

REVENUE COLLECTION

RELIANCE ON PAYG AND GST

INEFFICIENCIES RESULT IN DISTORTED RESULTS DUE TO TAX

EVASION

Attribution:

Australian Bureau of Statistics: 5220.0 Australian National Accounts: State Accounts 2012-13

Australian Government Australian Taxation Office: Commissioner of Taxation Annual Report 2011-12 and Annual Report 2012-13 – Revenue Collection

INTRODUCTION GENERAL POINTS

It has been stated that the Government's goal is to deliver lower, simpler, fairer taxes. This submission broadly examines what are perceived to be major obstacles severely restricting the achievement of this goal at income tax and the GST levels, particularly at the individual and the individual business levels.

The Australian Taxation Office claims success using data matching and other methods to detect evasion. One such method is to find business taxpayers that fall outside established criteria for the particular type of business. Whilst having some success, this technique would not detect a canny operator who would have little trouble arranging affairs so as to fit within

say, a bell curve; thus escaping attention being directed towards the business. Falsification of business records facilitates this type of evasion.

A good system of taxation compliance would allow honest taxpayers to suffer minimum disruption in conducting their tax affairs whilst at the same time making it easier to identify and prosecute tax evaders.

EVASION AT INDIVIDUAL LEVEL

It is a widespread practice in many countries, that thriving cash economies are not fully disclosed to government bodies for the purposes of determining taxes payable. As a result, governments need to levy taxes at increased rates on disclosed incomes to make up for the loss of revenue not recovered from the cash economy. Unfortunately incomes which most closely approach a full disclosure are incomes earned by employees who are subject to the provisions of the PAYG system. It is also common for many PAYG taxpayers to not have the facility to offset gross taxable income against deductions such as, for example, car running expenses and depreciation that may be available to other individuals. Consequently such employees bear a disproportionate amount of individual tax revenue raised by the government.

By all publicized accounts individual taxpayers will be the group suffering most from bracket creep under proposed Federal Government taxation initiatives.

BUSINESS AND INDIVIDUAL

The present arrangement of funding government penalizes only those with fully declared incomes. Systems engaged in evasion persist because of the government's inability to force employers to fully report wages and salaries paid or tax deducted.

It is also difficult to force employees who have not had tax deducted at source to legally declare such wages and salaries and to pay tax as required, particularly in cash transactions.

Many employees in these categories are also in receipt of social security and other benefits funded by taxpayers. There has been a general failure of systems to compel individuals to disclose such transactions. In non-government commerce, such systems fail for many reasons including the ease of falsifying records or by operating without maintaining truthful records of dutiable transactions at all.

In non-government commerce, traders operating under a license committed to repay a royalty at a rate dependent upon sales, often understate actual sale numbers thereby reducing the fees payable. As this is carried over to declared income, it evades their true tax liability.

Letters and telephone calls to individual and registered businesses by the ATO are unlikely to have a significant effect on the level of evasion.

GST

The Goods and Services Tax (GST) can present difficulties because of its different applications depending on particular circumstances. The GST is vulnerable to collusion at a sale/transaction stage as an offer to perform services between seller and buyer at a reduced cash price without correct or any supporting documentation is agreed upon. A sales receipt of less than full transaction price is often issued to placate the customer or to “legitimize” the transaction, In addition, the actual individual issuing the receipt may not be identifiable or even legally exist.

Because many such transactions can be for relatively large sums of money the amount evaded can be considerable. There is also a need therefore to identify employees and the business acting in collusion with purchasers and for a more accurate accounting of costs and revenue arising from GST.

Claims are sometimes made that the percentage of GST evaded can be recouped when the evader spends on other goods subject to GST. These claims are admittedly a very small

percentage of the total amount evaded at final retail level. This admission tends to overlook the total amount evaded by concentrating on GST on the final sale transaction only. Where items are not individually identified, those involved in evasion are able to “double dip” by claiming the amount of GST paid on goods purchased for on-sale being included in total GST paid and subject to deduction when paying GST. They then evade the total amount of GST due to be paid on the good/s when they are on-sold for profit. Control and collection of GST presents difficulties because of the diversity of individual circumstances involved in transactions.

The economy would benefit from an improved system of integrating GST with other individual and business records routinely kept and presented for taxation purposes.

ESTIMATES OF EVASION

Estimates of the exact extent of evasion are difficult to determine because of the differing criteria, assumptions and methodologies used, and the different motives for producing the estimates. What is common to all and beyond doubt is that evasion exists on a large scale by any national monetary criteria. Amounts quoted can be imprecise and variations large but the central thrust as to extent and amount remain and governments lose out on substantial income tax and GST.

GDP in Australia was \$1.525 trillion at June 2013. Estimates of losses to the cash economy published from different sources vary widely. For example, Australian government information sourced from Treasury or Australian Taxation Office (ATO) and published in the media from time to time has claimed the cash economy at around 1% of GDP. Whilst compliance measures results are shown in some Government reports, there has been, rightly or wrongly, a perception of reluctance to clearly state in public an estimated realistic total level of evasion in the economy. One estimate of the shadow economy in 38 OECD countries

places Australia at 13.8%. Other, mostly academic undertakings done over a number of years generally vary around 7-9%.

Assuming the Australian economy at \$1.525 trillion at June 2013, every 1% of evasion is \$15.25 billion or \$4.57 billion at a tax rate of 30% for each and every year. This expands to \$22.88 billion when the tax loss to evasion is 5%. This could include for example transfer pricing by large corporations and large scale (say \$1-2 million plus) evasion by companies and individuals.

In FY2012-13 total individual tax and GST combined accounted for \$204,571million or about 65.3% of tax collections by the Australian Taxation Office. Whilst having annual variations this percentage figure has been relatively stable over recent years. This would equate to approximately \$2045.7million evasion at 1% and \$10,228.5million at 5%. This does not include for example contractors and others operating under a business name where evasion could be conducted under the business name with or without individual evasion.

In 2002-03 gross PAYG withholdings were \$84,134million or 45.4% of total \$185,152million tax collections. In 2012-13 gross PAYG withholdings were \$149,807million or 47.8% of a total tax collection of \$313,0824million. At 2012-13 figures the 2.4% of total discrepancy equals \$7,514million to be met by PAYG taxpayers.

Over the same periods 2002-03 to 2012-13, GST showed greater annual variations when compared with total income tax but there was a general downward trend from 23.1% in 2002-03 to 20.4% in 2012-13, thus putting more pressure on PAYG taxpayers to contribute a greater percentage of total net tax collections.

SUMMARY

It has been written from time to time that the combined weight of all the termites on earth far exceeds the combined weight of all the mammals. Its relevance to this submission is that

much attention is given by the ATO and media to the ongoing headline status and cost of the Wickenby and other “headline” tax evasion investigations. At the same time little public attention seems to be given to the magnitude of evasion by individuals and smaller business organisations. A truly efficient and inclusive method of combatting evasion at these latter levels would show an increased cost benefit ratio and greater overall monetary return for the ATO. At the same time, more efficient methods will provide a better means of cross referencing with other government agencies currently subject to a high level of fraud by individuals claiming benefits and other allowances paid by government.

Based on the above figures, more efficient tax collection itself could neutralise much of the tax creep problem currently holding so much political and media attention.

It would also provide a method whereby those meeting tax obligations honestly would not be adversely affected and, all other things being equal, would mean reduced income tax payable by the individual.