 1: Taxpayer counts for the selected characteristics (figures as at 30 March 2008)**

Initial Filtering Criteria	Taxpayer Count with this criteria	Number of taxpayers without any of the criteria in the above rows <sup>9</sup>	Residual Population
1 or more ITRs not received	6,270,919		6,270,919
Deceased indicator	12,141	12,141	6,258,778
Overseas indicator	91,459	91,451	6,167,327
CSA Indicator	367,031	365,112	5,802,215
SATO	93,944	90,189	5,712,026
Centrelink indicator	1,342,770	1,068,811	4,643,215
PSS	2,586,212	1,803,716	2,839,499
AIRR	1,789,910	578,084	2,261,415

**Figure 1: Segmentation of the Individual Population with Not Yet Received Lodgments**



As previously stated, the ‘base population’ relates to individual taxpayers categorised as “Active” within the Individual market segment for whom the Tax Office are yet to receive one or more income tax returns. Figures shown in this paper do not equate to the number of outstanding lodgments.

<sup>9</sup> As taxpayers may have more than one of these criteria we have ensured that they are only counted once for the purposes of reducing the population. Each entry corresponds to the number of taxpayers with each criterion, less the number of taxpayers who have other criteria already considered in the previous rows of the table. For example, the entry for CSA taxpayers consists of those CSA taxpayers who are neither deceased nor overseas as these would have already been accounted for in the previous rows.

### **3.0 Breakdown of Base population into Filtered and Residual Populations**

At the meeting of the 5<sup>th</sup> June 2008, the Deputy Inspector-General of Taxation stated that, rather than keep progressing the refinement of this client view over time, he wanted to lock in some numbers. Recognising that the client population view changed over time, it was proposed (and agreed) that the March 2008 figures as used in the paper be accepted as the final figures to be analysed as part of the current review.

Initial discussion centred on Table 1, as shown above, which highlighted that of a base population of 6.27 million individual taxpayers with one or more income tax returns yet to be received, that just over 4 million had at least one initial filtering criterion present for the 2005/ 06 income tax year.

The Deputy Inspector-General of Taxation explained that he wanted to get the Tax Office's perspective of the number of individuals who should be lodging income tax returns. He considered that five of the seven initial filtering criteria shown in Table 1 were potential indicators of a lodgment obligation, and that this was more likely where there were multiple indicators present. He requested that future analysis concentrated on the 4 million taxpayers categorised as the "Filtered population" in the draft paper and accordingly a view was to be established as to how many of these 4 million taxpayers had an expected obligation to lodge income tax returns.

It was noted by the Tax Office that many of the 4 million taxpayers may have some level of income but have self assessed that they did not have an obligation to lodge and so didn't. Further, they are not obliged to inform the Tax Office where they had formed this opinion.

It was further noted that the Tax Office, by necessity with the volumes of taxpayers and taxpayer information, can not count down to the last person with an expected lodgment obligation. Rather the Tax Office looked at areas of potential risk, and how they were responding to this. The Tax Office's risk framework to address non lodgment of income tax returns includes using matching of specific data sets and also the use of predictive analytical models.

Of the 4 million "Filtered population", 2.3 million (or approximately 60% of the total) had to 30 March 2008 finalised their 2005/ 06 income tax lodgment obligations. After further discussion, it was agreed that the Tax Office would focus on providing a breakdown of the 1.7 million taxpayers of the "Filtered Population" from whom we had yet to receive a 2005/ 06 income tax return.

#### **Updated data**

Accordingly, this paper focuses on the 1,715,083 Individual entities of the Filtered Population for which we are yet to receive a 2005/ 06 income tax return. After removing those that should have been excluded from the initial population (eg Deceased) and those for whom the 2005/ 6 income tax return has since been finalised (eg either lodged or not necessary), there are just over 1.63 million Individuals remaining (Table 2 below).

**Table 2: Filtered Population where the 2005/06 income tax return is yet to be received**

Characteristic	Client Count with this characteristic	Number of clients without the previous characteristics	Residual Population
2005/ 06 ITR not yet received (as at 30 Mar 08)	<b>1,715,083</b>		1,715,083
2005/ 06 ITR now finalised (lodged or not necessary) or categorised as Inactive (eg Deceased) as at 23 July 2008.	84,731		<b>1,630,352</b>
Overseas	85,403	85,403	1,544,949
CSA Payers	235,663	235,663	1,309,286
SATO	56,262	54,957	<b>1,254,329</b>
Centrelink	596,482	426,016	828,313
PSS	717,805	458,006	370,307
AIRR	732,216	370,307	0

#### 4.0 Assessing the risk of a lodgment obligation for the 2005/06 income tax return

Further analysis of Table 2 above shows:

##### 4.1 Taxpayers with an overseas address

The 85,000 taxpayers shown as being overseas are either non residents living outside of Australia or residents who have moved permanently overseas. By itself this is not an indication as to whether the person has an obligation to lodge income tax returns in Australia. This will instead be determined according to their sources and level of income earned either within or outside Australia.

Of the 85,000 taxpayers with an overseas address:

- 53,000 (62%) are recorded as Australian residents.
- Only 8,200 (9.6%) have been identified as either being a CSA payer or having had an amount withheld from a payment received from within Australia.
- Our experience is that only a small percentage of these taxpayers have a requirement to lodge.

Where someone resides offshore, we would generally only pursue lodgment for these taxpayers where we have specific information. Accordingly, these taxpayers have been excluded from the analysis in this paper.

#### 4.2 Child Support Agency (CSA) Payers

All 235,000 of these taxpayers have a legislative requirement to lodge, however many do not comply with this. Reasons for not lodging include:

- There are often highly emotive issues involved, often connected with family breakups.
- 42% (100,000) have estimated assessable income of less than the \$6,000 threshold.
- After accounting for amounts withheld, approximately 93% (219,000) are estimated to result in either a nil or a credit assessment (ie refund).
- For any taxpayers entitled to refunds these will be intercepted by the Tax Office against their CSA obligations.

Accordingly, the majority of these taxpayers are considered to be low risk.

The Tax Office has a Memorandum of Understanding (MOU) with the Child Support Agency, whereby we receive specific funding to undertake lodgment compliance activities against CSA clients as nominated by the Agency. Under the MOU the Tax Office has agreed to annually prioritise lodgment compliance action against 125,000 CSA clients as nominated by the Child Support Agency as their highest risk clients.

To reflect the work underway we can advise that 78,000 (33%) taxpayers of the total 235,000 population included in this analysis have been contacted as part of targeted lodgment compliance activities during the 2007/ 08 year. Further work on this population will continue in the 2008-09 year. In addition to these MOU referrals, this population will also receive lodgment compliance activity where identified as high risk.

In terms of the finalised lodgment cases we can advise that we have recently completed the second year of this MOU and to date have actioned over 250,000 cases (including individuals in business). Results of this targeted lodgment compliance activity have been the finalisation of over 211,000 income tax lodgments, raising a net credit amount of \$20.5 million. Over \$36 million has also been intercepted to meet child support obligations. This has exceeded original estimates, and consequently the CSA are looking at negotiating an extension of this strategy beyond 2010 (the end date of the current MOU).

#### 4.3 Senior Australians Tax Offset (SA TO)

Certain low income aged persons, both pensioners and self funded retirees are entitled to a special additional tax offset, generally referred to as the "Senior Australians Tax Offset" (SA TO).

Accordingly, by design most of these taxpayers eligible for this tax offset should not have to pay taxation, and so consequently the 55,000 taxpayers in this category have also been excluded from further analysis in this paper

#### 4.4 Summary of resultant population

For reasons stated above, after excluding those taxpayers either with an overseas address, with Child support obligations or eligible for the Senior Australians Tax Offset, the revised population of taxpayers to be further analysed is **1,254,000** (refer Table 2).

#### 4.5 Analysis of the lodgment risk for the remaining population of 1,254,000

The focus population of 1,254,000 taxpayers all have at least one dollar of income for the 2005/ 06 year disclosed to the Tax Office in the following data sources; the Annual Investment Income Report (AIIR), Centrelink data and Payment Summary Statements (PSS).

It should be noted that the income estimates established may be affected by many factors for example data integrity issues (eg incorrect details as contained in one of the externally obtained data bases used), as well as a multitude of other factors that can affect the true assessable income level but which have not been considered in this analysis, including:

- Rebates available, including Private Health Insurance Rebate
- Family Tax Benefits
- Any eligible work related deductions
- Income from other sources

The 1,254,000 taxpayers can be further broken down by:

- 370,000 (30%) only have AIIIR income
- 268,000 (21%) only have PSS income
- 214,000 (17%) only have Centrelink income
- Remaining 402,000 (32%) have a combination of two or more sources of income.

705,000 (56%) taxpayers have some amount withheld for the 2005/ 06 year, whilst the balance of 549,000 (44%) taxpayers have no amounts withheld.

Generally, under the Legislative Instrument, the Commissioner of Taxation requires individuals whom have had an amount withheld from payments or an amount paid to the Commissioner of Taxation under the Pay As You Go (PAYG) withholding system to lodge an income tax return for the relevant year of income.

However, although there may be a legislative requirement for a taxpayer to lodge an income tax return, many taxpayers still make a judgement as to whether for them it is worthwhile lodging. For example many taxpayers who have low levels of income may either not be aware of the need to lodge (especially where only minimal withholding has occurred), or may not considering it worthwhile to lodge their income tax return to get a refund of less than a certain amount (the dollar amount of which will be dependent upon the individual).

#### 4.6 Taxpayers with evidence of greater than \$1 withholding for the 2005/ 06 year

Further analysis of the 705,000 (56%) taxpayers that have had an amount of greater than \$1 withheld for the 2005/ 06 year:

- 34% (242,000) had only income from Payment Summary Statements data – and so could be expected to have been taxed appropriately through the PAYG system.
- After accounting for amounts withheld, approximately 81% (572,000) were estimated to result in either a nil or a credit assessment (ie a refund). (NB: This was without considering allowable deductions, rebates and tax offsets which would increase this number).
- Accordingly, the majority of these taxpayers are considered to be low risk, and many may have self determined that regardless of their lodgment obligation it was not worthwhile lodging an income tax return. NB: The Tax Office has provided a number of initiatives (eg E-tax, pre-filling) to make it easier and cheaper for taxpayers to be able to meet their lodgment obligations. The use of these products continues to grow, and offers an effective alternative for taxpayers who may not be able to afford the financial costs associated with tax agent services.
- To reflect the work in course we can advise that during 2007/ 08 87,000 (12.4%) of these taxpayers have lodgment compliance action taken to pursue the outstanding income tax returns. Further work on this population will continue in 2008-09.

#### 4.7 Taxpayers with no evidence of having amounts withheld for the 2005/ 06 year

Further analysis of the remaining 550,000 (44% of the focus population) taxpayers with no evidence of having any amounts withheld for the 2005/ 06 year:

- 58% (320,000) have estimated assessable income of less than the \$6,000 threshold
- 47% (257,000) had only income from investments (per AIIR data)
- 36.5% (200,000) had only income from Centrelink.
- 5% (26,000) had only income from PSS.
- Only 1.3% (7,300) of this category of taxpayers are estimated to have an assessable income of over \$25,000. As previously stated, these would be further reduced by entitlement to deductions, rebates etc. As part of our lodgment compliance workloads the higher level of income is a factor in determining priority for case selection.
- 95% (523,000) were estimated to result in a nil assessment for the 2005/ 06 year.
- Accordingly, the majority of these taxpayers are considered to be low risk, and many may have self determined that they had no lodgment obligation but just not informed the Tax Office of this fact.
- The relative risk for this category of taxpayer is lower than others such as business taxpayers.
- To reflect work in course we can advise that during 2007/ 08 39,000 (8.9%) of these taxpayers have lodgment compliance action taken to pursue the outstanding income tax return. Further work on this population will continue in 2008-09.

#### 4.8 Summary

This paper has analysed the 1.7 million taxpayers (as at 30 March 2008) of the "Filtered Population" from whom we had yet to receive a 2005/ 06 income tax return.

Of the 1.7 million taxpayers (as per figures contained in Table 2):

- Shift in overall target population for whom the Tax Office has yet to receive a 2005/ 06 income tax return.  
Since the March data was provided (as at 23<sup>rd</sup> July 2008), 85,000 taxpayers had either finalised their 2005/ 06 income tax obligation (lodged or not necessary) or are now categorised as Inactive (eg Deceased).
- 85,000 resided overseas:  
This is not by itself an indication of a lodgment obligation. Information held within the Tax Office indicates that approximately 8,200 may have an obligation to lodge due to being either a CSA Payer or having an amount withheld from a payment received from within Australia. We generally only pursue lodgment for these taxpayers where we have specific information.
- 235,000 were CSA payers:  
As such they have an obligation to lodge an income tax return for the 2005/ 06 year. Recent changes to CSA legislation will change the obligation to lodge in future years.
- 55,000 were eligible for the Senior Australian Taxation Offset (SA TO):  
This is not by itself an indication of no lodgment obligation, but generally these taxpayers should not have an obligation to lodge.

Of the remaining 1,254,000 taxpayers:

- 705,000 taxpayers had a lodgment obligation under the Legislative Instrument guidelines, as they had an amount withheld during the 2005/ 06 year.

- 241,000 (19.2%) taxpayers are estimated to have an assessable income of greater than \$25,000 (NB: Estimated assessable income does not consider potential work related expenses that may be allowable, and which would consequently reduce the estimation).
- 1.097 million (87.7%) taxpayers are estimated to have either a nil (524,000) or a credit assessment (573,000). Where allowable deductions, rebates and tax offsets are taken into account, both these numbers would increase.
- Our corporate lodgment strategies use a balance of educational and compliance activities to improve taxpayers understanding of their lodgment obligations, and subsequently manage those who do not meet their obligations.
- The vast majority of the focus population is considered to be relatively low risk. Many of the taxpayers appear to have made a considered determination as to whether they need (or want) to lodge an income tax return.
- We select cases for lodgment compliance action based on an assessment of their relevant risk – beyond this population this includes balancing decisions with business taxpayers' income tax returns and other forms such as activity statements with significantly higher risk.
- During 2007/ 08, we undertook lodgment compliance activity for over 136,000 (11%) of the taxpayers included in this population. Further work on this population will continue in 2008-09.



## APPENDIX 5: ABBREVIATIONS

AAT	Administrative Appeals Tribunal
AGS	Australian Government Solicitor
ANAO	Australian National Audit Office
ATO	Australian Taxation Office
AUSTRAC	Australian Transaction Reports and Analysis Centre
CDPP	Commonwealth Director of Public Prosecutions
CoE	Centre of Excellence
Commissioner	Commissioner of Taxation
FBT	Fringe Benefits Tax
FBTAA	<i>Fringe Benefits Tax Assessment Act 1986</i>
FTL	Failing to Lodge
GIC	General Interest Charge
GST	Goods and Services Tax
HOTSA	Health of the System Assessment
HWI	High Wealth Individual
IGT	Inspector-General of Taxation
IGT Act	<i>Inspector-General of Taxation Act 2003</i>
IHP	In House Prosecution unit
Inspector-General	Inspector-General of Taxation
ITAA 1936	<i>Income Tax Assessment Act 1936</i>
ITAA 1997	<i>Income Tax Assessment Act 1997</i>
JCPAA	Joint Committee of Public Accounts
LBandI	Large Business and International
MEandI	Micro Enterprises and Individuals
MOU	Memorandum of Understanding
PS	Practice Statement
PSLA	Practice Statement Law Administration
PTI	Priority Technical Issue
RMS	Receivables Management System

ROSA	Report on Aspects of Income Tax Self Assessment
SB	Small Business
SME	Small to Medium Enterprise
SNC	Serious Non Compliance
TAA 1953	<i>Taxation Administration Act 1953</i>
Tax Office	Australian Taxation Office
TPALS	Tax Practitioner And Lodgement Strategy