Australian Government

Inspector-General of Taxation

Taxation Ombudsman

AN INVESTIGATION AND EXPLORATION OF UNDISPUTED TAX DEBTS IN AUSTRALIA

By the Inspector-General of Taxation

June 2021

ACKNOWLEDGMENT OF CONTRIBUTIONS

The Inspector-General of Taxation and Taxation Ombudsman (IGTO) is pleased to present this report of our *Investigation and Exploration of Undisputed Tax Debts in Australia.* The IGTO acknowledges and thanks officers of the Australian Taxation Office for their professionalism, assistance and insights during the conduct of this investigation.

This report has also benefited from insights provided by a range of professionals in tax and law and their respective representative bodies, as well as our colleagues in other government organisations. The IGTO gratefully acknowledges the contributions of the following stakeholders:

- Australian Bureau of Statistics
- Australian Small Business and Family Enterprise Ombudsman
- Chartered Accountants Australia and New Zealand
- Corporate Tax Association
- CPA Australia
- Institute of Public Accountants
- Law Council of Australia
- The Tax Institute
- Professor Michael Walpole
- Professor Miranda Stewart
- Professor Robert Breunig
- Associate Professor Ann Kayis-Kumar

Table of Contents

1. INTRODUCTION

Australia's tax and superannuation systems are predicated upon taxpayers self-assessing their taxation liabilities, reporting this information to the Australian Taxation Office (ATO) and paying any amounts due and payable as self-assessed by the due date. This includes income tax and Goods and Services Tax (GST), which represent the largest components of net tax collections – along with a range of other taxes such as Superannuation Guarantee Charge (SGC) and indirect taxes such as Excise, Luxury Car Tax (LCT) and Wine Equalisation Tax (WET).

Importantly, some taxation systems have been deliberately designed to collect tax progressively throughout the year – that is, before the tax liability even arises. There are various withholding and instalment arrangements which apply to financial institutions, employers, taxpayers, purchasers and businesses designed to collect income tax progressively for these purposes. Income tax (for example) is collected progressively from investment and business income except in certain circumstances – for example, where a taxpayer:

- Is in their first year of business or has earnt investment income for the first time;
- Has an annual tax liability of less than $1,000; or
- Has made a one-off gain (such as a capital gain).

Other taxes are designed to be collected annually and/or retrospectively only. These include fringe benefits tax (FBT), GST and SGC. However, as the latest net tax collection[1] statistics demonstrate, Australian tax revenues are largely collected from income taxes (over 75% in each financial year) and in large part from individual income taxes (over 50% in each FY).

Table 1 below summarises the net tax collections in each of FY17–FY20 by type of tax.

1 Total gross tax collections less refunds issued. Commissioner of Taxation, *Annual Report 2019-20* (2020) p 60.

Table 1: ATO net tax cash collections, FY17 – FY20

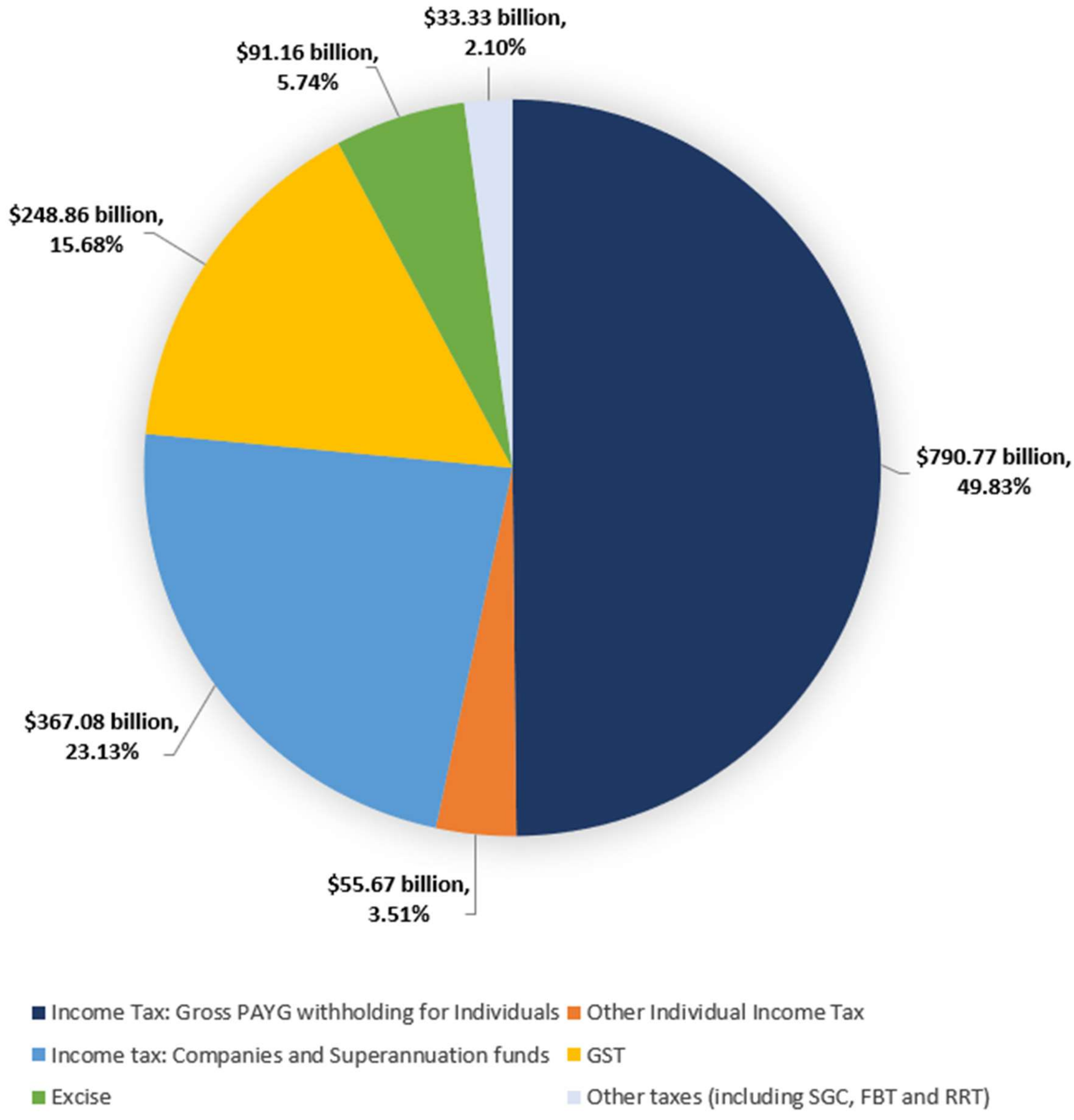
Type of Tax	FY17 ($m)	FY17 (%)	FY18 ($m)	FY18 (%)	FY19 ($m)	FY19 (%)	FY20 ($m)	FY20 (%)
Income Tax: Gross PAYG withholding for Individuals	179,355	49.91%	192,229	48.45%	204,764	48.07%	214,426	52.98%
Other Individual Income Tax	14,507	4.04%	14,764	3.72%	18,909	4.44%	7,494	1.85%
Income tax: Companies and Superannuation funds	76,626	21.32%	95,353	24.03%	104,859	24.62%	90,238	22.30%
GST	60,022	16.70%	63,265	15.95%	65,270	15.32%	60,296	14.90%
Excise	21,800	6.07%	22,703	5.72%	23,300	5.47%	23,352	5.77%
Fringe Benefits Tax (FBT)	4,046	1.13%	3,911	0.99%	3,794	0.89%	3,850	0.95%
Resource rent taxes (RRT)	981	0.27%	1,116	0.28%	1,053	0.25%	1,052	0.26%
Superannuation Guarantee Charge (SGC)	283	0.08%	441	0.11%	577	0.14%	674	0.17%
Other taxes	1,762	0.49%	2,968	0.75%	3,455	0.81%	3,362	0.83%
Total net tax collections	359,381	100%	396,749	100%	425,980	100%	404,745	100%

Source: Figures from ATO Annual Report 2018-19 and ATO Annual Report 2019-20.

Note: Totals may differ to sum of components due to rounding.

Whereas FBT and RRT were included in 'Total income tax' in the ATO's annual report, FBT and RRT have been separated from the calculation of net 'Income tax' in Figure 1 below, Table 1 above and in the remainder of this report, so as to maintain consistency with the collectable debt data the ATO provided the IGTO in this investigation.

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



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

The majority of tax collections each year come from income taxes and, in particular, individual income taxes, which in large part is a system designed to collect taxes progressively through withholding and/or instalment systems. There are components of individual income taxes that are not captured by the progressive collection systems (e.g., capital gains tax events) but these events are, as their 'capital' name suggests, not necessarily recurring. For Pay As You Go Withholding (PAYGW) in particular, the liability to pay does not necessarily rest with the individual employee, but with the employer entity that is withholding the amount and required to remit any amounts withheld to the ATO. Pay As You Go Instalment (PAYGI) amounts may give rise to a tax liability in one debt collection system, but which is credited via another. The increasing levels of collectable debt for income taxes suggests, in part, that PAYGW and PAYGI amounts, may not always be remitted on time.

By way of completeness, it should also be noted that tax payable can arise outside of the self-assessment system – for example, ATO compliance activities (amended or default assessments) which would by definition not be collected progressively.

Debt is one of the top two most frequently raised complaint issue with the IGTO

Debt collection is also an area of priority and concern for the community that has been identified through our taxation complaints service. Since taking on the Taxation Ombudsman function from 1 May 2015 (and up to and including Q2 FY20), the IGTO's complaints handling service data has consistently identified debt collection issues as the top subject of complaint, accounting for approximately 25% of complaints received in each financial year.[2]

In Q3 and Q4 FY20, debt collection complaints to the Taxation Ombudsman fell to second place with concerns about 'payments to the taxpayer' being the subject of the highest level of complaint. This is likely a result of the ATO suspending much of its debt collection activities for FY20 as well as many Australians seeking assistance to ensure that they are eligible for, and have access to, COVID-19 economic support measures.

About this Review Investigation

This review investigation is undertaken pursuant to section 7(1)(c) the *Inspector-General of Taxation Act 2003*[3]*.*

Although our terms of reference identified four financial years for review (FY16 – FY19), data relating to the financial year ended 30 June 2016 was not readily available from ATO systems. Accordingly, we commenced our investigation into the financial years ended:

- 30 June 2017;
- 30 June 2018; and
- 30 June 2019.

On 9 April 2020 we deferred the investigation, to allow priority for COVID-19 responses by the ATO and IGTO. This provided a number of benefits (refer Annexure A) including an extension of the reported results to include the financial year ended 30 June 2020.

2 Inspector-General of Taxation and Taxation Ombudsman (IGTO), *Annual Report 2014-15* (2015) p 23; IGTO, *Annual Report 2015-16* (2016) p 29; IGTO, *Annual Report 2016-17* (2017) pp 10-11; IGTO, *Annual Report 2017-18* (2018) p 11; IGTO, *Annual Report 2018-19* (2019) p 35.

3 The terms of reference to the review investigation are set out in Appendix A.

The purpose of the review investigation is to consider what features of the tax administration system, factors and sectors in the economy are contributing to increasing levels in collectable but undisputed tax debts. The results can assist those with stewardship and oversight of the tax system and commentators alike to identify and gain greater insight into which areas of the tax administration system may require further and targeted investigation – with input from the community.

The uncollected, undisputed tax debt investigation examines the composition and make-up of the national undisputed tax debt position in recent years. We have analysed undisputed tax debt levels from various perspectives including:

1. Heads of Tax (i.e., income tax, goods and services tax (GST), pay as you go withholding…etc.);
2. Client experience groups (i.e., individuals, small business, private and wealthy groups, multinational and public groups, self-managed superannuation funds, APRA-regulated superannuation funds and not-for-profits);
3. Payment arrangements;
4. Debt levels;
5. Industry divisions;
6. Geographical location; and
7. Age of debt.

Importantly, we analysed Debt Levels (Item 4) against some other items, in particular Item 2. This overlay provides some useful insights as to where undisputed debts are increasing. In particular, it helps to more adequately explain assumptions or perceptions that may arise from examining other Items in isolation.

Through analysing data at a more granular level, the IGTO aims to identify heat spots where debt activity and undisputed tax debt levels may demonstrate counterintuitive results. That is, acting anomalously to what could reasonably be expected having regard to external factors such as economic performance.

Effective tax debt collection moderates any need to raise taxes

An efficient and effective tax debt collection system is in the interests of all Australians. Actual collection of taxes, including effective pursuit and recovery of tax debts, is an important moderating factor in decisions to raise or increase taxes and few governments or taxpayers would want to see taxes increased unnecessarily.

Equitable tax debt collection is important for voluntary tax compliance

Tax debt collection, consistent with other regulatory and compliance approaches the ATO adopts, also needs to be equitable – to ensure there is a 'level playing field'. That is, to prevent a perception that some taxpayers are not playing by the rules and/or a sense that the ATO is not administering the tax laws either fairly or consistently. Left unchecked, a growing sense of frustration that there are some that are not doing the right thing and getting away with it may diminish community confidence and trust in the tax system and the ATO, leading to reduced levels of voluntary compliance.

International Comparisons may provide some insights

The investigation also considers international jurisdictions associated with low levels of undisputed tax debts and their related environments. Whilst direct international comparison is rarely possible owing to differences in tax systems, there may be some lessons or insights from overseas experiences that can be identified for further exploration, particularly as growing levels of unpaid tax debt appear to be 'a key concern for many tax administrations'.[4] The OECD has recently estimated that total outstanding tax debts (globally) may be as high as EUR 2 trillion (or approximately AUD $ 3.25 trillion based on current exchange rates).[5]

Australia differs from other OECD countries in relation to interest charged on unpaid taxes. The rate of interest and tax treatment for any interest charged on unpaid taxes may also be a factor which contributes to levels of voluntary compliance. Rates of interest on unpaid taxes and the deductibility of that interest has been examined as part of this investigation.

The General interest charge (GIC) for example, is deductible in Australia. In other similar OECD countries, interest is likely not deductible, or only a narrow subset of the interest is deductible. For example, in the UK, only interest on the payment of corporate taxes is deductible[6] whilst in New Zealand, a 'penalty' increment of interest is non-deductible – being a component of interest deemed to be a late payment penalty.[7]

There have been suggestions that some taxpayers are paying other creditors in priority to the ATO and, in effect, using the ATO as a 'bank'. The information gathered as part of this investigation, including interest rate comparisons may provide some insights on tax debt pressures and priorities for later investigation.

The objective of this report is to provide observations on identified issues or areas of concern rather than to draw conclusions and/or make recommendations in relation to the ATO's debt collection approaches. This allows for improved transparency, understanding and informed commentary based on shared information. The IGTO proposes that identified areas of concern could form the basis of further, in-depth investigations to identify improvement opportunities and to make recommendations accordingly. These investigations may be conducted by the IGTO at a later date, by the ATO through its debt research programs or other interested third parties.

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4 Organisation for Economic Cooperation and Development (OECD), *Successful tax debt Management: Measuring Maturity and Supporting Change* (2019) p 3.

5 OECD, *Tax Administration 2019 Comparative Information on OECD and Other Advanced and Emerging Economies* (2019) www.oecd.org p 94.

6 Her Majesty's Revenue and Customs, *Corporations Tax: Interest Charges* (30 January 2012) https://www.gov.uk/guidance/corporation-tax-interest-charges.

7 New Zealand Inland Revenue, *Penalties and Interest* (June 2020) https://www.ird.govt.nz/-/media/project/ir/home/documents/forms-and-guides/ir200---ir299/ir240/ir240-2020.pdf.

Consultation on this Review Investigation

As part of the current investigation process and in line with recommendations made by the House of Representatives Standing Committee on Tax and Revenue,[8] the IGTO consulted with the Auditor-General prior to commencing, and during the course of, the review investigation. Additionally, the IGTO also considered a number of reports of the Auditor-General examining different aspects of the ATO's approach to tax debt collection:

- *Management of Small Business Tax Debt* (2019);[9]
- *Management of Debt Relief Arrangements* (2013);[10]
- *The Engagement of External Debt Collection Agencies* (2011);[11]
- *The ATO's Administration of Debt Collection – Micro-business* (2007);[12]
- *Management of Tax Debt Collection* (1999);[13]
- *Tax Debt Collection* (1996).[14]

The IGTO also considered the Commonwealth Ombudsman report on the subject of re-raising written off tax debts[15] and the Australian Small Business and Family Enterprise Ombudsman's (ASBFEO) report on enforcement of debt recovery of the ATO[16] and the ASBFEO research paper on taxation of small business.[17]

The IGTO also engaged, in the later stages of the investigation, with other federal government agencies, peak professional bodies and academics to discuss potential improvement opportunities arising out of the review investigation.

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8 House of Representatives Standing Committee on Tax and Revenue, *External scrutiny of the Australian Taxation Office* (2016) p 28.

9 Auditor-General, *Management of Small Business Tax Debts* (2019).

10 Auditor-General, *Management of Debt Relief Arrangements* (2013).

11 Auditor-General, *The Engagement of External Debt Collection Agencies* (2011).

12 Auditor-General, *The ATO's Administration of Debt Collection – Micro-business* (2007).

13 Auditor-General, *Management of Tax Debt Collection* (1999).

14 Auditor-General, *Tax Debt Collection* (1996).

15 Commonwealth Ombudsman, *Australian Taxation Office Re-Raising Written-Off Tax Debts* (2009).

16 Australian Small Business and Family Enterprise Ombudsman, *Australian Taxation Office – Enforcement of Debt Recovery* (2019).

17 Australian Small Business and Family Enterprise Ombudsman (ASBFEO), *A Tax System that works for Small Business* (March 2021).

Terminology used in this report

Collectable Debt

Any tax liability that remains unpaid after it has become due and payable is a 'debt' due to the Commonwealth of Australia and may be recovered in any court of competent jurisdiction by either the Commissioner of Taxation (Commissioner) or a Deputy Commissioner.[18]

The remainder of this report will use the term 'collectable debt' to describe tax liabilities which are due and payable and are not the subject of any objection or appeal[19] and not the subject of an insolvency action. It is worthwhile noting that in circumstances where the taxpayer is resisting recovery action (e.g., defending proceedings against Director Penalty Notices, or challenging a Bankruptcy Notice or Creditor's Statutory Demand), the ATO does not deem these to be 'disputed debts' in its systems.

Collectable debt does not include amounts which the ATO has deemed uneconomical to pursue or where it has exercised its power to defer payment of the debt. This is because a deferral results in the Commissioner varying the time at which the amount becomes due and payable, and a debt only becomes collectable once it becomes due and payable.[20]

The term 'collectable debt' is adopted for consistency with ATO reporting and usage.

It should also be noted that tax-related liabilities (as defined for tax law purposes), and therefore collectable debts, include primary tax, as well as penalties and interest charges.[21]

References to Taxpayer Groups and Industries

References are made throughout this report, for comparative and discussion purposes, to different taxpayer groups (e.g., Individuals, Small Businesses, Private or Wealthy Groups, Public and Multinational Businesses…etc.) as well as different Industry divisions (e.g., Construction, Professional, Scientific and Technical Services, Food and Accommodation…etc.) as applied internally by the ATO.

As this report is focused on Collectable Debt, references to different taxpayer groups and industries and their contributions to the collectable debt book should be read as referring to tax debtors within particular taxpayer groups or industries, rather than the whole of the taxpayer group or industry.

Caveats on the data reported

The IGTO makes two caveats in relation to data used in this report.

Firstly, it is acknowledged that tax collections will be subject to timing issues that may not allow for perfect comparisons of figures year on year. For example, in relation to income tax, collections in both FY18 and FY19 flow from liabilities reported in FY18. Similarly, quarterly activity statements will also

18 *Taxation Administration Act 1953*, Sch 1, ss 255-1 and 255-5(2).

19 *Taxation Administration Act 1953*, Part IVC.

20 *Taxation Administration Act 1953*, Sch 1, s 255-10.

21 *Taxation Administration Act 1953*, Sch 1, s 250-10.

experience a similar, albeit shorter, timing delay. Where this timing difference results in material discrepancies, the IGTO will discuss those separately.

Secondly, the data in this report has been provided by the ATO and the IGTO has not independently verified the data. These datasets have been drawn from a range of different ATO systems. Furthermore, some of the data are point-in-time stock of debt while others capture cumulative amounts over the course of the year. Accordingly, the sum of more granular figures may not add perfectly to the totals presented. Where the IGTO has identified material discrepancies, these will be highlighted in the report.

Impacts of the 2019 bushfires and COVID-19 pandemic

This report incorporates data up to and including 30 June 2020. Accordingly, it captures the entire period of impact of the 2019 bushfires, as well as the early impacts of the COVID-19 pandemic (approximately 3 months – April, May and June 2020), including through significant developments such as the introduction of the Government's economic support measures and the national shutdowns of many services and businesses.

Throughout this period, the ATO also implemented a number of administrative measures to assist taxpayers affected by these crises. In addition to individual assistance that may be provided where a taxpayer contacted the ATO, two broad programs of lodgement and payment deferrals were implemented:

- November 2019 – automatic deferrals of lodgement and payment obligations were granted for a period of two months for taxpayers in 18 local government areas in New South Wales;
- December 2019 – four additional local government areas were included in automatic deferrals, and the deferral period was extended for a further two months;
- January 2020 – the deferral period was extended to 30 June 2020;
- February 2020 – further local government areas were added to the deferral program, including those affected by Tasmanian fires and north Queensland floods; and
- 20 March 2020 – upon request by taxpayers affected by COVID-19, deferral of lodgement and payment obligations for a period of six months granted for taxpayers affected by COVID-19.[22]

The ATO has reported in its annual report that in FY20, it granted 'additional time beyond the original due date for more than 12.9 million lodgements and payments.'[23] These deferrals are those that were granted for small businesses only. The total number of lodgement deferrals granted in FY20 was 10.5 million while the number of payment deferrals in that year was 8.8 million.

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22 Australian Taxation Office (ATO), *Support measures to assist those affected by COVID-19* (20 March 2020) www.ato.gov.au.

23 Commissioner of Taxation, *Annual Report 2019-20* (2020) p 194.

2. INTRODUCTION

The ATO's power to defer the time for lodging returns and making payments are legislatively based.[24] Where the ATO has deferred the time for lodgement and payment, the due dates for that lodgement and payment are varied accordingly. These amounts do not appear as being due and payable on the ATO's records, as the payment obligation has effectively been deferred. For example, if the ATO has made a decision to defer the lodgement and payment obligations for a taxpayer (or taxpayers) affected by the COVID-19 pandemic and that deferral extends beyond 30 June 2020, this may have resulted in a lower collectable debt being reported than if the ATO had not provided a deferral. Deferred lodgements and payments do not attract any penalties or general interest charge (GIC). Ultimately, it is expected that deferred lodgement and associated liabilities will be reflected in figures for later years.

A formal deferral is different to a suspension of recovery action, which the ATO also administratively implemented for those affected by the bushfires and COVID-19. During these periods, the ATO did not actively make outbound calls to taxpayers with existing debt accounts to pursue outstanding amounts. As this action did not effectively alter the due date for payment, GIC would continue to accrue and taxpayers were at liberty to seek a remission of those interest charges.

The impacts of the COVID-19 pandemic on the global economy have been recognised by the OECD,[25] the World Bank[26] and the Central Banks[27] of a number of advanced economies.

This report is not seeking to quantify or explain the impact of the COVID-19 pandemic on levels of collectable debt. However, it is acknowledged that FY20 is an exceptional year and the suspension of ATO collection activities in response to the 2019 bushfires and the COVID-19 pandemic may contribute to levels of debt reported as at 30 June 2020.

For this reason, the report includes analysis both as at 30 June 2020 as well as 30 June 2019 (which was representative of prior years). The report considers the trends in levels of debt since FY16. We also note that the ATO's deferral arrangements will (by definition) defer collectable debt for the reasons noted above.

This report presents data from the ATO and highlights areas of increase and offers explanations, where possible. While it is acknowledged that the 2019 bushfires and COVID-19 pandemic may have contributed to growth in tax debt in Australia, the report does not draw any conclusions about the degree and magnitude that these two significant events had on tax debt levels in Australia as at 30 June 2020. Ultimately, the IGTO believes that further in-depth investigation and analysis would be required to assess and understand the full extent of the impact of the bushfires and the pandemic.

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24 Section 388-55 of Schedule 1 to the *Taxation Administration Act 1953* (TAA 1953) provides a statutory power for the Commissioner to defer lodgement obligations. Separately, section 255-10(2) and (2A) of Schedule 1 to the TAA 1953 empowers the Commissioner to defer payment obligations for a specific taxpayer or for a class if taxpayers.

25 OECD, *Focus on the Global Economy* https://www.oecd.org/coronavirus/en/themes/global-economy.

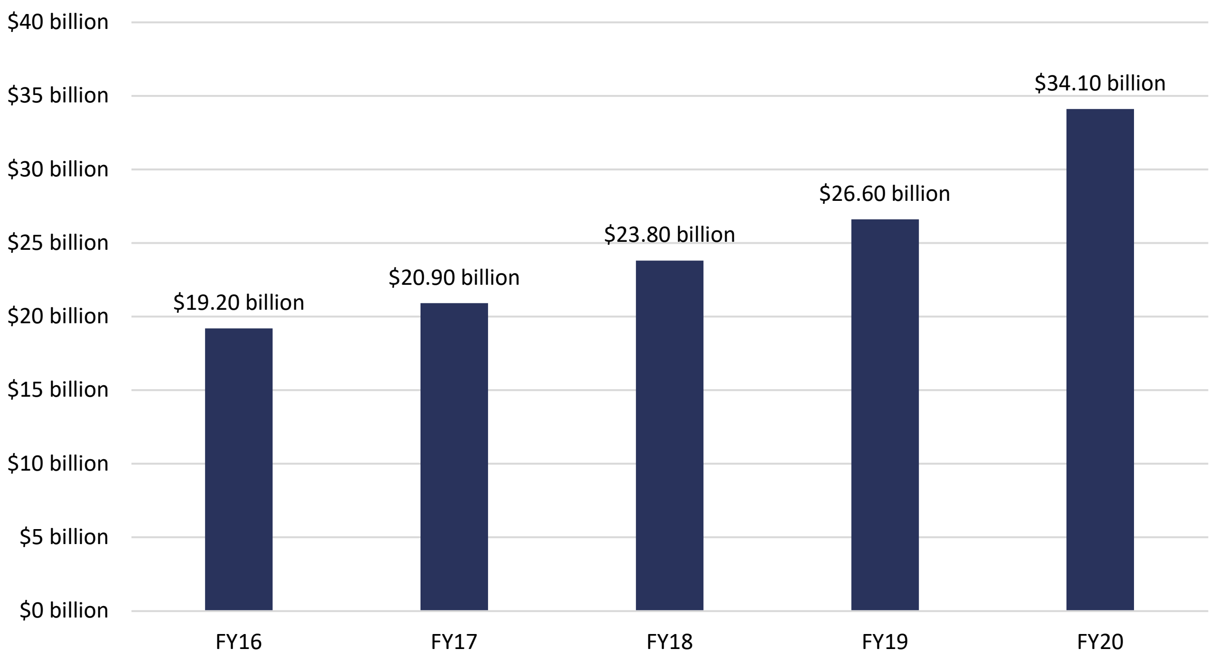
26 The World Bank, *COVID-19 to Plunge Global Economy into Worst Recession since World War II* (8 June 2020) https://www.worldbank.org/en/news/press-release/2020/06/08/covid-19-to-plunge-global-economy-into-worst-recession-since-world-war-ii.

27 Christian Vallence and Peter Wallis, *The Response by Central Banks in Advanced Economies to COVID-19* (10 December 2020) https://www.rba.gov.au/publications/bulletin/2020/dec/the-response-by-central-banks-in-advanced-economies-to-covid-19.html.

2. OUR KEY FINDINGS AND OBSERVATIONS

Overall

- Overall, the Australian taxation system operates with a high level of voluntary compliance in relation to the payment of tax liabilities. This is perhaps unsurprising as, put another way, taxes that have been self-assessed are voluntarily paid on time.
- The ATO's data indicates that for all liabilities raised and due within a particular year, approximately 90% are paid by their respective due date, a further 6% paid within 90 days and a further 1% paid within 365 days of the due date. This leaves a remainder of 3% unpaid after a year. In FY20, the proportion unpaid after a year is 4.2%.
- Notwithstanding the high levels of voluntary compliance, collectable debt continues to increase and is the largest component of the ATO's debt book, alongside Disputed Debt and Insolvent Debt. Collectable Debt includes those debts that are due and payable, and which are not subject to dispute, legal action or other restrictions on recoverability. The Collectable Debt balance has continued to rise, year on year, over the past five years.
- In FY16, the amount of collectable debt was $19.2 billion, and it increased to $34.1 billion in FY20 (an increase of 77.6%). The circumstances in FY20 are however unique and include the impacts of the Australian (2019) bushfires and COVID-19 pandemic. These impacts resulted in the ATO redeploying its officers to assist with COVID-19 recovery work which resulted in reduced active, outbound contact to recover outstanding amounts. The ATO also granted more than 12.9 million lodgement and payment deferrals in FY20. Deferred payments do not form a part of the reported collectable debt as the due date for payment was varied. Where the payment is made by the varied due date, it would not become a debt.



- The balance of the debt book reported by the ATO, at any given point in time, includes collectable debt (as shown above), disputed debt and insolvent debt. It is important to note that the debt book does not include any debts which the ATO has deemed 'uneconomical to pursue'.
  - The ATO does not have point in time data of the aggregate quantum of debts deemed uneconomical to pursue.
  - In aggregate terms, between FY14 and FY20, the ATO has deemed $8.8 billion to be uneconomical to pursue.
  - These amounts may be re-raised, and this occurs most frequently where the ATO identifies credits or refunds that may be offset against the debt.
- Any tax liabilities which are formally deferred (i.e., the due date for lodgement and payment is shifted) will also not appear in the collectable debt balance unless the taxpayer in fact lodges the relevant return or statement. This is relevant in particular to understand balances due as at 30 June 2020. As the Australian tax system relies upon taxpayers self-assessing their liabilities in the first instance, the ATO cannot calculate how much debt is likely to arise from deferrals.
- The ATO's debt recovery function is managed by its Debt business line. There was a 23% increase in the number of ATO employees working in the debt business line from FY17 to FY19. In late FY19, the debt business line merged with the lodgement function within the ATO to become the Debt and Lodgement business line. As at 30 June 2020, the debt and lodgement business line reported 1,868 employees – these levels represented a reduction from 30 June 2019.
- This increase in debt staffing (between FY16 and FY19) coincided with a 38% increase in collectable debt over the same period (increased from $19.2 billion at 30 June 2016 to $26.5 billion at 30 June 2019). It is important to note, however, that conclusions drawn from this correlation are of limited utility. This is because a large proportion of debt work is automated (e.g., batch letters,

SMS…etc.) and not every employee within the Debt business line undertakes collection activities. Furthermore, the ATO also makes use of external debt collection agencies at various times throughout the period (outsourcing) and may also engage temporary contract staff to manage high volumes (insourcing). Outsourced and insourced personnel do not form a part of the ATO's FTE.

- Unlike commercial entities, the ATO cannot write off bad debts to remove them from its debt book. Various state and territory Statutes of Limitation also make clear that crown debts are not subject to any statutory limitation period. Accordingly, unless a debt becomes irrecoverable at law (for example, by reason of insolvency of the taxpayer or the debt is waived or released) or it is deemed uneconomical to pursue, the ATO must maintain it on its debt book.
- The ATO permanently releases a small amount of debt each year under serious hardship provisions. In FY19, $42.9 million was released (0.16% of total collectable debt as at 30 June 2019). In FY20, the ATO received 3,896 applications for release (compared with 5,771 in FY19), of which it approved 1,246 (compared with 1,686 in FY19). Although the percentage of applications approved increased from 29% in FY19 to 32% in FY20, the total amount released reduced by approximately $13.27 million – refer Table 4.
- Figure 27 to Figure 31 also indicate that the value of payment arrangements has generally been decreasing across all client experience groups between FY18 and FY20.

Measures of ATO debt performance

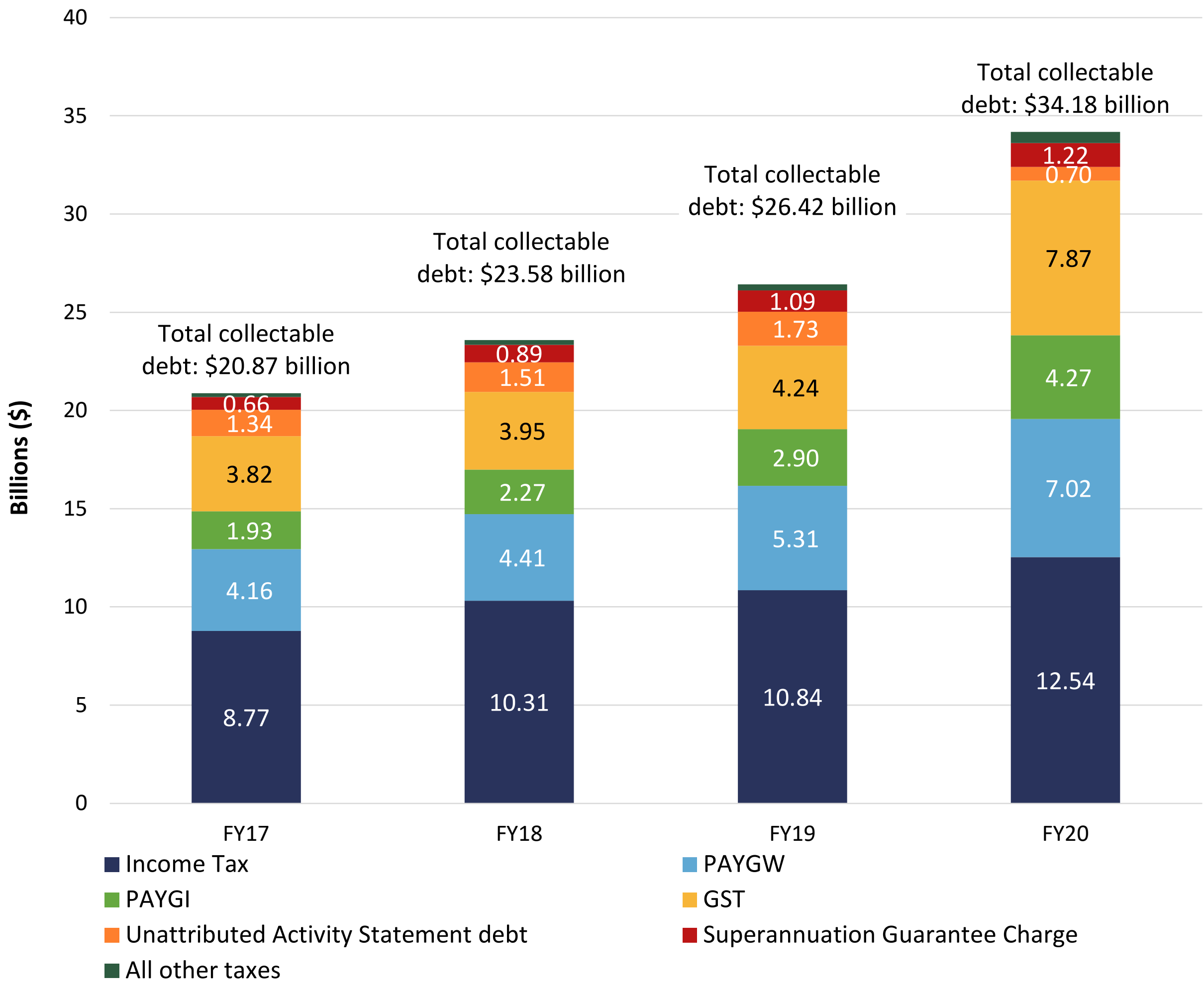
- Increases in collectable debt, in and of themselves, need not be a cause for concern. This is particularly the case where collectable debt levels grow to match overall growth in the economy and the tax system. However, a comparison between collectable debt increases and various measures of growth in the economy and the tax system suggest that the increase in collectable debt is not simply a result of increasing levels of economic activity.
  - One measure is the ratio of collectable debt to net tax collections (a measure used by the ATO itself with a target of 5.5%). Between FY15 and FY19, this ratio remained relatively stable between 5.3% and 5.7%. In FY20, this ratio increased to 6.7%, which is representative of both a reduction in collections and an increase in collectable debt. When this ratio is examined using point in time data (as at 30 June for each respective FY), the ratio ranges between 5.6% to 6.2% (between FY15 and FY19). In FY20, this ratio increased to 8.4% – refer Figure 6 and Figure 7.
  - Another measure for growth in the tax system is liabilities raised (self-assessment and compliance activities). Between FY16 to FY19, this ratio ranged between 4.1% to 4.9%. In FY20, this ratio increased to 6.3% – refer Figure 8.
  - It would be expected that if collectable debt grew in response to growth in the economy, the ratio of collectable debt to various measures of economic growth would be relatively stable. However, when measured against four proxies for economic growth (Consumer Price Index, Wage Price Index, Gross Domestic Product and Employment levels), the ratio increased across all

four measures. For example, the ratio of collectable debt to GDP increased from 1.06% to 1.36% (FY16 to FY19). In FY20, the ratio was 1.75% – refer Figure 9, Figure 10, Figure 11 and Figure 12.

- It is also important to acknowledge that economic conditions may be expected to have a bearing on taxpayer confidence in their financial security. This confidence may impact a taxpayer's willingness to make payment of outstanding tax debts (rather than retaining cash in the short term) – for example as a result of the COVID-19 pandemic and earlier in 2008 due to the Global Financial Crisis).
- When compared internationally, using OECD data, Australia performs relatively well, ranking in the top 50% of participating jurisdictions in the OECD research. When considered against comparable partner jurisdictions Australia performed better than Canada but worse than the UK, USA and New Zealand in relation to the ratio of year-end tax arrears to total net revenue. It should be noted that such data is indicative only and may be influenced by different approaches adopted by each jurisdiction to measure its arrears and total revenue.

Heads of tax

- Collectable debts largely comprise three main heads of tax – income tax, activity statement and superannuation guarantee charge. Other taxes (such as petroleum resource rent tax) make up the balance.

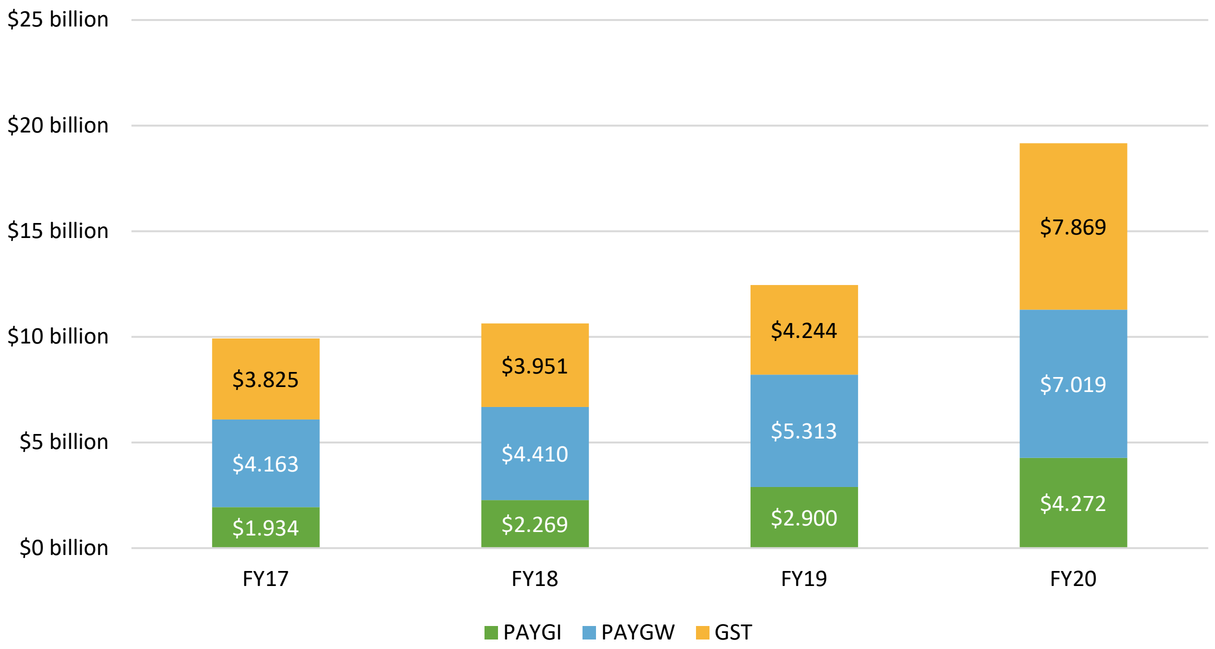


Income Taxes

- Collectable tax debts are mostly composed of unpaid income taxes (an average of 70% between FY17 to FY20) and taxes designed to progressively collect income tax. This is consistent with net tax collections generally, being principally from income taxes (an average of 78% from FY17 to FY20).

Activity Statement Debts

- Activity statement debts arise from a combination of GST, PAYGW and PAYGI.



- GST accounted for 19% of the combined collectable debt balance at year end FY17–FY20 and made up a slightly lower proportion of net tax collections over the same period (16% of net tax collections in FY17–FY20).

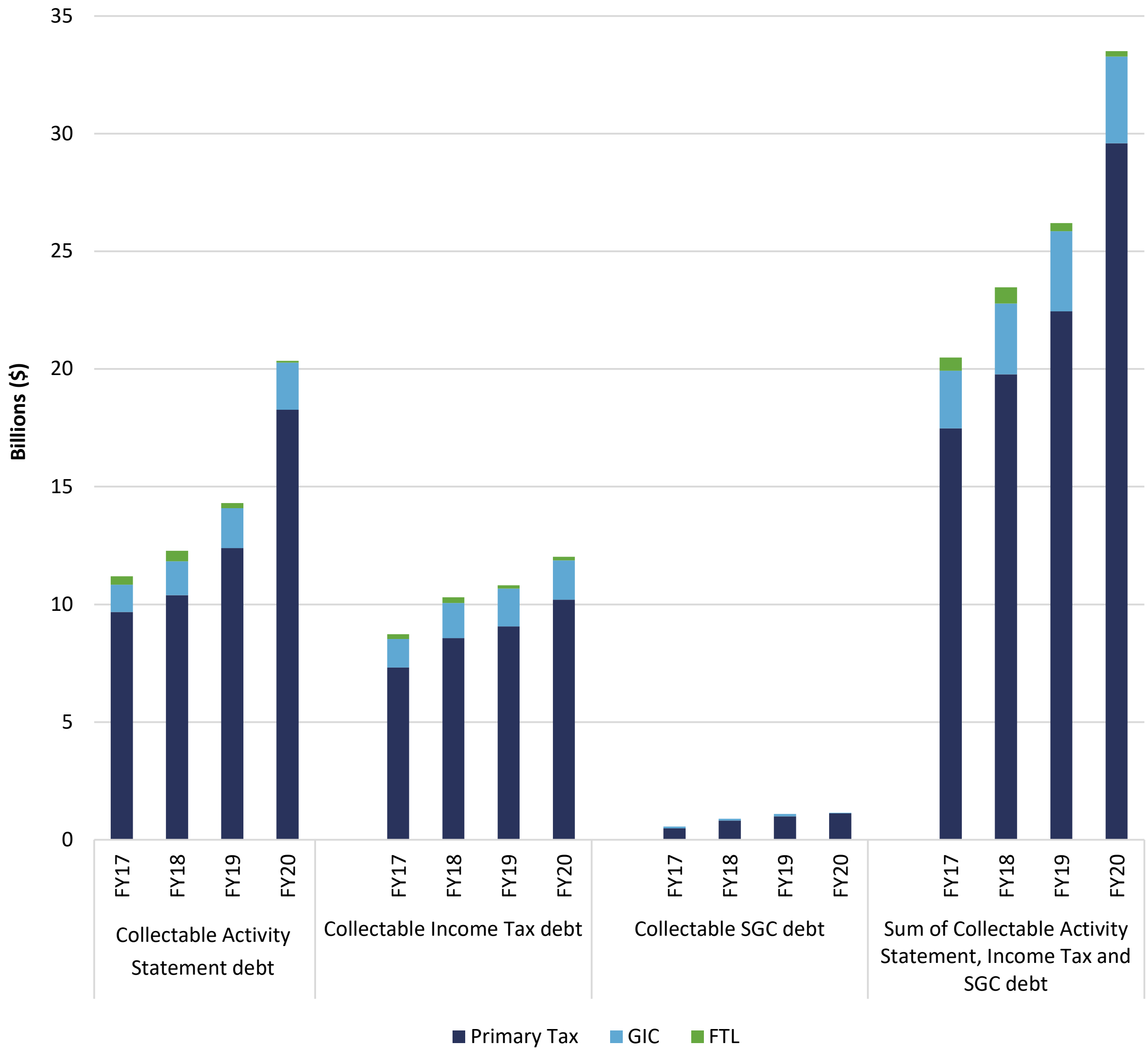
- Between FY17 and FY18, and again between FY18 and FY19, increases in collectable debt were largely attributable to income tax (or PAYGW and PAYGI, as mechanisms for progressively collecting income tax). Over the same periods, GST accounted for 5% and 10% of the increase in collectable debt, respectively. Between FY19 and FY20, GST accounted for 47% of the increase in collectable while income tax, PAYGW and PAYGI collectively accounted for 62% of the increase. The total increase attributed to GST, Income tax, PAYGW and PAYGI exceeds 100% because 'unattributable activity statement debt' reported a 13% decrease – Table 5.

- PAYGW and Income Tax (which are largely collected via PAYGW) are also efficiently collected. This may be due to the progressive nature of income tax collections and/or the impacts of the Director Penalty Notice system which has been in operation since the early 1990s. This system renders directors personally liable for unpaid PAYGW.

Superannuation Guarantee Charge and Other taxes

- In terms of efficiency of collection (when compared with net tax collections), excise is the most efficiently collected tax (for every dollar of net excise collected, there is 0.2c of total collectable debt outstanding at the end of the FY).
- SGC is the least efficient collectable tax debt – for every dollar of net SGC collected, $1.95 remains collectable at the end of the FY. It is also important to note that unpaid SGC is different from other collectable tax debts. Namely, unpaid SGC adversely impacts the employee (in the form of lower superannuation account balances and therefore earnings on these balances) rather than lower consolidated revenue collections.
- The underlying reasons for the efficiency variance may be due to the different implications of non-payment of the taxes – for example, non-payment of excise may result in a loss of excise licence or retention of dutiable goods.

Primary Tax, GIC and Penalties



- At a global level, collectable debt is composed principally of primary tax liabilities with general interest charge, on average, being around 12% of collectable debt between FY17 and FY20. Failure to lodge penalties averaged 2% of collectable debt. These proportions were consistent for both income tax and activity statement liabilities. They were significantly less in relation to SGC due to the manner in which liabilities are constructed as a matter of superannuation law.
- The ATO has not provided a similar breakdown by client experience group. Accordingly, it is not possible to assess whether in respect of certain taxpayer groups, the proportion of GIC and penalties might be higher than the overall averages.

Lodgement cycles can influence levels of collectable debt

- Collectable debt levels follow cyclical patterns throughout the financial year and align with general lodgement cycles for income tax and activity statements with a few isolated peaks due to significant compliance activities or ATO systems changes.

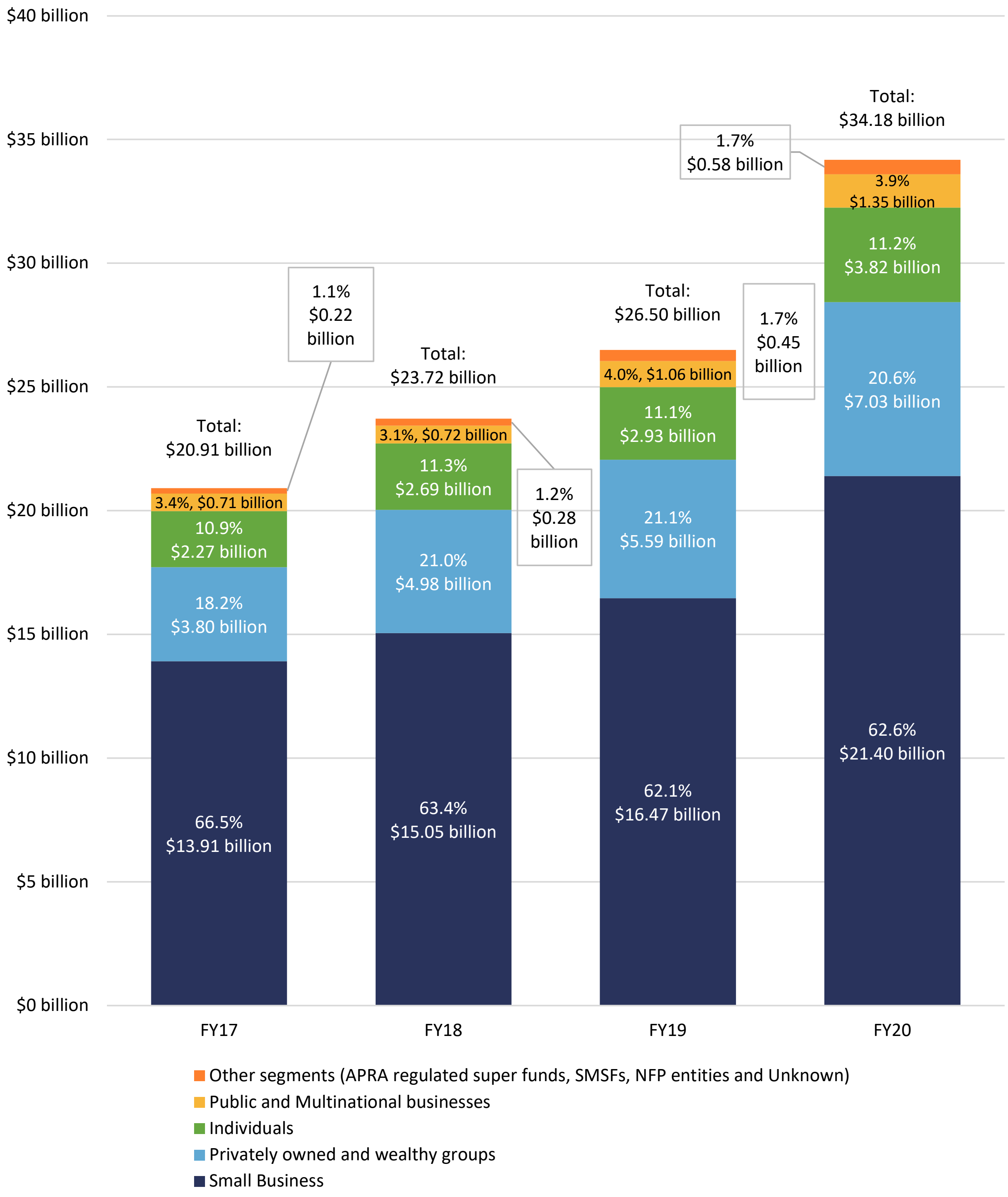
Client experience groups

- Five broad Client Experience Groups are used by the ATO and for the purposes of this report and analysis:

1. Individuals not in business;
2. small businesses;
3. private or wealthy groups (PWG);
4. public and multinational businesses (PMB); and
5. other (comprising not-for-profits, APRA-superannuation funds and self-managed superannuation funds).

Client group	Number of Taxpayers	Percentage of Taxpayer Population (%)
Individuals	11,500,000	68.80%
Small businesses	4,200,000	25.13%
Self-managed superannuation funds	593,000	3.55%
Not-for-Profits	205,000	1.23%
Private and wealthy groups	178,500	1.07%
Public and multinational businesses	36,000	0.22%
Large and Small APRA-regulated funds	1890	0.01%
TOTAL	**16,714,390**	**100.0%**

- Individuals make up 68.8% of the taxpayer population, small businesses 25.13%, PWGs 1.07% and PMBs 0.22%.



- Year on year, the ATO's data reports that small businesses account for the largest component of collectable debt (between 63% to 67%), followed by PWGs (between 18% and 21%) and individuals not in business (approximately 11%).
- When compared to their taxpayer populations, individuals were under-represented, accounting for approximately 11% of collectable debt while comprising almost 70% of the taxpayer population. This is because much of individual taxpayer debt is income tax that is withheld and remitted by other entities (small and large businesses). These withholding liabilities are registered against the entity that is responsible for the withholding. This outcome is not inconsistent with the overall design of the tax system, but other results (see below) need to be analysed.

Client group	Percentage (%) Taxpayer population – FY20	Percentage (%) Collectable Debt FY17	Percentage (%) Collectable Debt FY18	Percentage (%) Collectable Debt FY19	Percentage (%) Collectable Debt FY20
Individuals	68.8%	10.9	11.3	11.1	11.2
Small businesses	25.1%	66.5	63.4	62.1	62.6
Private and wealthy groups	1.1%	18.2	21.0	21.1	20.6
Public and multinational businesses	0.2%	3.4	3.1	4.0	3.9
Other (SMSFs, APRA-funds, NFPs, Unknown)	4.8%	1.1	1.2	1.7	1.7
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**

- Small business collectable debts were approximately 3 times its taxpayer population, while PWG was between 16 to 20 times its taxpayer population and PMBs averaged debts approximately 20 times its taxpayer population. Similar figures are also observed when considering the number of debt accounts in each taxpayer population although it should be noted that for many businesses, holding multiple taxpayer accounts for a range of different taxes is not uncommon and thus an examination of the pure number of accounts is likely to skew the results. The numbers are more reasonably aligned when the debt accounts were divided in half for small businesses, PWGs and PMBs.
- To remove the potential bias of population size, consideration was given to average debts owing per account. PMBs held the highest averages (exceeding $100,000 across all years) followed by PWGs ($46,111 to $55,648). Small businesses and individuals had significantly smaller averages ($14,000 and $4,300, respectively) – refer Figure 26 and Table 15. This suggests that while individuals and small businesses had more debt accounts, these were for relatively small sums – this will be borne out in the analysis of debt levels.
- Small business debtors also accounted for the largest components of the increase in collectable debt (41% between FY17 and FY18, 51% between FY18 and FY19 and 64% between FY19 and FY20). The latter figure is likely an indication of the significant impact that the COVID-19 pandemic has had on small businesses throughout FY20.

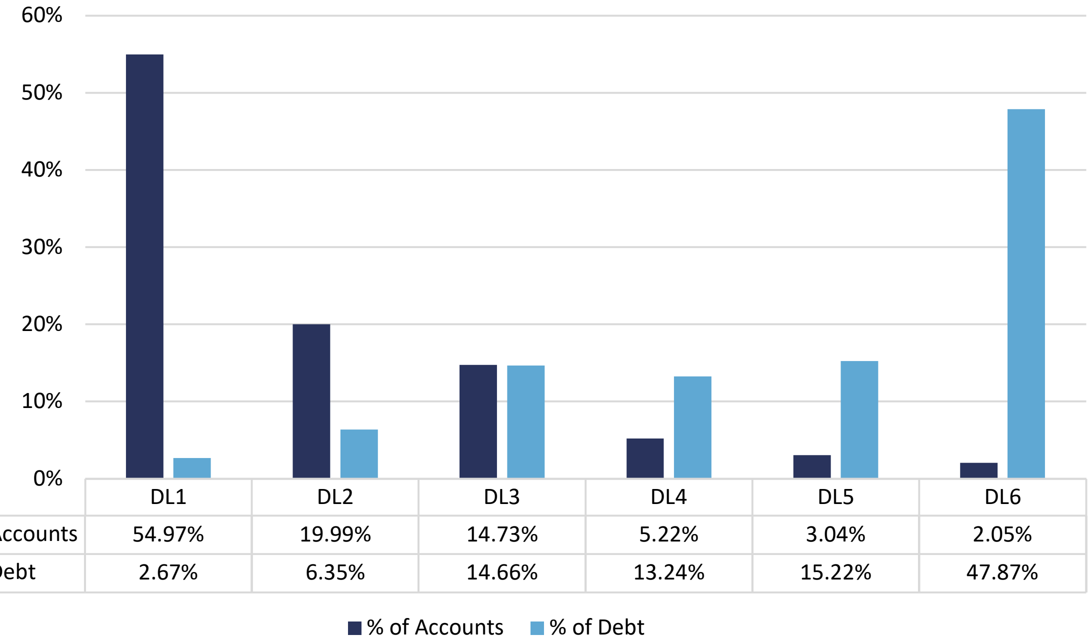
- When PAYGW for individual salary and wages is excluded, individual taxpayers raise tax liabilities of approximately 2% but represent approximately 11% of total collectable debts– refer Table 16. That is, individual taxpayers appear to be over-represented when progressively collected taxes are excluded. This may arise from one-off events that are not captured within the progressive tax collection systems (such as PAYGW). These one-off events may include capital gains from the sale of capital assets. However, the exact cause is unknown and requires further investigation. Small businesses were also over-represented with an average of 63% collectable debt compared with 17% liabilities raised. PWGs were largely consistent, while PMB debt levels (approximately 3% – 4%) were significantly lower than their liabilities raised (average 44%).
- Levels of collectable debt owed by new small businesses (i.e., those who were issued ABNs up to 3 years prior to financial year end) has increased from $1.337 billion in FY16 to $3.293 billion in FY19. As a percentage of total collectable debt, amounts owed by new small businesses have slightly increased from 6.97% in FY16 to 7.39% in FY19. In FY20, new businesses accounted for 9.63% of debts owed.

Debt levels

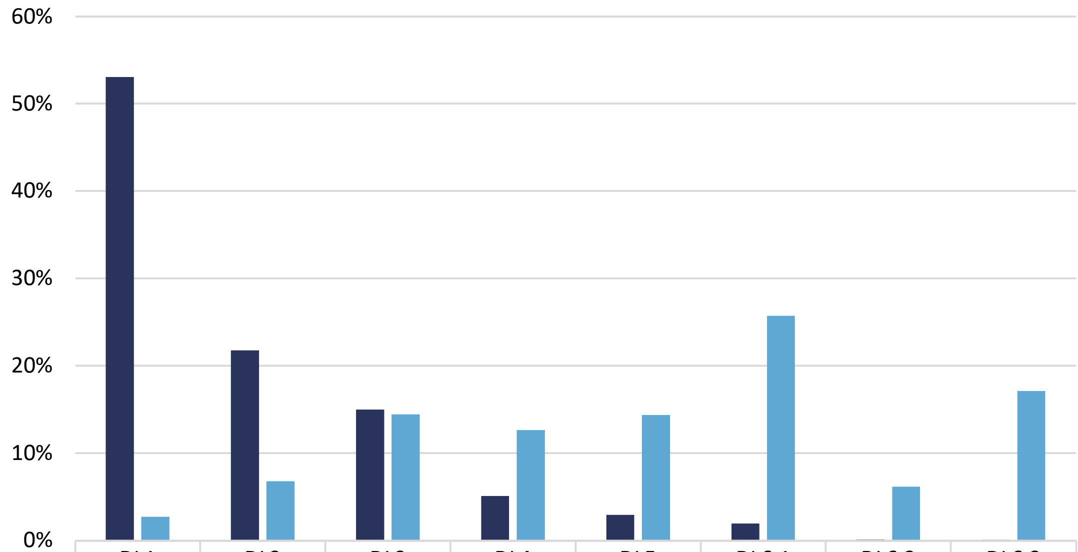
- Debt levels (DL) are stratifications used by the ATO to segment collectable debt by ranges of quantum. They range from Debt Level 1 to Debt Level 6 (which, in FY20 has been broken down further – into DL6.1, D6.2, DL6.3). A summary of the DLs and their values is set out below:

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

- An overview of debt levels as at 30 June 2019 and 30 June 2020 is as follows.



	DL1	DL2	DL3	DL4	DL5	DL6
% of Accounts	54.97%	19.99%	14.73%	5.22%	3.04%	2.05%
% of Debt	2.67%	6.35%	14.66%	13.24%	15.22%	47.87%

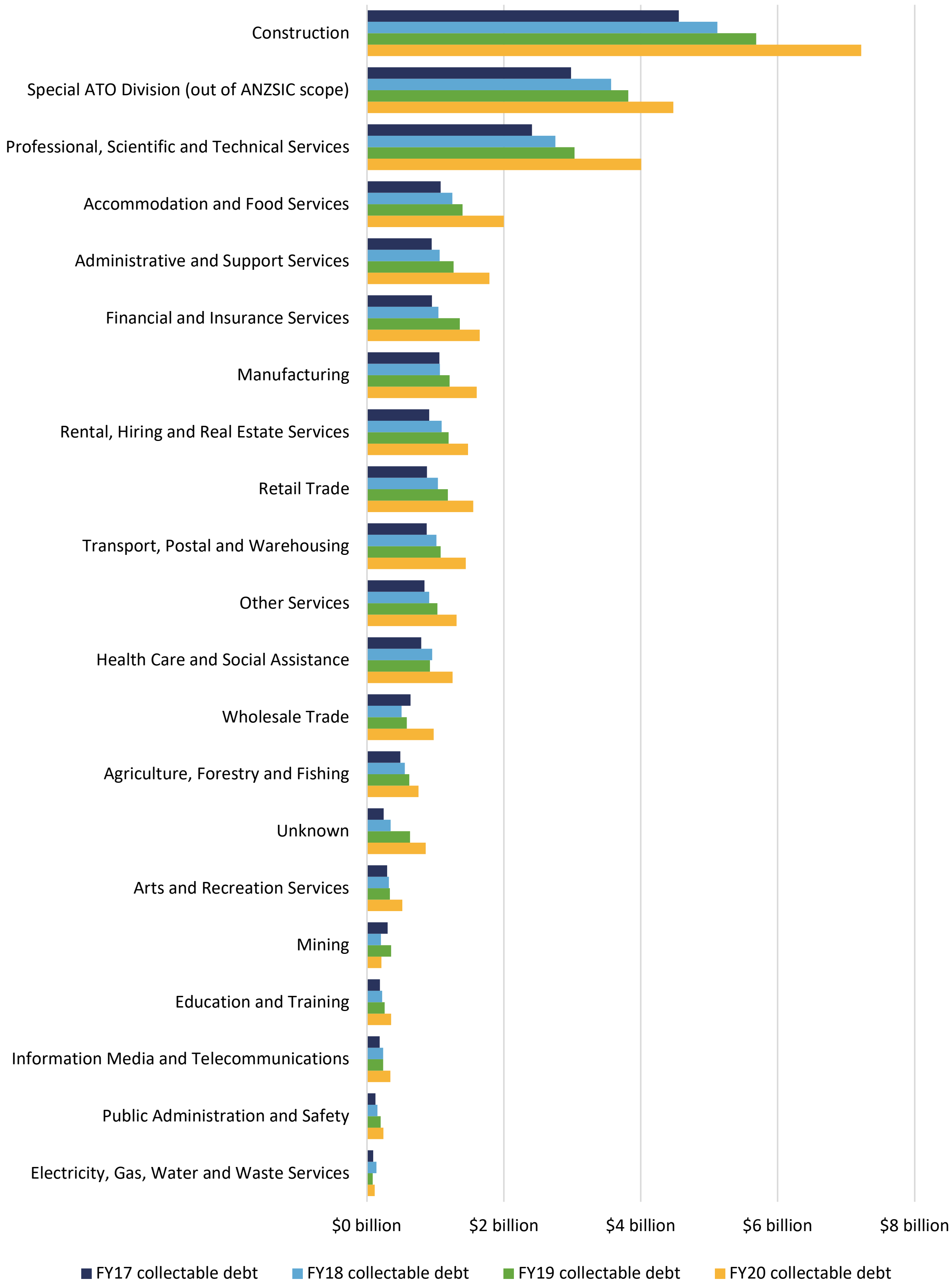


	DL1	DL2	DL3	DL4	DL5	DL6.1	DL6.2	DL6.3
% of Accounts	53.06%	21.76%	14.99%	5.09%	2.94%	1.95%	0.13%	0.08%
% of Debt	2.70%	6.80%	14.43%	12.65%	14.39%	25.74%	6.15%	17.13%

- Across all financial years, there is a clear and consistent trend of a small proportion of debt accounts being responsible for a large amount of collectable debt – refer Table 20 and Figures 32a and 32b.
  - In FY19, 5.09% of debt accounts were responsible for 63.09% of collectable debt (DL5 + DL6).
  - In FY20, 5.09% of accounts were responsible for 63.41% of all collectable debt (DL5 + DL6).
  - A very small proportion of accounts (0.21%) held 23.28% of collectable debt (DL6.2 and DL6.3) in FY20.
- At the other end of the spectrum, more than half of all debt accounts (53.06%) held DL1 debts (less than $2,500) in FY20.
- This same phenomenon repeats itself throughout each client experience group.
- In relation to individuals, in FY20, 1.22% of accounts owed 43.44% of collectable debt (DL5 and DL6). Concerningly, 0.04% owed 18.03% of collectable debt (DL6.2 and DL6.3). The average debt per account at these levels is $2,137,015. When only DL6.3 is considered, the average is $3,697,308 – higher than for any other group except PMBs – refer Figure 33b.
- For small businesses in FY20, 6.43% of accounts held 57.13% of collectable debt. At DL6.2 and DL6.3, 0.14% (1,987 accounts) owed 11.63% of collectable debt ($2.51 billion) or an average of $1,263,422 per account – refer Figure 34b.
- For PWGs in FY20, 16.09% of accounts owed 87.16% of collectable debt (DL5 and DL6), averaging $301,786 per account. Almost half of all PWG collectable debt is either DL6.2 or DL6.3 (49.84%) with an average of $1,622,811 per account – refer Figure 35b.
- In FY20, 24.6% of PMB debt accounts held 96.09% of collectable debt (DL5 and DL6). When only DL6 is considered, 16.03% account for 92.3% of debt and the majority of these are either DL6.2 or DL6.3 debt (76.93%), an average of $2,488,428 per account – refer Figure 36b.
- In relation to other client groups, 1.26% of accounts held 58.39% of collectable debts (DL5 and DL6), averaging $282,441 per account. A large proportion (73.42%) held DL1 debt – refer Figure 37b.

Industry groups

- The contribution of each industry group to the collectable debt balance has remained relatively constant between FY17 and FY20.
- Six industry groups (including a group that the ATO has designated 'Special ATO Division (out of ANZSIC scope)' account for the majority of collectable debt. These industries are:
  1. Construction
  2. Special ATO Division
  3. Professional, Scientific and Technical Services
  4. Accommodation and Food Services
  5. Administrative and Support Services
  6. Financial and Insurance Services
- Collectively, the top 6 industry groups account for between 61% and 63% of all collectable debt between FY17 and FY20. When only the top 3 industries are examined, these account for an average of 47% of all collectable debt between FY17 and FY20.


Construction
Special ATO Division (out of ANZSIC scope)
Professional, Scientific and Technical Services
Accommodation and Food Services
Administrative and Support Services
Financial and Insurance Services
Manufacturing
Rental, Hiring and Real Estate Services
Retail Trade
Transport, Postal and Warehousing
Other Services
Health Care and Social Assistance
Wholesale Trade
Agriculture, Forestry and Fishing
Unknown
Arts and Recreation Services
Mining
Education and Training
Information Media and Telecommunications
Public Administration and Safety
Electricity, Gas, Water and Waste Services
$0 billion
$2 billion
$4 billion
$6 billion
$8 billion
FY17 collectable debt
FY18 collectable debt
FY19 collectable debt
FY20 collectable debt

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- The top 3 industry groups account for the largest contributions to changing levels of collectable debt year on year. Between FY17 and FY18, they contributed 56% to the increase, while in later years it has been between 38% and 43%.
- To remove potential bias posed by the different sizes of the industry groups (i.e., large industries are more likely to have larger amounts of debt) a comparative analysis of collectable debt to other measures of economic contribution – namely employment levels and earnings before interest, tax, depreciation and amortisation (EBITDA) – was undertaken. This analysis showed that the Construction and Professional, Scientific and Technical services industry groups had disproportionately higher levels of collectable debt compared with their employment levels and EBITDA.
- In the case of Construction, in FY19 it contributed 27.5% of collectable debt compared with 9.7% of employment and 9.2% to EBIDTA. Similarly, Professional, Scientific and Technical services contributed to 14.7% to collectable debt and 10% to employment and 6.1% to EBITDA – refer Table 24, Table 25 and Table 26.
- A number of industry groups also reported lower levels of collectable when compared to their contributions to employment and EBITDA. These industry groups included Agriculture, Forestry and Fishing, Manufacturing, Electricity, Gas, Water and Waste services, Wholesale trade, and Information, Media and Telecommunications.

Payment arrangements

- The ATO has provided payment arrangement data for FY18, FY19 and FY20 as follows:

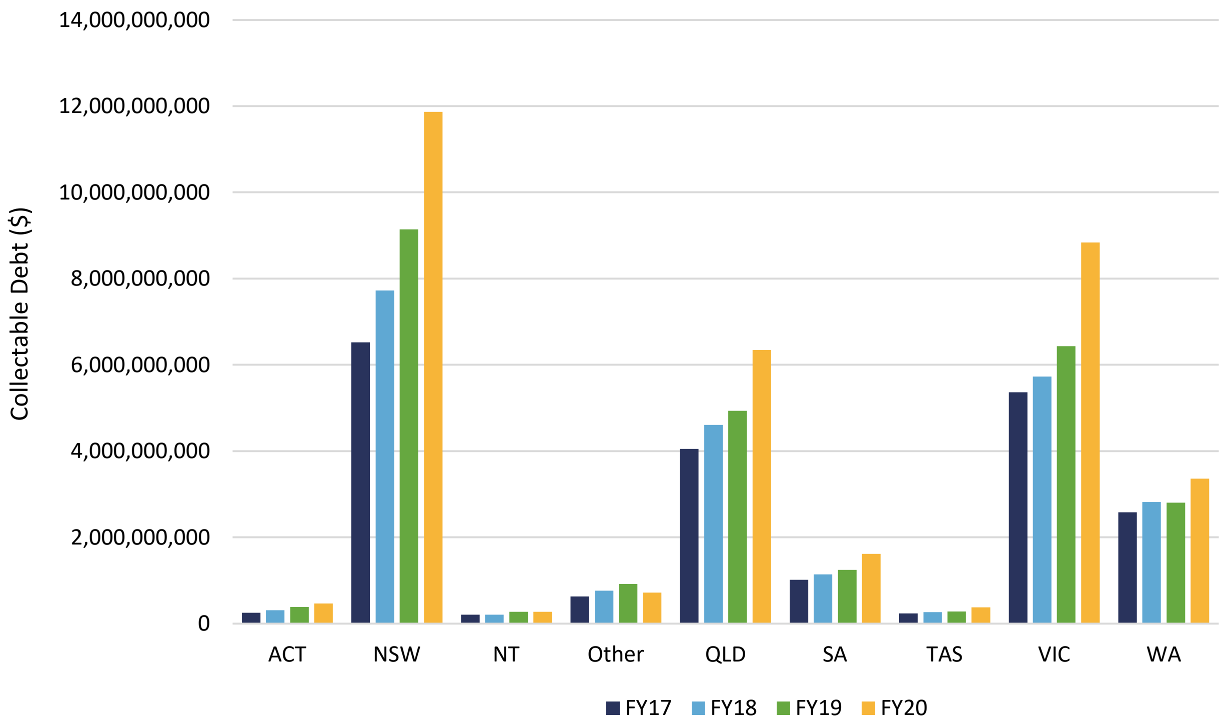
FY18 – FY19 Comparison						
	IND	**SB**	**PWG**	**PMB**	**OTH**	**TOTAL**
Collectable Debt – FY18 ($)	2.69 billion	15.05 billion	4.98 billion	0.72 billion	0.28 billion	23.72 billion
Payment Arrangements – FY18 ($)	0.57 billion	4.44 billion	2.04 billion	0.63 billion	0.05 billion	7.72 billion
Ratio of debt in payment arrangement to value of collectable debt – FY18	21%	29%	41%	86%	18%	33%
Collectable Debt – FY19	2.93 billion	16.47 billion	5.59 billion	1.06 billion	0.45 billion	26.50 billion
$ Payment Arrangements – FY19	0.58 billion	4.57 billion	1.88 billion	0.12 billion	0.07 billion	7.22 billion
Ratio of debt in payment arrangement to value of collectable debt – FY19	20%	28%	34%	12%	15%	27%
% Change Collectable Debt – FY18-FY19	9.21%	9.41%	12.37%	45.81%	58.76%	11.71%
% Change Payment Arrangements – FY18-FY19	2.29%	2.97%	-7.45%	-80.19%	29.45%	-6.39%

FY19 – FY20 Comparison	IND	SB	PWG	PMB	OTH	TOTAL
Collectable Debt – FY19	2.93 billion	16.47 billion	5.59 billion	1.06 billion	0.45 billion	26.50 billion
$ Payment Arrangements – FY19	0.58 billion	4.57 billion	1.88 billion	0.12 billion	0.07 billion	7.22 billion
Ratio of debt in payment arrangement to value of collectable debt – FY19	20%	28%	34%	12%	15%	27%
Collectable Debt – FY20	3.82 billion	21.40 billion	7.03 billion	1.35 billion	0.58 billion	34.18 billion
$ Payment Arrangements – FY20	0.36 billion	2.67 billion	1.24 billion	0.17 billion	0.05 billion	4.49 billion
Ratio of debt in payment arrangement to value of collectable debt – FY20	9%	12%	18%	12%	9%	13%
% Change Collectable Debt – FY19-FY20	30.20%	29.94%	25.73%	27.83%	29.17%	28.99%
% Change Payment Arrangements – FY19 - FY20	-37.91%	-41.56%	-34.19%	33.40%	-25.63%	-37.91%

- Across all client experience groups, the ratio of payment arrangements to collectable debt as at 30 June in FY18, FY19 and FY20 has followed a downward trend, with the exception of PMB taxpayers which remained unchanged between FY19 and FY20.
- The inverse correlation between payment arrangement levels and collectable debt suggests that the increasing levels of collectable debt is not explained by more taxpayers entering payment arrangements to address outstanding liabilities.

Geographic distributions

- All states and territories reported increasing levels of collectable debt between FY17 and FY20, although Western Australia reported a minor decrease in FY19.



- The most populous states – NSW, Victoria and Queensland accounted for 75% of all collectable debt between FY17 and FY20. When FY20 is examined in isolation, these three states accounted for 79.9% of collectable debt.
- NSW and Victoria accounted for the largest components of the increase in collectable debt between FY19 and FY20 – 36.55% and 32.33%, respectively. This represents a decrease for NSW which in prior years contributed up to 49.77% of the increase. Conversely, Victoria's FY20 contribution represented an increase, because in prior years it only accounted for approximately 25% – Table 34.
- When compared to their Gross State Product, no State or Territory's contribution to collectable debt exceeded their Gross State Product (as a proportion of Gross Domestic Product) by more than 5%.
- Geographical location, therefore, appears to contribute very little to explaining increasing collectable debt levels – refer Table 36, Table 37, Table 38 and Table 39.

Age of debt

- A large proportion of collectable debt reported as at 30 June is paid within 90 days. Between FY16 and FY19, the rate of payment was between 60% to 70%. In FY20, the rate of payment within 90 days of 30 June fell to 54.8% – refer Table 40.
- The proportion of activity statement and income tax collectable debt which is less than 1 year old is approximately 62% to 66%. This is largely consistent across all FYs. The proportion of SGC collectable debt less than 1 year old was more volatile and varied between 20% in FY17 (lowest) and 63.2% the year before (highest) – refer Table 41 and Table 42.
- A small percentage, approximately 1%, of debts was aged more than 10 years. Given that debts deferred and deemed uneconomical to pursue are not included in collectable debt balances, it is not clear what types of debts are included within this age bracket.

3. OUR RECOMMENDATIONS AND REASONS

Recommendation 1

The IGTO recommends that the ATO consult with key stakeholders and relevant participants in the tax system to co-design enhanced reporting in relation to its debt book and debt recovery activities throughout the year. This enhanced reporting may be shared publicly or with discrete stakeholders, as appropriate.

Key stakeholders and relevant participants may include:

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

The IGTO considers that the following information may be of general interest and relevance to a range of stakeholders and the community.

1. *Debt Level data analysis, by client experience groups and industry divisions;*
2. *Actions that the ATO has taken to collect these debts, differentiated by client experience groups and industries, and actual interactions with taxpayers on their outstanding debts;*
3. *The number of payment arrangements received, accepted and refused and the proportion of collectable debt subject to a payment arrangement;*
4. *The total amount of debt deemed uneconomical to pursue at any given point in time;*
5. *The estimated total amount of debt deferred or postponed due to natural disasters or other large-scale impact events;*
6. *A profile of tax accounts by age, including amounts owing that are more than 10 years old, and the age of the debtor to determine whether new entrants are likely to be more susceptible to fall into debt positions;*
7. *The number of applications received and approved (as well as the quantum) of tax debts released on grounds of serious financial hardship; and*
8. *The number of taxpayers who are for the first time (or for the first time after many (say 5) years) becoming debtors as well as the number who have successfully cleared their tax debts.*

The IGTO has also consulted with a range of key stakeholders on additional reporting or information that would assist them in their work and engagement. A brief list is set out below.

9. *The Government, Parliamentary Committees, Treasury and the ANAO may find debt data that assists them to assess the effectiveness of support measures to be useful – for example:*

a. *data about whether or not taxpayers in receipt of JobKeeper, and Boosting Cash Flow are likely to be able to maintain tax payment obligations; or*

b. *whether taxpayers who receive deferrals of payment obligations from the ATO as a result of natural disasters are able to repay the outstanding liabilities at the end of the deferral and able to continue complying with their obligations.*

10. *Small business, including small business advocates, may be interested in data that breaks down the debt held by small business taxpayers in a more contextualised way to assist in their messaging and assistance service:*

    a. *Split between primary tax, general interest charge and penalties;*
    b. *The locations and industries where small business debt is accumulating;*
    c. *Whether the collectable debt was previously disputed, and how that dispute was ultimately resolved (e.g., by AAT, mediation, independent review…etc.); and*
    d. *Lodgement statistics and whether late lodgements are contributing to the accrual of collectable debt.*

11. *The tax and legal professions, and their respective professional bodies, as well as peak industry bodies may seek relevant information to assist them to determine whether collectable tax debt issues are matters that they need to work with their membership or work with the ATO to address. For example – there is a service commitment between the ATO and the Australian Bar Association (ABA)*[28] *– where data on outstanding tax debts and trends would be informative and instructive. Such information may include debt levels at an industry or profession basis, overlaid with information about interactions and activities the ATO has taken to try and recover the debts.*

12. *Academics are likely to find information that would aid them in longitudinal studies on the compliance effects of various ATO actions. For example, information that might assist to determine whether being successful for release on grounds of serious hardship positively impacts on compliance in later years, versus alternate courses of action such as declaring bankruptcy.*

The ATO should, if it does not already do so, provide a briefing to the Minister, and the Parliament (via the relevant Committees with oversight of the ATO) on these issues annually or at more frequent intervals where necessary.

Reasons

- The ATO possesses a significant amount of existing data and information regarding tax debts and its debt collection efforts. This is evidenced by the material represented throughout this report.

28 ATO, *Service Commitment between the ATO and the Australian Bar Association (ABA)* (25 February 2019) https://www.ato.gov.au/Tax-professionals/Your-practice/Legal-practitioners/ATO-and-ABA-service-commitment/.

- Such information offers invaluable insight for Ministers and the Parliament when considering policy advice and measures – such as those which were undertaken in short timeframes to combat the impacts of the bushfires in 2019 and the COVID-19 pandemic. Furthermore, such information would provide improved accountability to the Parliament and assist in understanding the current debt position, the ATO's efforts to manage and recover these liabilities and areas in which unpaid liabilities are increasing.

- The IGTO had previously recommended the ATO publish further statistical information and analysis to inform the public about tax debts and the ATO's strategies to recover them (Debt Collection report, 2015). The House of Representatives Standing Committee on Tax and Revenue, in its Inquiry into the Commissioner of Taxation Annual Report 2016-17 also recommended further debt reporting by the ATO.

- Greater community awareness is likely to bolster community confidence in the ATO's role as administrator while also 'nudging' sectors and areas of the economy that may be perceived to be recalcitrant. Furthermore, it would assist to correct any misunderstanding and misperceptions of non-compliance in areas where they are unwarranted.

  – For example, the material published as part of this report suggests that it is not correct to attribute collectable debt increases to the small business sector collectively. The IGTO analysis of the data summarised in this report does not tend to support this conclusion due to the fact that only a small number of accounts are responsible for significant amounts of debt.

  – For example – information on the percentage of ATO collectable debt that is subject to a formal payment arrangement would provide useful insights and improved accountability in outlining the levels of collectable debt that is under active management. Higher levels of debt under a payment arrangement is a positive indicator of debt management.

- Data and information sharing is consistent with service commitments between professional and industry bodies and the ATO and in the interests of tax transparency. It will also assist others within the tax system to message the importance of tax compliance and payment of taxes, consistent with professional membership rules[29] and professional codes of conduct[30].

- Notwithstanding the significant amount of data that the ATO currently holds, it only publishes a very small amount each year (via its annual report). Such reporting is necessarily framed at a high level and does not provide the level of granularity and insight needed to support policy considerations and community engagement and understanding.

- Accordingly, the IGTO considers that more detailed and frequent reporting of the ATO's debt holdings and debt recovery efforts is warranted. This report has sought to bring to light a large

29 See for example: Law Society of NSW, *Offences and Show Cause Events* https://www.lawsociety.com.au/practising-law-in-NSW/rules-and-legislation/show-cause-events.

30 Tax Practitioners Board, *The Code of Professional Conduct* www.tpb.gov.au. Code Item 2 in each of the Codes of Professional Conduct for Registered Tax Agents, BAS Agents and Tax (Financial) Advisers all requires that those registered with the Tax Practitioners Board to 'comply with the taxation laws in the conduct of [their] personal affairs'.

amount of data to illustrate the breadth of information in existence and available, and the insights that this can yield, although it is necessarily limited to a general exploration rather than in depth examination of specific areas.

- These will be explored in the next section where the IGTO identifies key areas and work that could be undertaken either by the IGTO, the ANAO, the ATO or other interested parties (such as a Parliamentary Committee).

Recommendation 2

The IGTO recommends that the ATO develops metrics to measure its debt collection performance, including a return on investment against its efforts to collect debts in relation to different client experience groups or industry groups. For example, the cost of the ATO's debt collection activities as a percentage of the total tax debts collected.

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

Reasons

- The ATO devotes a large amount of public resources to the collection and recovery of taxes. While the ATO has developed some metrics to measure the performance of its recovery function, these metrics do not provide insight on whether the ATO's allocation of resources to recover outstanding tax debts are optimal and based on financial performance.

- As this report has shown, the data tends to illustrate clear areas where greater exploration of the underlying reasons for accumulation of debt and effectiveness of debt recovery processes is warranted. For example, a very small percentage of taxpayers who are accountable for significant amounts of debt outstanding, or debtors from the same industry divisions consistently account for the largest amounts of debt.

- The ATO was unable to provide return on investment metrics to illustrate how effectively it was tackling certain areas of tax debt accumulation. For example, whether its resources allocated to Debt Levels 5 and 6 accounts, or taxpayers within highly indebted industries, are yielding expected returns. Increased public awareness on the effectiveness of the ATO's debt collection practices, particularly in higher risk or higher quantum areas is likely to bolster community confidence in the tax system and the ATO's role as administrator of the tax system and provide a signal to the market that can encourage better compliance. In an OECD report dated 2014, it was observed that 'Australia measures the cost effectiveness of the debt collection process, which is stated as the cost of collecting AUD 1,000. They also measure, on a more operational level, the debt collection per FTE (Full Time Equivalent, (a measure of staffing).'[31]

- The Auditor-General has previously commented on the need, and made recommendation, for the ATO to improve its measures of return on investigation in certain compliance activities. The ATO

31 OECD, *Working Smarter in Tax Debt Management* (2014) p 81 http://dx.doi.org/10.1787/9789264223257-en.

agreed with the recommendation, although in a follow up review in 2017, the Auditor-General did not agree that the ATO had implemented the recommendation.[32]

Recommendation 3

The IGTO recommends that the ATO:

1. *report (in aggregate) to the Australian Parliament all taxpayer debts which exceed a benchmark dollar value and have been outstanding for more than (say) 100 days, by client experience and industry groups, and additionally, report information in relation to those debtors that have not engaged with the ATO about the outstanding debt (e.g., entered discussions to set up a payment arrangement); and*
2. *remind taxpayers and their advisers in writing once the taxpayer's outstanding tax debt exceeds a benchmark dollar value and has been outstanding for more than (say) 100 days and advise that their data will be reported (as aggregated information) to the Australian Parliament unless they have entered an agreed ATO payment arrangement or other debt management arrangement on or before a prescribed date.*

Reasons

- It is axiomatic in commerce, that the longer a debt remains outstanding the less likely it is to be paid. This report has illustrated that while a large proportion of tax debts are paid relatively quickly following the end of the financial year, the balance of collectable debts continues to rise.
- Reminding taxpayers and their advisers of amounts outstanding and inviting engagement may assist taxpayers to be mindful of their outstanding tax debts and to encourage more active engagement with the ATO on strategies to manage these outstanding amounts.
- Reporting of debts exceeding a certain monetary and age threshold will also provide the Parliament with insight on how tax debt collection is performing. When coupled with other age of debt data (such as profile of debts older than 10 years), further analysis and insights may be drawn to prevent avoidable debt accumulation.

Recommendation 4

The IGTO recommends that the ATO actively promote the benefits of new businesses voluntarily entering the PAYGI system and ensuring that the channels to enter, exit and vary instalments are readily accessible for both taxpayers and tax practitioners.

32 Auditor-General, *Managing Compliance of High Wealth Individuals* (2013) pp 88-90 www.anao.gov.au; Auditor-General, *Australian Taxation Office's Implementation of Recommendations* (2017) pp 19-20 www.anao.gov.au.

Reasons

- Registered tax practitioners play an important role in assisting a significant majority of businesses (over 90%) and individual taxpayers (over 70%) to manage their tax and related financial affairs.
- Accountants and registered tax agents are also likely to assist businesses at the initial points of their establishment and registration within the tax system. For many of these new businesses, the first interaction with the ATO may not be for some time after commencement, and the first obligations to lodge and pay taxes may not occur for 12 to 18 months after registration.
- Recognising the important role that registered tax practitioners and professionally accredited accountants and other advisers play in advising taxpayers, the IGTO has previously recommended the ATO supports the ability of registered tax and BAS agents to be able to voluntarily enter their client into or out of the PAYGI system[33]. Specifically, the IGTO recommended that the ATO:

  …improve its monitoring of the entry and exit criteria of the PAYG instalments system by… (c) seeking to provide additional functionality, in its new Practitioner Lodgement Service, to allow BAS and tax agents to voluntarily enter or exit their clients into or out of the system.

- The ATO agreed to this recommendation but has not yet implemented it.
- Leveraging the commercial expertise, influence, and experience of professional accountants, registered tax practitioners and BAS agents (those who are advising their client on their business cash flow requirements) can improve the integrity of the tax debt collection process in a manner that also supports the on-going and sometimes seasonal cash flow requirements and longevity of these businesses.
- Promoting the benefits of and improving the ease with which practitioners are able to enter taxpayers into a system of progressive tax payments (such as PAYG Instalments) where they have control over the amount of instalments to be paid towards their tax liabilities, based upon seasonal peaks and troughs, will assist these taxpayers to provide for tax obligations and to develop good practices in managing their cash flow.

Recommendation 5

The IGTO recommends that the ATO:

1. *provide greater insight into the ATO Special Division in its reporting through segmentation based on occupation (ANZSCO) codes; and*
2. *engage with the Australian Bureau of Statistics (ABS) to identify opportunities to improve segmentation and reporting of collectable debt by industry divisions and occupation codes to enable enhanced comparative analysis.*

33 IGTO, *Review into aspects of the Pay As You Go Instalments System* (2018) Recommendation 4.1.

Reasons

- A large proportion of collectable debt cannot be allocated to any recognised ANZSIC industry division, making comparative analysis of collectable debt by industry divisions difficult. The ATO has informed the IGTO that a large proportion of taxpayers allocated to this Division (more than 95%) are individual salary and wage earners who are not allocated to an ANZSIC Industry Division.

- However, individual taxpayers are required to list an occupation when lodging their income tax returns. Segmentation and reporting of the Special ATO Division by occupation (ANZSCO) codes may provide insight for the ATO to focus its messaging and recovery activities where it identifies trends or large debt accumulation in certain occupations. The IGTO notes that the ATO's Business Industry Codes provide some insight into the taxpayer's occupation. The Business Industry Code is a five-digit number, the first four of which are derived from the ANZSIC Code. The IGTO was unable to reconcile the Business Industry Code used by the ATO with the ANZSCO. Some examples of the differences between the two systems are provided below.

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

- As the ABS is responsible for the overall management of both the ANZSIC and ANZSCO systems in Australia, the ATO should engage with the ABS in this regard to identify opportunities for improvement. For example, improved alignment between the ATO and ABS on ANZSIC and ANZSCO would allow for enhanced industry and occupational comparative analyses to be undertaken.

Areas for future inquiry

This report has summarised and analysed a large amount of available data in relation to the ATO's debt book and its changes over the past few years. A number of different areas have emerged in this report which warrant further in-depth investigation and analysis into areas such as:

1. debt accounts at the DL6.1 or above for client experience groups in areas where high levels of debt are unexpected – such as individuals not in business and small business. This investigation may also consider if these debts are in fact 'undisputed' or simply not recognised as disputed within the ATO systems or are in fact insolvent;

2. industries that consistently rank highest in relation to collectable debt amounts, the number of debtors within these industries (rather than numbers of debt accounts) and whether these debts arose following compliance activities or if they were self-reported;
3. accounts of collectable debt aged 5 to 10 years, or older than 10 years, and the ATO's recovery attempts;
4. SGC debt accounts and the reasons why it appears to possess a low collection efficiency;
5. factors contributing to low levels and at times declining levels of payment arrangements and hardship release applications;
6. the impacts of new initiatives on collectable debt levels such as the expansion of DPNs to GST and the introduction of Single Touch Payroll;
7. whether unexpected liabilities arising out of ATO compliance activities are impacting collectable debt; and
8. the efficiency and effectiveness of the PAYGW and PAYGI tax collection.

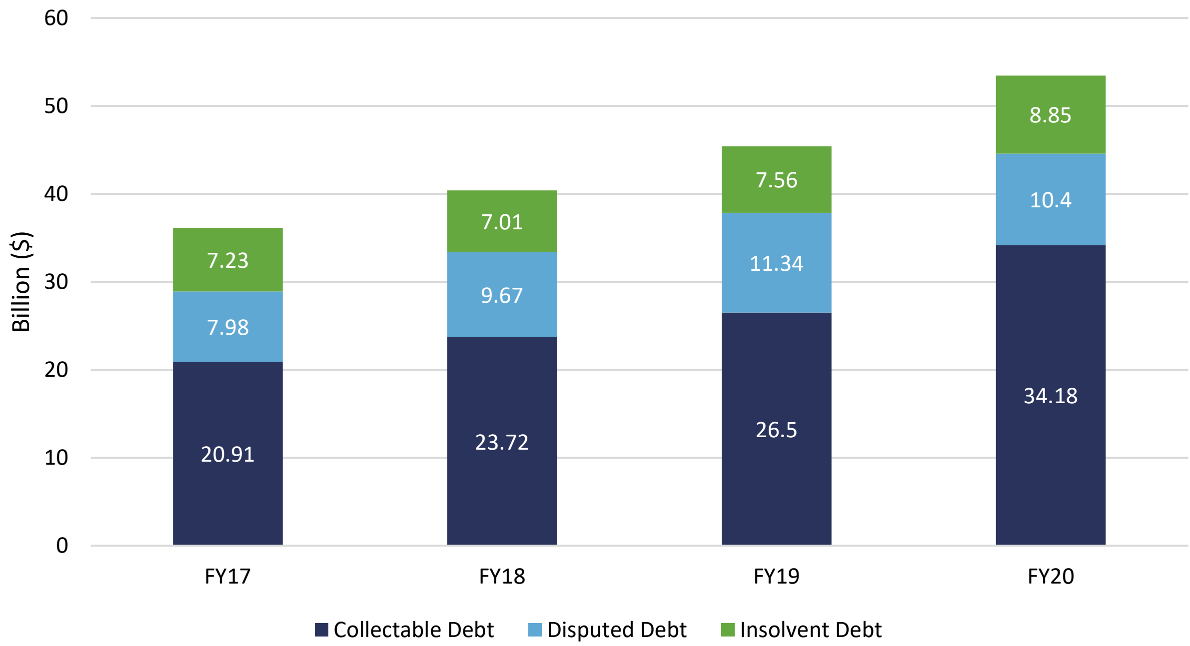
The IGTO may undertake these in-depth enquiries as an own motion investigation in the future, subject to resources being available. Alternatively, the IGTO encourages the ATO, where it can do so, to undertake its own internal analysis of these areas and to provide relevant briefings to the Minister, the Australian Parliament, the IGTO and the community.

4. BACKGROUND

Overview

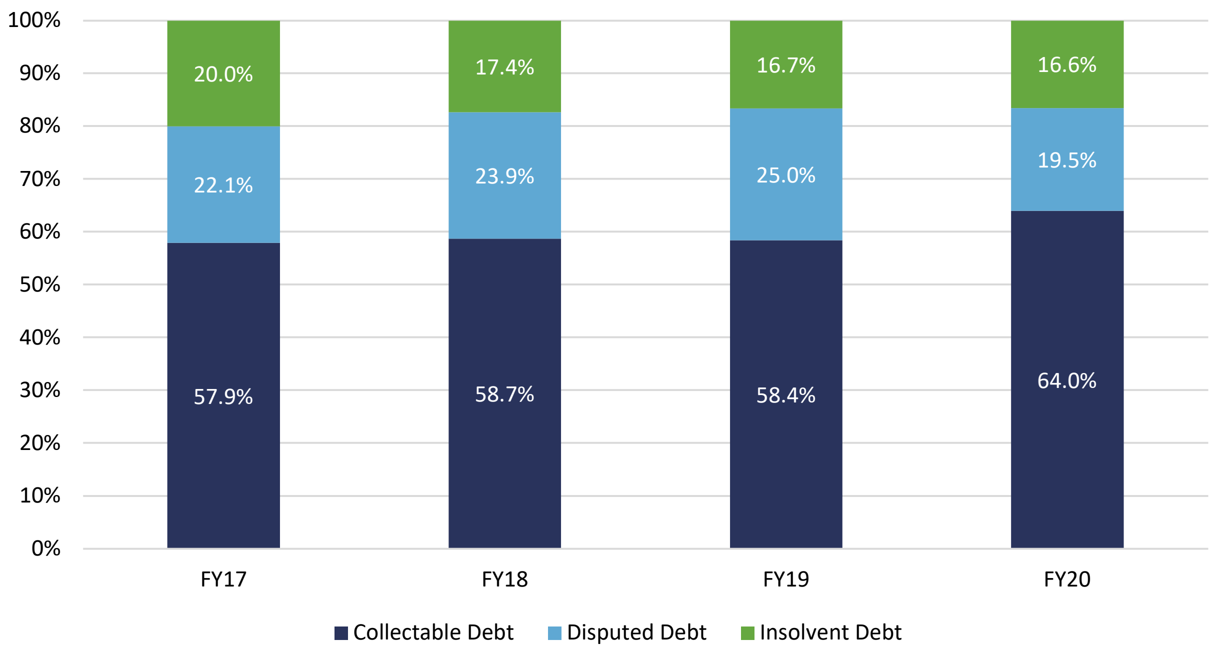
The majority of the ATO's debt book is made up of debts which are collectable – i.e., those that are not subject to dispute or insolvency action. Collectable debt averages 58.3% of total debts between FY17 and FY19. In FY20, there was a slight increase with the level of collectable debts accounting for 64% of the ATO's debt book – see Figures 2a and 2b.

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



Source: Constructed from ATO-provided data

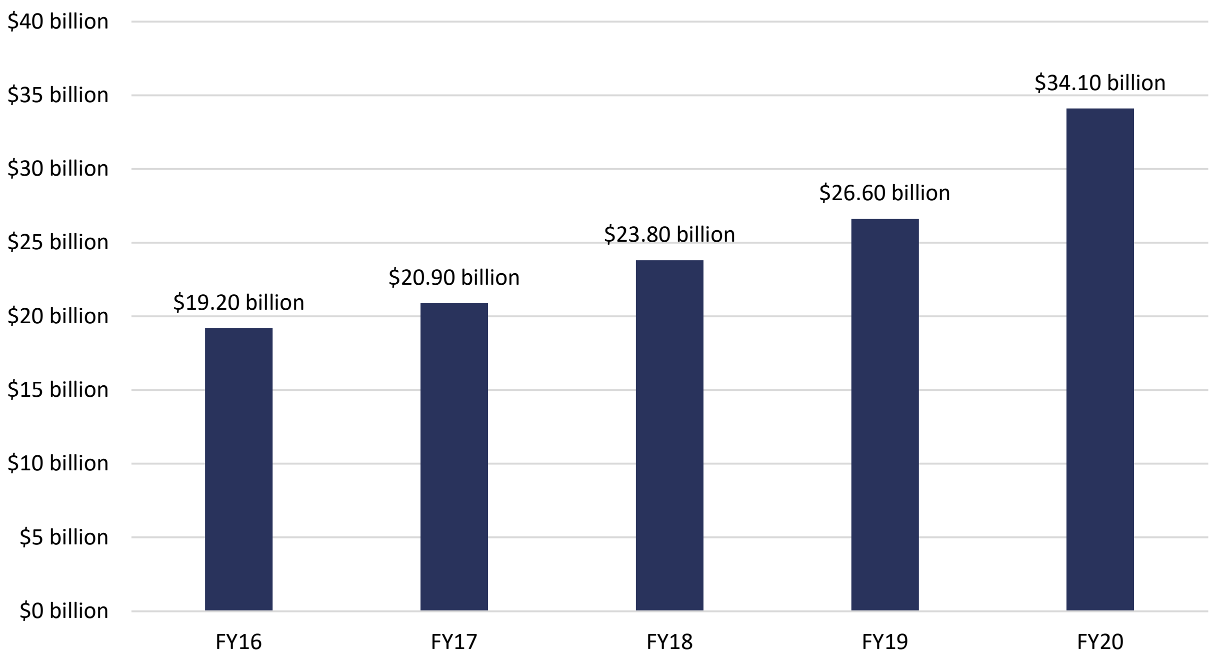
Figure 2b: Percentage of debt book by type of debt FY17 to FY20



Source: Constructed from ATO-provided data

At a headline level, the ATO has reported year on year increases in its levels of collectable debts[34] as set out in Figure 3.

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



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

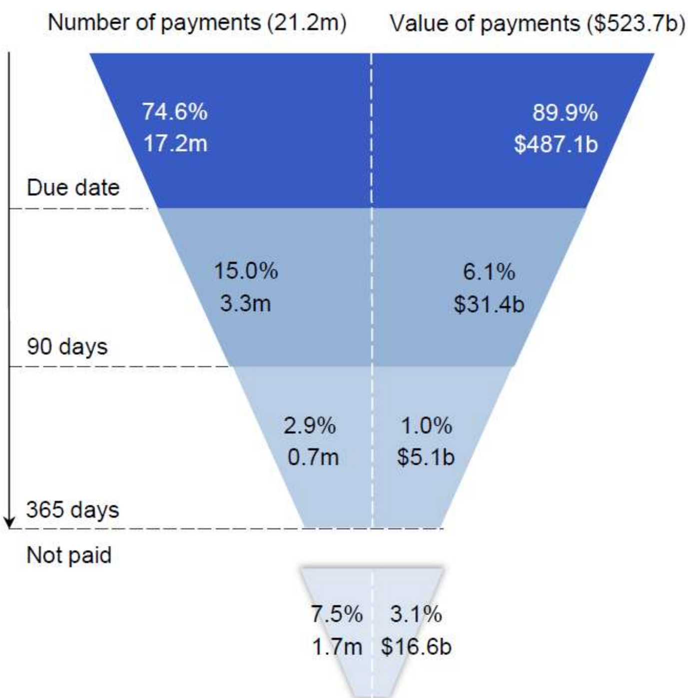
34 Commissioner of Taxation, *Annual Report 2017-18* (2018), p 198 and *Annual Report 2018 -19* (2019) pp 177–178.

There may be deliberate actions to explain the rise in collectable debt levels in certain years. For example, where the ATO is not pursuing debt recovery action against taxpayers affected by natural disasters or debt which is subject to payment arrangements. These debts are different to those that have been formally deferred. These are debts that already exist on the ATO's debt book but for which the ATO temporarily suspended recovery action. The ATO has also suggested that another reason for the increasing debt amount is that due to the financial uncertainties for some businesses through the pandemic, lodgements may have been made but payments withheld until greater certainty had been obtained.

The ATO does not have data readily available for the total value of tax payments deferred.

Furthermore, the system as a whole has a high level of voluntary compliance. Statistics from the ATO show that the majority of taxpayers lodge[35] on time and pay their tax liabilities either on time or within a year from the date that the debt becomes due and payable – refer Figure 4.

Figure 4: Timeliness of tax payments in FY19



Source: ATO report

35 In FY19, the ATO reported that 83.5% of income tax returns and 76.9% of activity statements were lodged on time. See: Commissioner of Taxation, *Annual Report 2018-19* (2019) p 29.

Figure 4 represents all liabilities reported and due in FY19 (i.e., those liabilities which were reported and due between 1 July 2018 and 30 June 2019 and which were due for payment by 30 June 2019) and the proportion of liabilities:

- paid by the due date;
- paid within 90 days of the due date;
- paid within 365 days of the due date; or
- not paid.

In FY19, a total of $540.2 billion was reported and due for payment to the ATO. $487.1 billion (89.9%) of that sum was paid by the due date, $31.4 billion (6.1%) was paid within 90 days of the due date and $5.1 billion (1.0%) was paid within 365 days of the due date. Accordingly, within a year of their due dates, approximately 97% of tax liabilities were paid, leaving approximately 3% unpaid.[36] This investigation is primarily focused on understanding and explaining the factors contributing to the 3% that remains unpaid, as well as amounts that remain unpaid from previous years.

The high levels of voluntary on-time payments should be expected as much of the tax debt collections occur through withholding regimes (for individuals not in business)[37] or through activity statement lodgements and payments which occur quarterly, monthly or, in some cases, weekly so that taxes are collected progressively. A detailed table of lodgement obligations and timeframes is provided in Appendix D.

ATO debt resources

Tax debt collection activities are managed by the ATO's Debt Business Line which sits within the Service Delivery Group. ATO internal resourcing reports indicate that in FY18 and FY19, respectively, the area was budgeted for and resourced as follows:

36 ATO, *Inspector-General of Taxation – Investigation and exploration of undisputed tax debts in Australia* (Presentation to the IGTO, 9 January 2020).

37 Emily Millane and Miranda Stewart (2019) 'Behavioural insights in tax collection: getting the legal settings right,' *eJournal of Tax Research*, Vol 16, No 3, pp 500 – 535.

Table 2: ATO Debt Resource Allocation, FY17 – FY20

	FY17	FY18	FY19	FY20
Employees as at 30 June – from ATO annual reports	1,513[38]	1,761[39]	1,960[40]	1,868[41]
Employees – full time equivalents (FTE)#		1,306	1,208	
Expenditure on debt resourcing ($)#		152,498,854*	157,605,551	

Data sourced from ATO internal management reports. The reports for FY17 did not provide details on FTE or expenditure on debt resourcing. In FY20, due to the merger of the Debt and Lodgment business lines, the management reports were not available to identify these figures.

* Projected figure as at May 2018, as year-end FY18 amount not provided by ATO.

Some points of interest include:

- The ATO publicly reported an increase of 447 people in the total number of employees working in the debt business line from FY17 to FY19 (an increase of 29.54%). In FY20, the figure reduced to 1,868 (a 4.7% reduction).
- Furthermore, not all staff within the Debt business line are allocated to collection activities. A number are responsible for other functions such as policy and legal advice, research, reporting and learning and development. The ATO's internal management reports state that debt collection labour resources were reduced in FY19 (1,208) from FY18 levels (1,306), in terms of full-time equivalent employees actioning debt cases. The ATO has advised that due to the merger of the Debt business line with its Lodgment area, reporting on FTE dedicated to debt collection work is not possible for FY20.
- Although there is a reported increase in the number of employees within the debt business area from FY17 to FY19, this has coincided with a 38% increase in collectable debt over the same period (collectable debt increased from $19.2 billion in 30 June 2016 to $26.5 billion in FY19, an increase of 38% in three years). Furthermore, between FY19 and FY20, levels of employees reduced while collectable debt increased. This may be due to a combination of factors – the ATO temporarily suspending active debt recovery action for those affected by bushfires and the pandemic, as well as some officers within the Debt business line being redeployed to other areas within the ATO to assist with coronavirus economic response measures.
- It is also important to appreciate that debt recovery work is not only undertaken by Debt business line officers – much of it is automated (batch letters, SMS…etc.) and the ATO also makes use of external debt collection agencies to assist with managing high volume, low risk debt recovery activities (outsourcing). During peak periods or as part of specific projects, the ATO may also engage temporary contractors (insourcing). Outsourced and insourced personnel do not form a part of the ATO's FTE.

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38 Commissioner of Taxation, *Annual Report 2017-18* (2018) p 171.

39 Ibid.

40 Commissioner of Taxation, above n 35, p 77.

41 Commissioner of Taxation, above n 1, p 91.

Due to the limitations on information regarding the level of staffing within the Debt business line, it is not possible to draw any meaningful conclusions from the correlations between resourcing of the ATO's debt business line and the increase in collectable debt over the same period, as it is not clear from the information available whether resources allocated for collection activities have increased or decreased.

It is also not possible to estimate the return on investment of the ATO's debt collections activities, because the ATO is not able to provide information on amounts of debt collected through specific activities as part of the end-to-end collection process.

The IGTO notes that the Auditor-General had previously commented on the need, and made recommendation, for the ATO to improve its measures of return on investigation in certain compliance activities.[42] The ATO agreed with the recommendation, although in a follow up review in 2017, the Auditor-General did not agree that the ATO had implemented the recommendation.[43]

Limitations on ATO debt forgiveness

The ATO has limited options to 'write off' or forgive tax debts as a matter of law, regardless of how remote the chances are of the debt ever being recovered. Whereas a private enterprise may unilaterally decide to write off a debt as irrecoverable being a 'bad debt'[44] or may be unable to enforce the recovery of the debt after a certain amount of time has passed[45] – neither of these is applicable or available to the ATO. The ATO must pursue recovery of tax debts unless it considers it is not economical to pursue, the debt is not legally recoverable, or the debt has been written off as authorised by an enactment.[46]

Amounts which are deemed uneconomical to pursue or irrecoverable at law are reported in the ATO's annual report.[47] Some of these liabilities are reported as 'impairment of receivables' in the ATO's financial statements[48].

The respective State and Territory statutes of limitation specifically exclude crown debts from their operation,[49] effectively enabling (and requiring) government agencies such as the ATO to continue to seek to recover Commonwealth debts, including in some cases many years after the debt was due.

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42 Auditor-General (2013), above n 32, pp 88-90 www.anao.gov.au.

43 Auditor-General (2017), above n 32, pp 19-20 www.anao.gov.au.

44 Existing tax law allows for the enterprise to claim a deduction in respect of that write off in certain circumstances – *refer Income Tax Assessment Act 1936*, section 63.

45 For example, the entity is statute barred from enforcing the debt.

46 *Public Governance, Performance and Accountability Rule 2014,* r 11.

47 See for example: Commissioner of Taxation, above n 1, p 195.

48 See for example: Commissioner of Taxation, above n 1, p 130. The 'impairment' is defined to include write-offs 'less re-raises and the movement in the impairment provision'.

49 See for example: *Limitation Act 1969* (NSW), s 10; *Limitation of Actions Act 1958* (Vic), s 32; *Limitation of Actions Act 1974* (Qld), s 6.

As a result, debts may remain on the ATO's books indefinitely unless they are extinguished through legal mechanisms such as settlement or compromise,[50] release,[51] waiver[52] or insolvency. This may also be a factor contributing to high levels of collectable debts reported annually – that is increasing levels of aged debt.

Indefinite debt periods can create unexpected 'surprises' for taxpayers. For example, a taxpayer may be unaware that it has a debt which the ATO has previously deemed uneconomical to pursue (and therefore has not actively sought to recover the debt), unless there is a regular reminder. When their circumstances change (sometimes years later), the ATO begins pursuing the debt again, and this may come as a surprise to the taxpayer.

Where a taxpayer's circumstances have changed since the debt was non-pursued, for example where the taxpayer in question has died, the ATO may not be in a position to ever re-raise and recover debts deemed uneconomical to pursue. The re-raising of debts has been subject of a prior investigation by the Commonwealth Ombudsman and continues to be an area of complaint received by the IGTO. Some case examples are set out below:

- A partnership debt of $24,025 was deemed uneconomical to pursue at the time the partnership ceased trading and was re-raised 7 years later by the ATO against the individual partners.
- The ATO re-raised a debt of $15,000 against an individual taxpayer after they received a refund of approximately $2,000 from their personal income tax return.
- The ATO re-raised a 13-year-old PAYGI debt of approximately $6,000, plus interest of $5,000, offsetting a $4,000 tax credit in the process.

Where a debt is non-pursued, the debt is no longer reported as part of collectable debts. Accordingly, the amount of collectable debt at any particular point may be impacted by the levels of non-pursued debt that have been raised or re-raised for recovery.

However, the ATO has explained that collectable debt remains relatively unaffected by the amount of debt non-pursued being re-raised. The ATO has advised this is because debts are only re-raised where it is deemed economical to pursue (e.g., the taxpayer receives a tax credit). In such cases, the ATO only re-raises that portion of the tax debt which the credit can offset, with, the remainder of the debt, if any, remaining non-pursued. The ATO is required under law, to re-raise debts and offset credits, unless it has exercised a discretion to refund rather than offset.[53]

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50 *Income Tax Assessment Act 1936*, s 8; ATO, *Practice Statement Law Administration PSLA 2011/3 Compromise of undisputed tax-related liabilities and other amounts payable to the Commissioner* (4 December 2014); *Grofam Pty Ltd v Federal Commissioner of Taxation* 97 ATC 4656 at 4665; (1997) 36 ATR 493 at 503.

51 *Taxation Administration Act 1953*, Sch 1, s 340-5.

52 *Public Governance, Performance and Accountability Act 2013*, s 63.

53 *Taxation Administration Act 1953*, s 8AAZL.

The ATO reported there was a net amount of $0.7 billion in debt that was deemed uneconomical to pursue during FY20.[54] The amount of debt non-pursued by the ATO decreased by 50% from FY19.[55] A possible explanation for this may be the ATO deferring due dates for lodgement and payment as a result of natural disasters and COVID-19 that it may have otherwise non-pursued. However, further investigation is required to understand the reason for the decrease in amounts non-pursued in FY20 compared to FY19.

The ATO reports the net amount of non-pursued debt for a single financial year in its annual report. The ATO does not have readily accessible data for the total amount of debt non-pursued at any particular point in time.

Uneconomical to pursue Debts

Table 3 below shows the net amount of debt non-pursued by the ATO from FY14 to FY20.

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

Financial Year	Gross non-pursued	Re-raised	Cancelled[56]	Net amount non-pursued
FY14	$1.4 billion	$-0.2 billion	$-27.70 million	$1.1 billion
FY15	$1.8 billion	$-0.3 billion	$-37.66 million	$1.4 billion
FY16	$2.1 billion	$-0.3 billion	$-61.21 million	$1.7 billion
FY17	$2.0 billion	$-0.5 billion	$-18.82 million	$1.4 billion
FY18	$2.0 billion	$-0.8 billion	$-15.15 million	$1.1 billion
FY19	$2.2 billion	$-0.8 billion	$-14.60 million	$1.4 billion
FY20	$1.1 billion	$-0.4 billion	$-3.85 million	$0.7 billion
TOTAL (FY14-FY20)	$12.6 billion	$-3.3 billion	$-178.99 million	$8.8 billion

Source: Constructed from ATO-provided data

In addition to collectable debts totalling $34.1 billion as at 30 June 2020, there is a further estimated net amount of approximately $8.8 billion in debt that the ATO has non-pursued (gross non-pursued debt less amounts re-raised and amounts cancelled). This amount does not include debts non-pursued prior to FY14.

The IGTO considers that the ATO should enhance its public reporting so that the community has awareness of the total amount of non-pursued debt. Both collectable debt and debt deemed uneconomical to pursue represent liabilities which are due and payable and are not the subject of any objection or appeal57 and not the subject of an insolvency action, so both are technically recoverable and of equal relevance to the public and the Australian Parliament.

54 Commissioner of Taxation, above n 1, p 195.

55 Commissioner of Taxation, above n 35, p 178.

56 Refers to cancelling the transaction to non-pursue the debt. A cancellation will occur where an error has been made during processing the non-pursuit. Reasons to cancel a non-pursuit can include where the non-pursuit was for an incorrect amount, incorrect account, or incorrect entity.

57 *Taxation Administration Act 1953*, Part IVC.

It is also important to note that the ATO reports 'bad and doubtful debts', as well as 'impairment' and 'write-offs' of its receivables in its Annual Report. The ATO has explained the amounts reported in relation to these terms as reported in the ATO's annual report are a result of the ATO Finance business line applying accounting treatment to reflect the value of its receivables which it expects to collect and that amounts 'impaired', 'written-off' or 'bad and doubtful' include collectable debt, disputed debt, insolvent debt and amounts not yet due. The ATO's debt business line, which is responsible for the recovery of debts, does not use the aforementioned terms in determining which amounts are collectable debt.

Further investigation may be required to understand whether the differences in these areas and the terminology used in the ATO's annual report in relation to debts and receivables is well understood within different areas of the ATO and the community at large.

Permanent release for serious hardship

In certain circumstances, the ATO can permanently release some or all of an individual's debts where that individual is experiencing serious hardship. However, taxpayers can only apply for release of their debt if they are:

- an individual (including self-employed persons and sole traders who are no longer trading but have an eligible debt); or
- the trustee of the estate of a deceased person, if payment of the debt would cause serious hardship for the dependants of the deceased estate.

Entities other than individuals cannot be released from their debt[58] and not all tax liabilities are eligible for permanent release, for example GST liabilities cannot be permanently released.[59]

Table 4 and Figure 5 below provide details on the number of applications the ATO received for permanent release of debts in cases of serious hardship from FY17–FY20, as well as how many applications were successful and the amounts the ATO released.

58 *Taxation Administration Act 1953*, Sch 1, sub-s 340-5(3).

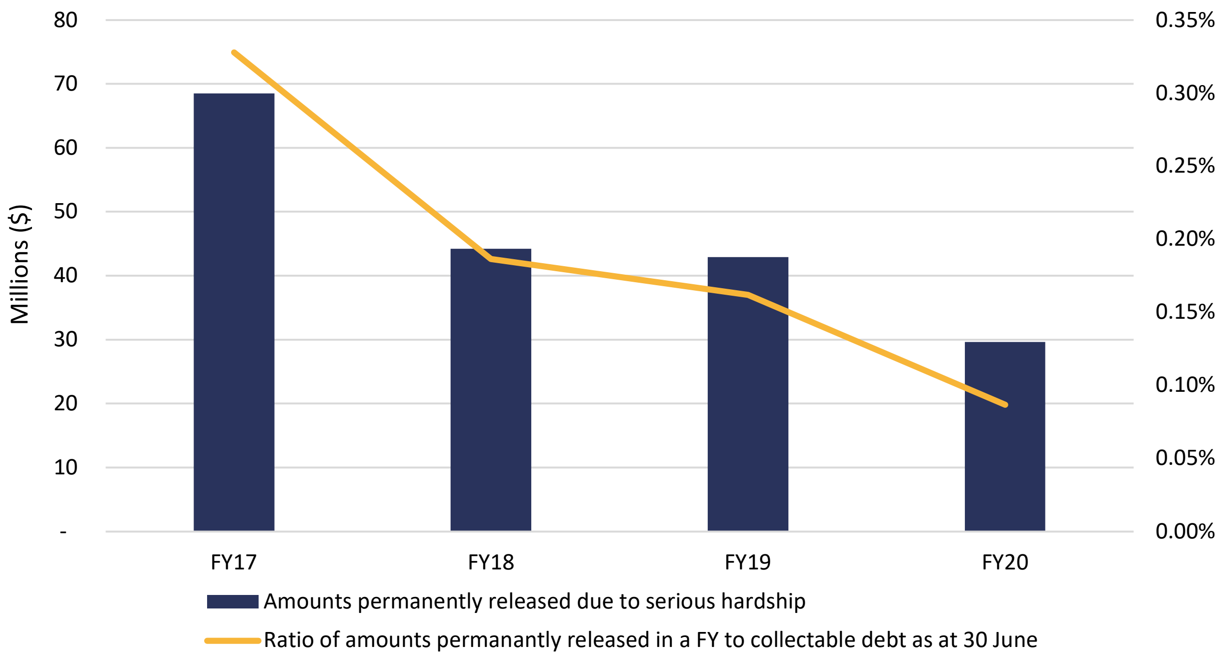
59 *Taxation Administration Act 1953*, Sch 1, s 340-10.

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

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

Source: ATO-provided data

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



Source: Constructed from ATO-provided data

The ATO released a small percentage of debt each year due to serious hardship, with $29.63 million released in FY20 (representing 0.09% of total collectable debt as at 30 June 2020). The percentage of successful applications decreased from FY17 to FY20, with the success rate decreasing from 37% in FY17 to 32% in FY20. Amounts released by the ATO decreased by 57% over the period ($68.5 million released in FY17 and $29.63 million released in FY20). The ATO did not report on amounts released due to serious hardship in at least its last four (4) Annual Reports.[60]

Payment Arrangements

The ATO, at its discretion, can agree to an arrangement to accept ongoing payments towards an outstanding tax debt. Debts covered by such payment arrangements are included in collectable debt.

60 Commissioner of Taxation, above n 1; Commissioner of Taxation, above n 35, Commissioner of Taxation, above n 38, Commissioner of Taxation, *Annual Report 2016-17* (2017).

However, payment arrangements (which allow taxpayers to pay their liabilities over a period of time) are not contributing to the increase in collectable debt, as the total amount of debt in payment arrangements decreased from FY18 to FY19 and again from FY19 to FY20.

The ATO may also defer the payment date for tax liabilities and/or remit any interest and penalties for late payment. Examples include those affected by natural disasters such as drought, bushfires, floods or storms, or by other events such as the COVID-19 pandemic. For example, on 20 March 2020, the ATO has announced a measure for those affected by COVID-19 to defer payment of debts incurred on or after 23 January 2020 without charging interest or penalties.[61]

However, deliberate actions and decisions by the ATO such as deferring payment of debt due to exceptional circumstances like COVID-19, do not explain the rise in collectable debt levels. Payments the ATO has deferred for taxpayers affected by natural disaster or pandemic are not due and payable until a later date and as such, are not included in the calculation of collectable debt.[62]

Within a self-assessment tax system, the quantum of liability for most taxpayers is based on amounts that they self-assess and report. Accordingly, when a formal deferral is granted, particularly on a broad scale such as those as a result of the 2019 bushfires or COVID-19, lodgements may not be lodged during the deferral period and therefore no tax liability amounts would appear on the ATO's systems.

There may be opportunities for the ATO to use historical data to forecast potential impacts of broad-based deferrals. For example, examining prior year taxpayer debt for particular postcodes and extrapolating that data to provide a forecast where deferrals may be granted to bushfire affected postcodes. While the figure would not be definitive, its publication with necessary caveats would nonetheless provide valuable insight for the ATO, Parliament and the community at large. In particular, it would better elucidate for external stakeholders the amount of increases in collectable debt that may be due to necessary support and assistance activities.

61 Above n 22.

62 ATO, *Practice Statement Law Administration (PS LA) 2011/14 – General debt collection powers and principles*, Annexure A, para 30.

5. MEASURES OF ATO DEBT LEVELS RELATIVE TO ECONOMIC PERFORMANCE MEASURES

It is important to appreciate that an examination of collectable debt increases, in isolation, does not provide sufficient insight on the overall health of the system. This is because debt levels may increase as a result of overall growth and activity within the system itself, which would be reasonable and unremarkable.

The following sections examine the growth of collectable tax debt in the context of a range of other economic and growth measures to determine whether or not collectable tax debt is growing at a pace commensurate with those other measures.

Figure 7 and Figure 8 demonstrate that when using point in time values at 30 June each financial year, collectable debt is growing at a faster rate than the growth of net tax collections and liabilities in the tax system.

Figures 9 to 12 shows that over recent years, collectable debt levels have increased at a higher rate than national economic measures like Gross Domestic Product (GDP), Consumer Price Index (CPI), Wage Growth Index and the labour force statistics. These measures were constructed by the IGTO based upon publicly available data from the Australian Bureau of Statistics (ABS). The ATO has informed the IGTO that it does not undertake any analysis of collectable debt levels by reference to these economic measures.

Some further analysis is set out below.

Net Tax Collection Measures

The ATO assesses its debt performance by measuring collectable debt levels against net tax collections.[63] This ratio was noted by the OECD as one of a number of strategic Key Performance Indicators (KPIs) used by revenue authorities in its 2014 report.[64] The full list of strategic KPIs noted by the OECD is as follows:[65]

- Size of debt book;
- Ratio of collectable debt to net tax collections;
- Proportion paid on time;
- Recovery rate;

63 Australian Taxation Office Budget Statements (in the Treasury PBS) p 186; Commissioner of Taxation, above n 35, p 26.
64 Above n 31.
65 Ibid, pp 80-82.

- Costs of collection;
- Write off; and
- Paid against forecast.

Further details on these measures are provided in Appendix E.

In relation to the collectable debt to net tax collections ratio, the OECD report notes:

> *An internationally recognised KPI used in Australia is the ratio of collectable debt to net tax collections. This KPI puts the size of the debt book into perspective and is a good measure of tax debt management performance. This approach makes the KPI more valuable because it provides more insight into the effects of economics on the size of the debt book and so differentiates that from the performance of the revenue body.*[66]

The ATO sets a performance target for the ratio of collectable debt to net tax collections to be below 5.5%. This target has been in effect for FY17[67], FY18[68], FY19[69], FY20[70] and the ATO has left the target unchanged at 5.5% for FY21 and the foreseeable future[71].

The ATO has previously set its performance target for the ratio of collectable debt to net tax collections to be 'below 5%' and then 'below 6%'[72] for collectable debt to net tax collections, before it changed the target to the current level of 'below 5.5%'.[73]

Where the ATO determines a debt is uneconomical to pursue or it is deferred and therefore excluded from collectable debts, the ATO can theoretically influence performance against its own measure of performance or key performance indicator (KPI). This dilutes somewhat the integrity and value of this KPI. Balancing this risk, it should be noted that the ATO has published matters it would take into consideration when deciding whether or not to pursue (or continue pursuing) a debt.[74] Furthermore, it reports the amount of debts deemed uneconomical to pursue each year in its annual report. Since FY17, the ratio of debts deemed uneconomical to pursue to net tax collections has been less than 0.5%.[75]

It is also important to note that the ATO calculates the ratio of collectable debt to net tax collections by taking the mean of monthly ratios in a financial year. By using a 12-month moving average, fluctuations

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66 Above n 31, p 81.

67 Commissioner of Taxation, *Corporate Plan 2016-17* (2016), p 20 www.ato.gov.au.

68 Commissioner of Taxation, *Corporate Plan 2017-18* (2017), p 22 www.ato.gov.au.

69 Commissioner of Taxation, *Corporate Plan 2018-19* (2018), p 22 www.ato.gov.au.

70 Commissioner of Taxation, *Corporate Plan 2019-20* (2019), p 21 www.ato.gov.au.

71 Commissioner of Taxation, *Corporate Plan 2020-21* (2020), p 14 www.ato.gov.au. Any revisions to this target will be published in future ATO Corporate Plans.

72 Portfolio Budget Statements 2016-17 (2016), Australian Taxation Office Budget Statements, p 170.

73 Commissioner of Taxation, *Corporate Plan 2014-15* (2015), p 26 www.ato.gov.au.

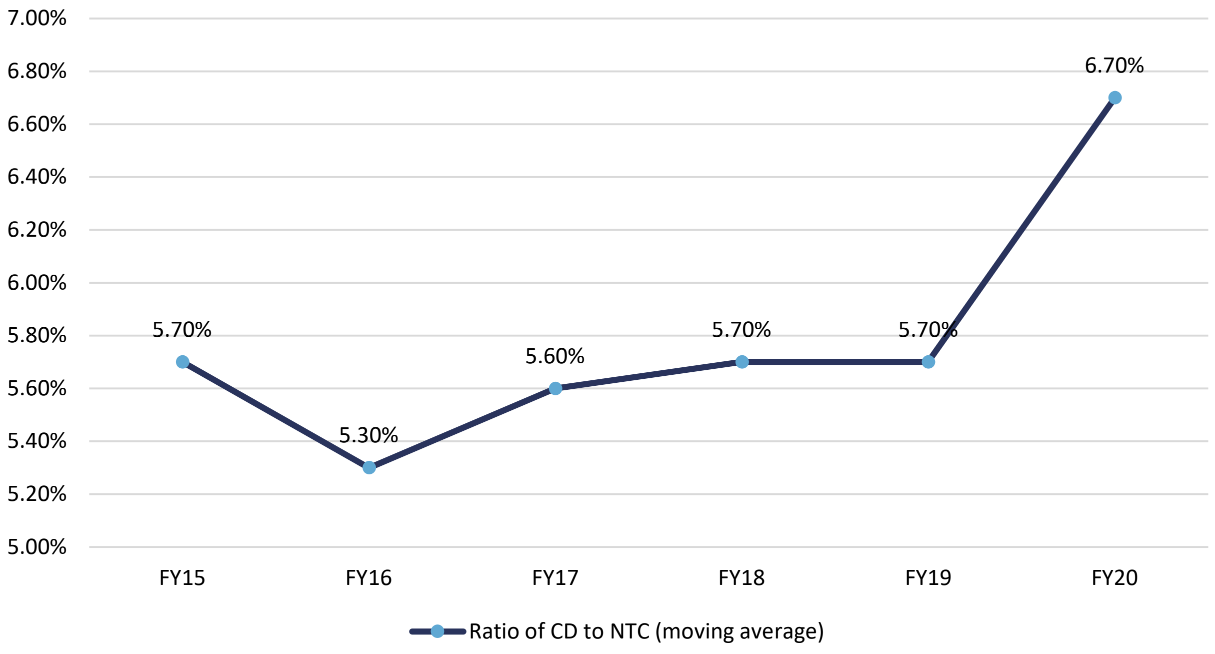
74 ATO, *Practice Statement Law Administration (PSLA) 2011/17, Debt relief, waiver and non-pursuit* (15 October 2020) www.ato.gov.au para 3.

75 Commissioner of Taxation, Above n 1, p 195; Commissioner of Taxation, above n 60, p 227.

due to seasonal adjustments and one-off changes to the ratio of collectable debt to net tax collections are smoothed out.

Figure 6 shows how the ATO has performed with the ratio of collectable debt to net tax collections from FY15 to FY20.

Figure 6: Ratio of collectable debt to net tax collections – FY15 to FY20 (using 12-months moving average)



Source: Commissioner of Taxation Annual reports

Note: The ATO calculates the ratio of collectable debt to net tax collections by using a 12-month moving average (mean) of the month-end ratios calculated throughout a financial year.

While the ATO has reported year-on-year increases in collectable debt and while the levels of collectable debts appear large when viewed in isolation, Figure 6 shows that from FY15 to FY19 collectable debts represented between 5.3% and 5.7% of net tax collections after any refunds were issued.[76] The ATO has explained the low ratio observed in FY16 was due to a combination of collectable debt levels remaining relatively constant, whilst net tax collections increased). It is not clear on the information what factors contributed to the increase in net tax collections.

In FY20, the ratio of collectable debts to net tax collections increased to 6.7%.[77] This increase may, in part, be due to the ATO suspending active debt recovery actions to assist taxpayers affected by the 2019 bushfires and the COVID-19 pandemic – a decrease in net tax collections and an increase in collectable debt levels.

Although this ratio indicates that prior to FY20, collectable debt was not growing remarkably within the context of an expanding system, this relies on net tax collections as a measure of the size of the tax system. Elsewhere, the IGTO notes, when collectable debt is compared to total liabilities raised and other

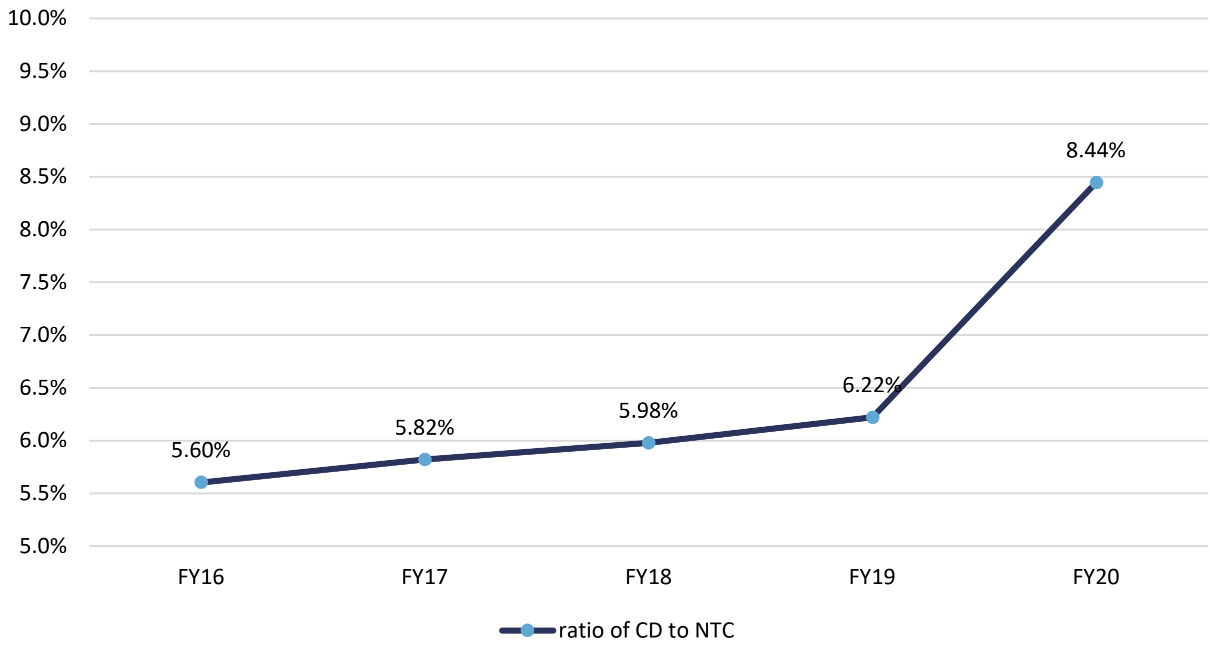
76 Commissioner of Taxation, above n 35, p 26.

77 Commissioner of Taxation, above n 1, p 36.

measures of economic performance, collectable debt has grown at a higher rate than the growth in the overall tax system, including prior to FY20.

Figure 7 shows the ratio of collectable debt to net tax collections over time using point-in-time data as at 30 June each financial year, instead of a 12-month average as in Figure 6.

Figure 7: Ratio of collectable debt to net tax collections – FY15 to FY20 (point in time data as at 30 June)



Source: IGTO calculated based on ATO Annual Report (FY16) and ATO provided information (FY17–FY20).

When using point in time levels of collectable debt and net tax collections as at 30 June each financial year, the rate of collectable debt to net tax collections can be seen to be steadily increasing; 5.7% in FY15, 5.6% in FY16, 5.82% in FY17, 5.98% in FY18, 6.22% in FY19 and 8.44% in FY20.

This shows collectable debt increasing by 38% over the period FY15-FY19, whereas net tax collections increased by 26.5% over the same period. In FY20, collectable debt increased by 28.9% from FY19 while net tax collections decreased by 5% when compared to FY19.

The ratios in each financial year are higher in Figure 7 compared to Figure 6, as the point-in-time data is affected by seasonal spikes in collectable debt at 30 June each year. Further exploration of seasonal variation in collectable debt is included in Chapter 7 – Our Findings in Details – Heads of Tax.

The OECD report also notes that:

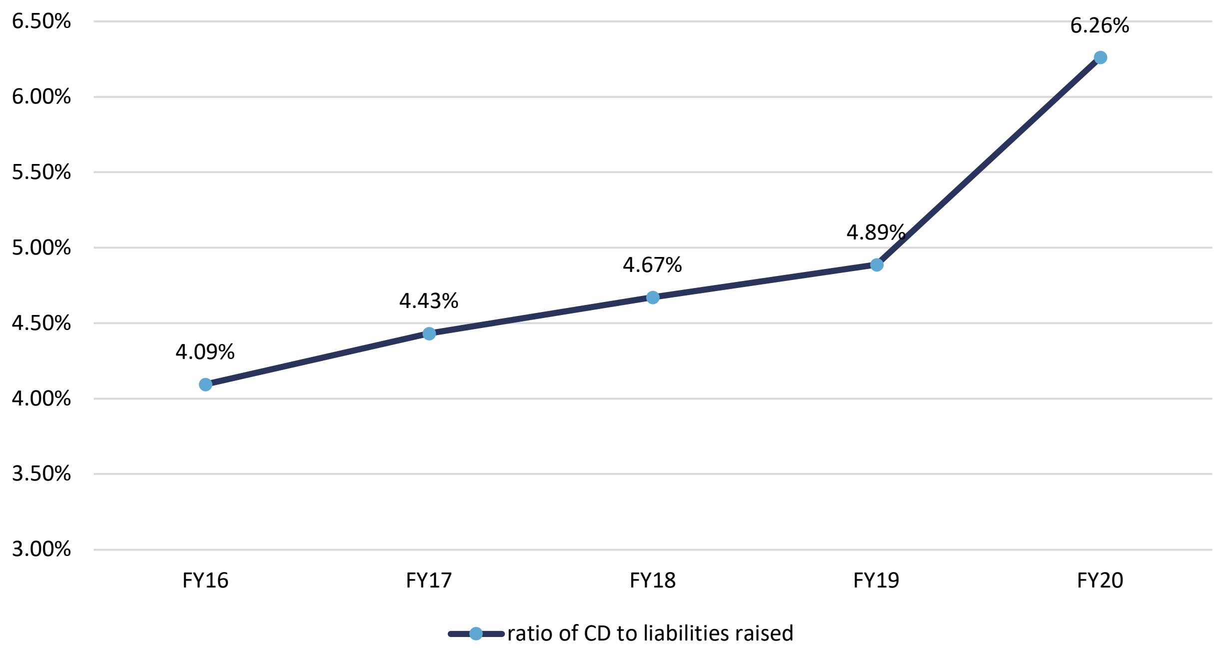
> *… the ATO has KPIs that measure the value of income tax liabilities (company and individual) and the total value paid on time. They also measure according to the type of entity.*[78]

78 Above n 31, p 81.

Collectable debt to liabilities raised

The OECD's 2014 report did not list any measures against liabilities raised as a strategic KPI, although in its 2019 report that is cited later in this chapter it does report total tax arrears as a proportion of total net revenue. It is unclear whether the measure of total net revenue is analogous to liabilities raised. Nonetheless, the IGTO considers liabilities raised to be a useful measure of growth in the tax system and an examination of the ratio of collectable debt to liabilities raised may present further insights. Figure 8 displays the ratio of collectable debt to tax liabilities raised from FY16 to FY20. In Figure 8, 'liabilities raised' are defined as primary tax liabilities due as at 30 June and excludes tax types such as Bank Levy, GST Limited Registration and Superannuation Guarantee.

Figure 8: Ratio of collectable debt to liabilities raised – FY16 to FY20 (point in time data as at 30 June)



Source: IGTO calculated based on ATO Annual Report (FY16) and ATO provided information (FY17–FY20).

There has been an increase in the ratio of collectable debt to liabilities raised in previous years, increasing from 4.09% in FY16 to 4.89% in FY19, and then increasing to 6.26% in FY20. This reflects a 15.59% increase in liabilities raised increasing from FY16 to FY19, whereas collectable debt increased by 38.01% over the same period.

When FY20 is considered, the difference in collectable debt and liabilities raised since FY16 is even more stark. Collectable debt increased by 78.01%, whereas liabilities raised increased by 16.42%.

Figure 7 and Figure 8 demonstrate that when using point in time values at 30 June each financial year, collectable debt is growing at a faster rate than the growth of the tax system, including prior to FY20.

Debt Levels vs other Economic Measures

Collectable debt can also be measured against general economic indicators to assess how collectable debt levels have changed compared to other measures of economic activity. Collectable debt levels have been measured against several economic indicators in Figure 9 to Figure 12 below – namely GDP, CPI, labour force statistics and Wage Price Index.

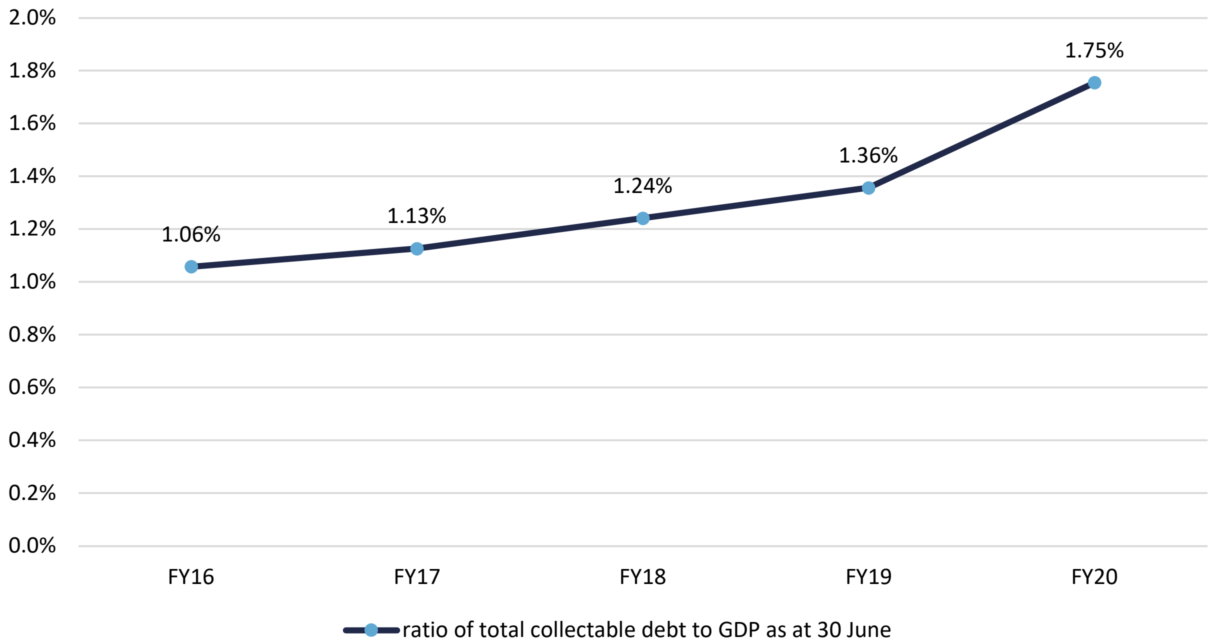
The IGTO acknowledges that these measures are not (and are not intended to be) perfect indicators of economic growth. Drawing upon publicly available information from the ABS, the IGTO considers these to be relevant proxies for economic growth and they provide an indication of collectable debt performance. It is also important to acknowledge that economic conditions may be expected to have a bearing on taxpayer confidence in their financial security. This confidence may impact a taxpayer's willingness to make payment of outstanding tax debts (rather than retaining cash in the short term) – for example as a result of the COVID-19 pandemic and earlier in 2008 due to the Global Financial Crisis).

The ATO has informed the IGTO that it does not measure its collectable debt performance against these economic measures or indicators.

Accordingly, the economic comparisons presented below are intended to be indicative only, to identify whether there is any correlation between the growth in collectable debt and growth (by other measures) in the economy.

Each of Figures 9 to 12 show, collectable debt levels are increasing at a higher rate relative to each of the economic performance measures or indicators considered.

Figure 9: Ratio of collectable debt to GDP[79] – FY16 to FY20 (point in time data as at 30 June)

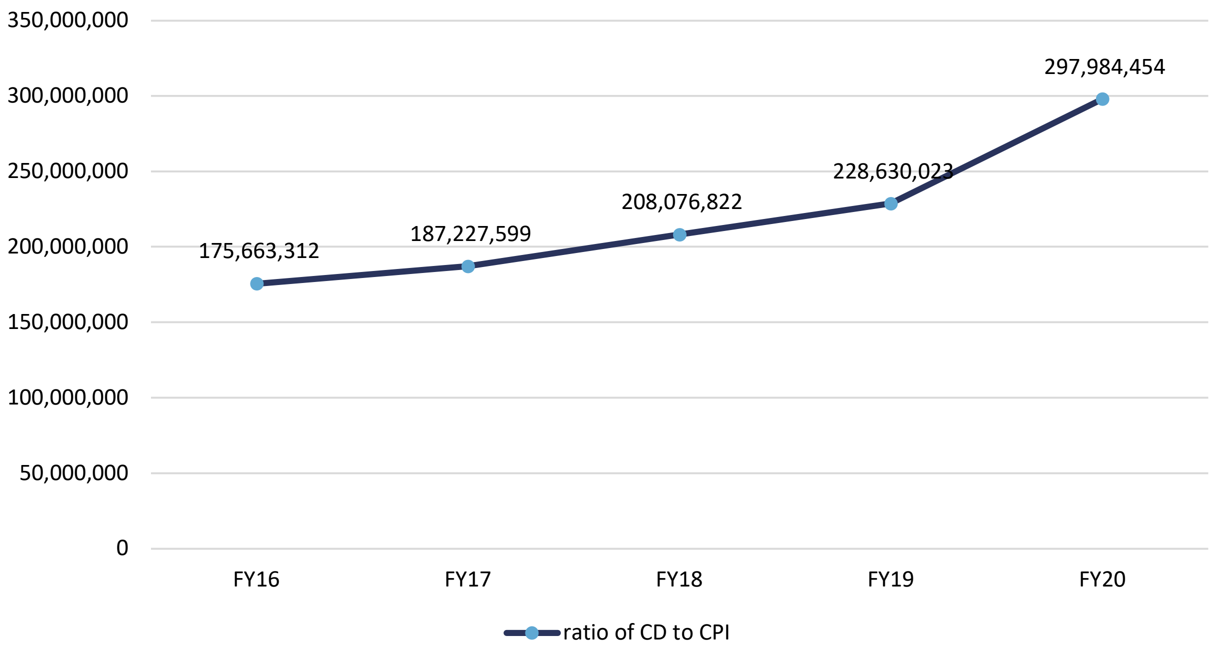


Source: IGTO calculated using CD information in ATO Annual Report (FY16) and ATO provided information (FY17–FY20) as well as publicly available ABS information.

79 'Gross Domestic Product: Chain Volume Measures' from Australian Bureau of Statistics (ABS) Table 34. Key Aggregates and analytical series, Annual (5206.0 - Australian National Accounts: National Income, Expenditure and Product), September 2020.

Figure 9 demonstrates that collectable debt levels have risen at a higher rate than the increase in GDP over the period from FY16-FY20. The ratio of collectable debt to GDP increased from 1.06% in FY16 to 1.36% in FY19, and then to 1.75% in FY20.

Figure 10: Ratio of collectable debt to CPI[80] – FY16 to FY20 (point in time data as at 30 June)

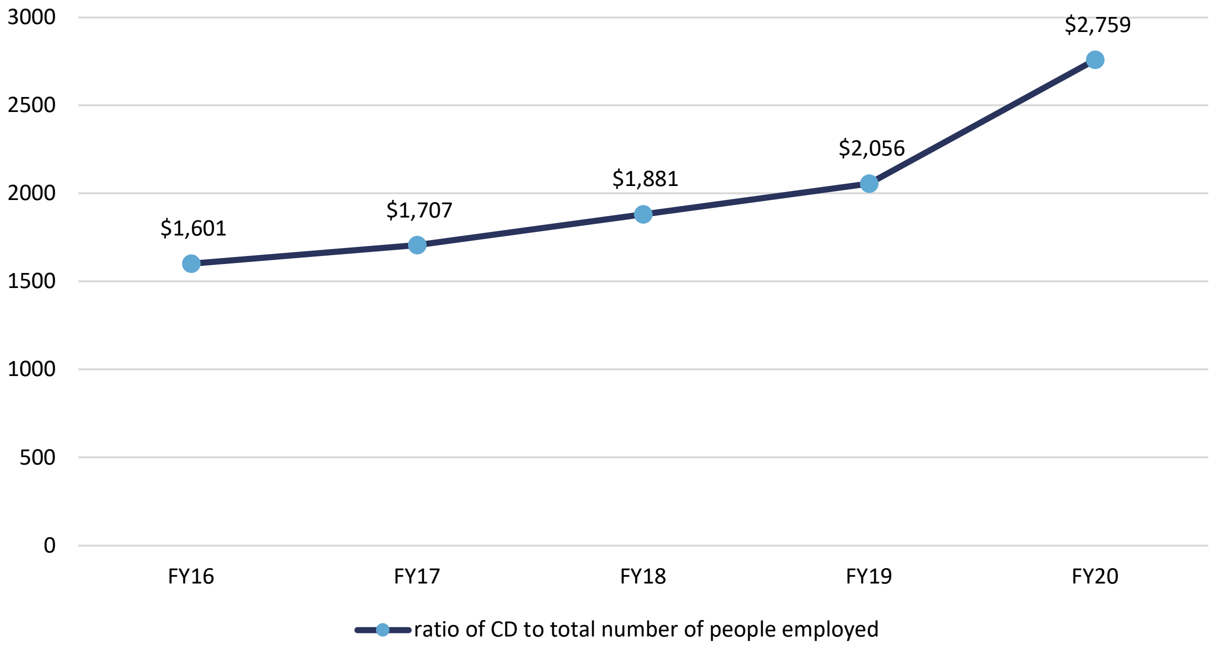


Source: IGTO calculated using CD information in ATO Annual Report (FY16) and ATO provided information (FY17–FY20) as well as publicly available ABS information.

Figure 10 demonstrates that collectable debt levels have increased more than the rate of inflation from FY16 to FY20, with the ratio of collectable debt to CPI increasing from 175 million in FY16 to 297 million in FY20.

80 ABS Consumer Price Index, Index Numbers; All groups CPI ; Australia ; (6401.0), December 2020.

Figure 11: Ratio of collectable debt to total number of people employed[81] – FY16 to FY20 (point in time data as at 30 June)



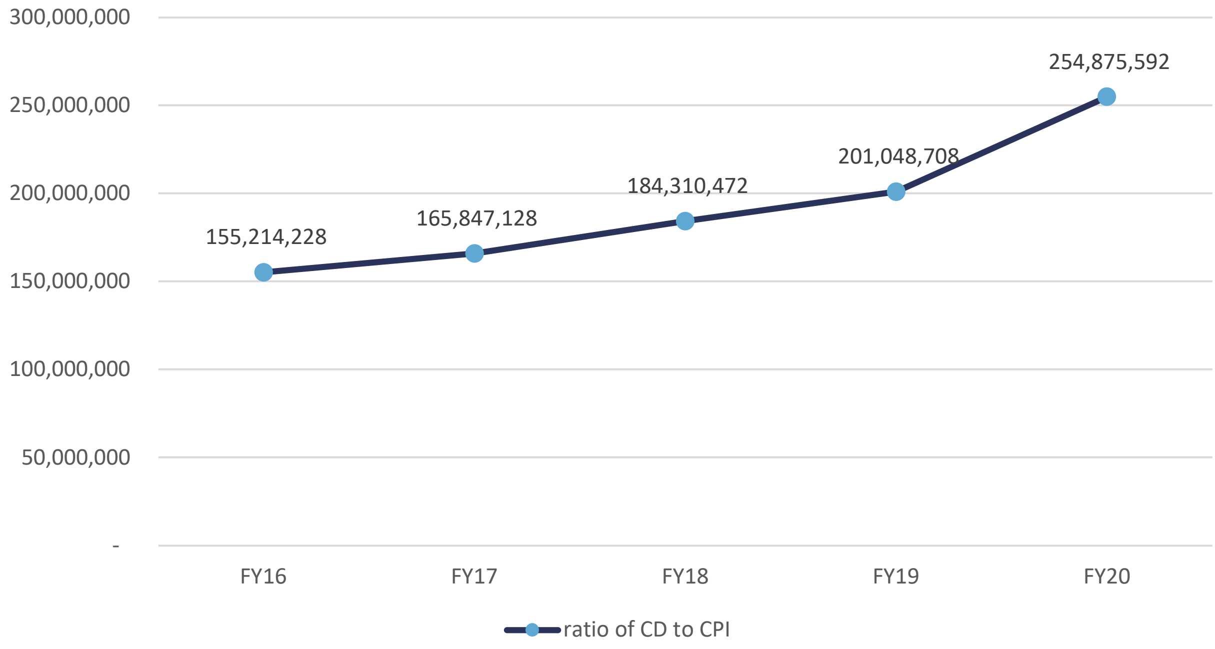
Source: IGTO calculated using CD information in ATO Annual Report (FY16) and ATO provided information (FY17–FY20) as well as publicly available ABS information.

Figure 11 demonstrates that collectable debt levels have risen at a higher rate than the growth rate in the labour force from FY16 to FY20. The ratio of collectable debt to the number of people employed increased from $1,601 of collectable debt per person employed in FY16, to a ratio of $2,759 of collectable debt per person employed in FY20.

It is important to note that collectable debt in Figure 11 includes amounts which are owed by entities other than individuals. The chapter on client experience groups below goes into further detail on collectable debt levels broken up by different taxpayer groups. The ratio in Figure 11 demonstrates that collectable debt levels of all entities have risen relative to labour force growth.

81 ABS Labour Force; Employed total; Persons; Original, Australia (6202.0), January 2021.

Figure 12: Ratio of collectable debt to Wage Price Index[82] from FY16 to FY20 (point in time data as at 30 June)



Source: IGTO calculated using CD information in ATO Annual Report (FY16) and ATO provided information (FY17–FY20) as well as publicly available ABS information.

Figure 12 demonstrates that collectable debt levels have increased at higher rate than wage prices from FY16 to FY19.

International Comparison

Collectable debt in Australia compares favourably with some other jurisdictions.[83] In its biennial report on tax administration, the OECD reported that:

> *In 2017, the average arrears to net revenue ratio was 32%. However, as in past years, it remains heavily influenced by the very large ratios of Brazil, Chile, Georgia, Greece, Italy, Malta and Peru. If these jurisdictions are removed the average reduces to around 15% of net revenue.*[84]

82 ABS Wage Price Index, Quarterly Index; Total hourly rates of pay excluding bonuses; Australia; Private and Public ; All industries (6345.0), December 2020

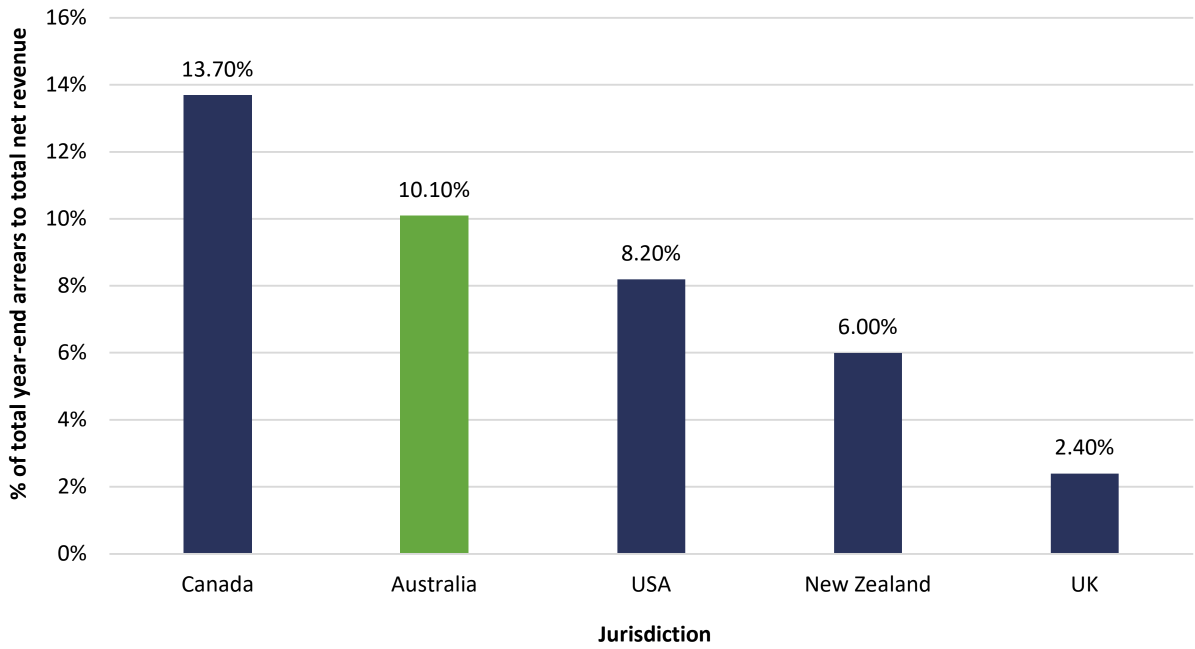
83 Above n 5.

84 Ibid, p 94.

5. MEASURES OF ATO DEBT LEVELS RELATIVE TO ECONOMIC PERFORMANCE MEASURES

The ATO has previously reported to the OECD that its ratio of total year-end tax arrears[85] to total net revenue for 2017 was 10.1%,[86] ranking it 22nd in a group of 52 participating jurisdictions. The ATO's ratio exceeded those reported by the United Kingdom (2.4%), New Zealand (6.0%), and the United States (8.2%) but was less than the ratio reported by Canada (13.7%).[87] These figures were self-reported by the respective jurisdictions to the OECD as part of a research project and accordingly, variances may be in part due to different reporting and data analysis that each jurisdiction has adopted.

Figure 13: Ratio of total year-end tax arrears to total net revenue – OECD comparison 2017



Source: OECD

In relation to collectable tax arrears[88] as a proportion of total tax arrears, the ATO reported 57.9%, placing it 18th out of a cohort of 40 jurisdictions, and suggesting that almost half of tax debts owing in Australia were as a result of ongoing tax disputes or are unable to be collected. The ATO's ratio exceeded the United States (40.2%) but was less than the United Kingdom (91.4%), New Zealand (76.3%) and Canada (74.6%).[89]

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85 The OECD defined "total tax arrears" is defined as the total amount of tax that is overdue for payment at the end of the fiscal year and includes any interest and penalties. The term includes tax arrears whose collection has been deferred (e.g., as a result of payment arrangements).

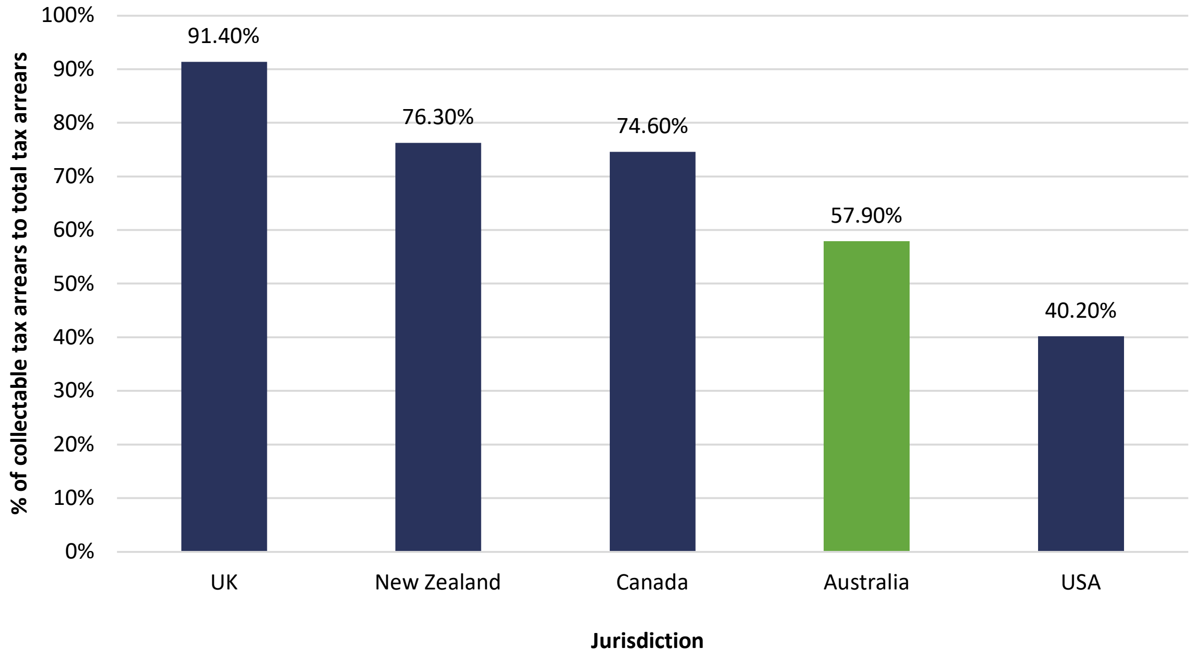
86 This ratio differs from the ATO's annual report ratio of collectable debt to net tax collections, as the OECD uses total net revenue as a comparative base and total tax arrears includes disputed debts.

87 Above n 5, p 95.

88 The OECD defines "Collectable tax arrears" is the total arrears figure less any disputed amounts or arrears which for other reasons are unable to be collected, but where write off action has not yet occurred.

89 Organisation for Economic Cooperation and Development (OECD), *Tax Administration 2019 Comparative Information on OECD and Other Advanced and Emerging Economies* (2019) www.oecd.org p 95.

Figure 14: Collectable tax arrears as a proportion of total tax arrears – OECD comparison 2017



Source: OECD

Figure 14 highlights some of the difficulties associated with international comparisons of this kind. Australia's figures show that just slightly more than half of its debt book is collectable debt – compared to the UK which has 91% of its debt book being undisputed.

The reporting of collectable debt may be influenced by different statutory regimes and definitions, which determine when a debt crystallises. In some jurisdictions, a tax debt does not crystallise if a dispute or challenge to the underlying liability is on foot. The information is presented by way of comparative information only and is not intended as a basis for conclusions in the absence of further, in depth investigation and analysis.

6. OUR FINDINGS IN DETAIL – HEADS OF TAX

Overview

Collectable debt can be dissected into the underlying taxes to which the debt relates. The ATO collects revenue through a range of collection systems, including income tax, GST and excise duty.[90] In its Annual Report 2019-20, the ATO divides its collectable debt balance by its three primary 'revenue types' which are responsible for raising related tax liabilities. The three main revenue types are income tax, activity statements and SGC, which account for approximately 99% of total collectable tax debt in FY17, FY18, FY19 and FY20. [91]

The ATO could not provide the IGTO with a breakdown of collectable debt by heads of tax for FY16.

The $5.55 billion increase in the ATO's collectable debt levels from FY17 to FY19 are explained as follows:

- 37% related to income tax;
- 21% to PAYGW;
- 17% to PAYGI;
- 8% to GST;
- 8% to SGC;
- 7% to unattributed Activity Statement debt; and
- 2% to all other taxes.

The $7.76 billion increase from FY19 to FY20 can be broken down as follows:

- 22% related to income tax;
- 22% to PAYGW;
- 18% to PAYGI;
- 47% to GST;
- 2% to SGC;

90 Commissioner of Taxation, above n 35, p 47.

91 Ibid, section 6, table 6.12 and table 6.13, pp 177-178; Commissioner of Taxation, *Annual Report 2019-20* (2020), section 6, table 6.12 and table 6.13, pp 194-195.

- -13% to unattributed for Activity Statement debt; and
- 3% to all other taxes.

When the entire period from FY17 to FY20 is examined, the $13.31 billion increase can be broken own as follows:

- 28% related to income tax;
- 21% to PAYGW;
- 18% to PAYGI;
- 30% to GST;
- 4% to SGC;
- -5% to unattributed Activity Statement debt; and
- 3% to all other taxes.

ATO Annual Reporting on Activity Statement Taxes

The ATO's annual report 2019-20 combines collectable debt attributable to PAYGW, PAYGI and GST into a single amount of debt relating to 'activity statement taxes'. This is because both PAYGW and PAYGI are both reported on activity statements despite being liabilities relating to income tax. The ATO's annual report 2019-20 does not provide a breakdown of collectable activity statement debt into its constituent taxes, so it does not publicly report how much activity statement debt relates to GST, PAYGI or PAYGW.

As such, the IGTO sought more granular information about the revenue types which contribute to collectable debt than is provided for in the ATO's annual report. This report includes the breakdown of activity statement collectable debt into its constituent heads of tax – GST, PAYGW, PAYGI and unattributed activity statement taxes.

The issue of transparent reporting is significant, with $14.3 billion in collectable activity statement debt outstanding at the end of FY19 and $19.9 billion in collectable activity statement debt outstanding at the end of FY20.[92]

The majority of activity statement taxes relate to PAYGW and PAYGI, taxes which progressively collect income tax.

FBT and excise tax are reported separately and are included in 'All other taxes' in a later section.

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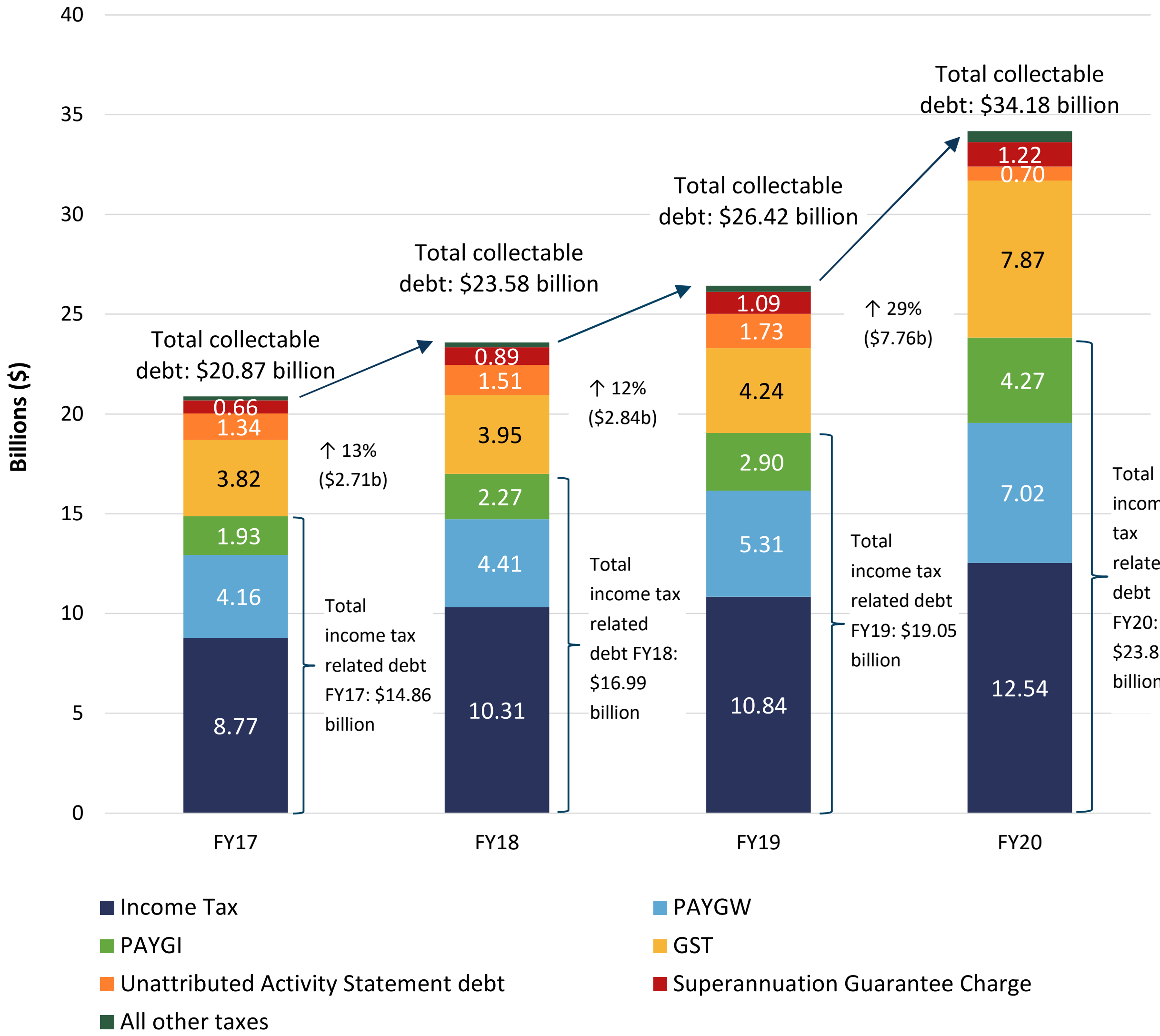
92 Commissioner of Taxation, above n 35, table 6.13, p 178; *Commissioner of Taxation, Annual Report 2019-20* (2020), table 6.13, p 195.

Analysis by Heads of Tax

Figure 15 below displays the breakdown of total collectable debt by the ATO's main revenue types from FY17 to FY20.

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



Source: ATO-provided data

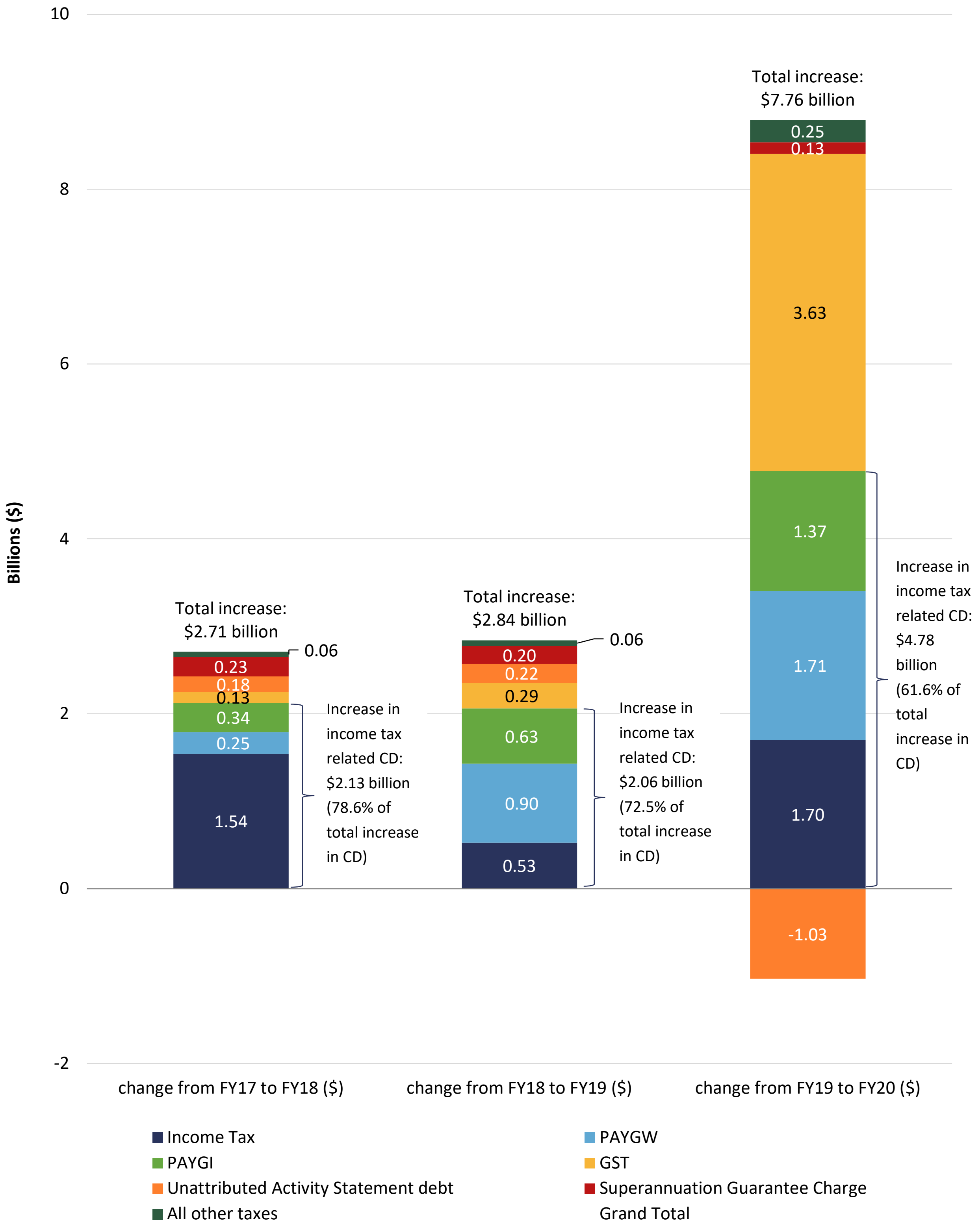
There was an increase in collectable debt levels attributable to all major tax types from FY17 to FY20, except for unattributed activity statement debt (debt from taxes reported on activity statements which are not related to either PAYGI, PAYGW or GST), which fell by $640 million over the period.

Table 5: Increase in collectable debt by revenue type

Head of Tax	change from FY17 to FY18 ($)	% of total change from FY17 to FY18	change from FY18 to FY19 ($)	% of total change from FY18 to FY19	change from FY19 to F20 ($)	% of total change from FY19 to FY20	Total change from FY17 to FY20	% of total change from FY17 to FY20
Income Tax	$1.54 billion	57%	$0.53 billion	19%	$1.70 billion	22%	**$3.77 billion**	**28%**
PAYGW	$0.25 billion	9%	$0.90 billion	32%	$1.71 billion	22%	**$2.86 billion**	**21%**
PAYGI	$0.34 billion	12%	$0.63 billion	22%	$1.37 billion	18%	**$2.34 billion**	**18%**
Sub-total of income tax related debt (income tax, PAYGI and PAYGW)	$2.12 billion	78%	$2.06 billion	73%	$4.78 billion	62%	**$8.96 billion**	**67%**
GST	$0.13 billion	5%	$0.29 billion	10%	$3.63 billion	47%	**$4.04 billion**	**30%**
Superannuation Guarantee Charge	$0.23 billion	8%	$0.20 billion	7%	$0.13 billion	2%	**$0.56 billion**	**4%**
All other taxes	$0.06 billion	2%	$0.06 billion	2%	$0.25 billion	3%	**$0.37 billion**	**3%**
Unattributed Activity Statement debt	$0.18 billion	6%	$0.22 billion	8%	-$1.03 billion	-13%	**-$0.64 billion**	**-5%**
Total Change	**$2.71 billion**	**100%**	**$2.84 billion**	**100%**	**$7.76 billion**	**100%**	**$13.31 billion**	**100%**

Source: ATO-provided data

Figure 16: Increase in collectable debt by revenue type, FY17–FY20



Source: ATO-provided information

Income taxes, PAYGI and PAYGW

Income tax is the largest component of collectable debt in FY17, FY18, FY19 and FY20. When levels of total collectable income tax are combined with collectable PAYGI and PAYGW taxes, total income tax-related collectable debts account for (on average) 71% of total collectable debt from FY17 to FY20. Given income taxes account for 78% of the total net tax collections over the same period (as per Figure 1), the percentage of collectable debt attributable to income taxes does not appear to be remarkable except for the generally progressive nature of income tax collections.

From FY17 to FY20, income tax-related collectable debts increased by $8.96 billion from FY17 to FY20, constituting 67% of the increase in collectable debt over the period. Over the same period, it is worthwhile noting that there has been a $45 billion increase in net tax collections, of which $41 billion (or 92%) was attributable to income tax-related liabilities. Accordingly, it would have been expected that the increase in collectable debt attributable to income tax-related liabilities would have been higher. However, when the figures are examined, it is clear that the increase in GST collectable debt (which increased 106% between FY17 and FY20) has outpaced income tax collectable debt.

Another way to consider the comparison between increases in income tax collectable debt and net tax collections of income tax related liabilities is that for every dollar of income tax collected from FY17 to FY20, there was an average of 6.1 cents in income tax collectable debt outstanding at the end of each financial year.

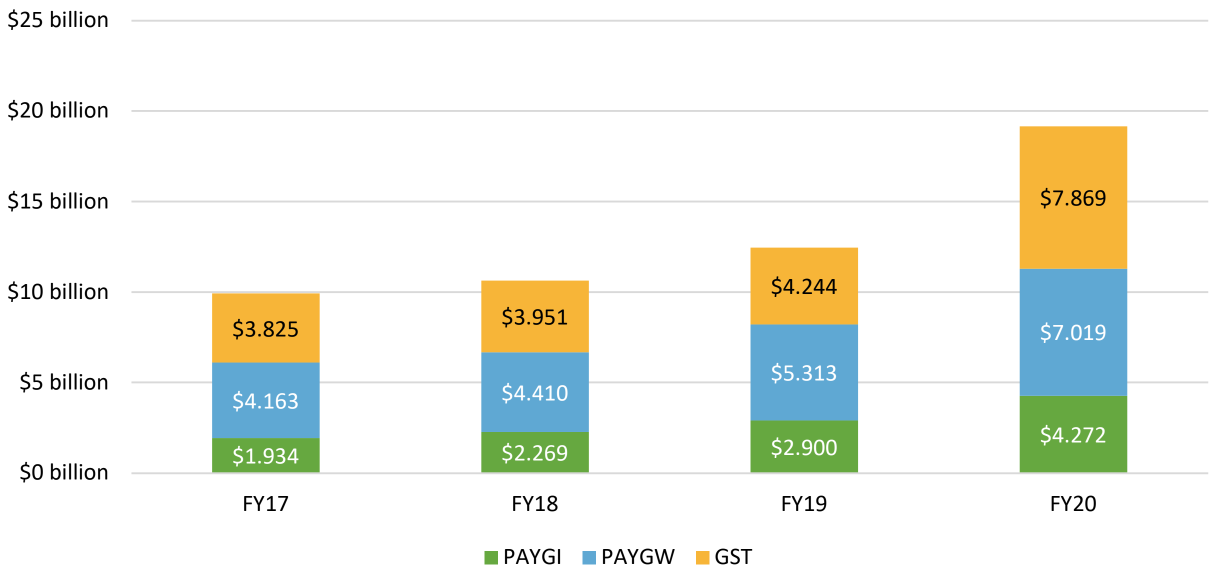
Despite collectable debts relating to the ‘income tax product’ being lower than expected in FY20, ‘income tax related debts’ still made up a majority of total collectable debts. Further investigation may be required to investigate why collectable debts related to income taxes are so high. Potential areas for future investigation include:

- Whether there is a problem with taxpayers not managing cash-flow to pay progressive payments of PAYGI on time;
- Under-reporting of progressive payments of PAYGI, resulting in a large income tax bill upon lodgement of tax returns;
- Whether material amounts of income are being earned which is not currently captured by the progressive tax collection system; and
- Whether there is a notification and communication issue, particularly with companies which do not receive Notices of Assessments for company income tax returns.

Activity statement debts

As noted above, the ATO reports Activity Statement debts to include undisputed debts primarily arising from unpaid GST, PAYGW and PAYGI.

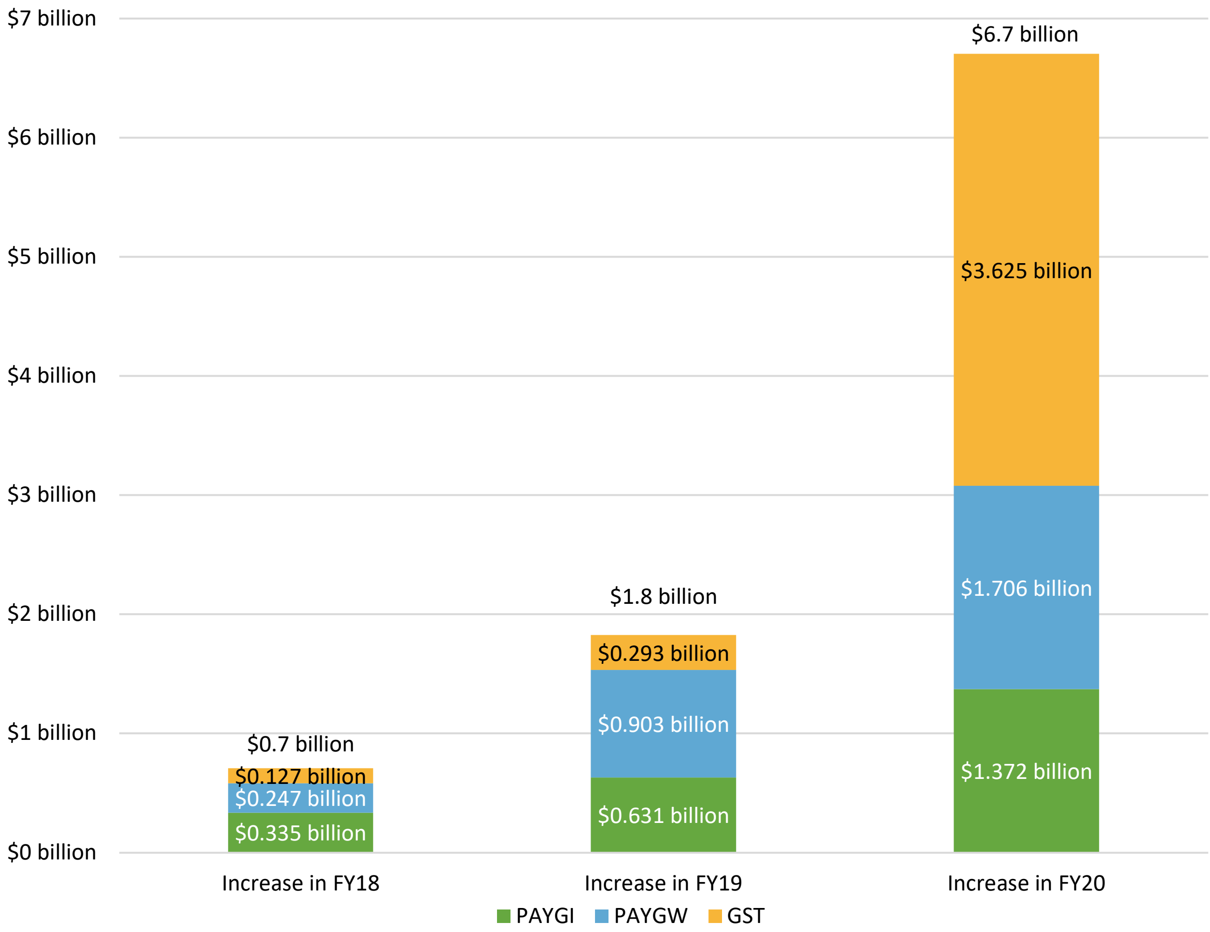
Figure 17: Activity Statement components – FY17 to FY20



Source: ATO-provided data

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

Figure 18: Growth in Activity Statement Debt by Components – FY17 to FY20



Source: ATO-provided data

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

An average of 54.3% of collectable debt from FY17–FY20 is attributable to taxes reported in activity statements.

Activity statement debt increased by 26% from FY17–FY19, which was slightly lower than the total increase in collectable debt of 27% for the same period. In FY20, activity statement debt increased by 40% from its FY19 levels, which was greater than the 29% increase in total collectable debt over the same period. Therefore, the increase in collectable debt between FY19 and FY20 was driven, in large part, by increases in activity statement debt.

It is difficult to compare the increase in collectable activity statement debt to net activity statement tax collections, as the ATO does not report separately on the amount of net tax collections received from activity statements. Greater granularity on reporting of net tax collections, including reporting on net PAYGI collections, would allow for improved understanding of whether changes in collectable activity statement debt correlate to changes in net activity statement tax collections.

A breakdown of each of the major constituent taxes (PAYGW, GST and PAYGI) which make up activity statements is set out below.

PAYG Withholding

PAYGW made up the largest portion of collectable activity statement debt, with $5.31 billion outstanding at year end FY19 and $7.02 billion outstanding at year end FY20. PAYGW mainly applies to businesses, which are required to withhold (and remit) tax from payments made to employees, company directors and office holders, as well as payments to enterprises that do not quote an ABN. Arguably, it is to be expected that a significant timing issue would be associated with PAYGW.

Between FY17 and FY19, collectable PAYGW debt increased by $1.15 billion (28%). Between FY19 and FY20, collectable PAYGW debt increased by a further $1.71 billion (32%). When the entire period is considered, PAYGW increased by $2.86 billion (69%).

PAYGW made up 19.9% of total collectable debt from FY17–FY20, whereas gross PAYGW made up 50% of net tax collections over the same period. Accordingly, for every dollar of PAYGW collected between FY17–FY20, there was an average of 2.6 cents of collectable PAYGW debt outstanding at the end of the financial year.

Further investigation may be required to understand why more PAYGW is being paid on time compared to other taxes and potentially uncover what lessons can be learned from the collection of PAYGW that can be used to collect other taxes. Potential explanations include that the ATO has had the power to recover companies' unpaid PAYGW debt from directors personally since 1993, through issuing Director Penalty Notices (DPNs).[93] However, this is not a complete explanation, as the ATO has been able to issue DPNs to recover unpaid SGC debt from Directors personally since 30 June 2012,[94] and as will be discussed

93 The director penalty regime was introduced in 1993 under Division 9 of the *Income Tax Assessment Act 1936* (ITAA 1936) as a result of the enactment of the *Insolvency (Tax Priorities) Legislation Amendment Act 1993*. The regime that was set out in Division 9 of the ITAA 1936 was rewritten into Division 269 of Schedule 1 to the TAA 1953 in 2010.

94 *Tax Laws Amendment (2012 Measures No.2) Act 2012*, which made legislative amendments to the directors' penalty provisions in Division 269 of Schedule 1 to the TAA 1953.

below, the proportion of collectable debt attributable to SGC is greater than the proportion of net tax collections attributable to SGC. As will also be noted in relation to SGC, PAYGW debts are subject to the Single Touch Payroll system which requires businesses with employees to report and pay PAYGW amounts in a more contemporaneous manner. This is expected to further reduce the level of outstanding PAYGW liabilities over time.

GST

Collectable GST debt increased by $419 million (11%) from FY17–FY19. Over the same period, total collectable debt increased by 27% from FY17 to FY19. This suggests that GST is only part of the explanation for the increase in collectable debt from FY17–FY19.

GST accounted for 17% of the average collectable debt balance at year end between FY17 and FY19 and made up a similar proportion of net tax collections over the same period (16% from FY17–FY19).

GST collectable debt increased by a further $3.63 billion between FY19 and FY20, which equates to an increase in GST collectable debt of 85% over the period. Net tax collections from GST fell by $4.97 billion in FY20 when compared to FY19. That is, GST collected from taxable supplies made exceeds income tax credits to be claimed from acquisitions.

This increase in collectable GST debt in FY20 constituted 47% of the total increase in collectable debts over the year, whereas only 15% of the net tax collections were attributable to GST in FY20.

Based on the above figures, for every dollar of GST collected between FY17 andFY20, there was an average of 8.0 cents of GST collectable debt outstanding at the end of the financial year. As a comparison, collectable debt levels for GST and PAYGW were relatively similar ($19.89 billion and $20.91 billion respectively) from FY17–FY20, however net GST collections were a third of net PAYGW collections over the period ($248.85 billion and $790.77 billion respectively).

It is likely that the impacts of the 2019 bushfires and COVID-19 contributed to the increase in GST collectable debt however the nature and extent of the impact are unclear. This is because GST is tied to revenue performance (i.e., it is a function of sales). Accordingly, the increase runs counter-intuitively to the impacts of the 2019 bushfires and COVID-19 pandemic – if a business was struggling as a result of pandemic restrictions, sales would decrease and therefore GST liabilities would also correspondingly decrease. Further investigation may be required to understand the effects of the 2019 bushfires and COVID-19 on the increase in GST debt and whether collectable GST levels moderate in the future.

It is unclear why GST is relatively less likely to be collected compared to other activity statement taxes like PAYGW. One potential reason is that the ATO has only been granted to the power to make directors of companies personally liable for GST debt since 1 April 2020.[95] It may be beneficial to conduct a future investigation regarding the recent expansion of the DPN regime to include GST liabilities and the effect it has on collectable GST debts.

95 *Treasury Laws Amendment (Combating Illegal Phoenixing) Act 2019* extends the director penalty regime in Division 269 in Schedule 1 to the TAA 1953 to make the directors of a company personally liable for the company's unpaid GST, luxury car tax (LCT) and wine equalisation tax (WET) in some circumstances.

PAYG Instalments

Pay As You Go instalment (PAYGI) debt was the third-largest component of activity statement debt in FY17 to FY19, reaching $2.90 billion at year end FY19 and $4.27 billion in FY20. PAYGI collectable debt increased by $966 million (50%) from FY17 to FY19. The $966 million increase in PAYGI collectable debts from FY17–FY19 was despite the Individuals segment reducing its activity statement debt by approximately $37 million from FY17–FY19.

PAYGI debt increased by a further $1.37 billion (47%) in the year from FY19 to FY20, which outpaces the overall increase in total collectable debt over the same period. This is despite the ATO allowing businesses to vary PAYGI amounts to zero for the March 2020 quarter.[96]

A key focus of the IGTO's review investigation into aspects of the Pay As You Go Instalment System completed in January 2018 was individual taxpayers' awareness and understanding of the PAYGI system.[97] As explained above, it is difficult to understand how the increase in PAYGI collectable debt compares to net PAYGI collections, as the ATO does not currently report net PAYGI collections.

As noted above in relation to PAYGW and GST, further granularity of information in relation to these liabilities may shed further light on the profile of taxpayers owing these amounts and the drivers for their increasing contribution to total collectable debt.

Unattributed activity statement debt

The remainder of activity statement debts, which were unattributed in the ATO's data, increased by $394 million (30%) from FY17 to FY19. Unattributed activity statement debt decreased by $1.03 billion from FY19 to FY20 (-60%). No other tax type saw a decrease in collectable debt from FY19 to FY20. The decrease in debt relating to unattributed activity statement debt may be due to the ATO attributing a larger portion of activity statement debts into either GST, PAYGW or PAYGI, which would explain a lower amount of activity statement debt which is unaccounted for over the period. However, further investigation would be required to find the underlying cause of the decrease.

Superannuation Guarantee Charge

If an employer does not pay an employee's super guarantee on time and to the right fund by the due date, the ATO may impose the superannuation guarantee charge (SGC) on the employer which includes:

- Superannuation guarantee (SG) shortfall amounts, which is then paid onto the employee.
- Nominal interest on those amounts (currently 10%), which is later distributed by the ATO to the employees to compensate them for 'lost earnings'.
- an administration fee of $20 per employee, per quarter. This amount is retained by the ATO for the costs it incurs in administering and collecting SGC from employers.[98]

96 Above n 22.

97 Above n 33.

98 *Superannuation Guarantee (Administration) Act 1992*, s 17.

From FY17–FY20, SGC collectable debt increased by $564 million (86%). Collectable SGC debt constituted 3.67% of total collectable debt from FY17–FY20, whereas it only constituted 0.12% of net tax collections over the same period. Accordingly, for every dollar of SGC collected from FY17–FY20, there was an average of $1.95 collectable SGC debt outstanding at the end of each financial year. As a comparison, for every dollar of PAYGW collected over the same period, there was an average of 2.6 cents collectable PAYGW debt outstanding at the end of the year.

Collectable SGC debt increased at the highest rate of any single tax type from FY17 to FY19, increasing by 65% over the period. This, however, is not the case when FY20 increases are taken into account.

Given SGC only becomes payable once an employer doesn't pay an employee's super guarantee on time and to the right fund by the due date, further investigation may be required to understand why it appears employers are increasingly not meeting their superannuation obligations on time. The ATO has explained SGC accounts are not viewable in the Business Portal, so the lack of visibility for businesses of their SGC debt may be contributing to the increase in collectable SGC debt.[99]

Although both PAYGW and SGC represent 'unpaid' components of an employee's remuneration – amounts which are withheld and/or are required to be remitted and paid by the employer, on the employee's behalf – there is a material difference between the two. The non-payment of either can be viewed as a form of wage theft but only SGC is ultimately wage theft which affects employees. This is because the non-payment of SGC adversely impacts the employee's superannuation balance whereas the non-payment of PAYGW adversely impacts consolidated revenue collections.

PAYGW amounts are the employee's (withheld) salary and wages which are remitted to offset their individual income tax liabilities. These amounts are withheld and paid by the employer to the ATO. However, regardless of whether or not the employer makes this payment, the employee will receive a credit equal to the amount withheld on their income tax assessment. The employee is therefore not practically affected by the employer's non-payment, and the Commonwealth bears the risk of non-payment. It is worthwhile noting that in 2012, subdivision 18-D to the Schedule 1 of the TAA 1953 was added to reverse any economic benefits of PAYGW amounts for directors or their associates if the company did not comply with its obligation to pay withheld amounts to the Commissioner.[100] The Commissioner may give notice that the director or associate is entitled to the credits again after the company complies with its PAYGW payment obligations.

In the case of SGC, where an employer fails to pay Superannuation Guarantee (an entitlement of the employee), it is up to the ATO to investigate and issue assessments for SGC to recover the unpaid superannuation. Any amounts successfully recovered are on-paid by the ATO to the employee's superannuation. For SGC debts, therefore, the employers' non-payment directly and adversely impacts the employee rather than consolidated revenue collections.

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99 The ATO decommissioned the Business Portal in early 2021. It has been replaced with Online Services for Business. SGC debts are visible on the new platform.

100 *Taxation Administration Act 1953*, Sch 1, s 18-120.

It is noted that the vast majority of employers (since 1 July 2018 for those with 20 or more employees, and 1 July 2019 or those with 19 or fewer employees) have been required to undertake real-time reporting of SG and PAYGW through the Single Touch Payroll system, and SG payments are reported real-time through SuperStream. Future investigations may examine the effectiveness of STP and SuperStream in reducing collectable debt attributable to PAYGW and SGC.

As explained above, directors of companies can be made personally liable for SGC debt through the use of DPNs. Further investigation may be required to understand the effectiveness of DPNs in collecting SGC debt.

The IGTO investigates individual complaints (typically by employees) into the ATO's handling of unpaid superannuation notifications. Complainants have often expressed their dissatisfaction with perceived inaction on the part of the ATO in recovering unpaid superannuation. Whilst the IGTO has actively worked to provide independent assurance to complainants that the relevant notifications are being considered by relevant areas, there are limitations on the amount of information that may be disclosed by the IGTO or the ATO in relation to actions taken against an employer. This has resulted in perceptions and conjecture by some complainants that the ATO is not devoting sufficient efforts to recover SGC as, unlike other tax liabilities, the majority of funds recovered do not form a part of consolidated revenue and are instead on-paid to the taxpayer's superannuation fund.

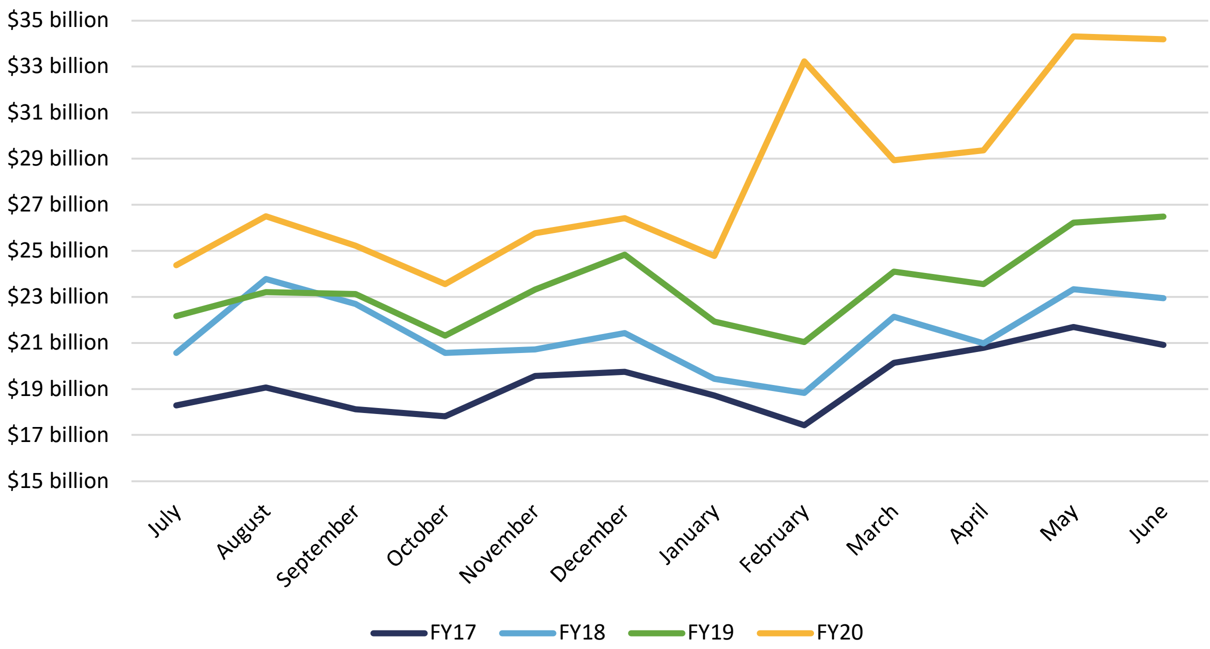
The IGTO has not in recent years broadly investigated the ATO's approach and management of superannuation guarantees matters and therefore does not have any insights into the ATO's processes in relation to SGC recovery. This may be an area for future IGTO review investigation.

Cyclical fluctuations in collectable debt

Collectable debt figures vary daily as new liabilities are raised while others are paid. This is to be expected. At a broader level, throughout each financial year, levels of collectable debt fluctuate also from month to month to reflect compliance obligations associated with lodgement and payment, built into the design of the tax system. These cyclical trends were compared with lodgement and payment due dates, to confirm if fluctuations are reasonable. An increase in collectable debt around the time of regular lodgement and payment dates would be expected.

The peak amounts outstanding appear in the months of December and then March, April, May and June.

Figure 19: Monthly balances of total collectable debt – FY17 to FY20



Source: Constructed using ATO-provided data

Table 6: Monthly balance of total collectable debt (non-cumulative) – FY17 to FY20

Months	FY17 ($bn)	FY18 ($bn)	% Change FY17–FY18	FY19 ($bn)	% Change FY18–FY19	FY20 ($bn)	% Change FY19–FY20
July	$18.28	$20.56	12.5%	$22.16	7.8%	$24.37	10.0%
August	$19.06	$23.79	24.8%	$23.21	-2.4%	$26.50	14.2%
September	$18.12	$22.69	25.3%	$23.12	1.9%	$25.23	9.1%
October	$17.82	$20.56	15.4%	$21.32	3.7%	$23.56	10.5%
November	$19.57	$20.72	5.9%	$23.32	12.6%	$25.77	10.5%
December	$19.75	$21.43	8.5%	$24.83	15.9%	$26.41	6.3%
January	$18.71	$19.44	3.9%	$21.92	12.8%	$24.78	13.0%
February	$17.43	$18.84	8.1%	$21.04	11.7%	$33.22	57.9%
March	$20.14	$22.13	9.9%	$24.09	8.9%	$28.93	20.1%
April	$20.79	$20.98	0.9%	$23.56	12.3%	$29.36	24.6%
May	$21.70	$23.33	7.5%	$26.22	12.4%	$34.31	30.9%
June	$20.91	$22.94	9.7%	$26.50	15.5%	$34.18	29.0%

Source: ATO-provided data

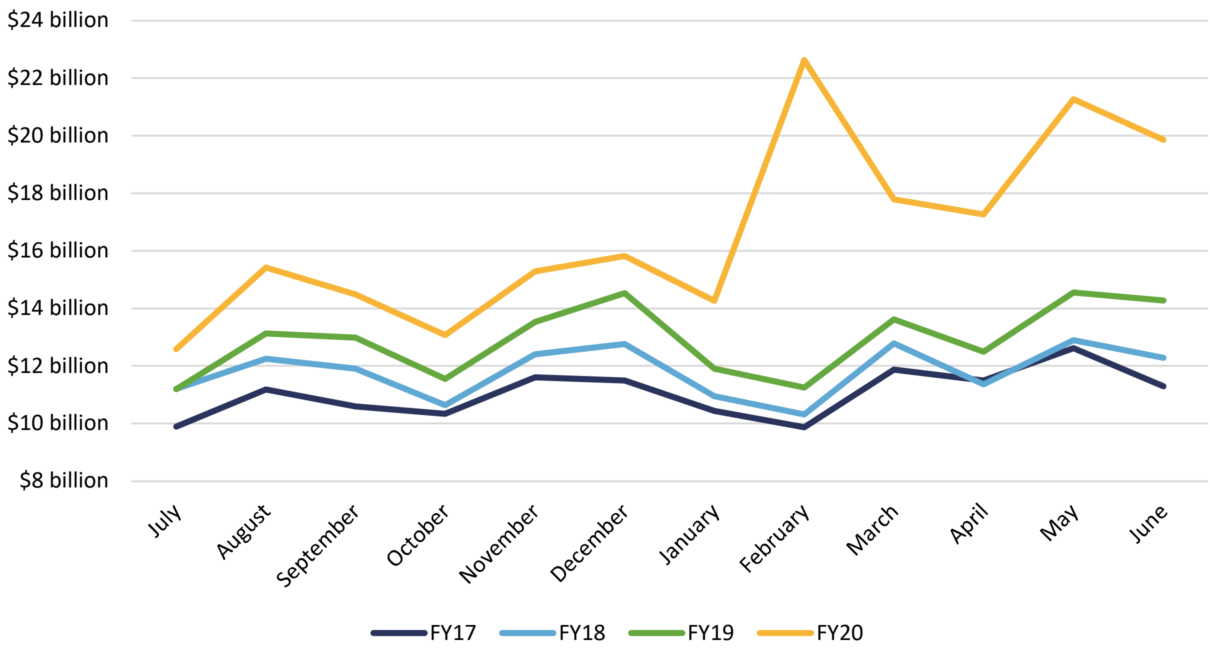
When total collectable debt levels are examined month by month, and their percentage changes over the same periods in prior years are analysed, a number of anomalies appear to emerge. Firstly, the block between August and October FY17 to FY18 reported percentages changes of between 15.4% and 25.3%. This, on its own, does not immediately raise concern as the August to October period is particularly busy due to the lodgement of the Q4 BAS (due on 28 July following end of financial year) as well as general tax time income tax lodgements. The ATO has explained (and as will be seen in a later chart), the significant August percentage change in FY18 was due to the ATO raising two large assessments flowing from its audit activities. Between FY18 and FY19, the change over this period is significantly reduced and becomes more consistent with prior years when FY19 to FY20 is examined.

A second period of significance is the percentage change between FY19 and FY20 for the months of February to June 2020. This period marked a significant increase over the same period in prior years. February, in particular, reported a 57.9% change over the same period in FY19 – this is almost five times the change reported between FY18 and FY19. The months that followed February 2020 also exhibited higher changes than in prior years.

It is noteworthy that February 2020 marked the tail end of the 2019 bushfire impacts and, at the same time, the beginning of the increased COVID-19 pandemic impacts and restrictions. Much of the lockdown impacts across Australian States and Territories occurred between April and May 2020 and may have been the reason for the higher percentage changes over prior years.

A further examination of these changes in relation to activity statement and income tax, as the main components of collectable debt, shows how each area of tax may have contributed to the changes noted above.

Figure 20: Monthly balance of collectable activity statement debt – FY17 to FY20



Source: Constructed using ATO-provided data

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Table 7: Monthly balance of collectable activity statement debt (non-cumulative) – FY17 to FY20

Months	FY17 ($bn)	FY18 ($bn)	% Change FY17–FY18	FY19 ($bn)	% Change FY18–FY19	FY20 ($bn)	% Change FY19–FY20
July	$9.89	$11.20	13.2%	$11.19	-0.1%	$12.58	12.4%
August	$11.19	$12.25	9.5%	$13.13	7.2%	$15.41	17.4%
September	$10.59	$11.90	12.4%	$12.98	9.1%	$14.48	11.6%
October	$10.34	$10.63	2.9%	$11.55	8.6%	$13.07	13.2%
November	$11.60	$12.41	6.9%	$13.53	9.0%	$15.28	13.0%
December	$11.50	$12.76	11.0%	$14.53	13.8%	$15.82	8.9%
January	$10.44	$10.95	4.9%	$11.90	8.7%	$14.26	19.9%
February	$9.88	$10.32	4.5%	$11.25	9.0%	$22.63	101.1%
March	$11.87	$12.78	7.7%	$13.62	6.6%	$17.78	30.6%
April	$11.49	$11.37	-1.1%	$12.49	9.9%	$17.26	38.2%
May	$12.62	$12.90	2.2%	$14.55	12.8%	$21.27	46.2%
June	$11.30	$12.28	8.7%	$14.27	16.2%	$19.86	39.1%

Source: ATO-provided data

Activity Statement debts largely follow the cycle of quarterly BAS lodgements. That is, a quarterly BAS is usually due for lodgement on the 28th day in the month following the end of the quarter (i.e., 28 April, 28 July, 28 October) with the exception of the December quarter where the BAS is due on 28 February. In each of the years examined, and as highlighted in the chart above, the month following the BAS due date sees increases in collectable debt levels.[101] This occurs consistently across all years. Further information about lodgement due dates can be found in Appendix D.

Noteworthy is the period from February 2020 onwards in which a significantly higher proportion of debt is reported when compared with prior years. February 2020 in particular reported a 101% increase over the same period in prior years and each of the months following also reported significantly higher percentage increases.

The ATO has explained that February 2020 attracted such a significant increase in collectable activity statement debt due to a combination of two events:

- February 28, when Q2 BAS is due for lodgement and payment, fell on a Friday and, as such, any payments made would not be processed until the following Monday resulting in the reported liability being recorded as a collectable debt in February, which is then offset by any payments received in early March; and

101 ATO, *Due Dates for Lodging and Paying* (28 June 2016) https://www.ato.gov.au/Business/Reports-and-returns/Due-dates-for-lodging-and-paying/.

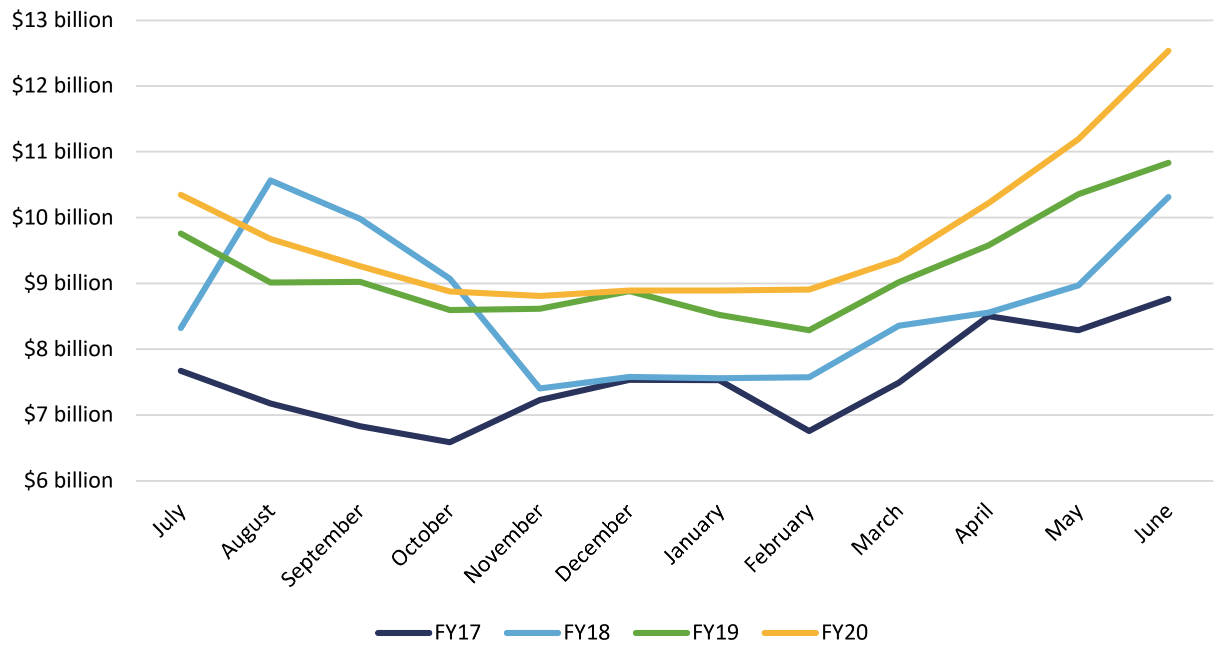
- The ATO's Activity Statement Financial Processing (ASFP) program compounded the issue by changing the manner and timing that debts are recorded. Prior to ASFP, activity statement debts did not appear in the debt book until seven days after the due date for payment. Therefore, if a debt were due on Friday February 28 and was paid on Monday 3 March, no debt amount would be added to the debt book. However, post-ASFP, activity statement debts are added to the debt book as soon as they are due.

This period pre-dated any announcements in relation to coronavirus economic response measures and was still well-within deferral periods for those impacted by the 2019 bushfires.

In subsequent months, however, one could argue that the increased collectable debt activity was driven in part by taxpayers lodging their BAS so that their details on the ATO's systems would be up to date, based on a perception that this was necessary in order to access coronavirus economic response measures, such as Boosting Cash Flow and JobKeeper.

In discussions with the ATO, it has been hypothesised that the economic uncertainties in the early parts of 2020 due to the onset of the COVID-19 pandemic may have resulted in taxpayers making their lodgements on time, but holding onto cash as a comfort and security measure until greater certainty could be ascertained about the economic impacts of the pandemic and associated shutdowns on their business. Further exploration and examination of individual case studies would assist to provide further insight on whether this hypothesis is borne out.

Figure 21: Monthly balance of collectable income tax debt – FY17 to FY20



Source: Constructed from ATO-provided data

Table 8: Monthly balance of collectable income tax debt – FY17 to FY20

Months	FY17 ($bn)	FY18 ($bn)	% Change FY17–FY18	FY19 ($bn)	% Change FY18–FY19	FY20 ($bn)	% Change FY19–FY20
July	$7.67	$8.32	8.5%	$9.76	17.2%	$10.34	6.0%
August	$7.17	$10.57	47.3%	$9.01	-14.7%	$9.67	7.4%
September	$6.83	$9.98	46.2%	$9.02	-9.6%	$9.26	2.7%
October	$6.59	$9.07	37.7%	$8.59	-5.3%	$8.88	3.3%
November	$7.23	$7.41	2.5%	$8.61	16.3%	$8.81	2.3%
December	$7.53	$7.58	0.6%	$8.88	17.2%	$8.89	0.1%
January	$7.53	$7.56	0.4%	$8.52	12.8%	$8.89	4.3%
February	$6.75	$7.57	12.1%	$8.29	9.5%	$8.91	7.4%
March	$7.49	$8.35	11.5%	$9.02	7.9%	$9.36	3.8%
April	$8.50	$8.55	0.6%	$9.58	12.0%	$10.22	6.7%
May	$8.29	$8.97	8.2%	$10.36	15.5%	$11.19	8.1%
June	$8.77	$10.31	17.7%	$10.83	5.1%	$12.54	15.7%

Source: ATO-provided data

Figure 21 and Table 8 above show there is a general increase in the levels of collectable income tax debts from March to June. This correlates with the time that income tax debts become due and payable for those taxpayers lodging tax returns through tax agents. In particular, many income tax returns for entities with registered tax practitioner representation are required to lodge in January, February or by 15 May. Given that over 70% of individual taxpayers and 95% of businesses engage registered tax practitioners to assist with their tax affairs,[102] this should not be surprising.

Overall and when compared with activity statement debt, income tax debts are relatively stable month on month and year on year. As noted earlier, the peak in August FY18 was due to the ATO raising two large audit assessments during that month.

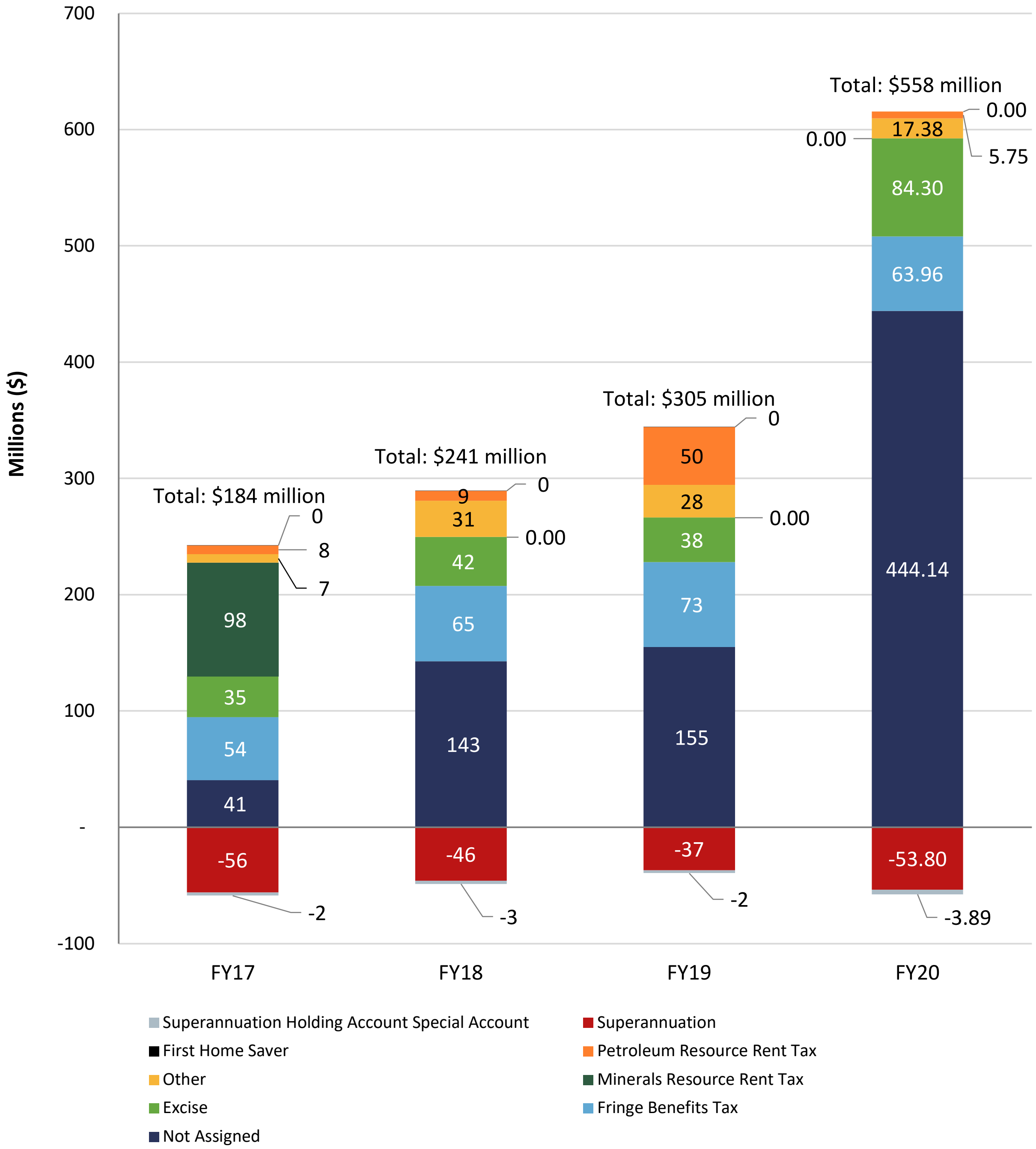
Other taxes

Taxes other than income tax, superannuation guarantee charge and those reported in activity statements accounted for 1.23% of total collectable debt from FY17–FY20.

A breakdown of the other taxes which make up that portion of total collectable debt is included in Figure 22 below.

102 Tax Practitioners Board, *Annual Report 2019-20* (2020) p 3.

Figure 22: Other collectable tax debts FY17–FY20



Source: Constructed from ATO-provided data

The largest component of the residual tax debts is denoted as "not assigned" by the ATO.

The ATO has explained that collectable debt 'not assigned' includes:

- Australian Charities and Not-for-profits Commission Penalties
- Administrative Penalty – Self-Managed Super Fund
- Administrative Reporting Account
- Excess Contributions account
- First Home Super Saver Scheme Account
- Foreign Investment Review Board Account
- Foreign Resident Withholding Purchaser Account
- GST Limited Registration Entity Account
- GST Property credit (relates to GST at settlement measure)
- Miscellaneous amounts – Admin Account – Account where fraudulently claimed amounts are held. For example, if the perpetrator of the fraud had not been identified, the fraudulent amount is removed from the taxpayer account and held on this account
- Purchaser GST Withholding (relates to GST at settlement measure)
- SG Overpaid Distributions Account
- Transfer Balance Account
- Unique Superannuation Identifier
- Unclaimed Super Money Superannuation Account
- Unclaimed Super Money Unmatched Account

Collectable Resource Rent tax debt, which includes both Mineral Resources Rent Tax (MRRT) and Petroleum Resource Rent Tax (PRRT) made up 0.16% of total collectable debt from FY17 to FY20. Resource rent taxes made up 0.26% of total net tax collections over the same period (see Table 1 above).

For every dollar of resource rent tax (PRRT and MRRT) collected from FY17 to FY20, there was an average of 4.0 cents outstanding at the end of the year. This is comparable to PAYGW, for which there was 2.64 cents outstanding at the end of every year for every dollar of PAYGW collected.

Collectable debt relating to MRRT decreased from $98 million to nil from FY17 to FY18 and has remained nil in both FY19 and FY20. The decrease can be explained as the MRRT was repealed on 5 September 2014 and stopped taking effect on 1 October 2014.[103]

There was also a large fluctuation in collectable PRRT debt, which increased by more than 550% from FY17 to FY19, subsequently falling by 88% from FY19 to FY20.

Nevertheless, resource rent taxes are not significant as they constitute a small amount of collectable debt.

Collectable excise debt was $84 million in FY20. Considering net excise collections were $23.35 billion during FY20, levels of collectable excise debt appear immaterial. When taking into account FY17–FY20, there was $91.16 billion in net excise collections, but the total collectable excise debt for FY17 to FY20 was $200 million. That is, for every dollar of excise collected from FY17–FY20, there was only an average of 0.2 cents outstanding in collectable excise debt at the end of each financial year. From FY17–FY20, excise was collected more efficiently when compared to other tax types such as income tax, PAYGW, GST, SGC and RRT. Part of the reason for this may be that entities generally have to obtain excise licenses or permission from the ATO before they can manufacture, produce or store excisable goods, and non-payment of excise may jeopardise their license to operate. [104]

Collectable FBT remained relatively stable, with the combined balances being less than $256 million at year end for each of the financial years from FY17 to FY20. For each dollar of FBT collected from FY17–FY20, there was an average of 1.64 cents outstanding at the end of the financial year. Further investigation may be required to understand the high rate of payment of FBT compared to other taxes.

The ATO included negative debt balances for superannuation and superannuation holding accounts, representing superannuation the ATO holds on behalf of others. The effect of the negative amounts was a reduction in collectable debt by $39 million in FY19 and $58 million in FY20.

103 *Minerals Resource Rent Tax Repeal and Other Measures Act 2014*; ATO, *Minerals Resource Rent Tax (MRRT)* (25 February 2016) https://www.ato.gov.au/Business/Minerals-resource-rent-tax/.

104 ATO, *Excise Equivalent Goods (Imports)* (15 September 2020) https://www.ato.gov.au/Business/Excise-equivalent-goods-(imports)/.

General interest charge (GIC) and Penalties

The definition of a tax liability for tax law purposes includes the general interest charge (GIC) and penalties.[105] Collectable tax debts accordingly are a mix of primary tax, GIC and penalties.

The ATO did not provide data for penalties which are collectable, other than for failure to lodge penalties (FTL penalties). Other penalties the ATO can impose include:

- shortfall penalties (calculated on a shortfall in a taxpayer's assessment);
- failure to provide document penalties which apply if a taxpayer fails to lodge a document necessary to establish their tax-related liability and in the absence of that document, the ATO determines the taxpayer's liability;[106] and
- penalties in relation to false and misleading statements.

Australia imposes GIC on the late payment of tax debts. The GIC rate set for January to March 2021 is an annualised rate of 7.02%.[107] GIC is however, tax deductible for all taxpayers.

FTL penalties are imposed when lodgements are not made by the due date. FTL penalties can range from $210 (one penalty unit) to a maximum of $1050 (five penalty units) every 28 days that each document is overdue, depending on the size of the entity.[108]

Collectable debt attributable to the main three revenue types; income tax, activity statement and SGC, have been broken up further into primary tax debt, interest (GIC) and penalties (FTL penalties). This covers approximately 98% of total collectable debt in the past four financial years.

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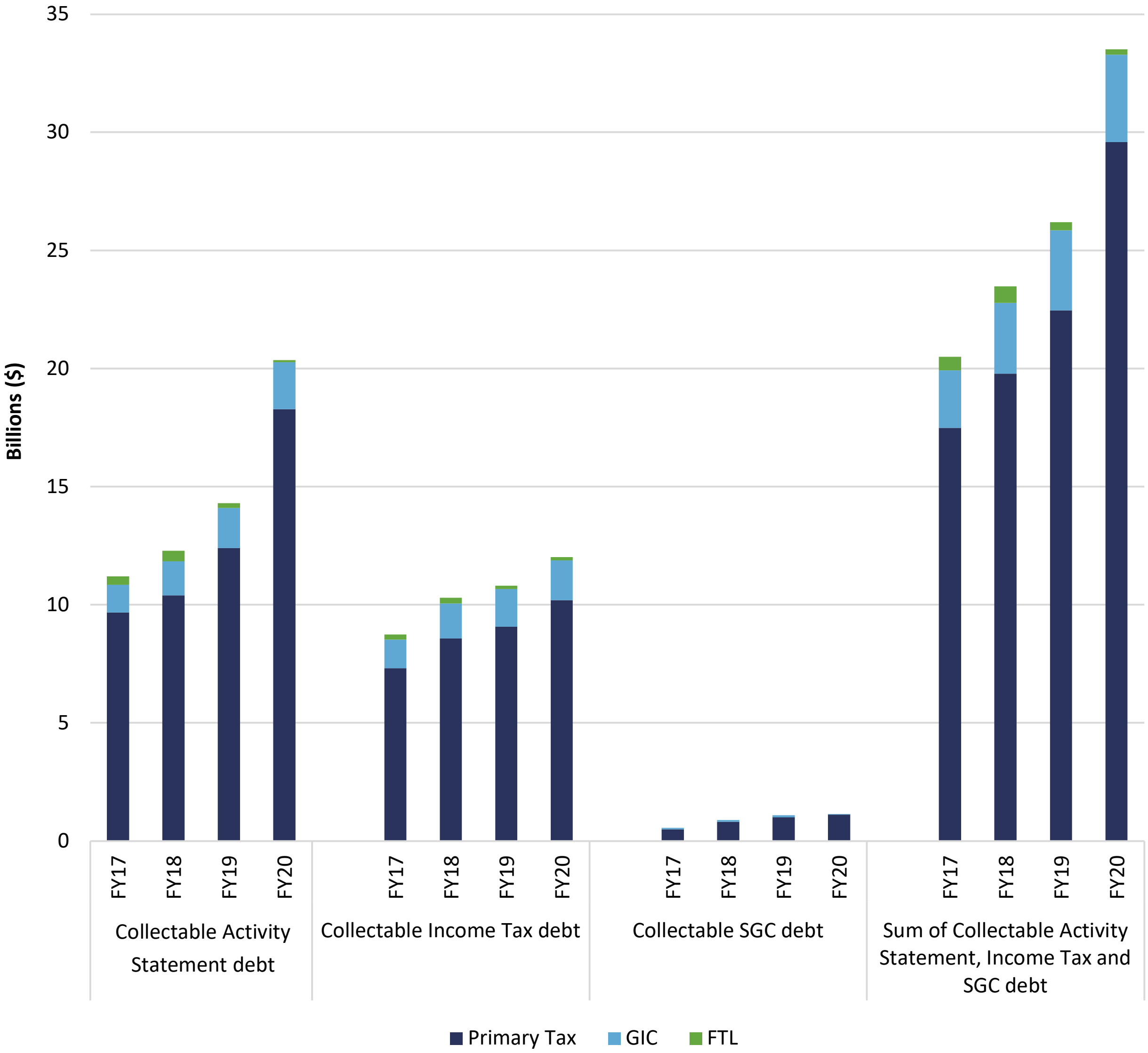
105 *Taxation Administration Act 1953*, Sch 1, s 250-10.

106 ATO, *Statements and Positions that are not Reasonably Arguable* (1 April 2020) https://www.ato.gov.au/General/Interest-and-penalties/Penalties/Statements-and-positions-that-are-not-reasonably-arguable/#Penaltyforfailingtomakeastatement.

107 ATO, *General Interest Charge (GIC) Rates* (26 March 2021) https://www.ato.gov.au/Rates/General-interest-charge-(GIC)-rates/.

108 ATO, *Failure to Lodge on Time Penalty* (1 April 2020) https://www.ato.gov.au/General/Interest-and-penalties/Penalties/Failure-to-lodge-on-time-penalty/#CalculatingFTLpenalty.

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



Source: Constructed from ATO-provided data

Note: The three main revenue types (income tax, activity statements and SGC) accounted for approximately 99% of total collectable tax debt in FY17, FY18, FY19 and FY20.[109]

109 Commissioner of Taxation, *Annual Report 2018-19* (2019), section 6, table 6.12 and table 6.13, pp 177-178; Commissioner of Taxation, *Annual Report 2019-20* (2020), section 6, table 6.12 and table 6.13, pp 194-195.

Table 9: Total collectable debt by Primary tax, GIC and FTL penalties – FY17–FY20

		CD ($ million) FY17	% of total CD (FY17)	CD ($ million) FY18	% of total CD (FY18)	CD ($ million) FY19	% of total CD (FY19)	CD ($ million) FY20	% of total CD (FY20)
Primary tax									
	Activity Statement	9,674	47%	10,393	44%	12,393	47%	18,721	55%
	Income tax	7,315	36%	8,574	37%	9,069	35%	10,195	30%
	SGC	490	2%	811	3%	994	4%	1,118	3%
	Total collectable Primary tax debt	17,480	85%	19,777	84%	22,457	86%	29,585	88%
GIC									
	Activity Statement	1,168	6%	1,444	6%	1,699	6%	1,996	6%
	Income tax	1,210	6%	1,484	6%	1,601	6%	1,673	5%
	SGC	67	0%	77	0%	96	0%	23	0%
	Total collectable GIC debt	2,445	12%	3,004	13%	3,395	13%	3,693	11%
FTL penalties									
	Activity Statement	351	2%	447	2%	207	1%	82	0%
	Income tax	213	1%	243	1%	137	1%	149	0%
	SGC	0	0%	0	0%	0	0%	0	0%
	Total FTL penalties debt	564	3%	690	3%	344	1%	231	1%
	Total Collectable Debt	20,489	100%	23,471	100%	26,196	100%	33,509	100%

Source: ATO-provided data

Note: Component percentages may not add up to sub-totals and totals due to rounding

From FY17 to FY19, GIC consistently accounted for 12% – 13% of total collectable debt. This reduced to 11% in FY20. When this breakdown is examined through the lens of each of activity statement and income tax, the proportions are not materially different. For income tax, GIC ranged between 14% – 15% of collectable income tax debt between FY17 and FY20. In relation to activity statement debt the range of GIC is between 10% – 12% across the same period. Notably, the proportion of SGC collectable debt attributable to GIC was 12% in FY17 before dropping to 9% in FY18 and FY19. In FY20, GIC accounted for 2% of collectable SGC debt.

Examining changes in GIC and penalties as components of collectable debt yields important insights and presents the ATO with a good basis to better inform Parliament and the community on the underlying reasons for increases in collectable debts. There can be perceptions that debt is increasing and remaining unpaid because the rate at which GIC, in particular, accumulates and compounds making the primary debt itself unserviceable. However, based on the data reviewed, the proportion of GIC (relative to total collectable debt) has largely remained constant despite the growth in collectable debt. Furthermore, it decreased in FY20 when total collectable debts increased. This indicates that GIC is unlikely to be a driver for this increase and is growing only in response to primary tax debts increasing.

This, however, is not to say that in some specific cases, GIC has not been a cause of the increase in tax debt for particular taxpayers. Complaints lodged with the IGTO have shown that in certain instances, the GIC component of a taxpayer's debt may be many times the quantum of the primary debt. This issue has also been highlighted in research papers by the Australian Small Business and Family Enterprise Ombudsman[110] and the subject of commentary in the media.[111]

In relation to penalties, it is noted that collectable FTL penalties decreased by $333 million, reducing from 3% of total collectable debt in FY17 to 1% of total collectable debt in FY20. FTL penalties do not apply to SGC as failing to lodge SGC statements on time attracts other penalties, such as Part 7 penalties, which apply up to a maximum to 200% of the SGC payable.[112]

110 Australian Small Business and Family Enterprise Ombudsman, *Australian Taxation Office – Enforcement of Debt Recovery* (2019), p 11; Australian Small Business and Family Enterprise Ombudsman, *A Tax System that works for Small Business* (2021) p 20.

111 Ken Phillips, 'Time to stop standover tactics by the Tax Office against small business,' *Spectator Australia* (11 March 2021) https://www.spectator.com.au/2021/03/time-to-stop-standover-tactics-by-the-tax-office-against-small-business/.

112 *Superannuation Guarantee Assessment Act 1992*, Part 7

7. OUR FINDINGS IN DETAIL – CLIENT EXPERIENCE GROUPS

Overview

The ATO allocates taxpayers into one of seven client experience groups. Namely:

- Individuals;
- Small businesses;
- Private and wealthy groups (PWGs);
- Public and Multinational businesses (PMBs);
- APRA-regulated superannuation funds (APRA-funds);
- Self-managed superannuation funds (SMSFs); and
- Not-for-Profits (NFPs).

The ATO data provided to the IGTO was not able to categorise a small group of taxpayers and listed them as 'unknown'.

As a matter of practicality, the "Individuals" client group captures taxpayers who do not fall within any other groups. For example, an individual who derives their primary income from operating a business with an Australian Business Number (ABN) will be allocated to the small business group while someone with assets exceeding AUD $30 million would be allocated to PWG.

Each client group varies significantly in size. The IGTO has compiled an approximation of the number of taxpayers within each client group as follows:

Table 10: Population of client groups and proportion of overall taxpayer population

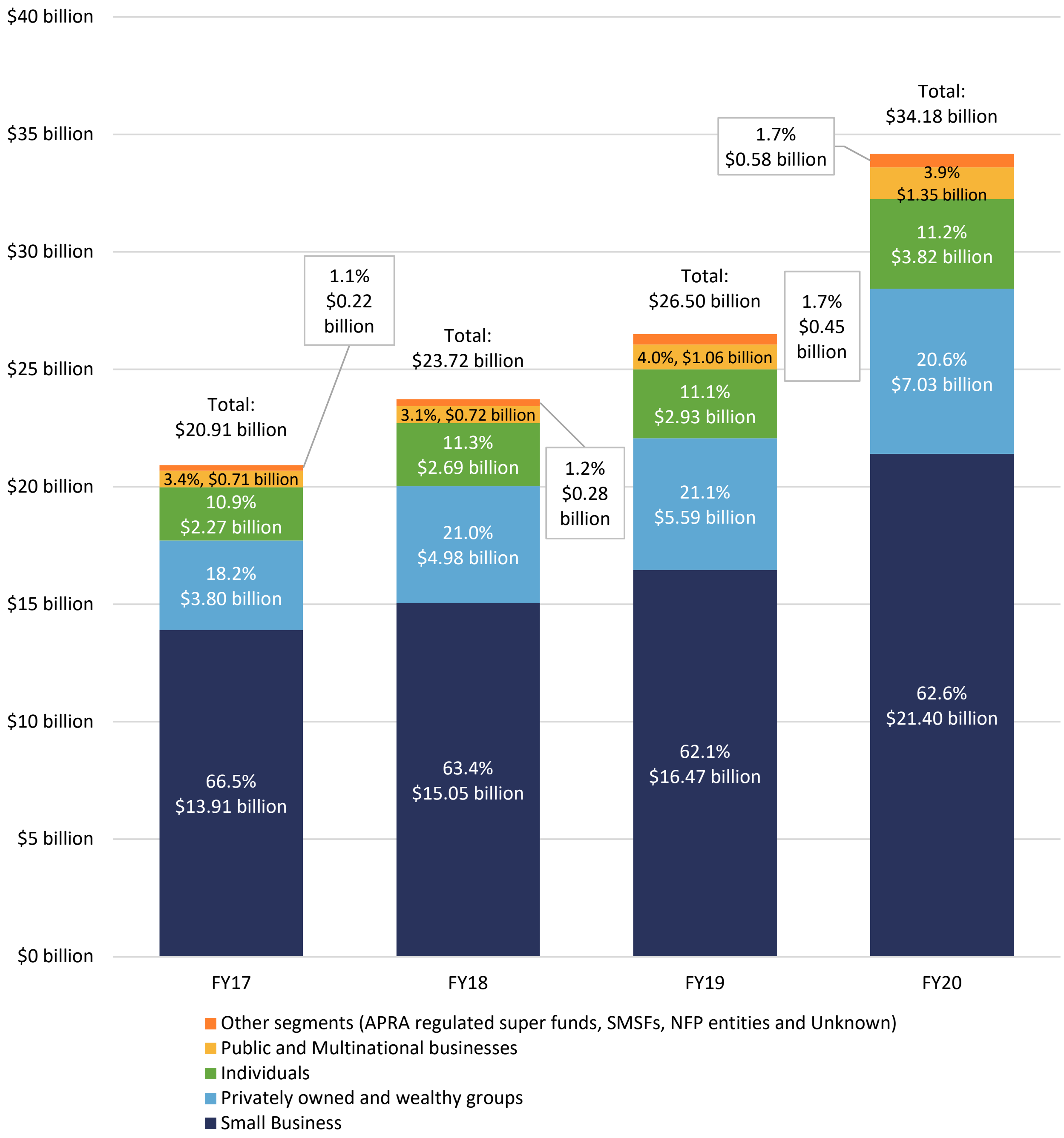
Client group	Number of Taxpayers	Percentage of Taxpayer Population (%)
Individuals	11,500,000	68.80%
Small businesses	4,200,000	25.13%
Self-managed superannuation funds	593,000	3.55%
Not-for-Profits	205,000	1.23%
Private and wealthy groups	178,500	1.07%
Public and multinational businesses	36,000	0.22%
Large and Small APRA-regulated funds	1890	0.01%
TOTAL	**16,714,390**	**100.0%**

Source: ATO Annual Report 2019-20, p 4.

Individuals not in business make up the largest component of the taxpayer population, with 68.8% followed by small business with 25.13%. Other client experience groups make up a much smaller proportion of the taxpayer population. However, due to the design of the Australian tax system, while individual income tax makes up a large proportion of collections, most of these are paid by other entities (such as small and large businesses) in their capacities as employers or other withholders of tax payable by individual taxpayers.

Distribution of collectable debt by Client Experience Group

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

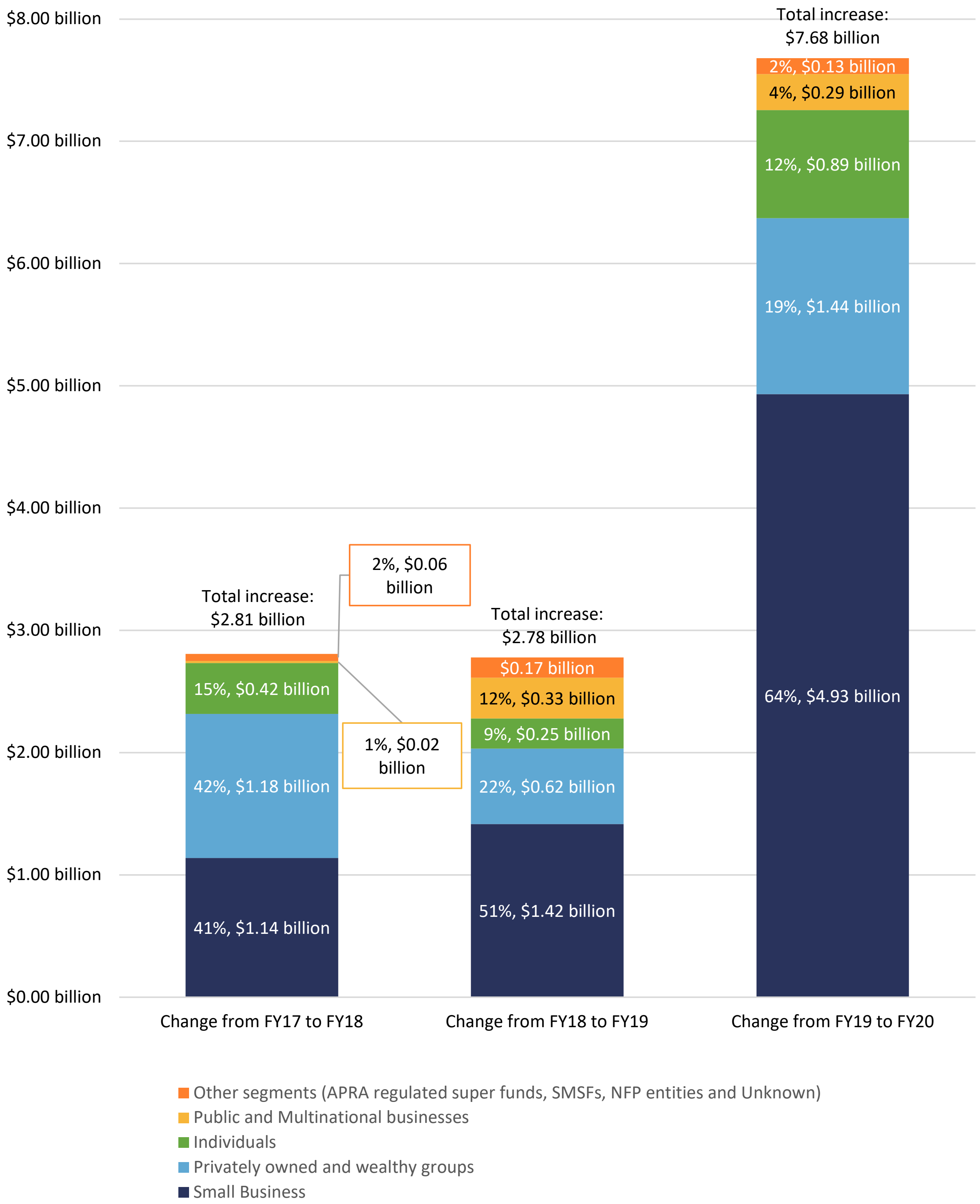


Source: ATO-provided data

Increase in collectable debt by Client Experience Group

Examining the increase in collectable debt between FY17 and FY20, segmented by Client Experience Groups provides some insight on the areas that contributed the most – refer Figure 25 and Table 11.

Figure 25: Change in collectable debt by client experience group, FY17–FY20



Source: ATO-provided data

Table 11: Collectable debt by client experience group, FY17–FY20

Client Experience Group	Change from FY17 to FY18	% of total change from FY17 to FY18	Change from FY18 to FY19	% of total change from FY18 to FY19	Change from FY19 to FY20	% of total change from FY19 to FY20	Change from FY17 to FY20	% of total change FY17 to FY20
Small business	$1.14 billion	41%	$1.42 billion	51%	$4.93 billion	64%	**$7.49 billion**	**56%**
Privately owned and wealthy groups	$1.18 billion	42%	$0.62 billion	22%	$1.44 billion	19%	**$3.23 billion**	**24%**
Individuals	$0.42 billion	15%	$0.25 billion	9%	$0.89 billion	12%	**$1.55 billion**	**12%**
Public and Multinational businesses	$0.02 billion	1%	$0.33 billion	12%	$0.29 billion	4%	**$0.64 billion**	**5%**
Other segments (APRA regulated super funds, SMSFs, NFP entities and Unknown)	$0.06 billion	2%	$0.17 billion	6%	$0.13 billion	2%	**$0.36 billion**	**3%**
Grand Total	$2.81 billion	100%	$2.78 billion	100%	$7.68 billion	100%	**$13.27 billion**	**100%**

Source: ATO-provided data

The data shows that from FY17 to FY20, small businesses accounted for the largest portion of the increase in collectable debt (56%), followed by PWG (24%), Individuals (12%) and PMBs (5%). “Other segments” which represent the remaining three client groups, namely APRA-funds, SMSFs, NFPs as well as entities which the ATO could not group (called ‘unknown’ in its data) collectively accounted for 3% of the increase in total collectable debt from FY17 to FY20.

When specific year increases are examined, particularly between FY19 to FY20, the small business contribution to the increase in collectable debt is 64%, more than three times higher than PWGs (19%). The result is not entirely surprising given the significant impacts of the 2019 bushfires and the COVID-19 pandemic throughout FY20. The ATO’s administrative support measures allowed many businesses, particularly small businesses, to defer lodgement and debt repayments, which also contributed to the increasing small business debt book.

Taxpayer population and percentage of total collectable debt

Table 12: Percentage of taxpayer population vs percentage of total collectable debt

Client group	Percentage (%) Taxpayer population – FY20	Percentage (%) Collectable Debt FY17	Percentage (%) Collectable Debt FY18	Percentage (%) Collectable Debt FY19	Percentage (%) Collectable Debt FY20
Individuals	68.8	10.9	11.3	11.1	11.2
Small businesses	25.1	66.5	63.4	62.1	62.6
Private and wealthy groups	1.1	18.2	21.0	21.1	20.6
Public and multinational businesses	0.2	3.4	3.1	4.0	3.9
Other (SMSFs, APRA-funds, NFPs, Unknown)	4.8	1.1	1.2	1.7	1.7
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**

Note: Totals may not equate due to rounding.

There is virtually no correlation between the population size of particular client groups and their proportion of collectable debt – see Table 12. Individuals, who account for the largest number of taxpayers, represent only approximately 11% of overall collectable debt levels. Conversely, small businesses, PWGs and PMBs all contributed to a higher level of collectable debts while accounting overall for a smaller proportion of the taxpayer population. Small business collectable debts represent approximately 3 times its proportion of the overall taxpayer population, while PWG collectable debts are approximately 16 to 20 times their proportion of the taxpayer population. PMB collectable debt had a similar ratio to PWG relative to its taxpayer population.

Other client groups (APRA-funds, SMSFs, NFPs and unknown) showed smaller collectable debt proportions relative to their taxpayer population.

Taxpayer population and percentage of total debt accounts

The proportion of collectable debt relative to population size may provide a skewed view of the current state of play due to certain client experience groups holding higher amounts of debt per account (and expectedly so).

Table 13: Percentage of taxpayer population vs percentage of total collectable debt accounts

Client group	Percentage (%) Taxpayer population – FY20	Percentage (%) Debt Accounts – FY17	Percentage (%) Debt Accounts – FY18	Percentage (%) Debt Accounts – FY19	Percentage (%) Debt Accounts – FY20
Individuals	68.8	31.0 (15.5)	33.1 (16.5)	32.6 (16.3)	32.0 (16)
Small businesses	25.1	60.0 (30)	59.0(29.5)	58.0 (29.0)	58.5 (29.2)
Private and wealthy groups	1.1	5.4 (2.7)	4.7 (2.4)	5.3 (2.7)	5.2 (2.6)
Public and multinational businesses	0.2	0.4 (0.2)	0.4 (0.2)	0.4 (0.2)	0.4 (0.2)
Other (SMSFs, APRA-funds, NFPs, Unknown)	4.8	3.2 (1.6)	2.8 (1.4)	3.8 (1.9)	3.9 (1.9)
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**

Note: Totals may not equate due to rounding. Data not available for any client experience groups FY17 and 'Other' for FY18.

Numbers in parentheses represent half of total debt accounts. This division was used as a simple way to reflect the fact that many taxpayers (particularly businesses) had multiple tax accounts holding debt.

A comparison of the proportion of debt accounts held by each client experience group, relative to their overall population size is likely to yield more insightful information. The data in Table 13 shows similar areas of potential over-representation of debt accounts by certain client groups, namely small businesses, PWGs and PMBs. However, for both PWGs and PMBs, the figures are not as pronounced as those in Table 12. For example, the proportion of debt accounts held by PWGs is approximately 5 times the proportion of its taxpayer size, and for PMBs the proportion of debt accounts it holds is double its proportion of the taxpayer population.

A further consideration that should be taken into account when comparing debt accounts is the fact that many taxpayers (if not all) within the small business, PWG and PMB client groups have more than one tax account (i.e., income tax and running balance account). Individuals not in business who receive rental or other investment income may also have an income tax account and another account for their PAYG Instalments.

When that is taken into consideration (a simple division by 2, based on the assumption that each taxpayer holds two accounts), denoted by the figures in parentheses in Table 13, they align more reasonably with the population. In particular, whereas PMBs appeared to have previously been over-represented, once the possibility of dual debt accounts is considered, the representation appears appropriate. Small businesses and PWGs still appear to be over-represented in terms of debt accounts, although the figures are less pronounced.

Percentage of debt accounts vs percentage of collectable debt

An analysis to compare the proportion of debt accounts against the proportion of total collectable debt held by each client experience group is also useful to consider which client experience groups may be over-represented in terms of quantum of debt relative to the number of accounts – see Table 14.

Table 14: Percentage of debt accounts vs Percentage of collectable debt

Client group	Percentage (%) of Debt Accounts – FY18	Percentage (%) of Collectable Debt – FY18	Percentage (%) of Debt Accounts – 30 Jun FY19	Percentage (%) of Collectable Debt – FY19	Percentage (%) of Debt Accounts – FY20	Percentage (%) of Collectable Debt – FY20
Individuals	33.1	13.0	32.6	11.1	32.0	11.2
Small businesses	59.0	63.4	58.0	62.1	58.5	62.6
Private and wealthy groups	4.7	19.5	5.3	21.1	5.2	20.6
Public and multinational businesses	0.4	2.9	0.4	4.0	0.4	3.9
Other (SMSFs, APRA-funds, NFPs, Unknown)	2.8	1.2	3.8	1.7	3.9	1.7
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Constructed from ATO-provided information

Note: Totals may not equate due to rounding. Data not available for OTH in FY18.

When considering the proportion of total collectable debt held by each client group relative to the proportion of debt accounts attributable to them, the figures in relation to small businesses are largely aligned in FY18 but appeared in FY19 and FY20 to have deviated slightly, suggesting that in more recent years, fewer small business debt accounts held larger sums of debt. The deviation between the proportion of debt accounts and proportion of collectable debt for small business does not exceed 10% in any financial year.

Small business data in this area contrasts with the figures for PWGs and PMBs. Across all FYs, both client experience groups reported collectable debt values many times the proportion of debt accounts attributable to them. For example, in the case of PWGs, in FY18 and FY19 respectively, the proportion of collectable debt is 3.5 and 3.9 times the proportion of debt accounts. PMBs displayed showed similarly high disproportions. In FY18 and FY19, the proportion of collectable debt was 7.75 and 10 times higher than the proportion of debt accounts.

In the case of PWGs and PMBs, the high levels of debts compared to numbers of accounts are likely due to the nature of businesses and transactions conducted by these entities that are likely to result in higher levels of debt. Further examination of Debt Levels is considered later in this report.

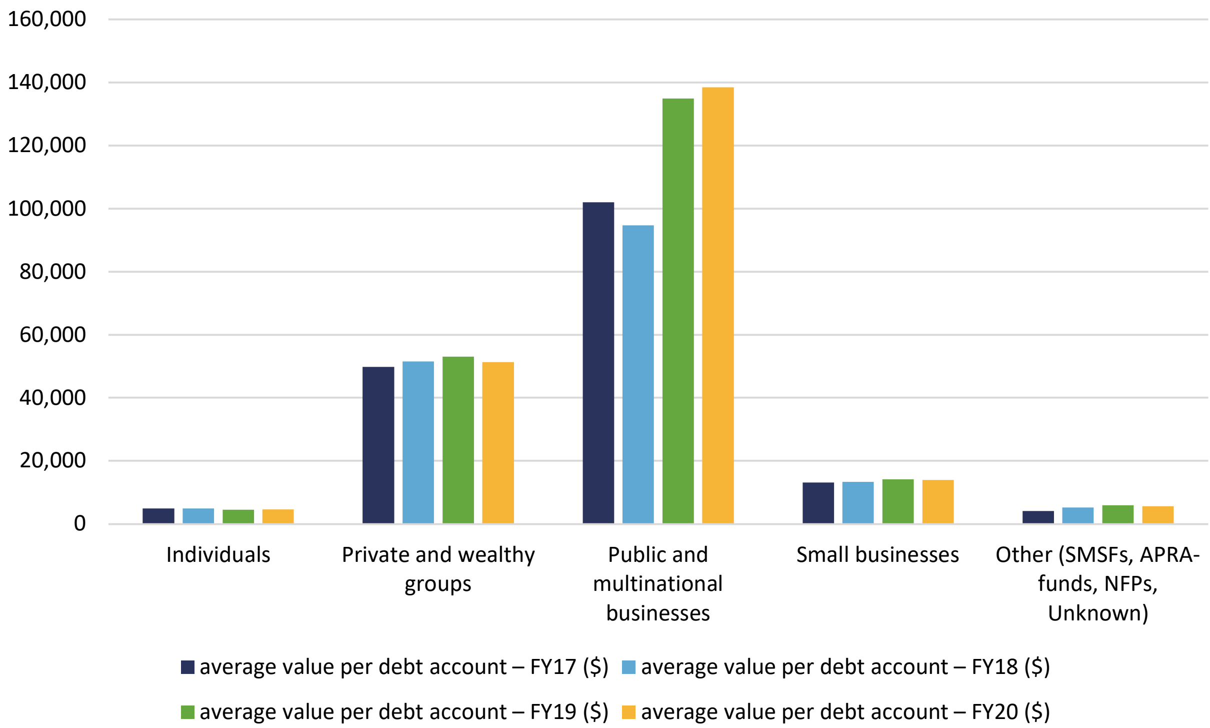
Average debt amount per debt account

In order to remove the impacts of large taxpayer populations yielding greater quantum of collectable debt, we analysed the average value of debt per debt account. An average per debt account was used, rather than average per debtor, based on the data available from the ATO. This data provided numbers of accounts within each client experience group, rather than the number of indebted taxpayers within each client experience group.

Average PMB collectable debt per debt account was the highest with average figures being lowest in FY18 ($94,675) and highest in FY20 ($138,447) per debt account. PWG averages were also particularly high, being at their lowest in FY17 ($49,797) and highest in FY19 ($53,050).

It is worthwhile noting that while Individuals and Small Businesses represented the largest taxpayer populations by number of taxpayers, their average debt levels per debt account were relatively low with sums around $4,500 and $13,000 – $14,000 in each FY, respectively. While these figures do not in and of themselves offer relevant explanation, they present some important contextual insight on the relative impacts of single debt accounts in each market segment. For example, if a small business were to fail and the debts become irrecoverable, the direct impacts to the ATO would average approximately $14,000 compared with the situation where a PMB debt becomes irrecoverable which would have an average tenfold direct impact. This is one factor that may be expected to influence the allocation of resources within the ATO.

Figure 26: Average value of collectable debt per debt account by client experience group



Source: Constructed from ATO-provided information

Table 15: Average value of collectable debt per account by client experience group

Client group	average value per debt account – FY17 ($)	average value per debt account – FY18 ($)	average value per debt account – FY19 ($)	average value per debt account – FY20 ($)
Individuals	4,865	4,886	4,499	4,545
Small businesses	13,081	13,352	14,192	13,903
Private and wealthy groups	49,797	51,525	53,050	51,272
Public and multinational businesses	101,962	94,675	134,925	138,447
Other (SMSFs, APRA-funds, NFPs, Unknown)	4,064	5,236	5,866	5,661

Source: Constructed from ATO-provided data

The differences in population and its relative relationship to collectable debt may be due to the differences in the size of each taxpayer within the client group. For example, it is axiomatic that individual taxpayers not in business may earn less than (say) a small, medium or large business and so it should be expected that their collectable debt levels are lower in total and on average per debt account. As will be seen later in this report, a straight average per account does not tell the complete story as when these accounts are further stratified into the levels of debt that they owe, there is a very clear trend of a small number of accounts being responsible for a large proportion of the debt. Thus, the figures set out in Table 15 are biased due to very large debt accounts existing within each Client Experience group.

Revenue contribution to the overall tax system

It is unproductive to assess the level of collectable debt relative to the overall revenue contributions made by each client group to the tax system. However, there are no perfect metrics to objectively assess a particular segment's contribution. The IGTO has used liabilities raised as a proxy as it represents that the amount that each group has been assessed (self-assessed and through compliance activities) to pay. This data was provided for FY17 to FY19. No FY20 data was provided for liabilities raised by client experience group.

When the proportion of collectable debt for each client group is compared against the proportion of total liabilities raised, the data shows that the relative proportion of collectable debt for Individual and Small Business taxpayers exceeds the proportion of liabilities attributed to them. Across each FY, Individuals accounted for approximately 12% of collectable debt while representing between 1.9% and 2.6% of liabilities raised (FY17 to FY19). Perhaps more pronounced is the difference between small business collectable debt (approximately 62.6% to 63.4%) and liabilities raised (between 16–17% in each of FY17 to FY19). PWG figures were largely consistent across the FYs, with collectable debt proportionate to liabilities raised being around 20%, with minor deviations year on year.

PMBs and Other segments reported higher levels of liabilities raised when compared to the proportion of debt owing. In the case of PMBs, across all years the proportion of collectable debt was approximately 3% to 4%, while liabilities raised were approximately 44%. In the case of *Other segments*, debt owing was approximately 1% to 3%, while liabilities raised were approximately 15%.

Table 16: Percentage of total collectable debt vs Percentage of Liabilities raised

	FY17		FY18		FY19		FY20	
	% Collectable Debt	% Liabilities Raised	% Collectable Debt	% Liabilities Raised	% Collectable Debt	% Liabilities Raised	% Collectable Debt	% Liabilities Raised
Individuals	12.8%	2.6%	13.0%	1.9%	12.2%	2.1%	11.2%	
Small Business	63.1%	17.4%	63.4%	16.1%	63.0%	16.6%	62.6%	
Privately Owned and Wealthy Groups	19.7%	20.8%	19.5%	22.8%	19.2%	22.2%	20.6%	
Public and Multinational Businesses	3.3%	44.3%	2.9%	44.2%	4.0%	44.1%	3.9%	
Other segments (APRA-regulated superannuation funds, SMSFs, NFP entities and Unknown)	1.1%	14.9%	1.2%	15.0%	1.7%	15.0%	1.7%	
TOTAL	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	

Source: Constructed from ATO-provided data

A second proxy had been proposed in the early stages of the review investigation, namely, to consider net tax collections from each client experience group as a measure of their contribution to the system. However, there are idiosyncrasies within the tax system which made this proposed analysis impossible. These mostly relate to the manner in which individual income tax is collected and paid. As set out in earlier in this report – Figure 1 – individual income tax accounts form more than half of all net tax cash collections, year on year. However, the liability for individual income tax mostly rests with employers (small businesses, PWGs, PMBs…etc.) through the PAYGW system. As such, when considering tables of net tax collections from different client experience groups, individuals not in business are generally under-represented (and often show negative collections because refunds issued to these individuals outstrip the tax that can be directly collected from them).

8. OUR FINDINGS IN DETAIL – PAYMENT ARRANGEMENTS

Overview

Payment arrangements are agreements between a taxpayer and the ATO to repay amounts of outstanding debt by way of instalments over a certain period of time. Such payment arrangements may be reached by contacting and negotiating with the ATO, while some arrangements can be made through an automated line – for example, tax debts of less than $100,000.[113] The ATO has also developed a Business Viability Assessment Tool that it makes available to taxpayers via its website. The tool allows entities to input their financial details in order to receive an assessment of their financial viability. A version of the tool is also used by the ATO to assess a business's viability when entering payment arrangements. The IGTO has not reviewed this tool.

Where taxpayers are unable to meet their payment obligations by the due date, the use of payment arrangements is a positive development, showing that the taxpayer is still engaged with the tax system and exploring options to ensure they comply with their payment obligations. Accordingly, high levels of payment arrangements to cover amounts of collectable debt should be viewed as a positive indicator on the health of the tax system.

It has been suggested that a reason for the increasing levels of collectable debt was an increase in the amount of debt covered by active payment arrangements at year end. If this statement were to be correct it would be expected that, year on year, the proportion of collectable debt subject to payment arrangements should be increasing year on year more than collectable debt, or at the very least increasing at a rate consistent with the increase in collectable debt.

The ATO has provided data to compare collectable debt and payment arrangements for FY18, FY19 and FY20. The ATO did not have payment arrangement data by client experience group for FY17.

Comparisons between collectable debt levels and payment arrangements

The value of payment arrangements in the graphs and tables below includes payment arrangements for all tax debts, including disputed debts. Without data on the value of collectable debt under an active payment arrangement at year end, it can be useful to compare the value of total tax debt in payment arrangements against the value of collectable debt. This is because total tax debt is predominantly made up of collectable debt.

113 ATO, *Paying the ATO* (5 September 2019) https://www.ato.gov.au/General/Paying-the-ATO/Help-with-paying/.

Table 17: Increase in Collectable Debt v Increase in Payment Arrangements FY18-FY19

FY18 – FY19 Comparison	IND	SB	PWG	PMB	OTH	TOTAL
Collectable Debt – FY18 ($)	2.69 billion	15.05 billion	4.98 billion	0.72 billion	0.28 billion	23.72 billion
Payment Arrangements – FY18 ($)	0.57 billion	4.44 billion	2.04 billion	0.63 billion	0.05 billion	7.72 billion
Ratio of debt in payment arrangement to value of collectable debt – FY18	21%	29%	41%	86%	18%	33%
Collectable Debt – FY19	2.93 billion	16.47 billion	5.59 billion	1.06 billion	0.45 billion	26.50 billion
$ Payment Arrangements – FY19	0.58 billion	4.57 billion	1.88 billion	0.12 billion	0.07 billion	7.22 billion
Ratio of debt in payment arrangement to value of collectable debt – FY19	20%	28%	34%	12%	15%	27%
% Change Collectable Debt – FY18-FY19	9.21%	9.41%	12.37%	45.81%	58.76%	11.71%
% Change Payment Arrangements – FY18-FY19	2.29%	2.97%	-7.45%	-80.19%	29.45%	-6.39%

Source: Constructed from ATO-provided data

Table 18: Increase in Collectable Debt v Increase in Payment Arrangements FY19-FY20

FY19 – FY20 Comparison	IND	SB	PWG	PMB	OTH	TOTAL
Collectable Debt – FY19	2.93 billion	16.47 billion	5.59 billion	1.06 billion	0.45 billion	26.50 billion
$ Payment Arrangements – FY19	0.58 billion	4.57 billion	1.88 billion	0.12 billion	0.07 billion	7.22 billion
Ratio of debt in payment arrangement to value of collectable debt – FY19	20%	28%	34%	12%	15%	27%
Collectable Debt – FY20	3.82 billion	21.40 billion	7.03 billion	1.35 billion	0.58 billion	34.18 billion

FY19 – FY20 Comparison						
$ Payment Arrangements – FY20	0.36 billion	2.67 billion	1.24 billion	0.17 billion	0.05 billion	4.49 billion
Ratio of debt in payment arrangement to value of collectable debt – FY20	9%	12%	18%	12%	9%	13%
% Change Collectable Debt – FY19-FY20	30.20%	29.94%	25.73%	27.83%	29.17%	28.99%
% Change Payment Arrangements – FY19 – FY20	-37.91%	-41.56%	-34.19%	33.40%	-25.63%	-37.91%

Source: Constructed from ATO-provided data

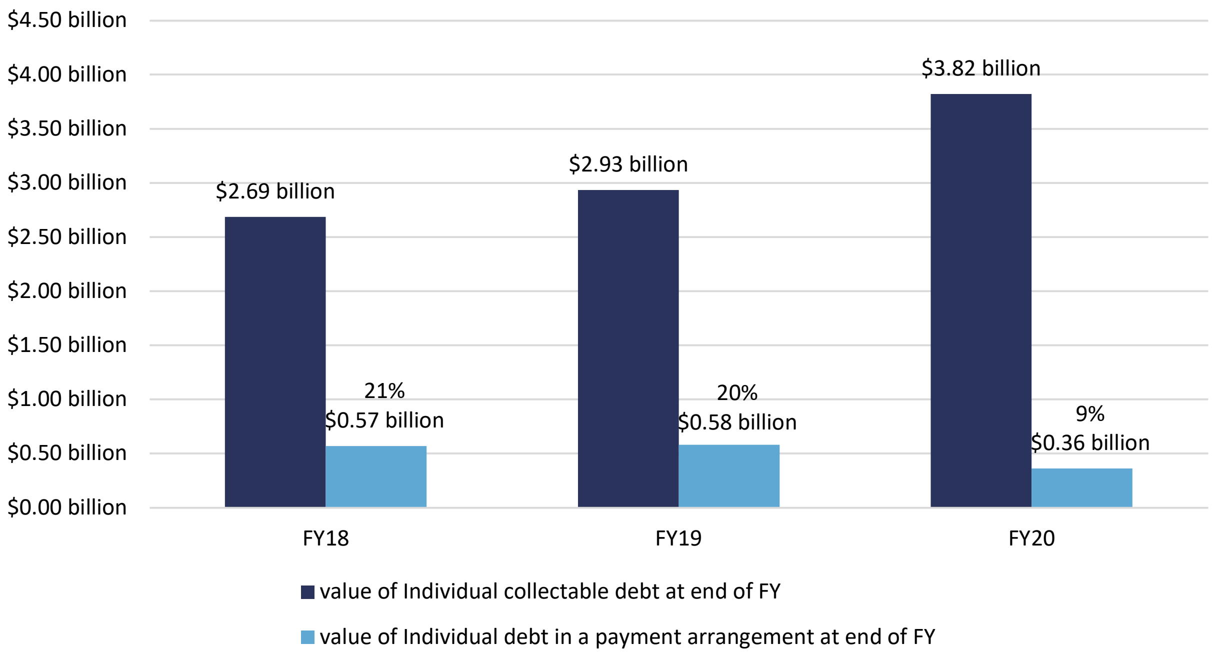
Based on the data provided by the ATO on the value of active payment arrangements from FY18 and FY19 across different client groups, the IGTO considers that the ATO hypothesis that collectable debts are increasing as a result of payment arrangements is not borne out. As shown in Table 17 above, although there was a small increase in the dollar value of active payments arrangements for small business, individuals and other entities from FY18 to FY19, the total dollar value of active payment arrangements for all taxpayers over the same period decreased. The overall decrease in the value of payment arrangements between FY18 and FY19 is attributable in large part to PMBs (which fell by 80.19%) and PWGs (a decrease of 7.45%).

Interestingly, the positions appear to have been reversed when FY19 and FY20 is compared. Between these two FYs, the value of total tax debts under a payment arrangement decreased from $7.22 billion to $4.49 billion (a decrease of 37.91% from FY19), even though total collectable debt increased. This was due to the value of payment arrangements across all client experience groups (except PMBs) falling by between one quarter and one third compared prior year.

It is also worthwhile noting that between FY18 and FY20, the proportion of collectable debt under payment arrangement has consistently decreased (33%, 27% and 13%, respectively). The same phenomenon is observed in relation to each of the main client experience groups. In no group was there an increase in the proportion of collectable debt subject to payment arrangement. These reducing levels of taxpayer engagement in payment arrangements warrant further and more in-depth examination as they may point to a degree of disengagement of indebted taxpayers.

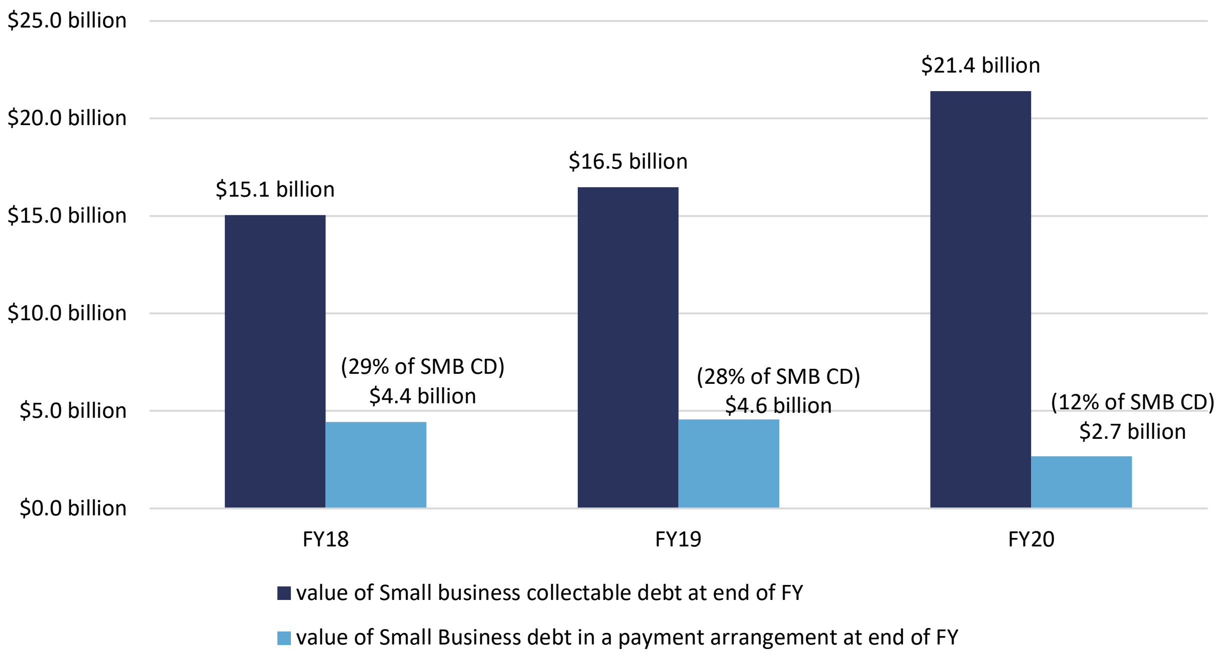
Further detail is presented (visually) in the charts set out below in Figure 27 to Figure 31.

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



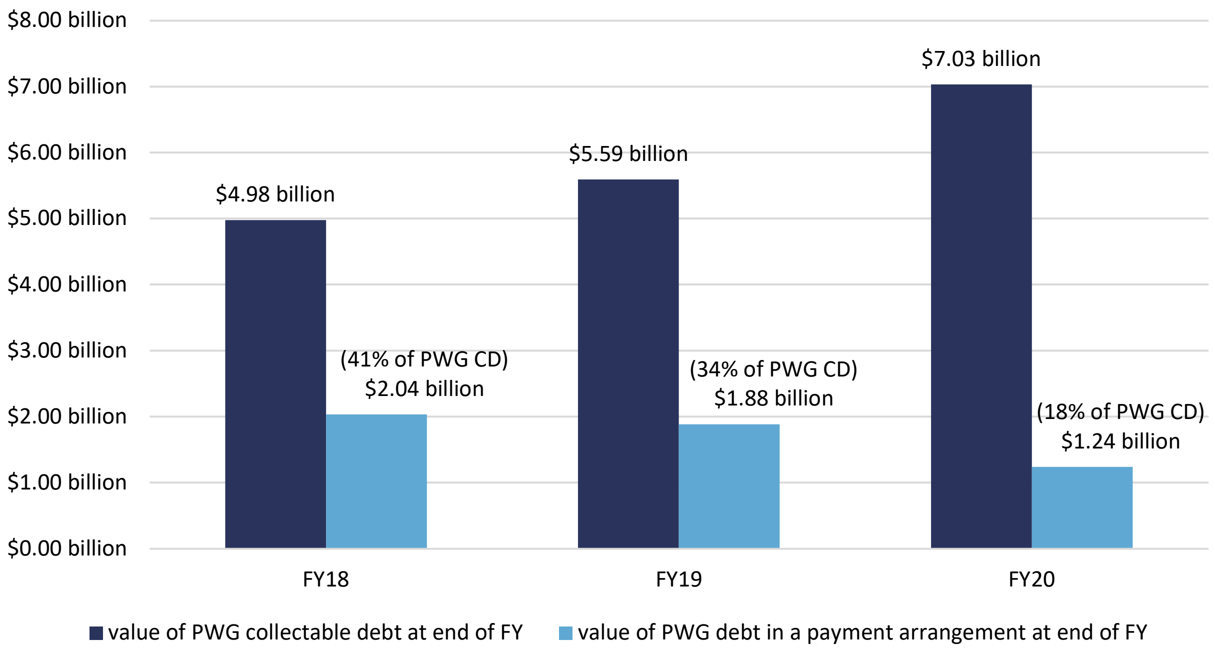
Source: Constructed from ATO-provided data

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



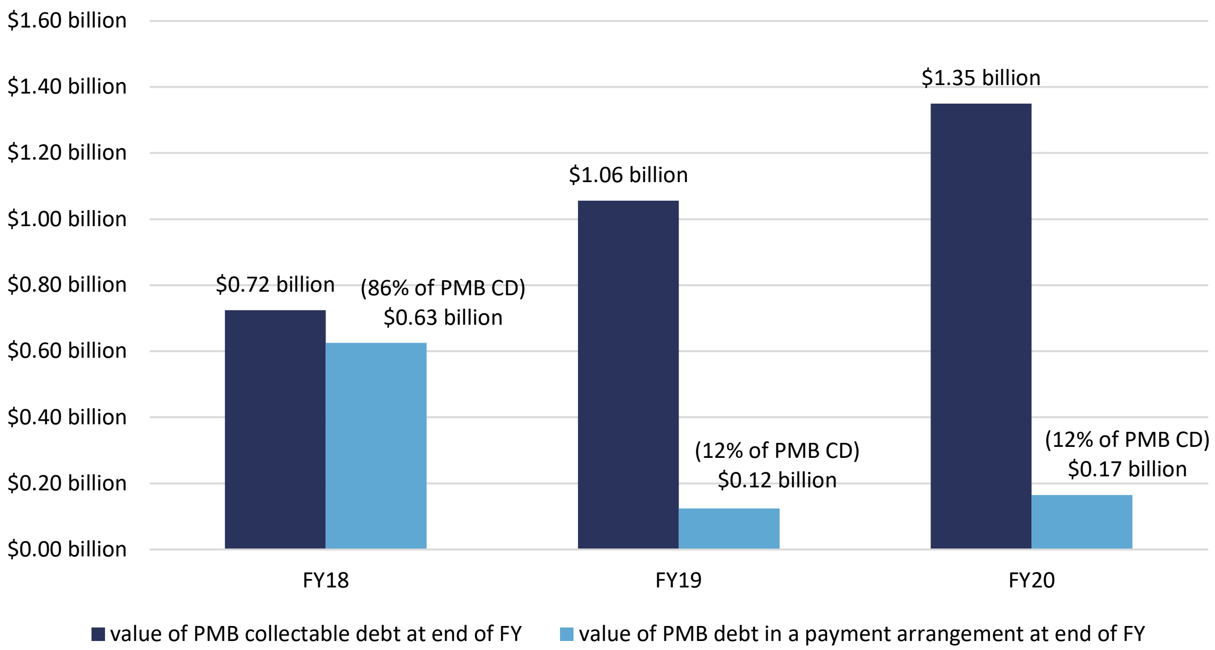
Source: Constructed from ATO-provided data

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



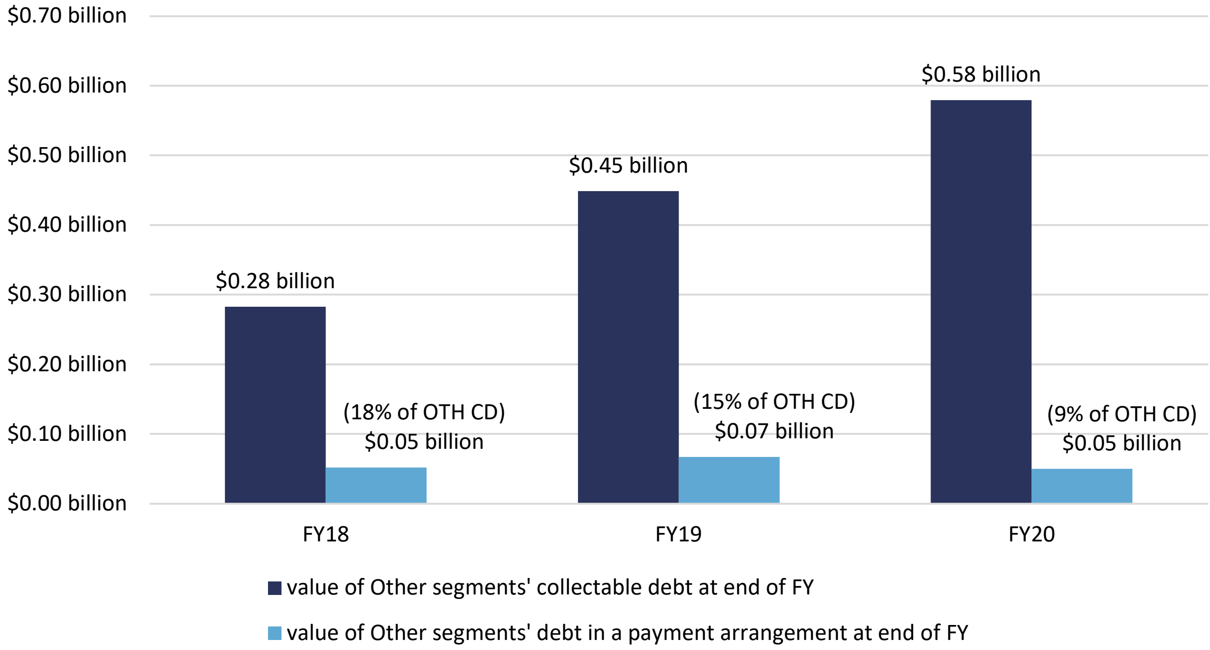
Source: Constructed from ATO-provided data

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



Source: Constructed from ATO-provided data

Figure 31: Collectable Debt and Payment Arrangements – Other – as at year end FY18-FY20



Source: Constructed from ATO-provided data

As demonstrated by Figure 27 to Figure 31, across all client experience groups from FY18-FY20, the value of active payment arrangements has generally decreased, even though collectable debts increased across all groups. The most pronounced decrease was observed in relation to PMBs where the ratio of payment arrangements to collectable debt dropped from 86% (FY18) to 12% (FY19 and FY20). Given the propensity for outliers to have a large effect in the PMBs group – due to the smaller number of participants and likely larger quantum of liabilities – this large decrease in the value of payment arrangements may be driven by a small number of indebted companies having exited or finalised their payment arrangements. The IGTO has not investigated this further.

All other market segments also reported decreases in the ratio of payment arrangements to collectable debt – Individuals (21% to 9%), Small Business (29% to 12%), PWG (41% to 18%) and Other segments (18% to 9%). In all cases, the reduction is at least 50% or more.

This decrease in the value of active payment arrangements in FY20 may be due to the COVID-19 pandemic, and the resultant ATO decision to reduce debt collection activities as it moved resources away from debt collection and towards putting the Government's stimulus measures into effect.

However, even putting aside the anomalous 2020 financial year, the ratio of payment arrangements to total collectable debts fell for every group between FY18 and FY19. The data shows that from FY18 to FY19, while there have been increases in the value of payment arrangements in certain client groups, overall, the value of payment arrangements at year end has decreased whilst the value of collectable debt has increased. In those segments where the value of payment arrangements did increase, these increases have been relatively small when compared to increases in the segment's collectable debt. For example, Individual collectable debt rose by 9.21% from FY18 to FY19, whereas payment arrangements attributable to individual debt rose only by 2.29%. Similar FY18–FY19 data is observed in relation to Small Business (9.41% increase in collectable debt vs 2.97% increase in the value of payment arrangements) and Other segments (58.76% vs 29.45%). In the PWG and PMB groups, the changes were even more evident with both groups experiencing increases in collectable debt (12.37% and 45.81%, respectively) while the value of payment arrangements for both decreased (-7.45% and -80.19%, respectively).

Greater availability of payment arrangements may assist to explain why some segments have seen an increase in both their collectable debt levels and value of payment arrangements, but the inverse correlation between these figures does not assist to provide an explanation for the rise in collectable debt levels overall.

9. OUR FINDINGS IN DETAIL – DEBT LEVELS

Overview

Debt level data is used for internal ATO management purposes and is not reported publicly to the IGTO's knowledge.

The ATO segments debt accounts by the amount that is owed. There are six Debt Levels in total.

Table 19a: Debt Level definitions – Prior to FY20

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

Source: ATO

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

Table 19b: Debt Level definitions – FY20

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

Source: ATO

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

Debt levels by Client Experience Groups

The client experience group data when viewed in isolation may suggest that the areas of highest concern are small businesses and PWGs. Indeed, these client groups do account for a significant proportion of the overall collectable debt. However, an examination of the Debt Levels within each group tells a slightly different story. When debt level data is overlaid, this suggests that there are pockets within each client experience group responsible for a significant proportion of that client group debt. This suggests that the issue is in fact across ALL taxpayer client groups but only a small segment within each is responsible for the increase in collectable debt.

Table 20: Total collectable debt – by DL – FY17 to FY20

FY	Debt Level	Individuals				Small Business			
		# debt accounts	% debt accounts	$(m)	% collectable debt	# debt accounts	% debt accounts	$(m)	% collectable debt
FY17	DL1		74.0%		9.6%		47.3%		3.0%
	DL2		16.1%		14.2%		23.2%		7.8%
	DL3		7.0%		19.3%		18.4%		19.0%
	DL4		1.7%		12.3%		6.1%		16.2%
	DL5		0.8%		10.8%		3.3%		16.9%
	DL6		0.5%		33.8%		1.8%		37.0%
	TOTAL		**100%**		**100%**		**100%**		**100%**
FY18	DL1	318,398	78.2%	232.17	8.4%	453,735	43.16%	394.95	2.62%
	DL2	31,886	7.8%	377.82	14.0%	255,769	24.33%	1,140.20	7.56%
	DL3	39,998	9.8%	522.84	19.4%	208,432	19.82%	2,858.79	18.96%
	DL4	9,939	2.4%	347.07	12.9%	70,295	6.69%	2,468.11	16.37%
	DL5	4,699	1.2%	320.58	11.9%	39,916	3.80%	2,759.78	18.31%
	DL6	2,429	0.6%	899.94	33.3%	23,213	2.21%	5,459.16	36.21%
	TOTAL	**407,349**	**100%**	**2,700.42**	**100%**	**1,051,360**	**100%**	**15,080.99**	**100%**
FY19	DL1	454,499	74.08%	258.97	8.75%	494,219	44.29%	389.10	2.36%
	DL2	98,054	15.98%	412.03	13.91%	254,469	22.80%	1,142.54	6.92%
	DL3	42,261	6.89%	557.33	18.82%	217,383	19.48%	3,019.03	18.28%
	DL4	10,877	1.77%	378.61	12.79%	78,558	7.04%	2,760.69	16.72%
	DL5	5,129	0.84%	348.71	11.78%	45,074	4.04%	3,120.96	18.90%
	DL6	2,712	0.44%	1,005.53	33.96%	26,254	2.35%	6,078.99	36.82%
	TOTAL	**613,532**	**100%**	**2,961.18**	**100%**	**1,115,957**	**100%**	**16,511.31**	**100%**
FY20	DL1	567,622	71.27%	315.40	8.19%	608,190	43.07%	530.44	2.46%
	DL2	145,955	18.33%	623.16	16.18%	341,802	24.21%	1,534.38	7.11%
	DL3	59,365	7.45%	761.15	19.76%	274,286	19.43%	3,775.24	17.49%
	DL4	13,759	1.73%	479.05	12.44%	96,977	6.87%	3,412.04	15.81%
	DL5	6,297	0.79%	430.84	11.19%	55,326	3.92%	3,831.23	17.75%
	DL6.1	3,101	0.39%	547.67	14.22%	33,416	2.37%	5,989.86	27.75%
	DL6.2	169	0.02%	117.75	3.06%	1,388	0.10%	928.62	4.30%
	DL6.3	156	0.02%	576.78	14.97%	599	0.04%	1,581.80	7.33%
	TOTAL	**796,424**	**100%**	**3,851.80**	**100%**	**1,411,984**	**100%**	**21,583.61**	**100%**

Source: ATO-provided data

FY	Debt Level	PWG				PMB			
		# debt accounts	% debt accounts	$(m)	% collectable debt	# debt accounts	% debt accounts	$(m)	% collectable debt
FY17	DL1		33.9%		0.3%		51.9%		0.3%
	DL2		10.7%		0.6%		15.3%		0.6%
	DL3		15.2%		3.1%		13.2%		1.7%
	DL4		11.9%		5.8%		6.7%		2.2%
	DL5		12.1%		11.5%		5.3%		3.4%
	DL6		16.1%		78.7%		7.7%		91.8%
	TOTAL		**100%**		**100%**		**100%**		**100%**
FY18	DL1	42,085	44.26%	26.34	0.53%	3,447	50.19%	1.89	0.26%
	DL2	16,269	17.11%	72.36	1.45%	1,017	14.81%	4.47	0.62%
	DL3	15,323	16.12%	221.69	4.45%	923	13.44%	13.18	1.82%
	DL4	7,796	8.20%	278.57	5.60%	458	6.67%	16.31	2.25%
	DL5	6,277	6.60%	443.49	8.91%	400	5.82%	28.36	3.92%
	DL6	8,051	8.47%	3,938.58	79.11%	623	9.07%	662.34	91.47%
	TOTAL	**95,801**	**100%**	**4,981.03**	**100%**	**6,868**	**100%**	**726.55**	**100%**
FY19	DL1	43,859	42.42%	25.17	0.45%	3,694	48.16%	1.77	0.17%
	DL2	17,522	16.95%	77.71	1.39%	958	12.49%	4.43	0.42%
	DL3	16,891	16.34%	244.43	4.36%	1,097	14.30%	15.78	1.49%
	DL4	9,025	8.73%	322.83	5.76%	598	7.80%	21.45	2.02%
	DL5	7,073	6.84%	501.94	8.96%	503	6.56%	35.74	3.37%
	DL6	9,028	8.73%	4,428.27	79.07%	820	10.69%	980.93	92.53%
	TOTAL	**103,398**	**100%**	**5,600.35**	**100%**	**7,670**	**100%**	**1,060.10**	**100%**
FY20	DL1	45,221	35.43%	33.93	0.48%	3,423	38.43%	1.81	0.13%
	DL2	25,294	19.82%	114.54	1.61%	1,129	12.68%	5.20	0.37%
	DL3	25,094	19.66%	355.27	5.00%	1,370	15.38%	19.93	1.40%
	DL4	11,479	8.99%	409.17	5.75%	794	8.91%	28.64	2.02%
	DL5	8,678	6.80%	611.16	8.59%	763	8.57%	53.79	3.79%
	DL6.1	9,679	7.58%	2,043.60	28.74%	989	11.10%	218.19	15.37%
	DL6.2	1,299	1.02%	891.60	12.54%	209	2.35%	143.99	10.14%
	DL6.3	885	0.69%	2,652.62	37.30%	230	2.58%	948.43	66.79%
	TOTAL	**127,629**	**100%**	**7,111.88**	**100%**	**8,907**	**100%**	**1,419.98**	**100%**

Source: ATO-provided data

FY	Debt Level	Other Client Groups (NFP, APRA-Funds, SMSFs)				Total			
		# debt accounts	% debt accounts	$(m)	% collectable debt	# debt accounts	% debt accounts	$(m)	% collectable debt
FY17	DL1								
	DL2								
	DL3								
	DL4								
	DL5								
	DL6								
	TOTAL								
FY18	DL1								
	DL2								
	DL3								
	DL4								
	DL5								
	DL6								
	TOTAL								
FY19	DL1	56,646	75.66%	34.89	8.05%	1,052,917	54.97%	709.90	2.67%
	DL2	11,846	15.82%	50.39	11.63%	382,849	19.99%	1,687.10	6.35%
	DL3	4,474	5.98%	56.94	13.14%	282,106	14.73%	3,893.51	14.66%
	DL4	955	1.28%	33.51	7.73%	100,013	5.22%	3,517.09	13.24%
	DL5	505	0.67%	35.03	8.08%	58,284	3.04%	4,042.38	15.22%
	DL6	444	0.59%	222.64	51.37%	39,258	2.05%	12,716.36	47.87%
	TOTAL	**74,870**	**100%**	**433.40**	**100%**	**1,915,427**	**100%**	**26,566.34**	**100%**
FY20	DL1	71,330	73.42%	52.64	8.94%	1,295,786	53.06%	934.22	2.70%
	DL2	17,340	17.85%	73.39	12.46%	531,520	21.76%	2,350.68	6.80%
	DL3	6,035	6.21%	76.28	12.95%	366,150	14.99%	4,987.87	14.43%
	DL4	1,221	1.26%	42.68	7.25%	124,230	5.09%	4,371.58	12.65%
	DL5	636	0.65%	44.08	7.49%	71,700	2.94%	4,971.10	14.39%
	DL6.1	472	0.49%	96.67	16.42%	47,657	1.95%	8,895.98	25.74%
	DL6.2	63	0.06%	44.22	7.51%	3,128	0.13%	2,126.19	6.15%
	DL6.3	50	0.05%	158.89	26.98%	1,920	0.08%	5,918.52	17.13%
	TOTAL	**97,147**	**100%**	**588.86**	**100%**	**2,442,091**	**100%**	**34,556.13**	**100%**

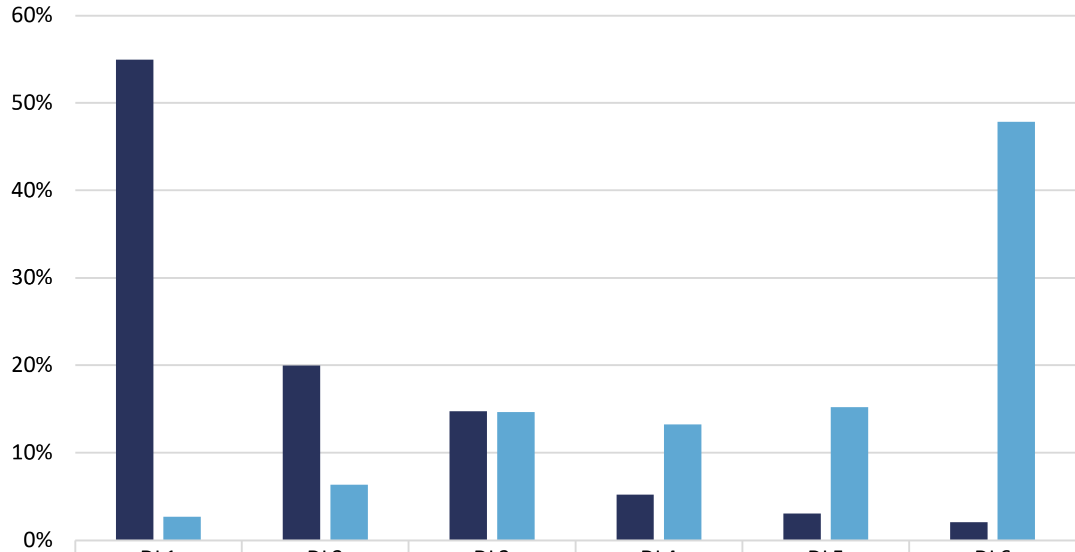
Source: ATO-provided data

Note: Data does not include number of accounts or debt values for taxpayers in the 'unknown' group.

Total collectable debt by Debt Levels

An examination of the Debt Levels across each of the financial years shows a clear and consistent circumstance that a very small fraction of debt accounts represent a significant proportion of debt. The data across the four FYs did not vary significantly, with the exception of PWGs whose proportion of DL6 accounts dropped from 16.1% to 8.73% between FY17 and FY19, while still holding approximately 80% of all collectable debt for that client group. Given the otherwise consistent nature of the data, this report will focus on analysis using data as at 30 June 2019 and 30 June 2020, being the most recent years, to illustrate the DL effects of debt within each client group. The inclusion of 2020 data also provides greater granularity in relation to stratification of DL6 debts into DL6.1, DL6.2 and DL6.3.

Figure 32a: Percentage of total accounts and total collectable debt by DL as at 30 June 2019

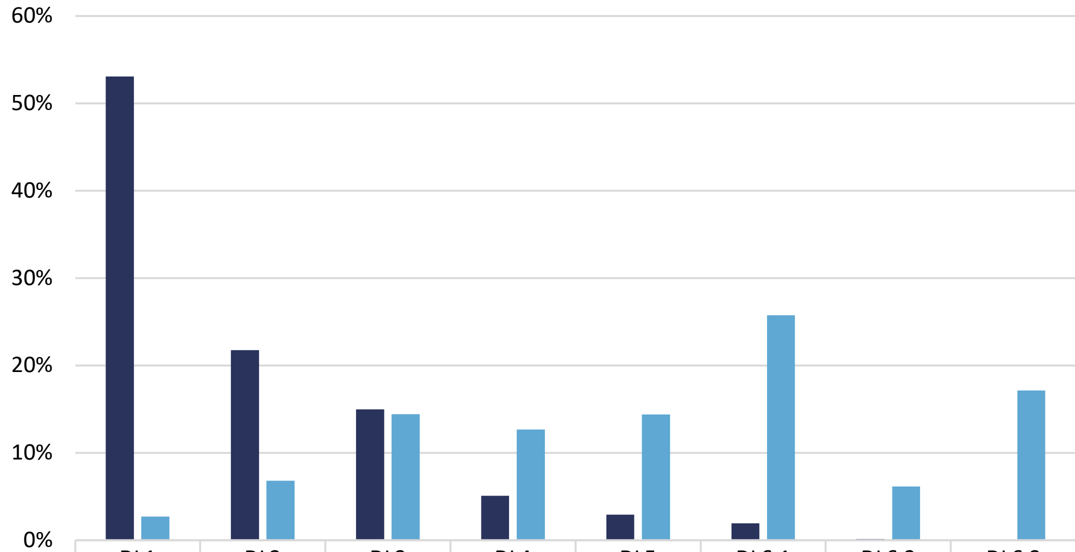


	DL1	DL2	DL3	DL4	DL5	DL6
% of Accounts	54.97%	19.99%	14.73%	5.22%	3.04%	2.05%
% of Debt	2.67%	6.35%	14.66%	13.24%	15.22%	47.87%

Source: Constructed from ATO-provided data

As at 30 June 2019, 5.09% of debt accounts were responsible for 63.09% of collectable debt (DLs 5 and 6). In total, these accounts held almost $17 billion of total collectable debt of approximately $26 billion, averaging $171,810 per account. The majority of these accounts are held by small businesses and PWGs.

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



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

Source: Constructed from ATO-provided data

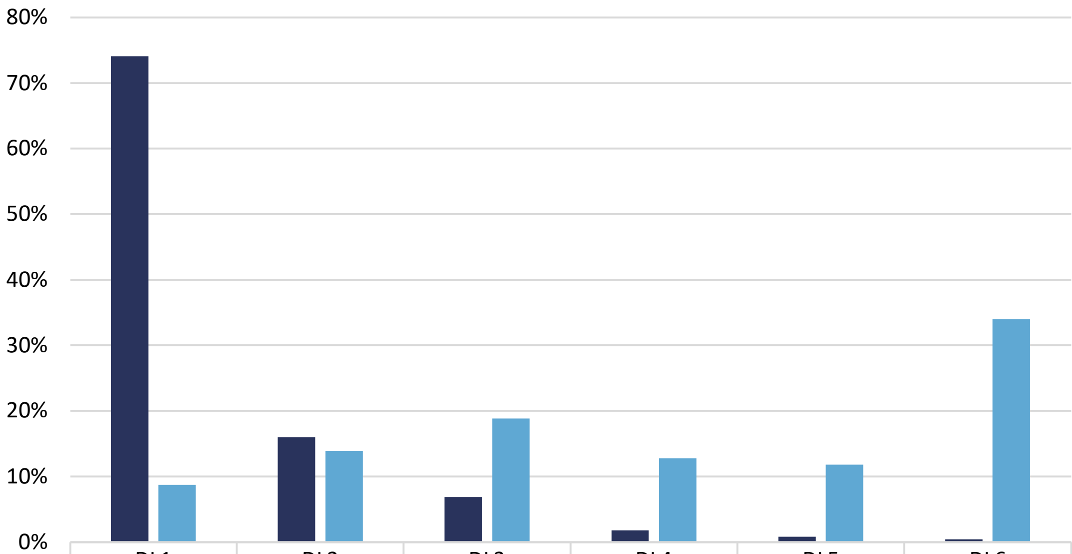
As at 30 June 2020, 5.09% of debt accounts were responsible for 63.41% of collectable debt (DLs 5 and 6). In total, these accounts held $21.9 billion of the total $34.5 billion in collectable debt. This averages to a total of $176,133 per debt account, which is consistent with FY19. These accounts were predominantly held by small businesses and PWGs. Of particular note, a very small proportion (0.21%) of accounts owed almost one quarter of all collectable debt outstanding (23.28%), averaging $1,593,643 per account – see DL6.2 and DL6.3.

The ATO has provided a breakdown of DL6 into DL6.1, DL6.2 and DL6.3 for comparative purposes.

At the other end of the spectrum, 54.97% of debt accounts were responsible for only 2.67% at DL1. These accounts represent those holding the smallest quantum of debt, totalling almost $710 million, or averaging $674 per account in FY19. The majority of these accounts are held by either individual taxpayers or small businesses. Similarly, in FY20, 53.06% of accounts were responsible for 2.70% at DL1 averaging $721 per account. The majority of these accounts, as with FY19, were held by individuals and small businesses.

Individuals

Figure 33a: Percentage of Individual debt accounts and collectable debt by DL as at 30 June 2019

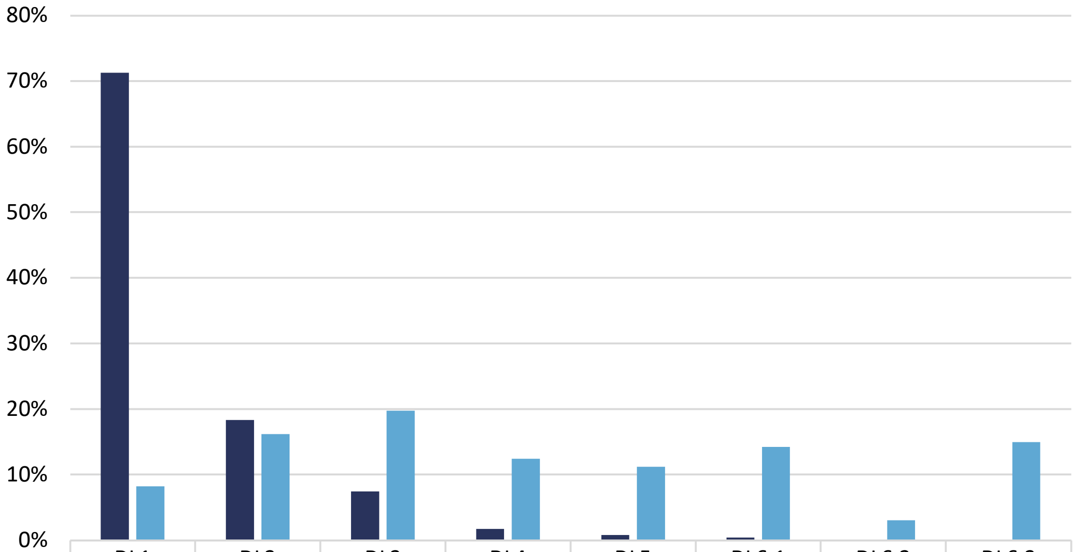


	DL1	DL2	DL3	DL4	DL5	DL6
% of Accounts	74.08%	15.98%	6.89%	1.77%	0.84%	0.44%
% of Debt	8.75%	13.91%	18.82%	12.79%	11.78%	33.96%

Source: Constructed from ATO-provided data

In FY19, the majority of individual taxpayer debt accounts held DL1 debt (< $2,500), with 74.8% of accounts being accountable for 8.75% of collectable debt (an average of $570 per account). However, what is more concerning is the 1.28% of accounts that hold 45.74% of DL5 and DL6 collectable debts in this client group. Approximately 7,800 accounts owe $1.354 billion in collectable debt, averaging $172,712 per account, exceeding the average for DL5 and 6 across all market segments.

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



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

Source: Constructed from ATO-provided data

In FY20, as it was in FY19, the majority of individual taxpayer accounts (71.27%) owed DL1 debts, totalling 8.19% of debts for this client experience group. At DL1, individual taxpayer accounts owed an average of $556 per account. The proportion of accounts owing DL5 and DL6 debts decreased slightly from the prior year to 1.22%. Accounts at this level owed an average $172,070. At the very tail end of the data, a tiny fraction of individual taxpayer accounts (0.04%) owed 18.03% of collectable debt at the DL6.2 and 6.3 – that is, more than $500,000 per account. In absolute terms, 325 accounts owed a total of $694.53 million, averaging $2.137 million per account. When DL6.3 is considered in isolation, the average per account is $3.697 million. This average per account at these levels is higher than for all other client experience groups (except PMBs in relation to DL6.3).

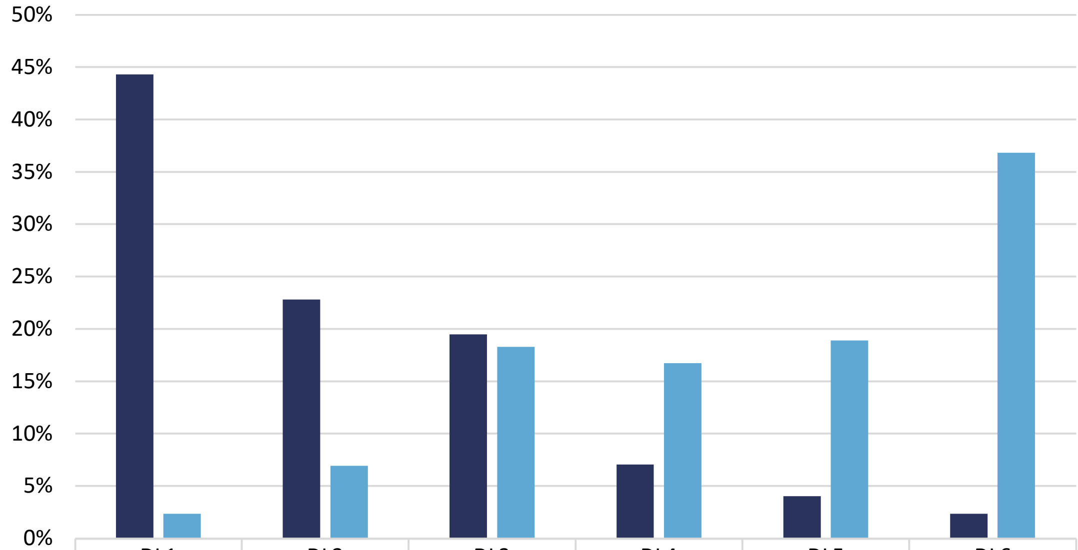
The figure is concerning, not only because of its magnitude, but also because it is difficult to understand how, individuals not in business and who do not hold sufficient assets to be classed within PWG, could have accumulated such a vast amount of debt. The IGTO believes further analysis is required to understand the numbers reported.

The Auditor-General has announced a potential performance audit on the ATO's administration of individual income taxes as part of his 2020-21 audit program.[114] As part of that performance audit, the Auditor-General may wish to examine the underlying causes for individual tax debt accounts accruing large sums of unpaid, undisputed debts.

114 Australian National Audit Office, *Administration of Income Tax for Individual* (2020) https://www.anao.gov.au/work/performance-audit/administration-income-tax-individuals.

Small Business

Figure 34a: Percentage of Small Business debt accounts and collectable debt by DL as at 30 June 2019



	DL1	DL2	DL3	DL4	DL5	DL6
% of Accounts	44.29%	22.80%	19.48%	7.04%	4.04%	2.35%
% of Debt	2.36%	6.92%	18.28%	16.72%	18.90%	36.82%

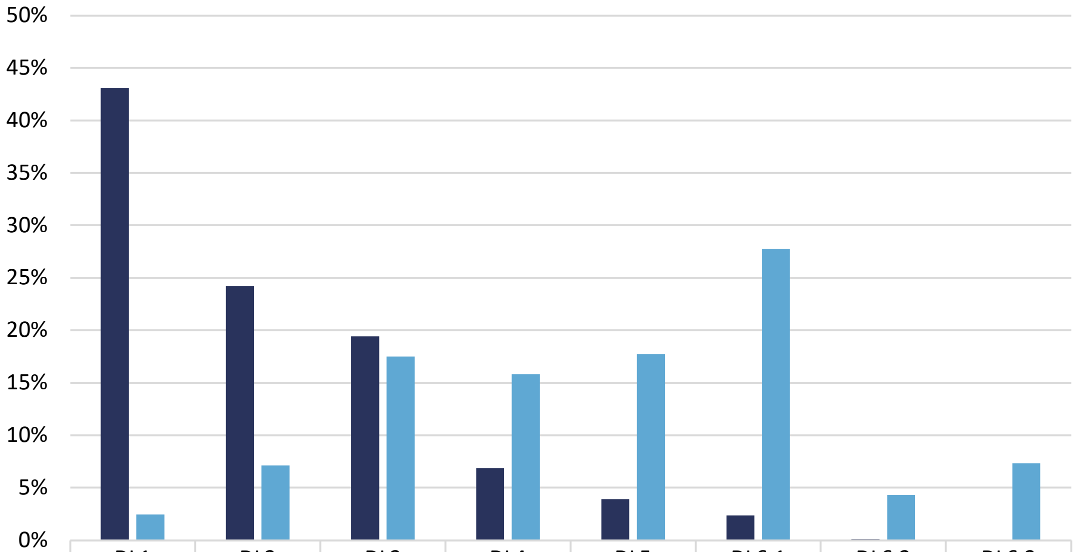
Source: Constructed from ATO-provided data

In relation to small business, the ATO has previously said that 'taxpayers, particularly small businesses, sometimes have cash flow issues and can't pay their tax on time.'[115] The ATO has developed a coaching kit specifically to assist tax practitioners with small business taxpayers.[116] While there has been a perception that small businesses are driving collectable debts, like the other client groups, the data reveals that in aggregate, only a very small proportion of small business taxpayers are responsible for a large quantum of the debt (DLs 5 and 6). 6.39% of small business debt accounts accounted for 55.72% of collectable debts in this client group. These accounts each hold an average of $128,989 per account. As with Individual taxpayers, most small business accounts (44.29%) owed DL1 debts, with an average of $787.30 per account.

115 Commissioner of Taxation, above n 38, p 18.

116 Ibid, p 38.

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



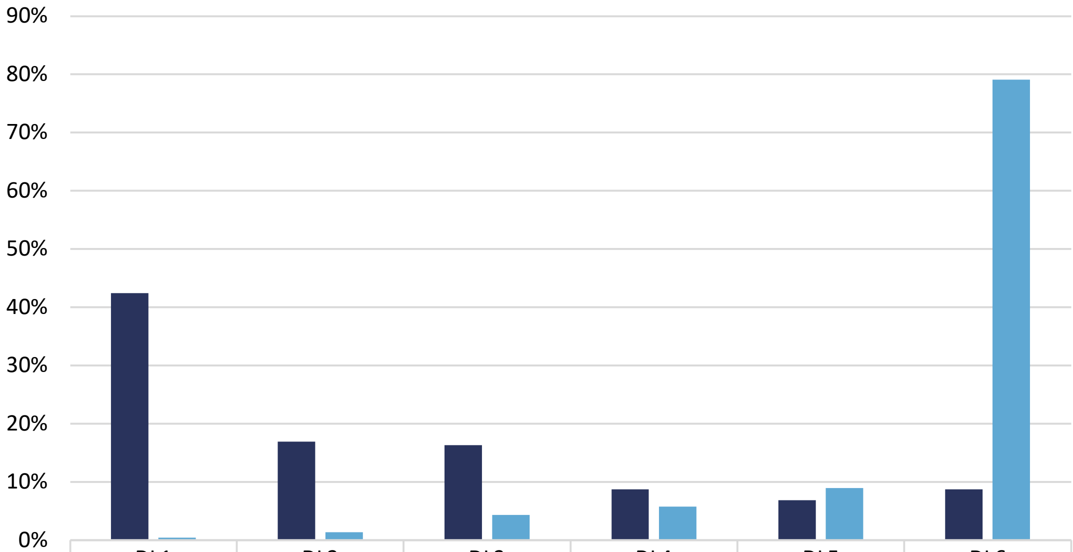
	DL1	DL2	DL3	DL4	DL5	DL6.1	DL6.2	DL6.3
% of Accounts	43.07%	24.21%	19.43%	6.87%	3.92%	2.37%	0.10%	0.04%
% of Debt	2.46%	7.11%	17.49%	15.81%	17.75%	27.75%	4.30%	7.33%

Source: Constructed from ATO-provided data

In FY20, 6.43% of debt accounts accounted for 57.13% of collectable debts (DL5 and DL6). Each account at this level averaged an amount of $135,915 owing. This represents an average increase of approximately $6,926 per account over FY19. In relation to DL6.2 and DL6.3, a small proportion of accounts (0.14%) accounted for 11.63%. In absolute terms, 1,987 accounts owed a total of $2.51 billion, averaging $1,263,422 per account. As with individual taxpayers, the bulk of small business debt accounts owed either DL1 (43.07%) or DL2 (24.21%) amounts, accounting for 2.46% and 7.11% of collectable debts. The average amount owed by DL1 accounts is $872 while DL2 accounts averaged $4,489.

Private and Wealthy Groups

Figure 35a: Percentage of PWG debt accounts and quantum of collectable debt by DL as at 30 June 2019

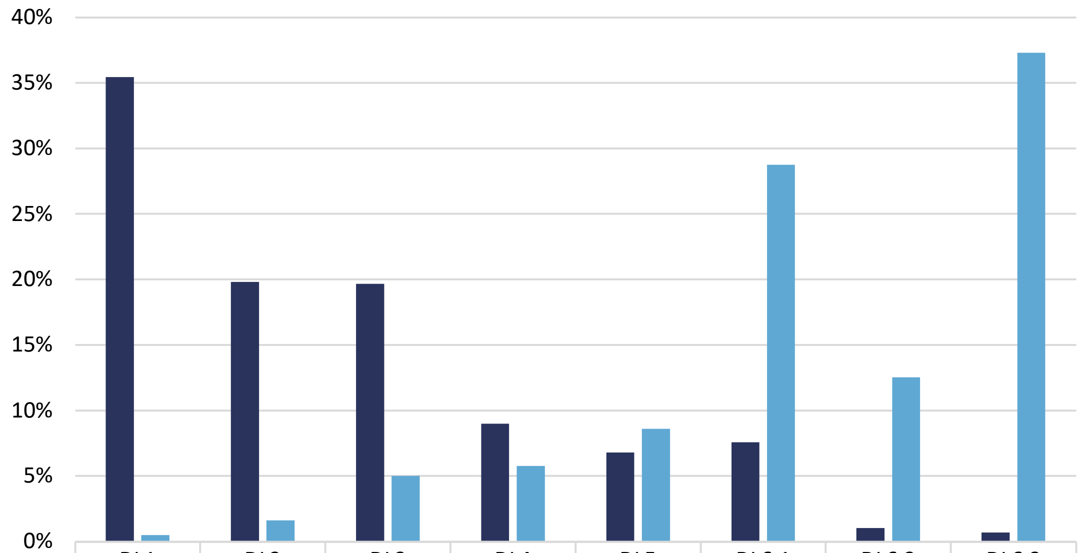


	DL1	DL2	DL3	DL4	DL5	DL6
% of Accounts	42.42%	16.95%	16.34%	8.73%	6.84%	8.73%
% of Debt	0.45%	1.39%	4.36%	5.76%	8.96%	79.07%

Source: Constructed from ATO-provided data

Given the inherent complexities and generally larger transactions undertaken within PWGs, it is to be expected that they would owe higher values of collectable debt per account. At DL5 and DL6, 15.57% of PWG accounts held 88.03% of collectable debt. There are 16,101 PWG accounts owing DL5 and DL6 debts, with an average of $306,205 owed per account. Interestingly, 42.24% of PWG accounts were within the DL1 segment, owing very small amounts of debt. The average DL1 account for PWGs, owes only $574 per account, which is less than average DL1 accounts for small business and comparable to DL1 accounts held by individuals not in business.

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



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

Source: Constructed from ATO-provided data

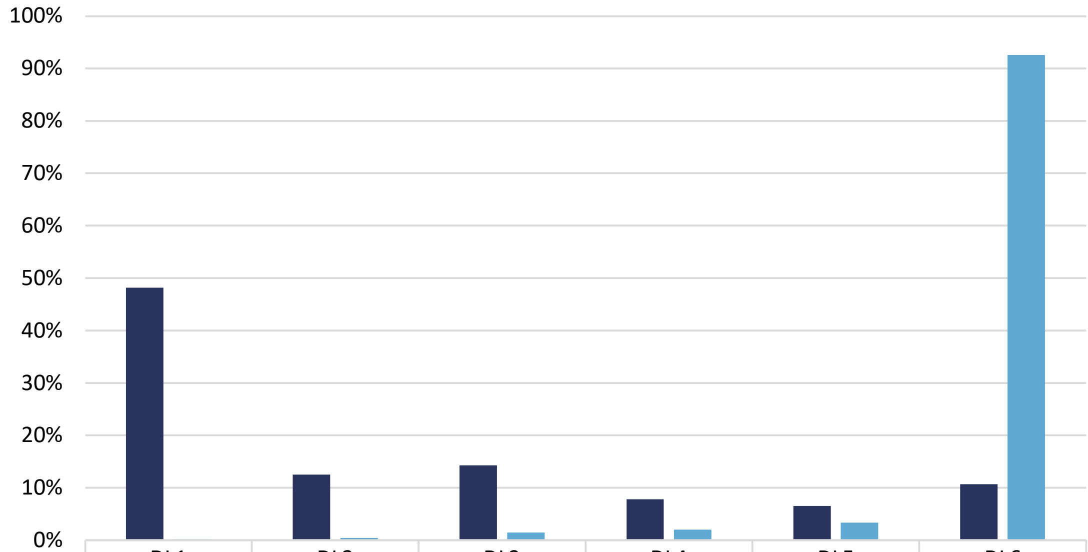
In FY20, DL5 and DL6 accounts for this client experience group totalled 16.09% and accounting for 87.16% of all collectable debt for this group. These figures are similar to those reported in FY19. The average debt per account, at DL5 and DL6 is $301,786 per account. Interestingly, close to half of the collectable debt (49.84%) are from accounts sitting either within DL6.2 or DL6.3 – that is, each account has a value of more than $500,000. In absolute terms, 2,184 accounts owed $3.54 billion, or an average of $1,622,811 per account. A significant proportion of PWG debt accounts (55.25%) were either DL1 or DL2. Each DL1 account averages $750 owing, while each DL2 account averaged $4,528 per account. These figures align closely with the DL1 and DL2 experience for small businesses.

It is not immediately clear on the data provided why PWGs, which include high net worth individuals (those who, with their business associates, control more than $5 million in net wealth)[117] would have such a higher number of accounts owing a very small quantum of debt. As will be seen in the next section, PMBs exhibit a similar pattern.

117 ATO, *About Privately Owned and Wealthy Groups* (30 October 2019) https://www.ato.gov.au/Business/Privately-owned-and-wealthy-groups/What-you-should-know/About-privately-owned-and-wealthy-groups/. The current terminology used by the ATO refers to 'Wealthy Australians' to define individuals who control a net wealth of between $5 million and $30 million – see ATO, *Private owned and wealthy groups demographics* (26 September 2018) https://www.ato.gov.au/Business/Privately-owned-and-wealthy-groups/What-you-should-know/About-privately-owned-and-wealthy-groups/privately-owned-and-wealthy-groups-demographics/.

Public and Multinational Groups

Figure 36a: Percentage of PMB debt accounts and quantum of collectable debt by DL as at 30 June 2019

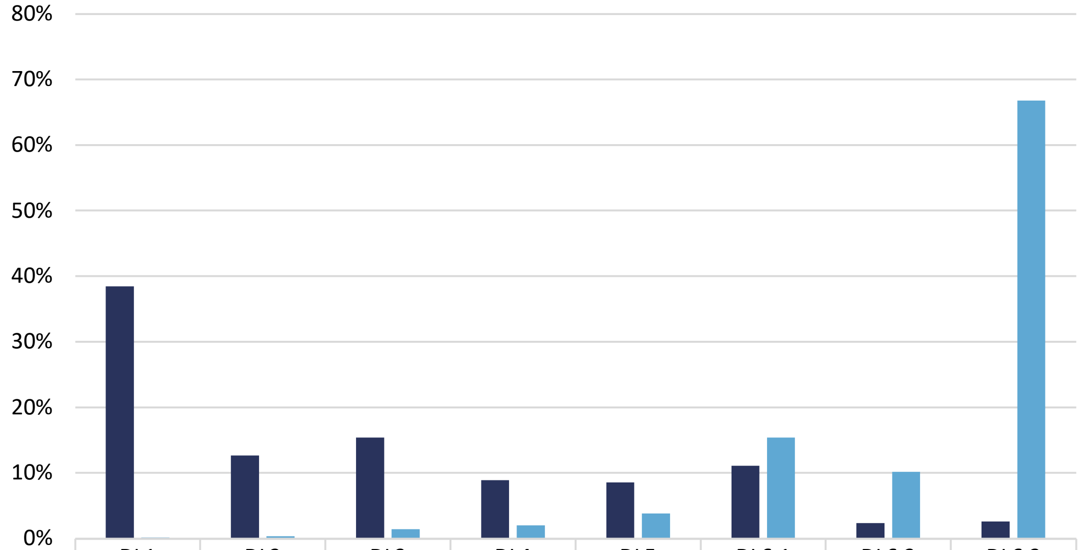


	DL1	DL2	DL3	DL4	DL5	DL6
% of Accounts	48.16%	12.49%	14.30%	7.80%	6.56%	10.69%
% of Debt	0.17%	0.42%	1.49%	2.02%	3.37%	92.53%

Source: Constructed from ATO-provided data

It is not surprising to note that PMBs, which include the very largest entities operating in Australia, have a small number of accounts owing the vast majority of collectable debts. In FY19, 1,323 PMB debt accounts held approximately $1.017 billion of collectable debt (at DL5 and DL6), with each averaging $768,458 per account. In percentage terms, 17.25% accounted for 95.9% of collectable debt. When only DL6 accounts are considered, 92.53% of debts within the PMB group are attributable to 10.69% of accounts. At this end of the spectrum, 820 accounts held $980.93 million in collectable debt, resulting in an average of $1.19 million collectable debt per account.

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



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

Source: Constructed from ATO-provided data

FY20 showed similar activity in relation to FY19. 24.6% of accounts owed 96.09% of PMB collectable debts (DLs 5 and 6). There are 2,191 accounts within these groups, owing $1.364 billion, or an average of $622,729 per account. This represents a decrease when compared to FY19. The reason for the decrease is that between FY19 and FY20, the number of debt accounts increased from 1,323 to 2,191 (a 65% increase). The overall quantum of DL5 and 6 debts only increased by 34%.

When DL6 is examined in isolation, 16.03% of accounts owed 92.3% of PMB collectable debts. Collectively, 1,428 accounts owed $1.31 billion, or an average of $917,794 per account. Between FY19 and FY20, the number of DL6 PMB accounts increased by 74% while total debt within the DL6 category increased by 33.6%.

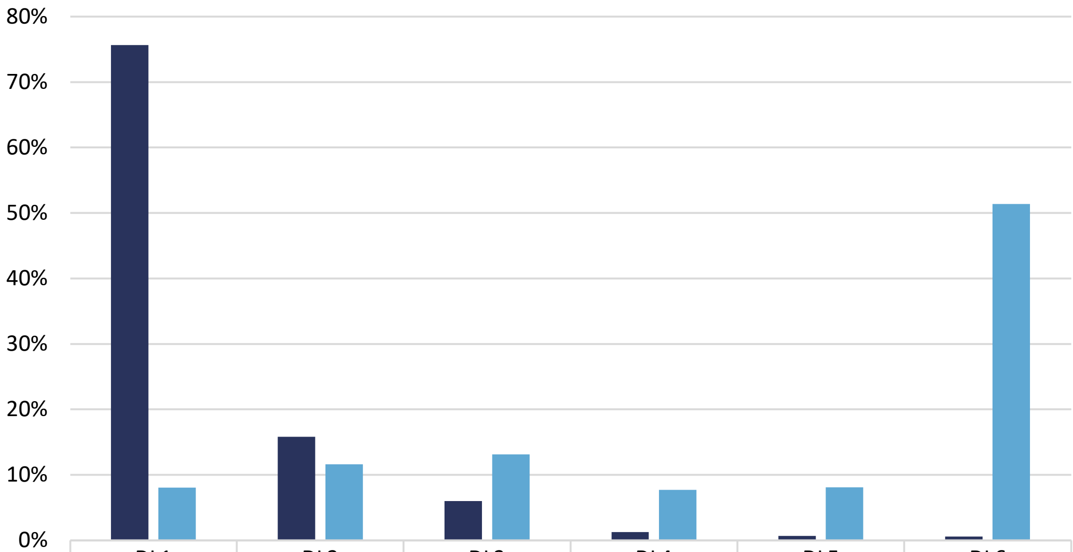
In relation to DL6.2 and DL6.3, these accounts made up 4.93% of all PMB accounts and owed 76.93% of all PMB collectable debt. In absolute terms, 439 accounts owed $1.092 billion or an average of $2,488,428 per account.

While it may be expected that PMBs would have higher debt account balances, the sheer magnitude of debts attributable to a very small number of accounts requires explanation, particularly so because it is clear that these debts are not presently subject to any form of dispute. Further investigation may be required to identify how much collectable debt was transferred from disputed debt.

Similarly, as observed with PWGs, PMBs have a high proportion of accounts at the DL1 level. Based on the statistics above, in FY19 48.16% of accounts had debts of less than $2,500. Specially, there were 3,694 accounts owing a total of $1.77 million or an average of $479 per account which is considerably less than DL1 averages for individuals, small businesses and PWGs. The reasons for these small amounts being outstanding are unclear. In FY20, 38.43% of PMB accounts were DL1, averaging $528 per account. This was also less than the average for PWG, small business and individual DL1 accounts.

Other Client Groups

Figure 37a: Percentage of Other Client Group debt accounts and collectable debt by DL as at 30 June 2019



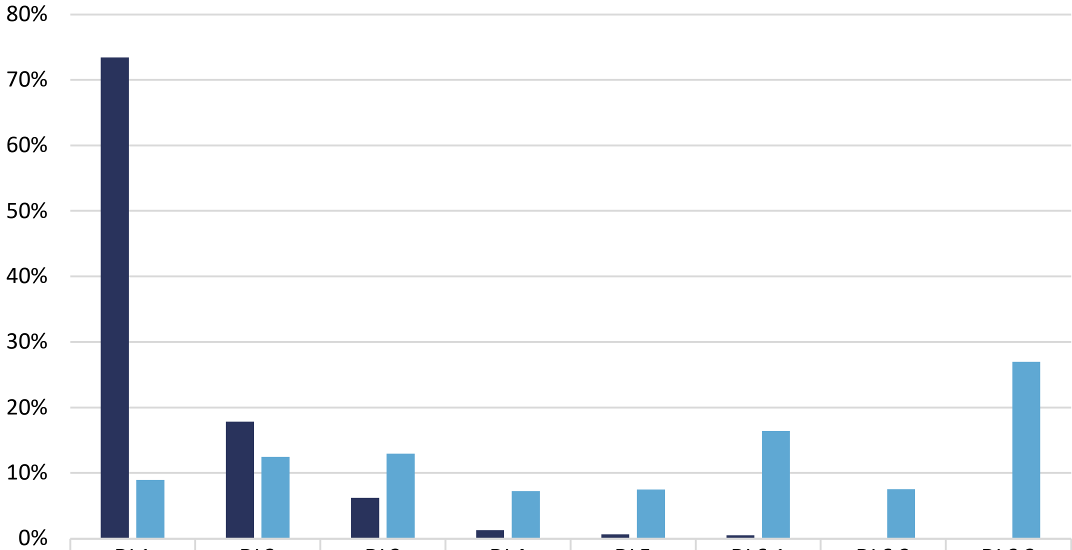
	DL1	DL2	DL3	DL4	DL5	DL6
% of Accounts	75.66%	15.82%	5.98%	1.28%	0.67%	0.59%
% of Debt	8.05%	11.63%	13.14%	7.73%	8.08%	51.37%

Source: Constructed from ATO-provided data

In FY19, other segments, namely, APRA funds, SMSFs and NFPs, 949 accounts (1.26%) held 59.45% of debt (DL5 and DL6). Within this small group, each account holds approximately $271,517. Given the generally small population of taxpayers and accounts within these client groups, debt levels are likely to be easily influenced by a small number of large debt accounts.

A high proportion of accounts (75.66%) in this group, owe DL1 debts, averaging $616 per account, similar to other client groups.

Figure 37b: Percentage of Other Client Group debt accounts and collectable debt by DL as at 30 June 2020



	DL1	DL2	DL3	DL4	DL5	DL6.1	DL6.2	DL6.3
% of Accounts	73.42%	17.85%	6.21%	1.26%	0.65%	0.49%	0.06%	0.05%
% of Debt	8.94%	12.46%	12.95%	7.25%	7.49%	16.42%	7.51%	26.98%

Source: Constructed from ATO-provided data

In FY20, 1.26% of accounts relating to “other” entities – APRA-funds, SMSFs and NFPs – accounted for 58.39% of collectable debts (DLs 5 and 6). A total of 1,221 accounts owed $344 million or an average of $281,622. At DL6.2 and 6.3, 0.12% of accounts owed 34.49% of collectable debts for this group. In absolute terms, 113 accounts owed $203 million, or an average of $1,797,434 per account. At the lowest end of the spectrum, 73.42% of accounts were categorised as DL1, owing 8.94% of collectable debts within this group. DL1 account averages $738 per account.

It is important to appreciate that while the percentages noted above are similar to those reported for other client experience groups, the overall total debts owed collectively by APRA-funds, SMSFs and NFPs is small when compared with other client experience groups. Nonetheless, they are significant amounts that are not the subject of any dispute. Furthermore, they are also entities that are subject to extensive regulation both by the ATO (SMSFs) and by other agencies – Australian Prudential Regulations Authority in relation to APRA-funds, and the Australian Charities and Not-for-Profits Commission (ACNC) for NFPs.

10. OUR FINDINGS IN DETAIL – INDUSTRY GROUPS

Overview

The five defined industries with the largest holdings of collectable debt from FY17 to FY20 are:

- Construction
- Professional, Scientific & Technical Services
- Accommodation and Food Services
- Administrative and Support Services
- Financial and Insurance Services

Each of these industry Divisions is defined later in this section together with any identified differences between the ATO and the ABS.

The ATO's data also includes a category that has been designated 'Special ATO Division (out of ANZSIC scope)'. This category ranked second in terms of the highest levels of collectable debt of any industry group. The ATO has explained that this category is used for individuals or other taxpayers outside the scope of the Australian and New Zealand Standard Industrial Classification (ANZSIC) coding (e.g., taxpayers who, having never applied for an ABN, have not reported an industry code to the ATO).

Findings on Collectable debt by Industry division

The ATO allocates taxpayers to particular industries using Business Industry Codes[118] which are five-digit number where the first four digits are derived from the ANZSIC system released by the Australian Bureau of Statistics.[119] The ATO has provided an explanation for its use of Business Industry Codes on its website.[120] The IGTO has also previously explained the difference between the two systems in an earlier review investigation report.[121]

118 ATO, *Business Industry Code Tool* (24 January 2018) https://www.ato.gov.au/Calculators-and-tools/Business-industry-code-tool/

119 ABS, *1292.0 Australian and New Zealand Industrial Classification (ANZSIC), 2006 (Revision 1.0)* https://www.abs.gov.au/ausstats/abs@.nsf/Previousproducts/1292.0Media%20Release2006%20(Revision%201.0)?opendocument&tabname=Summary&prodno=1292.0&issue=2006%20(Revision%201.0)&num=&view=.

120 ATO, *Industry coding of business returns – August 2002* (14 September 2016) https://www.ato.gov.au/Rates/Industry-coding-of-business-returns---August-2002/; ATO, Fact Sheet for tax agents and business owners – Business industry codes 2017 (2017) https://www.ato.gov.au/uploadedFiles/Content/ITX/downloads/03-2017_Business-industry-codes.pdf.

121 IGTO, *Review into the Australian Taxation Office's use of benchmarking to target the cash economy* (July 2012) Appendix 4.

The Business Industry Codes may be grouped into broad industry (ANZSIC) divisions as follows:

A. Agriculture, forestry and fishing	H. Accommodation and food services	O. Public administration and safety
B. Mining	I. Transport, postal and warehousing	P. Education and training
C. Manufacturing	J. Information media and telecommunications	Q. Health care and social assistance
D. Electricity, gas, water and waste services	K. Financial and insurance services	R. Arts and recreation services
E. Construction	L. Rental, hiring and real estate services	S. Other services
F. Wholesale trade	M. Professional, scientific and technical services	
G. Retail trade	N. Administrative and support services	

Taxpayers are assigned the industry description related to the activity from which they derived the highest gross income or incurred the smallest loss. Taxpayers are required to report an accurate description of their main business activity on relevant tax returns and schedules.[122] Other than ATO-held data, the ATO also uses information from APRA and other third-party data to draw classifications for taxpayers.[123]

The ATO records levels of collectable debt for each of the 19 broad industry divisions. The ATO also has a category called “Special ATO Division”.[124] The ATO has explained to the IGTO that the majority of this Division is composed of salary and wage earners.

122 ATO, *Business Industry Code Tool* (24 January 2018) https://www.ato.gov.au/Calculators-and-tools/Business-industry-code-tool/.

123 ATO, Information provided to the IGTO.

124 ATO response to IGTO – email on 12 February 2020.

In correspondence with the IGTO, the ATO has provided the following examples of items that may be allocated to the 'Special ATO Division':

- salary and wage earners;
- interest on bearer debentures;
- overseas ship freight;
- non-residential insurance company;
- consolidation assessment;
- property operators and developers; and
- property income interest and dividend income.

The IGTO has not specifically interrogated the make-up of this Division as part of this investigation. The ATO has advised that when reporting debt balances on an industry level, details within Special ATO Division are either excluded or referenced by way of footnote.

It is also important to note that Special ATO Division is distinct from the 'Unknown' category that the ATO maintains. The ATO has explained that where it has no data available to allocate a taxpayer to an industry division (usually as a result of the taxpayer not engaging with the ATO), that taxpayer is classified as 'unknown'.

Table 21: Total collectable debt by industry for FY17, FY18, FY19 and FY20

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

Industry	FY17 ($)	% of total collectable debt in FY17	FY18 ($)	% of total collectable debt in FY18	FY19 ($)	% of total collectable debt in FY19	FY20 ($)	% of total collectable debt in FY20
Transport, Postal and Warehousing	$0.876 billion	4%	$1.018 billion	4%	$1.077 billion	4%	$1.445 billion	4%
Other Services	$0.841 billion	4%	$0.910 billion	4%	$1.031 billion	4%	$1.311 billion	4%
Health Care and Social Assistance	$0.795 billion	4%	$0.955 billion	4%	$0.923 billion	3%	$1.253 billion	4%
Wholesale Trade	$0.638 billion	3%	$0.507 billion	2%	$0.584 billion	2%	$0.976 billion	3%
Agriculture, Forestry and Fishing	$0.489 billion	2%	$0.554 billion	2%	$0.620 billion	2%	$0.754 billion	2%
Unknown	$0.247 billion	1%	$0.347 billion	1%	$0.631 billion	2%	$0.860 billion	3%
Arts and Recreation Services	$0.298 billion	1%	$0.323 billion	1%	$0.338 billion	1%	$0.518 billion	2%
Mining	$0.303 billion	1%	$0.207 billion	1%	$0.355 billion	1%	$0.214 billion	1%
Education and Training	$0.191 billion	1%	$0.226 billion	1%	$0.261 billion	1%	$0.356 billion	1%
Information Media and Telecommunications	$0.190 billion	1%	$0.239 billion	1%	$0.239 billion	1%	$0.345 billion	1%
Public Administration and Safety	$0.127 billion	1%	$0.156 billion	1%	$0.203 billion	1%	$0.243 billion	1%
Electricity, Gas, Water and Waste Services	$0.094 billion	0%	$0.142 billion	1%	$0.086 billion	0%	$0.117 billion	0%
Grand Total	**$20.871 billion**	**100%**	**$23.579 billion**	**100%**	**$26.498 billion**	**100%**	**$34.179 billion**	**100%**

Source: ATO-provided data

Table 21 shows that there was no significant change in the relative indebtedness of industries in FY17 to FY20, with the percentage of Collectable debt owed by each of the top 6 industries remaining relatively stable and the top 4 indebted industries remaining unchanged each year from FY17 to FY20.

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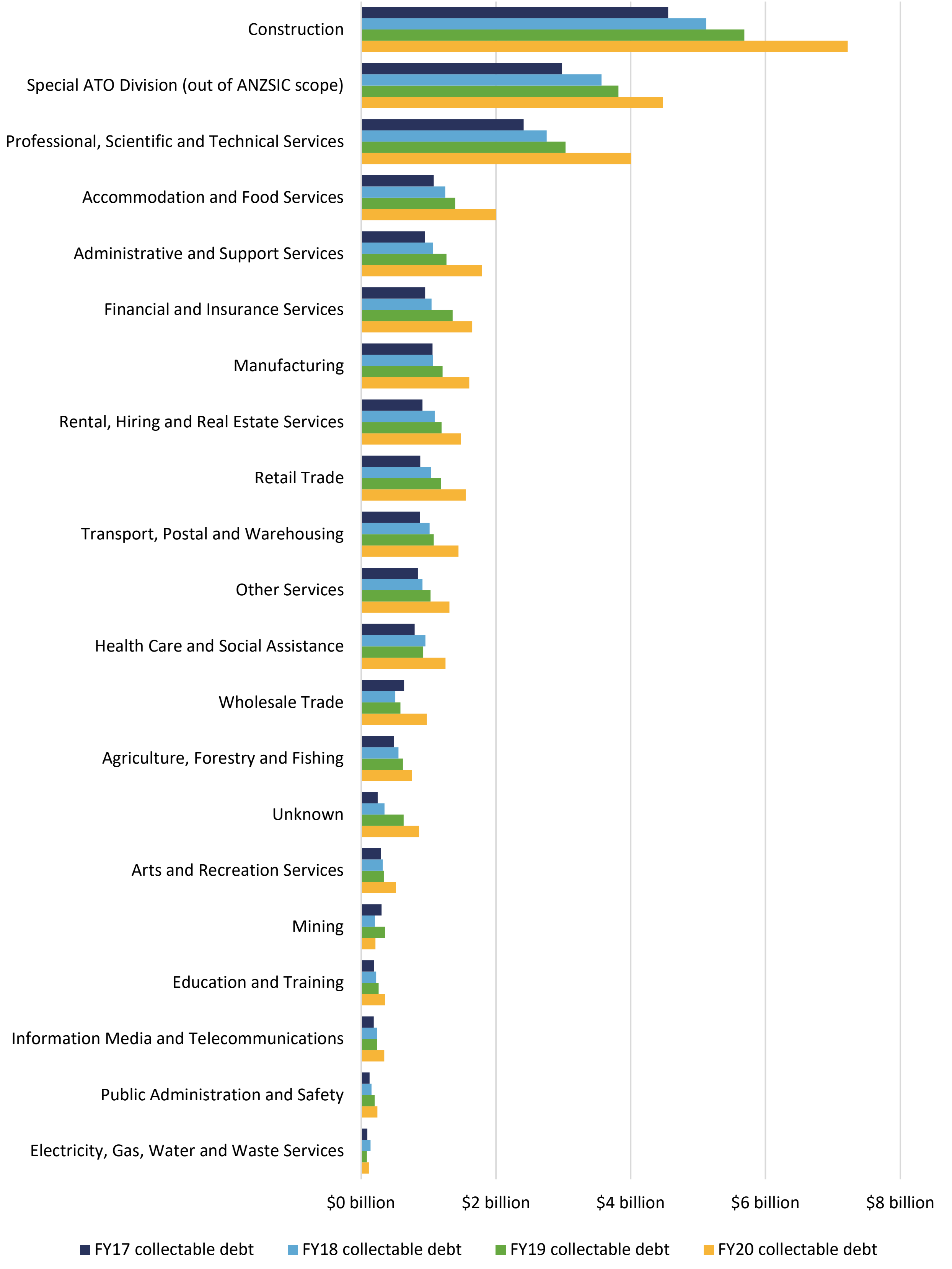
Figure 38: Total collectable debt by industry for FY17–FY20



Source: Constructed from ATO-provided data

When the levels of collectable debts are viewed from the standpoint of industry divisions, three industry divisions stand out with the largest levels of collectable debts. These three industry divisions were Construction, Special ATO division and Professional, Scientific and Technical Services. On average, From FY17–FY20, the 3 industries made up approximately 47% of the total collectable debt. When the top 6 industries are considered, the amount of collectable debt attributable to them across all four financial years ranges between 61% and 63%.

By way of completeness, it is worthwhile noting that Government organisations do not get a specific designation within the ANZSIC framework. They are usually captured as subsets of other industries such as Public Administration and Safety, Education and Training, and Healthcare and Social Assistance. These industry divisions do not contribute a large amount of collectable debt (averaging between 1% to 4% in any FY). The ATO has provided further details on Government organisations and collectable debt as set out in Table 22.

Table 22: Collectable debt levels for government organisations

	Value ($m)	Number of collectable debt Accounts
FY16	5.95	384
FY17	2.84	345
FY18	8.35	368
FY19	37.13	513
FY20	53.13	477

Note: As the FY19 result is point in time, at November 2019, government debt returned to $8.29 million

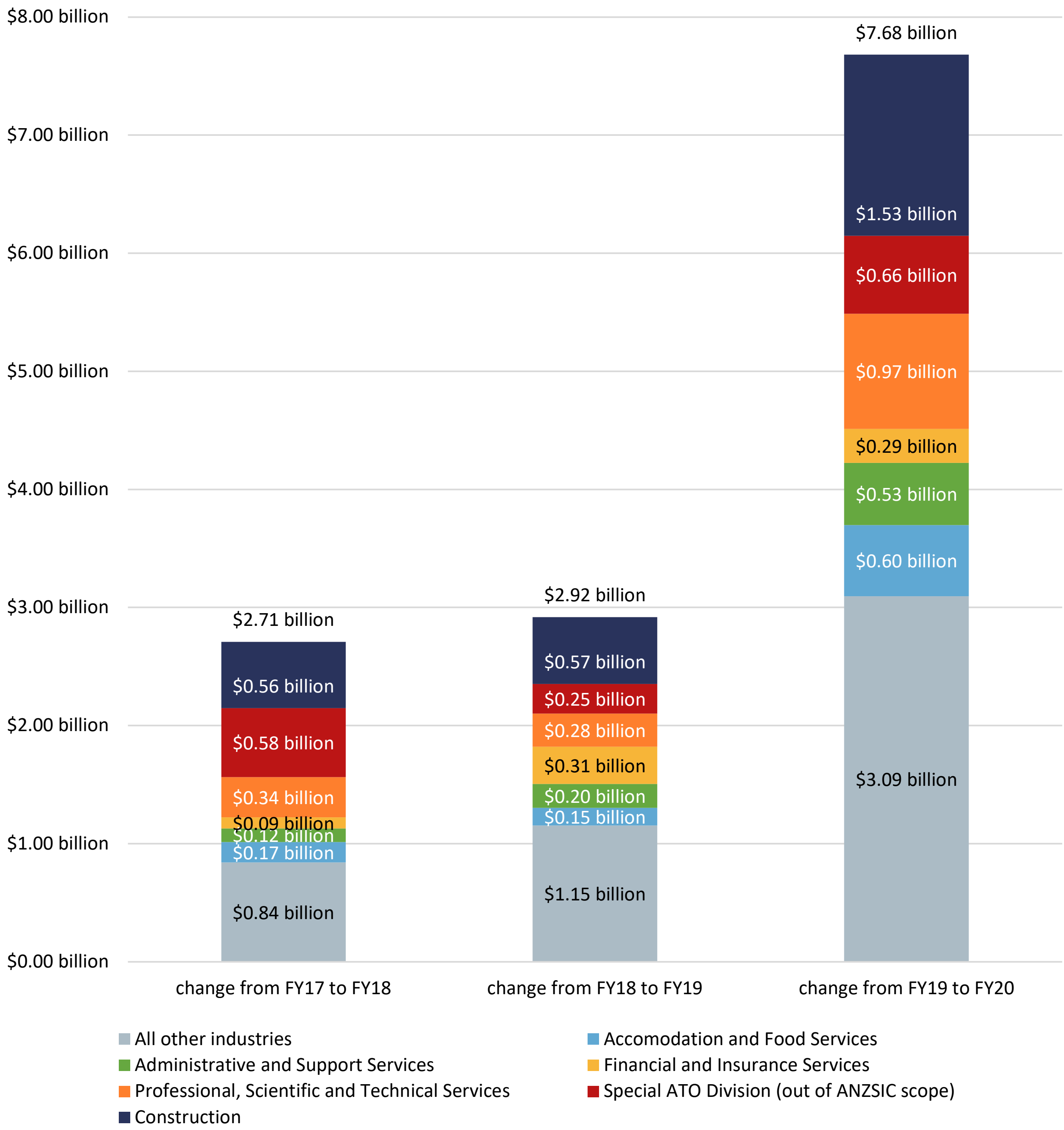
Source: ATO-provided data

Table 23: Change in collectable debt by Industry FY17–FY20

Industry (ANZSIC Division)	change from FY17 to FY18	% of total change from FY17 to FY18	change from FY18 to FY19	% of total change from FY18 to FY19	change from FY19 to FY20	% of total change from FY19 to FY20	change from FY17 to FY20	% of total change from FY17 to FY20
Construction	$0.56 billion	21%	$0.57 billion	19%	$1.53 billion	20%	$2.66 billion	20%
Professional, Scientific and Technical Services	$0.34 billion	13%	$0.28 billion	10%	$0.97 billion	13%	$1.60 billion	12%
Special ATO Division (out of ANZSIC scope)	$0.58 billion	22%	$0.25 billion	9%	$0.66 billion	9%	$1.49 billion	11%
Accommodation and Food Services	$0.17 billion	6%	$0.15 billion	5%	$0.60 billion	8%	$0.92 billion	7%
Administrative and Support Services	$0.12 billion	4%	$0.20 billion	7%	$0.53 billion	7%	$0.84 billion	6%
Financial and Insurance Services	$0.09 billion	3%	$0.31 billion	11%	$0.29 billion	4%	$0.70 billion	5%
Retail Trade	$0.16 billion	6%	$0.15 billion	5%	$0.37 billion	5%	$0.67 billion	5%
Unknown	$0.10 billion	4%	$0.28 billion	10%	$0.23 billion	3%	$0.61 billion	5%
Transport, Postal and Warehousing	$0.14 billion	5%	$0.06 billion	2%	$0.37 billion	5%	$0.57 billion	4%
Rental, Hiring and Real Estate Services	$0.18 billion	7%	$0.10 billion	4%	$0.28 billion	4%	$0.57 billion	4%
Manufacturing	$0.01 billion	0%	$0.14 billion	5%	$0.40 billion	5%	$0.54 billion	4%
Other Services	$0.07 billion	3%	$0.12 billion	4%	$0.28 billion	4%	$0.47 billion	4%
Health Care and Social Assistance	$0.16 billion	6%	-$0.03 billion	-1%	$0.33 billion	4%	$0.46 billion	3%
Wholesale Trade	-$0.13 billion	-5%	$0.08 billion	3%	$0.39 billion	5%	$0.34 billion	3%
Agriculture, Forestry and Fishing	$0.07 billion	2%	$0.07 billion	2%	$0.13 billion	2%	$0.27 billion	2%
Arts and Recreation Services	$0.02 billion	1%	$0.02 billion	1%	$0.18 billion	2%	$0.22 billion	2%
Education and Training	$0.04 billion	1%	$0.03 billion	1%	$0.09 billion	1%	$0.16 billion	1%
Information Media and Telecommunications	$0.05 billion	2%	$0.00 billion	0%	$0.11 billion	1%	$0.15 billion	1%
Public Administration and Safety	$0.03 billion	1%	$0.05 billion	2%	$0.04 billion	1%	$0.12 billion	1%
Electricity, Gas, Water and Waste Services	$0.05 billion	2%	-$0.06 billion	-2%	$0.03 billion	0%	$0.02 billion	0%
Mining	-$0.10 billion	-4%	$0.15 billion	5%	-$0.14 billion	-2%	-$0.09 billion	-1%
Total Change in Collectable Debt	$2.71 billion	100%	$2.92 billion	100%	$7.68 billion	100%	$13.31 billion	100%

Source: ATO-provided data

Figure 39: Change in collectable debt by Industry FY17–FY20



Source: Constructed from ATO-provided data

Between FY17 to FY20, the top 5 industries and 'Special ATO Division' accounted for 62% of the increase in collectable debt levels, as shown in Figure 39 above. All other industries contributed approximately 38% of the increase in collectable debt from FY17 to FY20. That is, the six divisions which were responsible for the largest increase in collectable debt from FY17 to FY20 contributed 1.6 times as much to the increase in collectable debt from FY17 to FY20 as the next 15 divisions combined. With large amounts of the increase in collectable debt being concentrated in a few industries, these divisions and how the ATO conducts debt collection action against these industries may be areas of focus for future reviews.

It may be that in each industry, only a few high-value accounts owe a large percentage of the collectable debt. This hypothesis is based on the ATO's debt level data showing a small percentage of accounts with over $50,000 in collectable debt in each of the Client Experience Group, owe a large percentage of collectable debt. The ATO does not routinely stratify industry debt data by Debt Levels, making further testing of this hypothesis difficult without significant resource commitment to gather the necessary information. The ATO may wish to undertake its own research in this area and publish the results at a future point in time. Alternatively, it may be an area for future IGTO review investigation.

Addressing size differences between different industries

It is appreciated that the above data does not account for the difference in size of each industry, relative to other industries. It would be reasonable to expect that the size of an industry would have an impact on the collectable debt level for that industry, with larger industries expected to have larger collectable debt balances. For example, an industry which produces 10% of economic activity in Australia would reasonably be expected to have higher levels of collectable debt than an industry which accounts for only 1% of national economic activity.

The IGTO recognise that no single measure can fully measure an industry's size or economic contribution.

As the ATO did not have data on the tax liabilities or net tax collections raised for each industry, the IGTO has used ABS Industry estimates on industry employment and industry Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) as measures of an industry's size.[125] ABS Industry data was available for three of the past four financial years the ATO had industry collectable debt data for, being FY17 and FY18 and FY19. FY20 data is expected to be released by the ABS later in 2021.

The scope of ABS Industry data also excludes Financial and Insurance Services (although partial estimates have been produced).[126]

As ABS data for employment and EBITDA is not available for the Special ATO division, Unknown division and the Finance and Insurance Services industry, collectable debts for those three industry divisions have been excluded from the total collectable debt figures in Table 24, Table 25 and Table 26.

The data in Table 24 to Table 26 demonstrate that largely, the size of an industry's earnings and employment are correlated with the industry's level of collectable debt. However, there were some industries which had comparatively higher levels of collectable debt relative to the size of their earnings or employment. Industries which had a large proportion of collectable debt compared to proportions of both EBITDA and employment are marked in red in Table 24, Table 25 and Table 26.

The Construction and Professional, Scientific and Technical services industries both had disproportionately large collectable debt levels in comparison to their respective employment and earnings in FY17, FY18, and FY19. For example, in FY19 construction contributed 27.48% to collectable

125 ABS, *Australian Industry 2018-19* https://www.abs.gov.au/statistics/industry/industry-overview/australian-industry/2018-19.

126 ABS, Australian Industry 2018-19, Australian Industry methodology https://www.abs.gov.au/methodologies/australian-industry-methodology/2018-19.

debt of reported industries, 9.71% to employment and 9.17% of EBITDA. Similarly, in FY19 Professional, Scientific Services contributed 14.66% to reported collectable debt, 10.04% to employment and 6.08% to EBITDA. Further analysis on the two industries is provided below.

Other industries which have significant discrepancies between their debt levels and their earnings/employment include Administrative and Support services, which made up 6.12% of adjusted total collectable debt in FY19, but only made up 1.49% of the adjusted total EBITDA in the same financial year. The Other Services division had 4.98% of the adjusted total collectable debt in FY19, but only contributed 0.52% of total EBITDA in FY20.

Table 24: Percentage of collectable debt, employment and EBITDA by industry for FY17

Industry	Collectable debt ($)	Percentage of collectable debt from reported industries (%)	Employment (thousands)	Percentage of employment from reported industries (%)	EBITDA ($)	Percentage of EBITDA from reported industries (%)
A. Agriculture, Forestry and Fishing	0.49 billion	2.93%	473	4.64%	22.84 billion	5.10%
B. Mining	0.30 billion	1.82%	157	1.54%	83.48 billion	18.63%
C. Manufacturing	1.06 billion	6.36%	830	8.14%	32.75 billion	7.31%
D. Electricity, Gas, Water and Waste Services	0.09 billion	0.56%	105	1.03%	34.90 billion	7.79%
E. Construction	4.56 billion	27.30%	1,066	10.46%	42.57 billion	9.50%
F. Wholesale Trade	0.64 billion	3.83%	543	5.33%	17.71 billion	3.95%
G. Retail Trade	0.88 billion	5.28%	1,283	12.59%	23.09 billion	5.15%
H. Accommodation and Food Services	1.08 billion	6.47%	1,009	9.90%	9.93 billion	2.21%
I. Transport, Postal and Warehousing	0.88 billion	5.25%	585	5.74%	31.97 billion	7.14%
J. Information Media and Telecommunications	0.19 billion	1.14%	167	1.64%	18.96 billion	4.23%
K. Financial and Insurance Services	0.95 billion	NA	NA	NA	NA	NA
L. Rental, Hiring and Real Estate Services	0.91 billion	5.45%	407	3.99%	57.76 billion	12.89%
M. Professional, Scientific and Technical Services	2.41 billion	14.45%	1,038	10.19%	28.49 billion	6.36%
N. Administrative and Support Services	0.95 billion	5.68%	861	8.45%	7.94 billion	1.77%
O. Public Administration and Safety	0.13 billion	0.76%	78	0.77%	0.83 billion	0.18%
P. Education and Training	0.19 billion	1.14%	400	3.93%	4.21 billion	0.94%

Industry	Collectable debt ($)	Percentage of collectable debt from reported industries (%)	Employment (thousands)	Percentage of employment from reported industries (%)	EBITDA ($)	Percentage of EBITDA from reported industries (%)
Q. Health Care and Social Assistance	0.79 billion	4.76%	1,144	11.23%	23.85 billion	5.32%
R. Arts and Recreation Services	0.30 billion	1.79%	192	1.88%	4.44 billion	0.99%
S. Other Services	0.84 billion	5.04%	483	4.74%	2.37 billion	0.53%
Unknown	0.25 billion	NA	NA	NA	NA	NA
Special ATO Division (out of ANZSIC scope)	2.98 billion	NA	NA	NA	NA	NA
Adjusted Total (excludes ATO Special division, Unknown and Finance & Insurance services divisions)	16.69 billion	100%	10,191	100%	448.08 billion	100%

Source: Constructed from ATO-provided data and publicly available ABS data

Table 25: Percentage of collectable debt, employment and EBITDA by industry for FY18

Industry	Collectable debt ($)	Percentage of total collectable debt (%)	Employment (thousands)	Percentage of total employment (%)	EBITDA ($)	Percentage of total EBITDA (%)
A. Agriculture, Forestry and Fishing	0.55 billion	2.98%	459	4.10%	20.58 billion	4.26%
B. Mining	0.21 billion	1.11%	169	1.51%	104.88 billion	21.70%
C. Manufacturing	1.07 billion	5.74%	840	7.51%	36.95 billion	7.65%
D. Electricity, Gas, Water and Waste Services	0.14 billion	0.76%	108	0.97%	35.38 billion	7.32%
E. Construction	5.12 billion	27.48%	1,113	9.95%	45.98 billion	9.51%
F. Wholesale Trade	0.51 billion	2.73%	540	4.83%	20.91 billion	4.33%
G. Retail Trade	1.04 billion	5.57%	1,310	11.72%	23.60 billion	4.88%
H. Accommodation and Food Services	1.25 billion	6.72%	1,029	9.20%	9.95 billion	2.06%
I. Transport, Postal and Warehousing	1.02 billion	5.47%	600	5.37%	32.59 billion	6.74%
J. Information Media and Telecommunications	0.24 billion	1.28%	168	1.50%	18.95 billion	3.92%
K. Financial and Insurance Services	1.05 billion	NA	NA	NA	NA	NA
L. Rental, Hiring and Real Estate Services	1.09 billion	5.87%	420	3.76%	57.55 billion	11.91%

Industry	Collectable debt ($)	Percentage of total collectable debt (%)	Employment (thousands)	Percentage of total employment (%)	EBITDA ($)	Percentage of total EBITDA (%)
M. Professional, Scientific and Technical Services	2.75 billion	14.79%	1,099	9.83%	29.91 billion	6.19%
N. Administrative and Support Services	1.06 billion	5.71%	925	8.27%	7.75 billion	1.60%
O. Public Administration and Safety	0.16 billion	0.84%	78	0.70%	1.05 billion	0.22%
P. Education and Training	0.23 billion	1.21%	414	3.70%	4.31 billion	0.89%
Q. Health Care and Social Assistance	0.96 billion	5.13%	1,210	10.82%	26.01 billion	5.38%
R. Arts and Recreation Services	0.32 billion	1.73%	200	1.79%	4.99 billion	1.03%
S. Other Services	0.91 billion	4.89%	500	4.47%	1.89 billion	0.39%
Unknown	0.35 billion	NA	NA	NA	NA	NA
Special ATO Division (out of ANZSIC scope)	3.57 billion	NA	NA	NA	NA	NA
Adjusted Total (excludes ATO Special division, Unknown and Finance & Insurance services divisions)	18.62 billion	100%	11,182	100%	483.22 billion	100%

Source: Constructed from ATO-provided data and publicly available ABS data

Table 26: Percentage of collectable debt, employment and EBITDA by industry for FY19

Industry	Collectable debt ($)	Percentage of total collectable debt (%)	Employment (thousands)	Percentage of total employment (%)	EBITDA ($m)	Percentage of total EBITDA (%)
A. Agriculture, Forestry and Fishing	0.62 billion	3.00%	451	3.92%	19.58 billion	3.70%
B. Mining	0.36 billion	1.72%	179	1.56%	138.63 billion	26.22%
C. Manufacturing	1.21 billion	5.84%	854	7.42%	40.30 billion	7.62%
D. Electricity, Gas, Water and Waste Services	0.09 billion	0.42%	113	0.98%	36.05 billion	6.82%
E. Construction	5.68 billion	27.48%	1,117	9.71%	48.48 billion	9.17%
F. Wholesale Trade	0.58 billion	2.82%	557	4.84%	22.00 billion	4.16%
G. Retail Trade	1.18 billion	5.72%	1,331	11.57%	23.28 billion	4.40%
H. Accommodation and Food Services	1.40 billion	6.77%	1,031	8.96%	10.08 billion	1.91%
I. Transport, Postal and Warehousing	1.08 billion	5.21%	620	5.39%	33.96 billion	6.42%
J. Information Media and Telecommunications	0.24 billion	1.15%	167	1.45%	16.90 billion	3.20%
K. Financial and Insurance Services	1.36 billion	NA	NA		NA	
L. Rental, Hiring and Real Estate Services	1.20 billion	5.78%	417	3.62%	57.71 billion	10.92%
M. Professional, Scientific and Technical Services	3.03 billion	14.66%	1,155	10.04%	32.15 billion	6.08%
N. Administrative and Support Services	1.27 billion	6.12%	954	8.29%	7.86 billion	1.49%
O. Public Administration and Safety	0.20 billion	0.98%	82	0.71%	1.08 billion	0.20%
P. Education and Training	0.26 billion	1.26%	430	3.74%	4.68 billion	0.89%
Q. Health Care and Social Assistance	0.92 billion	4.46%	1,319	11.46%	27.88 billion	5.27%
R. Arts and Recreation Services	0.34 billion	1.63%	216	1.88%	5.33 billion	1.01%
S. Other Services	1.03 billion	4.98%	514	4.47%	2.75 billion	0.52%
Unknown	0.63 billion	NA	NA	NA	NA	NA
Special ATO Division (out of ANZSIC scope)	3.82 billion	NA	NA	NA	NA	NA
Adjusted total (excludes ATO Special division, Unknown and Finance & Insurance services divisions)	20.69 billion	100%	11,507	100%	528.69 billion	100%

Source: Constructed from ATO-provided data and publicly available ABS data

The above Tables also highlight those industries in which collectable debt levels were less than their contributions to employment and EBITDA. These are highlighted in green in the Tables above and include the following industries:

- Agriculture, Forestry and Fishing;
- Manufacturing;
- Electricity, Gas, Water and Waste Services;
- Wholesale Trade; and
- Information, Media and Telecommunications.

The remainder of this chapter examines, in further detail, each of the top 6 indebted industries and their collectable debt positions to provide further insights.

Analysis of each of the top 6 industries

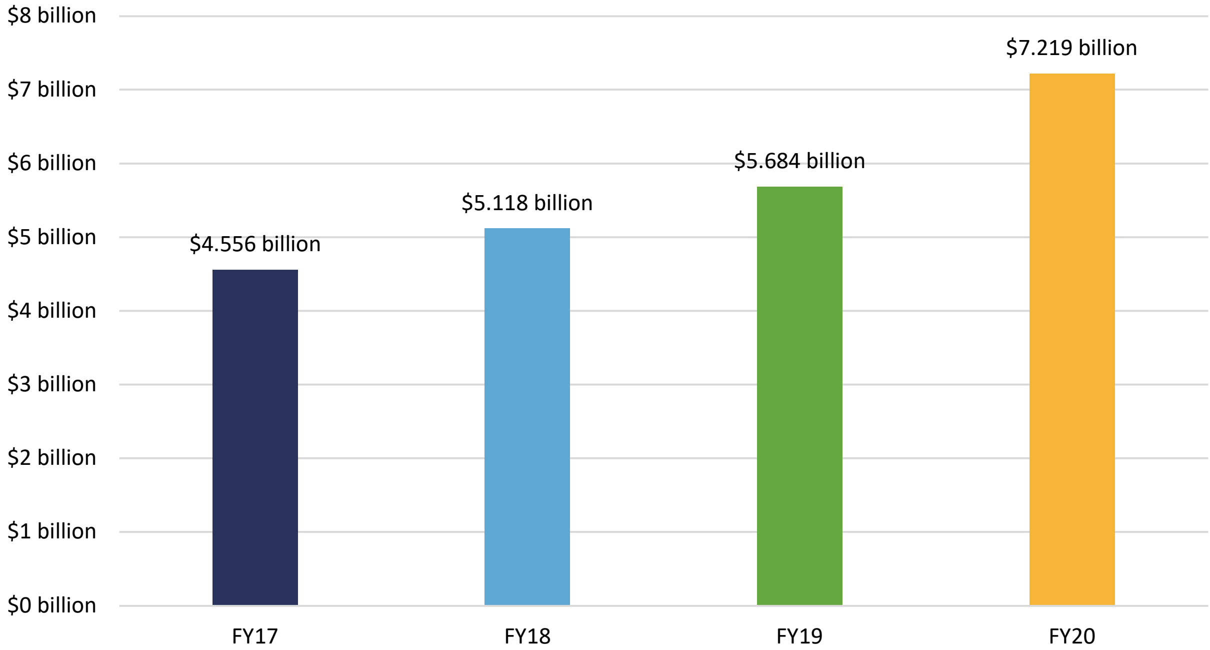
Construction

The Australian Bureau of Statistics (ABS) defines the 'Construction Division' as follows:

> *The Construction Division includes units mainly engaged in the construction of buildings and other structures, additions, alterations, reconstruction, installation, and maintenance and repairs of buildings and other structures.*
>
> *Units engaged in demolition or wrecking of buildings and other structures, and clearing of building sites are included in Division E Construction. It also includes units engaged in blasting, test drilling, landfill, levelling, earthmoving, excavating, land drainage and other land preparation.*[127]

127 ABS, *Division Definitions*, https://www.abs.gov.au/ausstats/abs@.nsf/0/AF04F89CEE4E54D6CA25711F00146D76.

Figure 40: Construction Industry – Collectable Debt – FY 17 to FY20



Source: Constructed from ATO-provided data

Table 27: Construction Industry – Collectable Debt – FY17 to FY20

	FY17	FY18	FY19	FY20
collectable debt ($)	4.556 billion	5.118 billion	5.684 billion	7.219 billion
increase in collectable debt from previous FY ($)	–	561 million	567 million	1.534 billion
increase in collectable debt from previous FY (%)	–	12.32%	11.07%	27.11%
number of collectable debt accounts	289,593	332,958	331,558	415,492
Average collectable debt balance ($)	15,734	15,370	17,145	17,374

Source: Constructed from ATO-provided data

The Construction industry had the largest value of collectable debt of any industry in each of FY17, FY18 FY19 and FY20. In FY20, the Construction industry had collectable debts of $7.22 billion, or 21.12% of total collectable debt. It is interesting to note that this industry has a high and increasing number of debt accounts. Between FY17 and FY20, the number of debt accounts increased by 43.5%. Overall, the average collectable debt per account remained relatively stable although they were higher than the averages for the second highest industry, 'Special ATO Division'.

From FY17 to FY20 the Construction industry had average collectable debt levels per account which were more than double those of the 'Special ATO division' and were comparable to the average collectable debt levels per account for the Professional, Scientific and Technical Services industry.

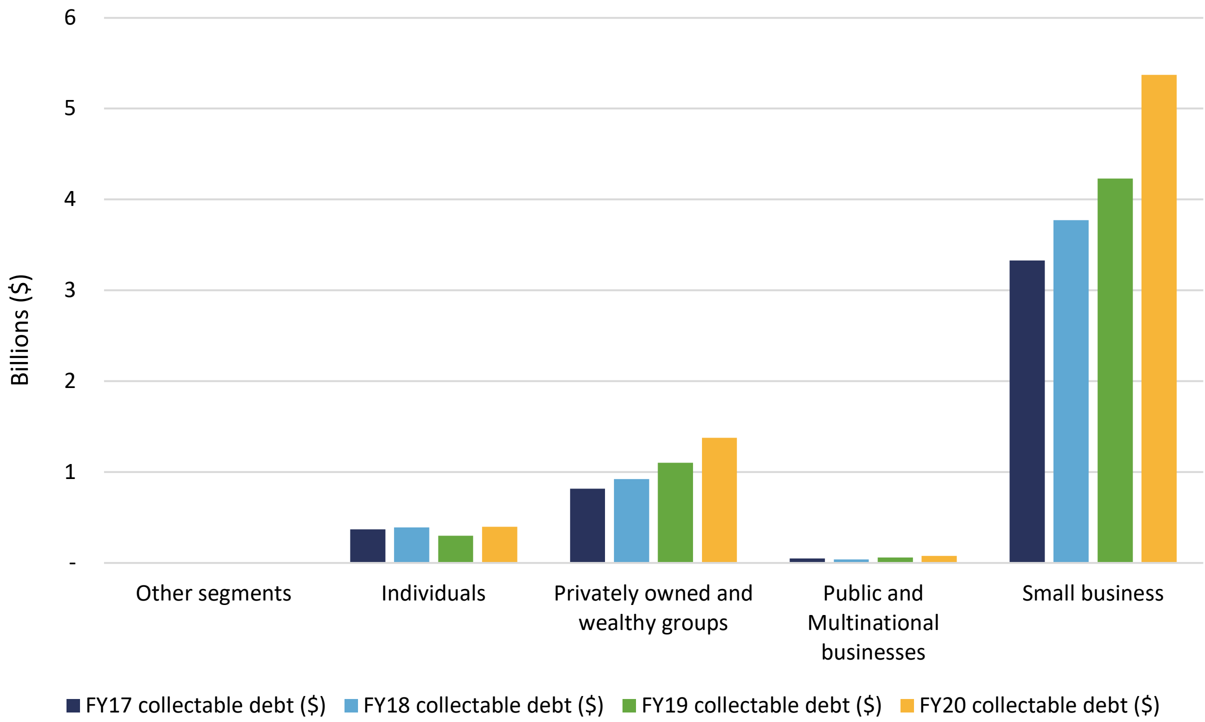
As per Table 24 to Table 26 in the section above, amongst industries included in the ABS Industry Estimates, the Construction industry employed an average of 10.04% of total reported employees in FY17–FY19 and earned 9.39% of reported EBITDA. Yet Construction averaged 27.42% of collectable debt amongst surveyed industries from FY17–FY19.

The level of collectable debt for the Construction industry appears to be disproportionately large compared to its size (as measured by various economic indicators). Collectable debt for this sector is three times larger than its contribution as measured by earnings.

Collectable debt levels of the Construction industry rose by $1.13 billion between FY17 and FY19, an increase of 24.74%. Construction EBITDA increased by 8.01% ($42.57 billion to $45.98 billion) over the same period.

As the Construction industry's collectable debts are increasing at a higher rate than its earnings are increasing, further investigation may be required to examine why the construction industry continues to have high levels of collectable debts. Such investigation may examine, in more detail, particular accounts and profiles of taxpayers owing these debts and any peculiarities or nuances specific to the industry that may be contributing to these higher than expected levels.

Figure 41: Construction Industry – Collectable Debt by Client Experience Group – FY17 to FY20



Source: Constructed from ATO-provided data

Construction industry collectable debt is mostly owed by small business, with $4.23 billion of the $5.68 billion (74%) in construction collectable debt in FY19 being attributable to small business and $5.37 billion of the $7.22 billion (74%) outstanding in FY20.

The ATO has informed the IGTO that it lists Property Operators and Developers in the business industry code 99791 on its website[128] even though the ABS website states property development is included under Construction industry, Subdivision 30 – Building Construction. This differentiation may result in an

128 ATO, *Business Industry Code Search* www.ato.gov.au/Calculators-and-tools/Business-industry-code-tool/AnzsicCoder.aspx?s=property%20operators%20and%20developers&c=99791.

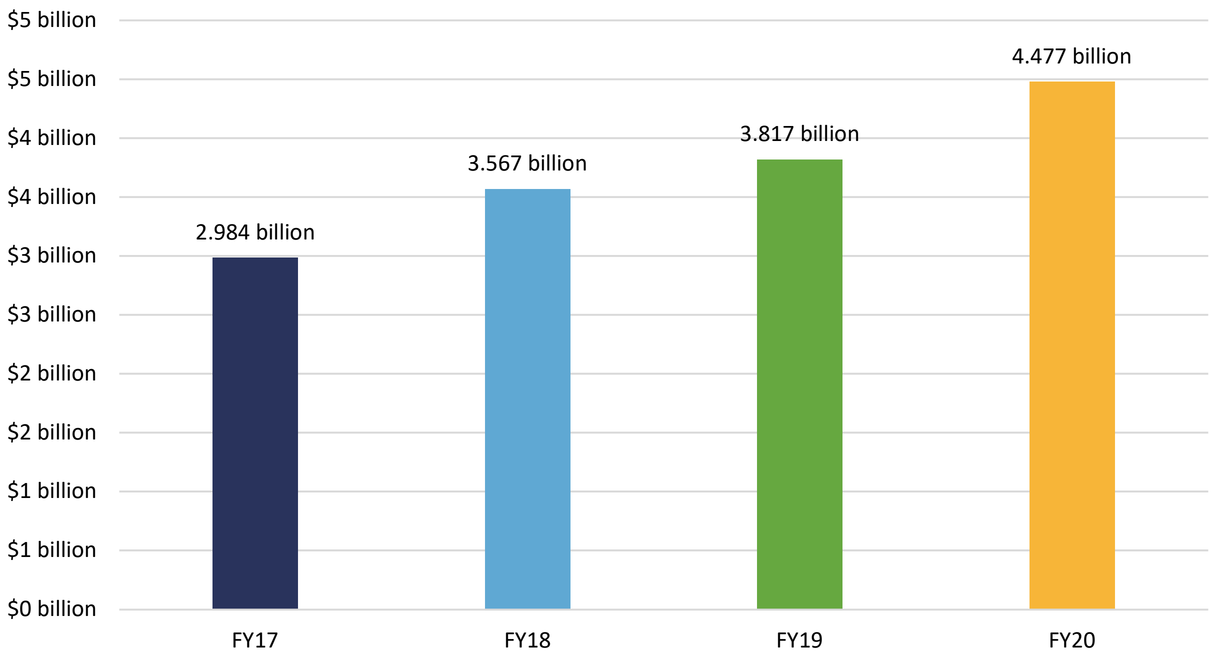
understatement of the amount of collectable attributable to the construction industry by reason of the ATO's exclusion of property operators and developers from Construction industry collectable debt.

'Special ATO Division'

As noted earlier, the "Special ATO Division (out of ANZSIC scope)" is used for individuals or other taxpayers outside the scope of the ANZSIC coding (e.g., taxpayers whom, having never applied for an ABN, have not reported an industry code to the ATO).

The IGTO has not investigated the Special ATO Division accounts specifically. The ATO explained that more than 95% of Special ATO division collectable debt is attributable to individual salary and wage earners, not operating a business and therefore cannot be placed in an ANZSIC classification. However, more than 50% of "Special ATO division" collectable debt is owed by private and wealthy groups and small business. Specifically, in FY20 small business accounts for 39% of debt in this industry group, individual accounts for 37% and PWGs account for 23%. On these points, the ATO has informed the IGTO that this is due to the individual taxpayer's association with other entities, e.g., as director of a company or being a partner within a partnership.

Figure 42: Special ATO Division – Collectable Debt – FY17 to FY20



Source: Constructed from ATO-provided data

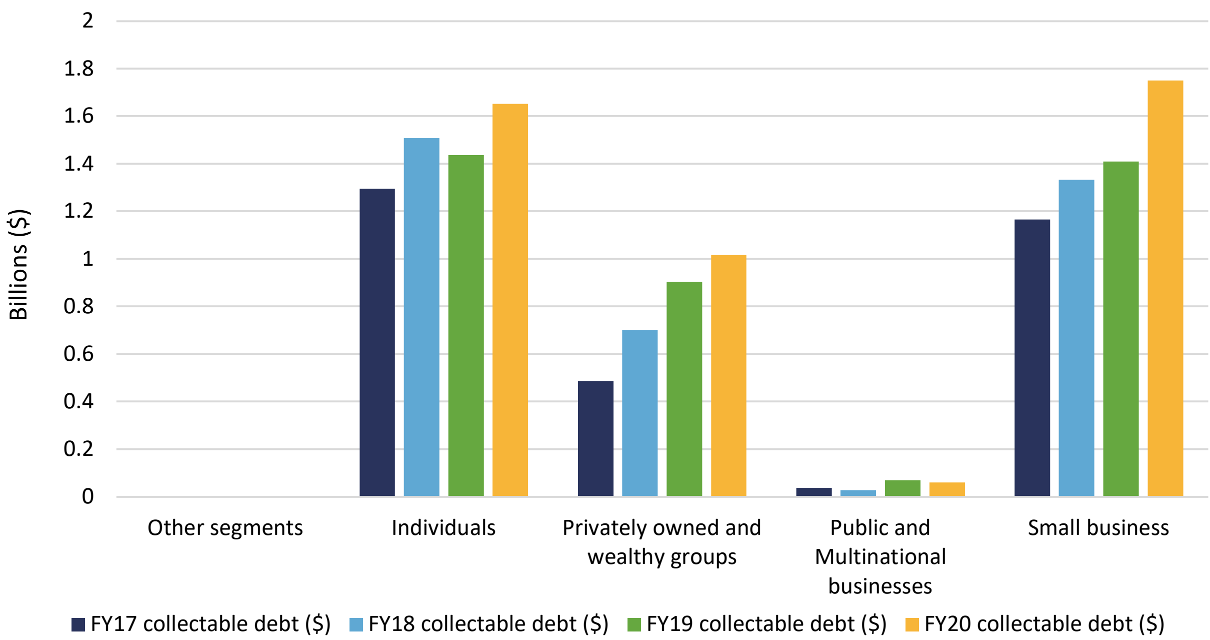
Table 28: Special ATO Division – Collectable Debt – FY17 to FY20

	FY17	FY18	FY19	FY20
collectable debt ($)	2.984 billion	3.567 billion	3.817 billion	4.477 billion
increase in collectable debt from previous FY ($)	–	583 million	251 million	660 million
increase in collectable debt from previous FY (%)		19.54%	7.04%	17.28%
number of collectable debt accounts	417,096	447,920	470,170	585,365
Average collectable debt balance ($)	7,153	7,963	8,119	7,649

Source: Constructed from ATO-provided data

The 'Special ATO Division' collectable debt levels have increased from FY17 to FY20, ranging between 13% and 15% of total collectable debt in those years. The largest increase was from FY19 to FY20, where collectable debt increased by $660 million (17% increase over FY19). As there is no data readily available to calculate the size of the sector based on economic activity, the IGTO cannot make comment on whether collectable debt levels for the Special ATO division are proportionate with economic contribution or activity. However, considering the size of collectable debt levels for the Special ATO division, further investigation may be required to investigate why debt levels are so high for this division.

Figure 43: Special ATO Division – Collectable Debt by Client Experience Group – FY17 to FY20



Source: Constructed from ATO-provided data

OFFICIAL

It is worth noting that while individual taxpayers are not allocated to industry divisions, they are required to include occupation details on their income tax returns using the Australian and New Zealand Standard Classification of Occupations (ANZSCO).[129] If, as the ATO has informed the IGTO, the vast majority of ATO Special Division is composed of individual salary and wage earners, segmentation and reporting of debts in this Division by reference to ANZSCO codes may yield trends and insights to assist the ATO to focus its recovery activities. Reporting by ANZSCO may also improve overall debt analysis by Industry through matching of ANZSCO to ANZSIC where possible – for example, an individual who has identified their occupation as 'Chef' (ANZSCO 351311) could reasonably be attributed to the Food and Accommodation ANZSIC Industry for debt reporting purposes.

The IGTO notes that the ATO's Business Industry Codes provide some details on the occupation of the taxpayer although this is not the case in all instances. The IGTO was unable to reconcile the Business Industry Code and the ANZSCO due to different numbering, or where an occupation existed on one system but not another. Some illustrative examples are provided below.

Occupation	ANZSIC	Business Industry Code[130]	ANZSCO[131]
Solicitor	6931 – Legal Services	69310	271311
School Teacher	P Education and Training (8010) – 8220) – but teacher unspecified	Not found	241000 (further granularity available to segment early Childhood, Primary School, Middle School and Secondary School teachers)
Tax Agent	6932 – Accounting Services	69320	Not found

Professional, Scientific and Technical Services

The ABS provides the following definition:

The Professional, Scientific and Technical Services Division includes units mainly engaged in providing professional, scientific and technical services. Units engaged in providing these services apply common processes where labour inputs are integral to the production or service delivery. Units in this division specialise and sell their expertise. In most cases, equipment and materials are not major inputs. The activities undertaken generally require a high level of expertise and training and formal (usually tertiary level) qualifications.

129 ABS, *Australian and New Zealand Standard Classification of Occupation* https://www.abs.gov.au/AUSSTATS/abs@.nsf/allprimarymainfeatures/FCC055588D3EBA19CA2584A8000E7889?opendocument; Australian Taxation Office, *Salary and Wage Occupation Codes 2020* https://www.ato.gov.au/forms/salary-and-wage-occupation-codes-2020/.

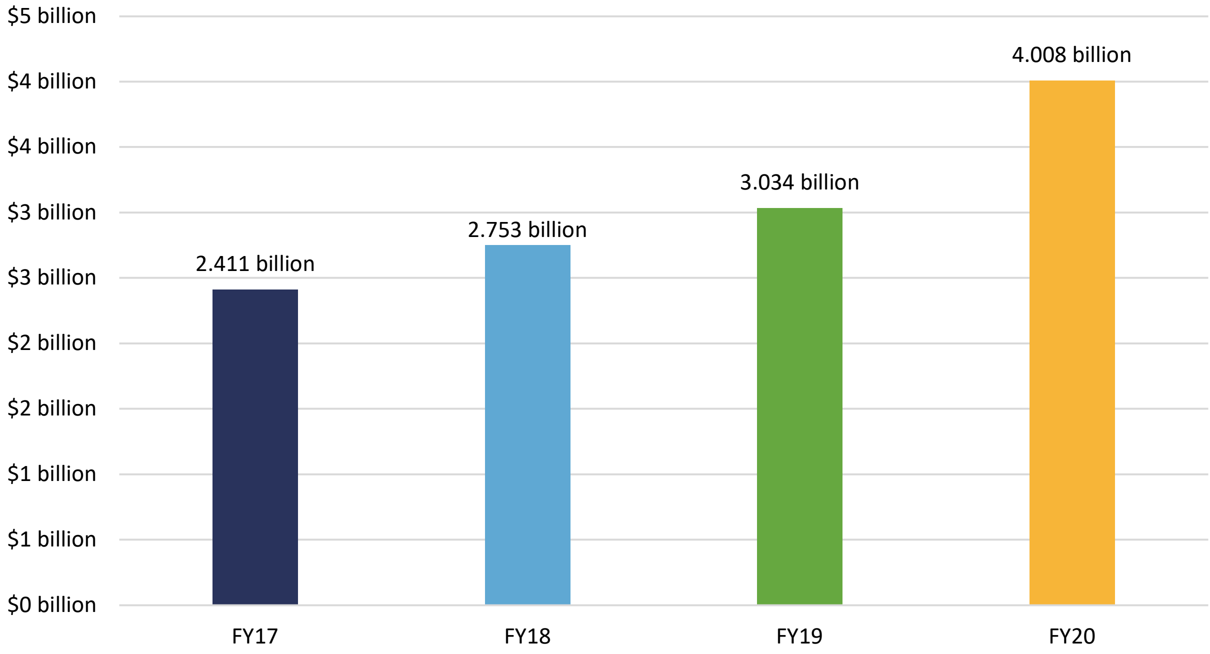
130 ATO, *Business Industry Code Search* https://www.ato.gov.au/calculators-and-tools/business-industry-code-tool/anzsiccoder.aspx.

131 ABS, *1220.0 - ANZSCO -- Australian and New Zealand Standard Classification of Occupations, 2013, Version 1.3* (5 November 2019) https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/1220.02013,%20Version%201.3?OpenDocument.

These services include scientific research, architecture, engineering, computer systems design, law, accountancy, advertising, market research, management and other consultancy, veterinary science and professional photography.

Excluded are units mainly engaged in providing health care and social assistance services, which are included in Division Q Health Care and Social Assistance.[132]

Figure 44: Professional, Scientific and Technical Services – Collectable Debt – FY 17 to FY20



Source: Constructed from ATO-provided data

132 Above n 127.

Table 29: Professional, Scientific and Technical Services – Collectable Debt – FY 17 to FY20

	FY17	FY18	FY19	FY20
collectable debt ($)	2.411 billion	2.753 billion	3.034 billion	4.008 billion
increase in collectable debt from previous FY ($)	–	341.707 million	280.490 million	974.679 million
increase in collectable debt from previous FY (%)		14.17%	10.19%	32.13%
number of collectable debt accounts	155,022	169,147	172,213	230,422
Average collectable debt balance ($)	15,555.54	16,276.72	17,615.68	17,395.60

Source: Constructed from ATO-provided data

The Professional, Scientific and Technical Services industry accounted for between 11 to 12% of total collectable debt from FY17 to FY20.

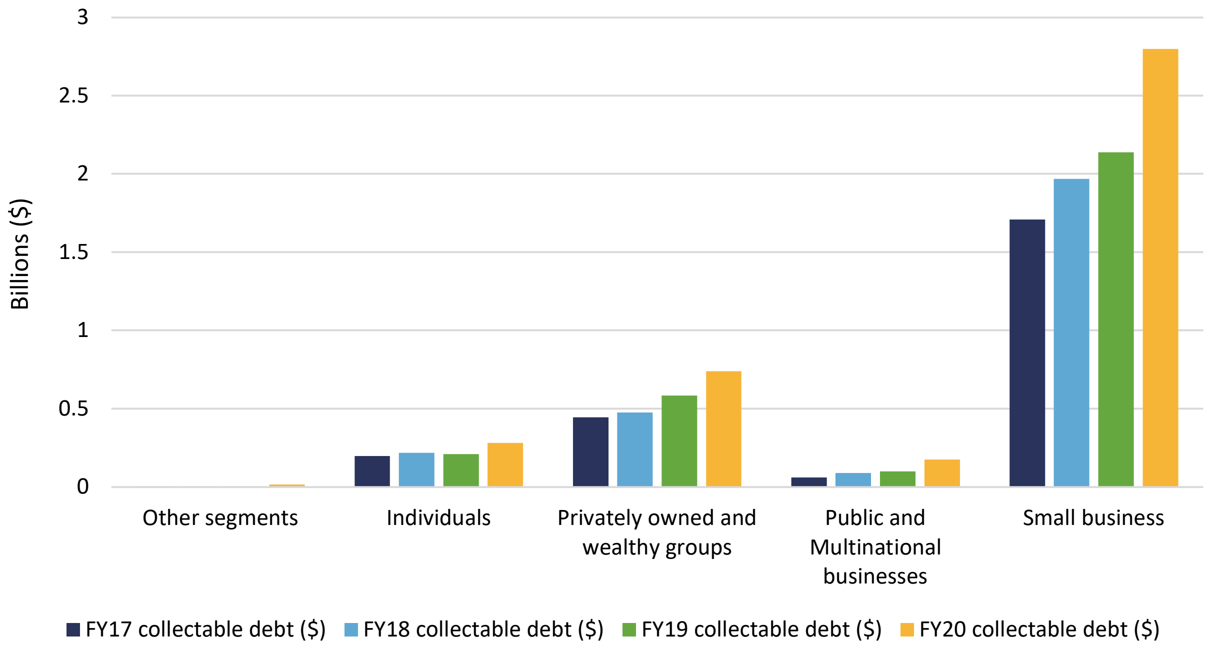
As per Table 24, Table 25 and Table 26 in the section above, amongst industries included in the ABS Industry Estimates, the Professional, Scientific and Technical Services industry owed an average of 14.63% of collectable debt. The industry employed an average of 10.02% of reported employees and 6.21% of reported earnings in FY17–FY19. The data indicates collectable debt levels for the Professional, Scientific and Technical Services industry may be disproportionately large, with its share of collectable debt levels being more than two times larger than its share of earnings in FY17–FY19.

The Professional, Scientific and Technical services industry had year on year increases in levels of collectable debt, increasing from $2.41 billion in FY17 to $3.03 billion in FY19 (a 25.7% increase). The industry's EBITDA increased from $28.49 billion to $32.15 billion from FY17 to FY19, an increase of 12.8%. The data indicates that collectable debt increased at a higher rate than the Professional, Scientific and Technical services industry grew in terms of employment and earnings.

It is noteworthy that, in FY18, this industry was the largest contributor to employment growth of any industry, increasing by 6.2% and resulting in an additional 64,000 being employed.[133]

133 ABS, *8155.0 Australian Industry 2017-18,* Key Points https://www.abs.gov.au/statistics/industry/industry-overview/australian-industry/2017-18.

Figure 45: Professional, Scientific and Technical Services – Collectable Debt by Client Experience Group – FY17 to FY20



Source: Constructed from ATO-provided data

As shown in Figure 45, most of the Professional, Scientific and Technical Services industry's collectable debt is owed by small business, with $2.14 billion of the total $3.03 billion owed by small business (70.4%) in FY19. In FY20, small business owed $2.8 billion out of $4 billion (69.8%).

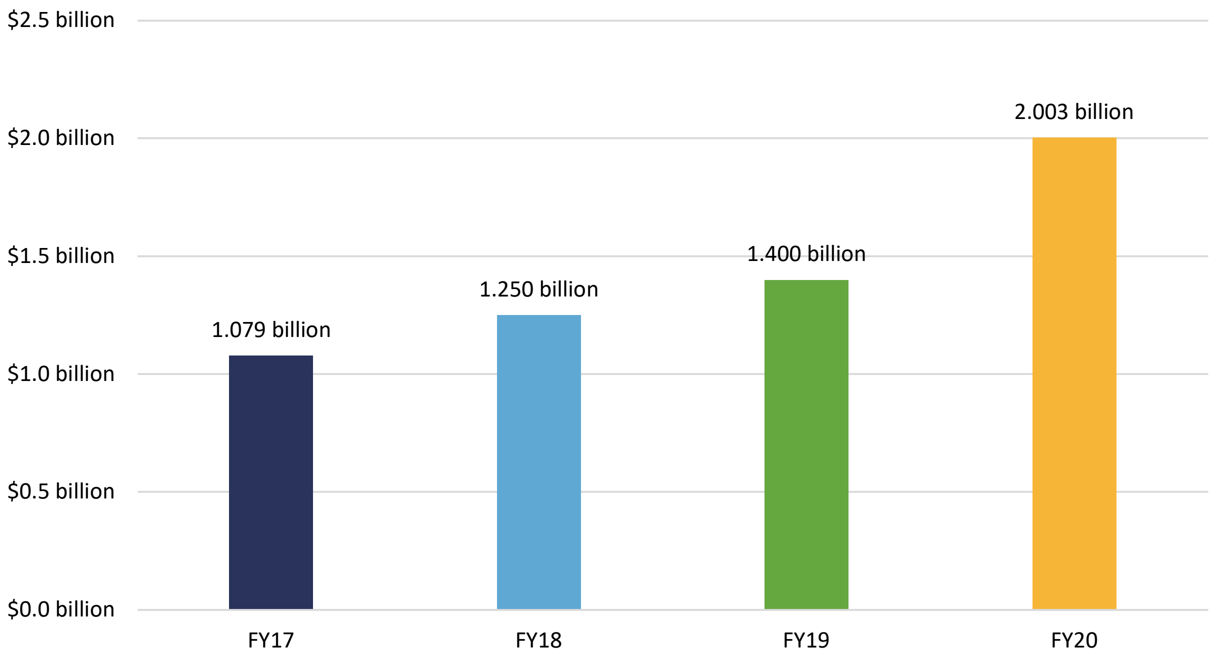
Accommodation and Food Services

The ABS states:

> *The Accommodation and Food Services Division includes units mainly engaged in providing short-term accommodation for visitors. Also included are units mainly engaged in providing food and beverage services, such as the preparation and serving of meals and the serving of alcoholic beverages for consumption by customers, both on and off-site.*[134]

134 Above n 127.

Figure 46: Accommodation and Food Services – Collectable Debt – FY17 to FY20



Source: Constructed from ATO-provided data

Table 30: Accommodation and Food Services – Collectable Debt – FY17 to FY20

	FY17	FY18	FY19	FY20
collectable debt ($)	1.079 billion	1.250 billion	1.400 billion	2.003 billion
increase in collectable debt from previous FY ($)	–	171.428 million	149.331 million	603.177 million
increase in collectable debt from previous FY (%)		15.89%	11.94%	43.09%
number of collectable debt accounts	51,355	57,120	57,836	74,923
Average collectable debt balance ($)	21,012	21,892	24,203	26,734

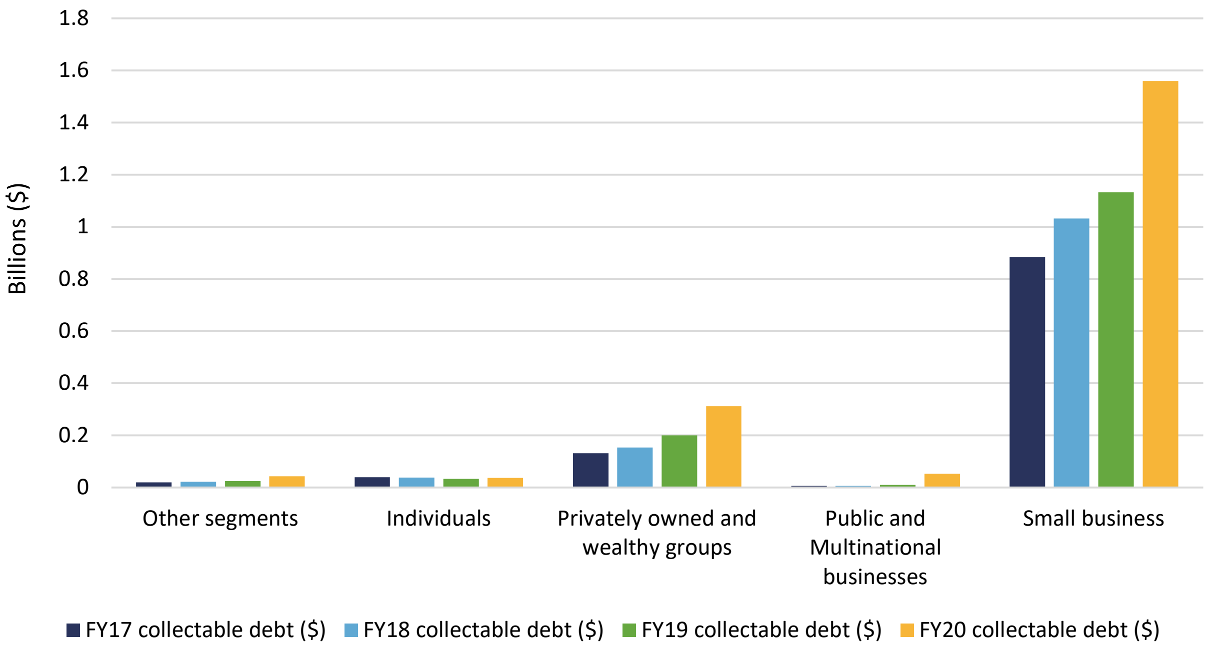
Source: Constructed from ATO-provided data

From FY17 to FY20, the Accommodation and Food Services industry owed between 5–6% of total collectable debt.

The Accommodation and Food Services industry had increased levels of collectable debt in both FY18 and FY19, with $1.40 billion of collectable debt outstanding in FY19. The figure increased again between FY19 and FY20 – $2.003 billion in FY20.

According to the ABS Industry report, between FY17 to FY19, Accommodation and Food Services had average earnings of 2.06% of total reported EBITDA and contributed to 9.35% of employment. Over the same period, the industry had an average of 6.65% of total collectable debts. The data shows that Accommodation and Food Services sector was proportionately three times higher when compared to its share of earnings, although its share of collectable debt was less than the amount it contributes to employment. One explanation for this phenomenon is that while the Accommodation and Food Services industry employs a large number of people, the margins from its sales are generally low resulting in relatively lower EBITDA.

Figure 47: Accommodation and Food Services – Collectable Debt by Client Experience Group – FY17 to FY20



Source: Constructed from ATO-provided data

Most of the Accommodation and Food Services collectable debt is owed by Small Business – $1.13 billion of the $1.40 billion (81%) in FY19, and $1.56 billion of the 2.003 billion (78%) in FY20. Additionally, Accommodation and Food Services industry taxpayers held fewer debt accounts, but had a higher-than-average amount owing per account – averaging approximately $23,000 per account. The average per account for Accommodation and Food Services is higher than for any other industry.

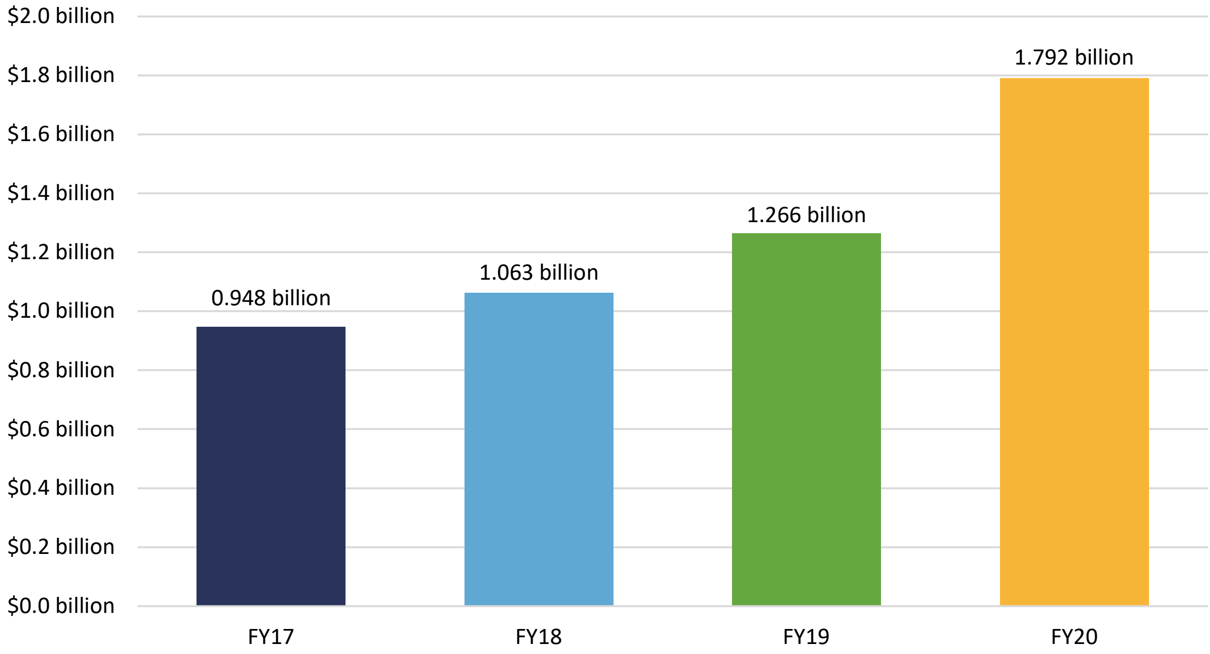
Administrative and Support Services

According to the ABS:

> *The Administrative and Support Services Division includes units mainly engaged in performing routine support activities for the day-to-day operations of other businesses or organisations.*
>
> *Units providing administrative support services are mainly engaged in activities such as office administration; hiring and placing personnel for others; preparing documents; taking orders for clients by telephone; providing credit reporting or collecting services; and arranging travel and travel tours.*
>
> *Units providing other types of support services are mainly engaged in activities such as building and other cleaning services; pest control services; gardening services; and packaging products for others.*
>
> *The activities undertaken by units in this division are often integral parts of the activities of units found in all sectors of the economy. Recent trends have moved more towards the outsourcing of such non-*

core activities. The units classified in this division specialise in one or more of these activities and can, therefore, provide services to a variety of clients.[135]

Figure 48: Administrative and Support Services – Collectable Debt – FY17 to FY20



Source: Constructed from ATO-provided data

Table 31: Administrative and Support Services – Collectable Debt – FY17 to FY20

	FY17	FY18	FY19	FY20
collectable debt ($)	0.948 billion	1.063 billion	1.266 billion	1.792 billion
increase in collectable debt from previous FY ($)	–	115 million	203 million	526 million
increase in collectable debt from previous FY (%)	–	12.14%	19.11%	41.53%
number of collectable debt accounts	80,289	91,989	96,505	123,803
Average collectable debt balance ($)	11,810	11,558	13,123	14,477

Source: Constructed from ATO-provided data

Between FY17 to FY20, Administrative and Support Services consistently accounted for 5% of collectable debt.

Between FY17 and FY19, this industry accounted for an average of 5.84% of collectable debt for industries surveyed by the ABS. Over the same period Administrative and Support Services accounted for between 1.49% and 1.77% of EBITDA, and between 8.27% and 8.45% for employment. As with Accommodation and Food Services, the figures show that collectable debt exceeded its contribution measured by EBITDA but was less than its employment contribution.

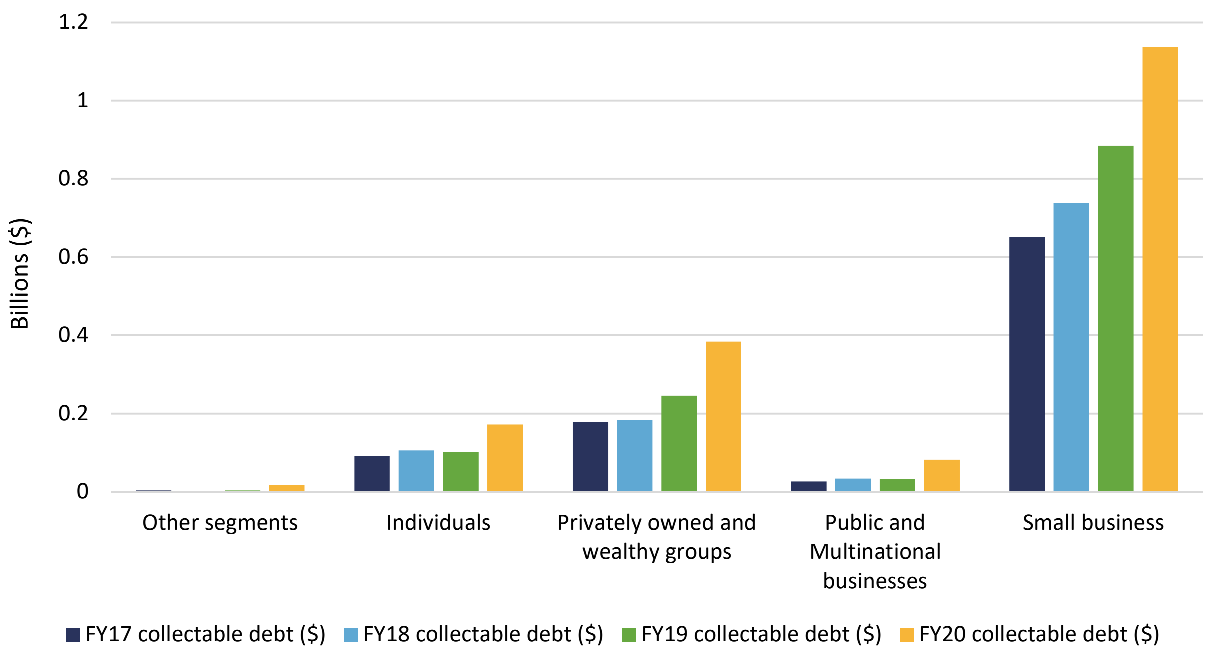
135 Above n 127.

Administrative and Support Services collectable debt increased by 12.14% ($0.95 billion to $1.06) in FY18. In the same year, this industry's EBITDA decreased by 2.4%% (from $7.94 billion to $7.75 billion). Over the same period, employment data showed an increase of 7.4% (861,000 to 925,000).

In FY19, the industry reported an increase of 19.11% in collectable debt. Over the same period, EBITDA increased from $7.75 billion to $7.86 billion (a 1.4% increase) while employment increased from 925,000 to 954,000 (3.1%).

The data shows that from FY17–FY19, collectable debt from the Administrative and Support services industry increased more than the increase in its earnings or employment.

Figure 49: Administrative and Support Services – Collectable Debt by Client Experience Group – FY17 to FY20



Source: Constructed from ATO-provided data

The majority of the industry's collectable debt is owed by Small business, with $884 million of the $1.27 billion (69.8%) in FY19 and, in FY20, $1.14 billion out of $1.79 billion (63.5%).

Financial and Insurance Services

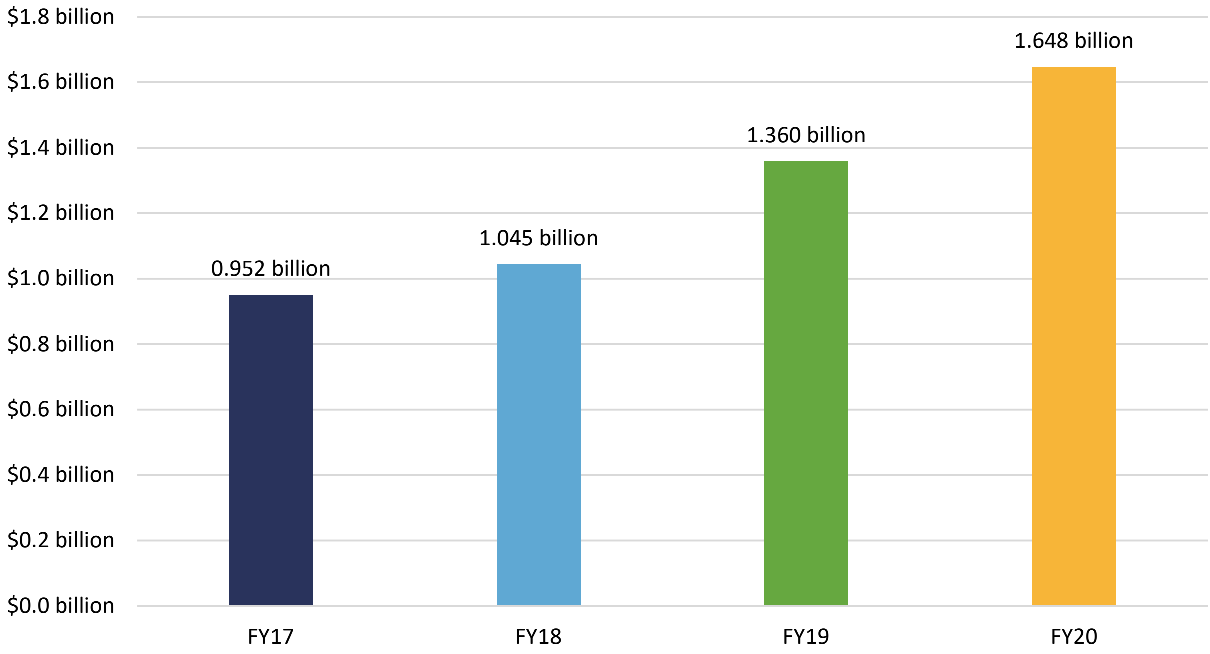
The ABS has provided the following definition:

> *The Financial and Insurance Services Division includes units mainly engaged in financial transactions involving the creation, liquidation, or change in ownership of financial assets, and/or in facilitating financial transactions.*
>
> *The range of activities include raising funds by taking deposits and/or issuing securities and, in the process, incurring liabilities; units investing their own funds in a range of financial assets; pooling risk by underwriting insurance and annuities; separately constituted funds engaged in the provision of*

retirement incomes; and specialised services facilitating or supporting financial intermediation, insurance and employee benefit programs.

Also included in this division are central banking, monetary control and the regulation of financial activities.[136]

Figure 50: Financial and Insurance Services – Collectable Debt – FY17 to FY20



Source: Constructed from ATO-provided data

Table 32: Financial and Insurance Services – Collectable Debt – FY17 to FY20

	FY17	FY18	FY19	FY20
collectable debt ($)	0.952 billion	1.045 billion	1.360 billion	1.648 billion
increase in collectable debt from previous FY ($)	–	94 million	315 million	288 million
increase in collectable debt from previous FY (%)	–	9.85%	30.11%	21.17%
number of collectable debt accounts	86,327	86,764	109,851	153,271
Average collectable debt balance ($)	11,022	12,047	12,380	10,752

Source: Constructed from ATO-provided data

Between FY17 and FY20, Financial and Insurance Services contributed between 4% and 5% to collectable debt.

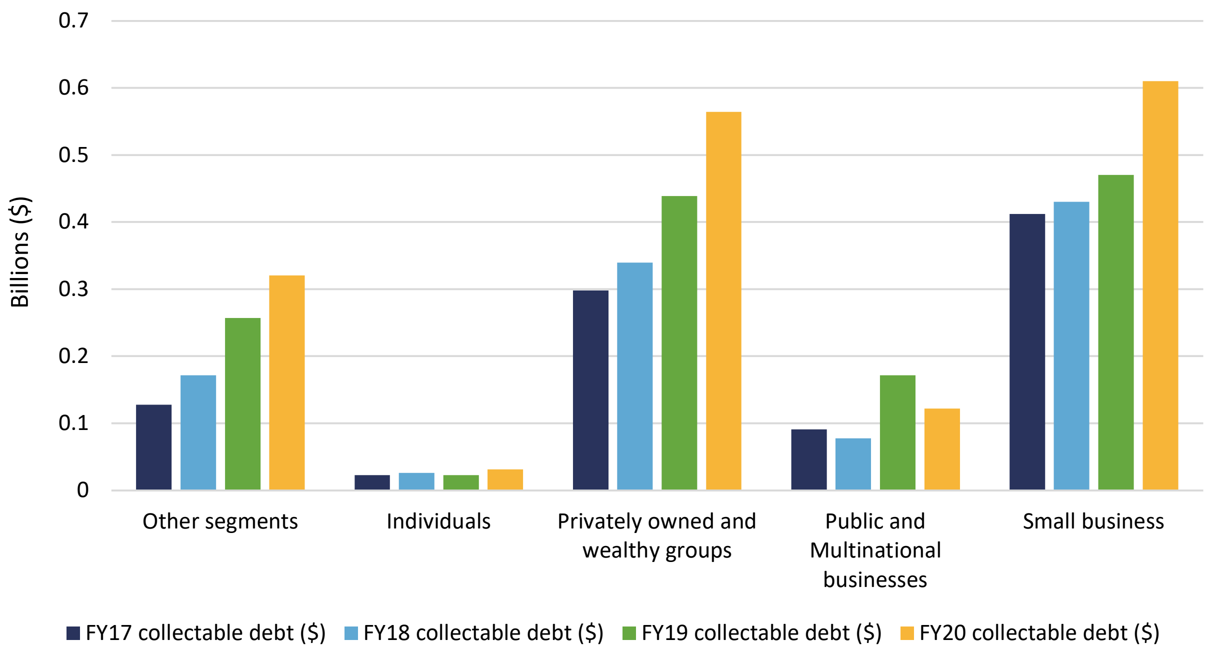
The Financial and Insurance Services industry saw increases in its level of collectable debt, year on year. Between FY17 and FY18, it increased by $94 million, FY18 and FY19 saw an increase of $315 million and

136 Above n 127.

FY19 to FY20 saw an increase of $288 million. The most pronounced increase was between FY18 and FY19, which reported a 30% increase. The reasons for this increase are unclear.

As the ABS Industry data for employment and earnings was not produced for the Financial and Insurance Services industry, it is difficult to deduce whether its collectable debt levels are proportionate with its size as measured by other economic indicators. Further investigation may be required to analyse whether collectable debt levels for the Financial and Insurance Services industry is proportionate to its economic contribution or activity.

Figure 51: Financial and Insurance Services – Collectable Debt by Client Experience Group – FY17 to FY20



Source: Constructed from ATO-provided data

Within this industry, the bulk of collectable debts, across all FYs was held by small businesses (43.3% in FY17, 41.2% in FY18, 34.6% in FY19 and 37% in FY20) and PWGs (31.3% in FY17, 32.5% in FY18, 32.3% in FY19 and 34.2% in FY20). Within the last years, the contribution of PWGs to collectable within this industry has approached the same levels as small business.

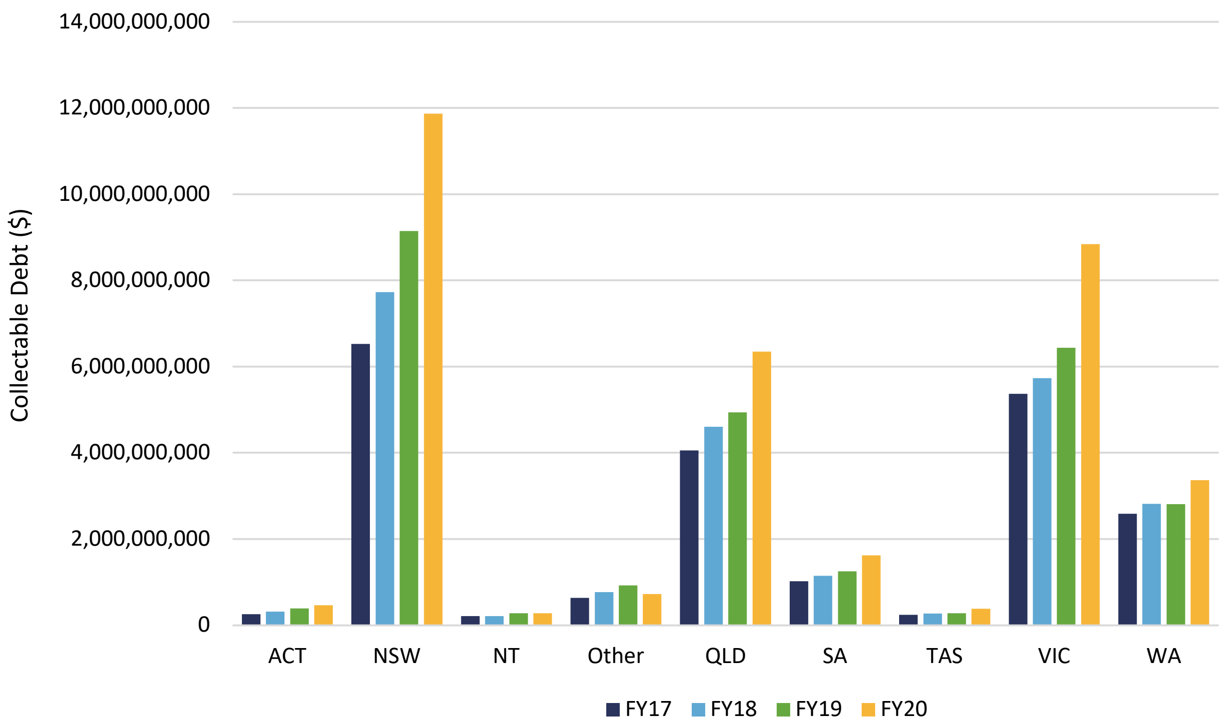
11. OUR FINDINGS IN DETAIL – GEOGRAPHIC DISTRIBUTIONS

Overview

Quantum and proportion of debt by State and Territory

When the levels of collectable debts are analysed by state and territory, the data does not suggest any material anomalies. Across all four FYs, every State and Territory with the exception of Western Australia and the Norther Territory reported increasing levels of collectable debt as set out in Figure 52 and Table 33.

Figure 52: Total collectable debt by location for FY17–FY20



Source: Constructed from ATO-provided data

Table 33: Collectable Debt by Location for FY17–FY20

Location	FY17	FY18	FY19	FY20
ACT	251,897,055	313,645,929	388,446,711	463,987,186
NSW	6,522,684,405	7,728,207,438	9,141,419,345	11,866,540,650
NT	204,724,684	209,206,965	277,062,310	274,154,586
Other	631,299,997	767,132,351	919,156,839	720,107,194
QLD	4,052,312,290	4,604,837,221	4,932,361,555	6,347,608,143
SA	1,017,641,303	1,146,453,947	1,247,179,397	1,620,726,875
TAS	235,577,409	265,537,088	278,726,336	376,247,046
VIC	5,368,833,243	5,728,000,852	6,431,430,488	8,841,760,948
WA	2,585,684,406	2,816,361,370	2,803,180,637	3,363,578,101
Grand Total	**20,870,654,793**	**23,579,383,160**	**26,418,963,618**	**33,874,710,728**

Source: ATO

The data also confirms that the most populous states, namely New South Wales, Victoria and Queensland account for the largest proportions of collectable debt. Across all four FYs, New South Wales, Victoria and Queensland collectable debt accounted for approximately 75% of all collectable debt, a figure which did not vary significantly during the years examined. In FY20, the proportion of collectable debt attributable to New South Wales, Victoria and Queensland increased slightly to 79.9% of total collectable debt. Furthermore, these States collectively also contributed to the highest proportions of the increase in collectable debt across these four financial years. Between FY17 and FY18, there was an increase in total collectable debt of $2.7 billion, of which, New South Wales, Victoria and Queensland accounted for $2.1 billion (or 78.16%). Between FY18 and FY19, total collectable debt increased by $2.8 billion with New South Wales, Victoria and Queensland accounting for the majority of that increase ($2.4 billion or 86.07%). Between FY19 and FY20, total collectable debt rose by $7.4 billion with New South Wales, Victoria and Queensland accounting for approximately $6.5 billion or 87.9% of that increase – see Table 34.

It is worthwhile noting that between FY19 and FY20, Victoria accounted for almost one third of the change in collectable debt levels, where previously it had only been approximately one quarter. Conversely, New South Wales only accounted for 36.55% of the change between FY19 and FY20, where previously it accounted for almost half of the change.

The change is interesting to note and may reflect differences in approaches of each respective State in managing the COVID-19 pandemic. However, it should be noted that these figures were as at 30 June 2020, and therefore would not have captured the impacts of border closures and lockdowns after this date.

Table 34: Quantum and Percentage Change in Collectable Debt by Location

Location	$ Change FY17–FY18	% of Total Change	$ Change FY18–FY19	% of Total Change	$ Change FY19–FY20	% of Total Change
ACT	61,748,873	2.28%	74,800,782	2.63%	75,540,475	1.01%
NSW	1,205,523,032	44.51%	1,413,211,907	49.77%	2,725,121,305	36.55%
NT	4,482,282	0.17%	67,855,345	2.39%	-2,907,724	-0.04%
Other	135,832,354	5.01%	152,024,489	5.35%	-199,049,646	-2.67%
QLD	552,524,931	20.40%	327,524,334	11.53%	1,415,246,588	18.98%
SA	128,812,644	4.76%	100,725,450	3.55%	373,547,478	5.01%
TAS	29,959,679	1.11%	13,189,248	0.46%	97,520,710	1.31%
VIC	359,167,609	13.26%	703,429,636	24.77%	2,410,330,460	32.33%
WA	230,676,964	8.52%	-13,180,733	-0.46%	560,397,464	7.52%
Grand Total	**2,708,728,367**	**100.00%**	**2,839,580,459**	**100.00%**	**7,455,747,110**	**100.00%**

Source: Constructed from ATO-provided data

With the exception of Western Australia and the Northern Territory, all other States and Territories experienced an increase in the level of collectable debt across the four financial years. Between FY18 and FY19, Western Australia reported a 0.46% decrease in its contribution to total collectable debts. Interestingly, between FY19 and FY20, Western Australia reported an increase in its contribution to total collectable debt while the Northern Territory saw a minor reduction in its contribution to total collectable debt (0.04%).

The ATO's data also has an 'Other' category which accounts for a small proportion of collectable debts in each year (3.02%, 3.25%, 3.48% and 2.13% in each of FY17, FY18, FY19 and FY20, respectively). The make-up of the 'Other' category is unclear and may include taxpayers whose businesses span across multiple States and Territories, or may include those entities that do not have a physical presence in Australia. In FY20, it is noteworthy that this category of taxpayers reduced its contribution to overall collectable debts by 2.67%.

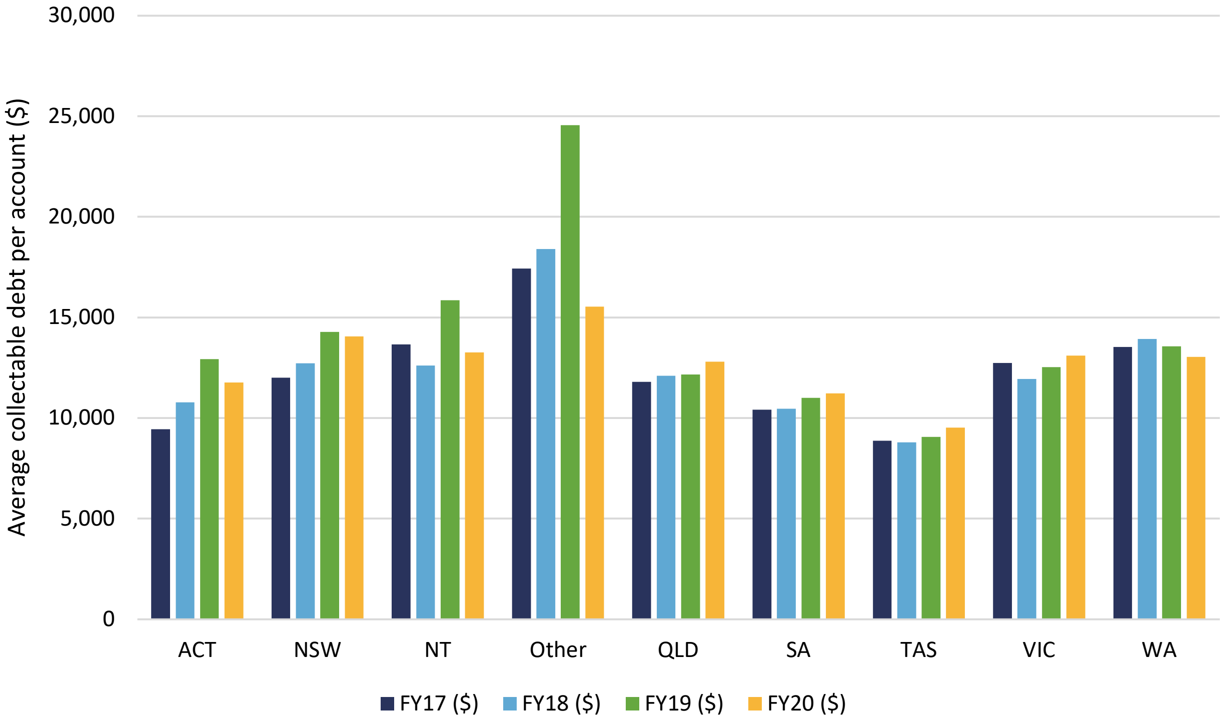
Average debt per debt account

An examination of collectable debt levels on a geographical basis alone does not yield meaningful insights. It should be expected that the states with the largest population and business centres would have the highest levels of collectable debts. In order to remove the inherent bias in this regard, an examination of the average debt levels per account within each State and Territory provides further useful information.

The levels of debt attributable to each account on a location basis is relatively flat with most States and Territories holding an average of $10,000 to $15,000 across all four FYs. The only exceptions to this general position are:

- the Northern Territory which averaged more than $15,000 in FY19;
- the Australian Capital Territory, which averaged less than $10,000 per debt account in FY17; and
- Tasmania, which has consistently held an average of less than $10,000 per debt account across each of the FYs in question.

Figure 53: Average value of collectable debt accounts by geographical location FY17–FY20



Source: Constructed from ATO-provided data

Table 35: Average value of collectable debt accounts by geographical location FY17–FY20

Location	FY17 ($)	FY18 ($)	FY19 ($)	FY20 ($)
ACT	9,436	10,773	12,926	11,765
NSW	12,009	12,721	14,281	14,062
NT	13,657	12,604	15,846	13,263
Other	17,420	18,395	24,548	15,531
QLD	11,789	12,094	12,159	12,801
SA	10,418	10,461	10,994	11,222
TAS	8,876	8,784	9,059	9,523
VIC	12,727	11,937	12,530	13,097
WA	13,531	13,920	13,564	13,039
National Average	**12,263**	**12,425**	**13,243**	**13,216**

Source: Constructed from ATO-provided data

Nationally, the average debt per account has increased year on year between FY17 and FY19, with a very minor reduction in FY20. The most significant of these increases occurred in FY19 which reported an average of $818 (or 6.5%) increase per debt account from FY18. The Northern Territory and Western Australia have generally exceeded the national average, notwithstanding that the actual averages have not consistently increased (for example, WA reported a decrease in FY19 while NT showed a decrease in FY18 before increasing again in FY19). The increased averages in WA and NT are likely due to the smaller number of debt accounts in each State and Territory, making them susceptible to biases as a result of a small number of accounts holding high levels of collectable debt.

Also noteworthy is the FY18, FY19 and FY20 averages in NSW, which have exceeded the national average, continuing an upward trend in averages for that State. Victoria had previously exceeded the national average in FY17 but in later years has reported figures that have come under the national average. Interestingly, despite Victoria's increased contribution to the overall change in collectable debt between FY19 and FY20, its average debt per account is below the FY20 national average, suggesting that the increases in Victorian collectable debt are likely due to an increased number of debt accounts, owing smaller sums of debt.

The ATO also has a category called 'Other' which is undescribed. This category may reflect entities who have presences in more than one State or Territory, or those that do not have a physical presence in Australia. When average debt levels per account are examined, this category exhibits significantly higher debt levels per account than the States and Territories – $17,420 in FY17, $18,395 in FY18 and $24,548 in FY19. In FY20, there was a decrease in the average debt per account for 'Other' ($15,531) although this still remains higher than the national average, and the highest per account average when compared with the States and Territory averages.

Comparison with Gross State Product

A further analysis that may yield relevant insights is to consider the extent to which each State and Territory contributes to the overall economic performance of Australia as a whole. As the ATO does not specifically capture data relating to tax liability contribution from each State and Territory, the IGTO has considered alternative proxies for this analysis. The ABS's published data on Gross Domestic Product (GDP) and Gross State Product (GSP).[137]

The ABS defines GDP as:

> *The total market value of goods and services produced in Australia within a given period after deducting the cost of goods and services used up in the process of production but before deducting allowances for the consumption of fixed capital. Thus, gross domestic product, as defined here, is 'at market prices'. It is equivalent to gross national expenditure plus exports of goods and services less imports of goods and services.*[138]

The ABS defines GSP 'equivalently to gross domestic product (GDP) but refers to production within a state or territory rather than to the nation as a whole.'[139] The relative proportions of each State and Territory's GSP as a proportion of GSP for each of FY17, FY18 and FY19 alongside the proportions of collectable debt attributed to each State or Territory are set out in the Tables below. For the purposes of

137 ABS, *5220.0 Australian National Accounts: State Accounts Table 1. Gross State Product, Chain Volume Measures and Current Prices*, https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-state-accounts/latest-release.

138 ABS, *5220.0 – Australian National Accounts: State Accounts, 2018-19 Glossary* https://www.abs.gov.au/methodologies/australian-national-accounts-state-accounts-methodology/2018-19#glossary.

139 Ibid.

this analysis, collectable debt allocated by the ATO to 'Other' has been excluded as there is no equivalent in the ABS data.

Table 36: Proportion of Collectable Debt vs Proportion of GSP by Location – FY17

Location	Gross State Product – FY17	% of Gross Domestic Product – FY17	Collectable Debt – FY17	% of Total Collectable Debt – FY17
ACT	38,280,000,000	2.13%	251,897,055	1.24%
NSW	588,454,000,000	32.75%	6,522,684,405	32.23%
NT	25,977,000,000	1.45%	204,724,684	1.01%
Other	N/A	N/A	631,299,997	N/A
QLD	339,652,000,000	18.90%	4,052,312,290	20.02%
SA	104,125,000,000	5.79%	1,017,641,303	5.03%
TAS	29,685,000,000	1.65%	235,577,409	1.16%
VIC	418,885,000,000	23.31%	5,368,833,243	26.53%
WA	251,941,000,000	14.02%	2,585,684,406	12.78%
Grand Total	**1,797,041,000,000**	**100.00%**	**20,239,354,795**	**100.00%**

Source: Constructed from ATO-provided data

Note: "Other" collectable debt excluded from calculation for comparative purposes

Table 37: Proportion of Collectable Debt vs Proportion of GSP by Location – FY18

Location	Gross State Product – FY18	% of Gross Domestic Product – FY18	Collectable Debt – FY18	% of Total Collectable Debt – FY18
ACT	39,686,000,000	2.15%	313,645,929	1.37%
NSW	603,143,000,000	32.60%	7,728,207,438	33.88%
NT	26,501,000,000	1.43%	209,206,965	0.92%
Other	N/A	N/A	767,132,351	N/A
QLD	352,248,000,000	19.04%	4,604,837,221	20.19%
SA	106,477,000,000	5.76%	1,146,453,947	5.03%
TAS	30,710,000,000	1.66%	265,537,088	1.16%
VIC	432,993,000,000	23.41%	5,728,000,852	25.11%
WA	258,120,000,000	13.95%	2,816,361,370	12.35%
Grand Total	**1,849,880,000,000**	**100.00%**	**22,812,250,809**	**100.00%**

Source: Constructed from ATO-provided data

Note: "Other" collectable debt excluded from calculation for comparative purposes

Table 38: Proportion of Collectable Debt vs Proportion of GSP by Location – FY19

Location	Gross State Product – FY19	% of Gross Domestic Product – FY19	Collectable Debt - FY19	% of Total Collectable Debt – FY19
ACT	40,879,000,000	2.17%	388,446,711	1.52%
NSW	614,409,000,000	32.60%	9,141,419,345	35.85%
NT	26,109,000,000	1.39%	277,062,310	1.09%
Other	N/A	N/A	919,156,839	N/A
QLD	357,044,000,000	18.94%	4,932,361,555	19.34%
SA	107,990,000,000	5.73%	1,247,179,397	4.89%
TAS	31,819,000,000	1.69%	278,726,336	1.09%
VIC	446,079,000,000	23.67%	6,431,430,488	25.22%
WA	260,640,000,000	13.83%	2,803,180,637	10.99%
Grand Total	**1,884,969,000,000**	**100.00%**	**25,499,806,779**	**100.00%**

Source: Constructed from ATO-provided data

Note: "Other" collectable debt excluded from calculation for comparative purposes

Table 39: Proportion of Collectable Debt vs Proportion of GSP by Location – FY20

Location	Gross State Product – FY20	% of Gross Domestic Product – FY20	Collectable Debt – FY20	% of Total Collectable Debt – FY20
ACT	40,902,000,000	2.10%	463,987,186.49	1.40%
NSW	624,923,000,000	32.09%	11,866,540,649.92	35.79%
NT	26,153,000,000	1.34%	274,154,585.85	0.83%
Other	N/A	N/A	720,107,193.50	N/A
QLD	363,524,000,000	18.67%	6,347,608,142.79	19.15%
SA	108,334,000,000	5.56%	1,620,726,874.85	4.89%
TAS	32,102,000,000	1.65%	376,247,045.72	1.13%
VIC	458,895,000,000	23.57%	8,841,760,947.53	26.67%
WA	292,284,000,000	15.01%	3,363,578,101.48	10.15%
Grand Total	**1,947,118,000,000**	**100.00%**	**33,154,603,535**	**100.00%**

Source: Constructed from ATO-provided data

Note: "Other" collectable debt excluded from calculation for comparative purposes

When considered against each State and Territory's GSP, and therefore contribution to overall GDP, the attributable collectable debt does not appear to be disproportionate for any state and Territory. For example, it is not unreasonable for New South Wales to contribute 32.6% of GDP and hold 35.85% of collectable debt. Similar comparisons may be drawn in respect of all other States and Territories. While there are minor discrepancies between these values, in no State or Territory did these discrepancies exceed 5%. These comparisons hold, even when FY20 is examined. This is noteworthy, despite the dual impacts of the bushfires in late 2019 and the COVID-19 pandemic. The combined impacts these two events could have seen significant decreases in GSP and increases in collectable debt. However, the data shows that these remained relatively stable. Furthermore, other than NSW, Victoria and Queensland, all other States and Territories reported collectable debt proportions lower than their contributions to overall GDP for FY20.

Based on this data, it would appear that geographical location plays little role in assisting to explain the rise in collectable debt. Accordingly, when considering the underlying causes for the observed increases in collectable debt over the past four financial years, geographical location is not considered material.

12. OUR FINDINGS IN DETAIL – AGE OF DEBT

Overview

The amount of debt held by the ATO at any given point in time will vary depending on when the amount first became due and payable, and the amounts that have been paid. Accordingly, numbers reported in the annual report as at 30 June of a particular year will be different when examined at points in time in the months following.

An examination of the payments received by the ATO within timeframes usually expected for ordinary commercial repayment terms (30, 60, or 90 days) provides some useful insight into the level of activity on debts reported at 30 June.

A broader examination into the age of debts within the ATO's holdings will also yield important insights. It is axiomatic that debts which are aged are less likely to be repaid (in full or in part).

Debts repaid after 30, 60 and 90 days

Table 40 sets out the amount of collectable debt as at 30 June in FY16, FY17, FY18 and FY19 and the value of payments received by the ATO within 30, 60 and 90 days thereafter.

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

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

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

Between FY16 and FY19, a large proportion of debt as at 30 June is paid within 90 days. In fact, the value of payments received within 90 days consistently ranges between 60% and 70% of the value of debt holdings during these years. In FY20, this figure dropped to 54.8%.

The level of payments received by the ATO (likely a combination of voluntary payments by taxpayers as well as a result of collection efforts by the ATO) is a positive outcome.

It is also important to note that a large proportion of the debt holdings is not paid within a period of 90 days. In FY16, FY17 and FY18, the amount remaining after 90 days was $7.5 billion, $6.4 billion and $7.3 billion, respectively. In FY19, approximately $9.6 billion remained outstanding after 90 days. It is not clear on the face of the data what types of debts are being paid soon after the end of the FY – whether these are new debts, or aged, and whether they were voluntarily brought to the ATO or as a result of ATO collection efforts.

Such granularity would likely require a deep dive investigation to examine, in detail, the stocks and flows.

Age bracket of debt holdings

An examination of the age of overall debt holdings may provide some insights into the level of payments received by the ATO soon after the end of 30 June 2020 and provides for further insight on the collectability of these outstanding amounts.

Table 41: Age bracket of debt holdings, by head of tax (by quantum) FY16 – FY19

AS	< 1 year	1 – 2 Years	2 – 5 Years	5 – 10 Years	10+ Years	Total Outstanding
2015-16	$6,626,613,660	$1,892,310,808	$1,703,605,906	$430,948,353	$37,151,675	$10,690,630,402
2016-17	$6,661,468,277	$1,753,587,052	$1,714,449,758	$459,841,863	$51,374,363	$10,640,721,313
2017-18	$8,301,020,103	$2,376,668,209	$1,927,953,983	$484,424,414	$49,578,676	$13,139,645,385
2018-19	$9,606,053,001	$2,680,092,129	$2,127,268,891	$560,722,898	$68,675,206	$15,042,812,124

IT	< 1 year	1 – 2 Years	2 – 5 Years	5 – 10 Years	10+ Years	Total Outstanding
2015-16	$5,428,185,821	$1,236,414,602	$1,160,512,240	$398,778,515	$94,899,470	$8,318,790,647
2016-17	$5,778,782,015	$1,139,970,236	$1,268,652,731	$454,679,177	$95,937,950	$8,738,022,109
2017-18	$6,560,148,553	$1,576,645,950	$1,407,311,266	$638,563,921	$116,984,363	$10,299,654,053
2018-19	$6,060,378,918	$1,584,472,693	$1,022,488,443	$336,301,001	$65,228,049	$9,068,869,104

SGC	< 1 year	1 – 2 Years	2 – 5 Years	5 – 10 Years	10+ Years	Total Outstanding
2015-16	$366,033,727	$183,340,227	$30,015,828			$579,389,782
2016-17	$111,210,388	$272,618,252	$173,020,172			$556,848,812
2017-18	$486,042,414	$152,497,737	$248,849,174			$887,389,325
2018-19	$487,826,798	$258,210,052	$327,273,776	$17,144,184		$1,090,454,809

Source: ATO

Note: In 2014, the ATO moved SGC transactions and debt information from a legacy system (which was decommissioned in December 2015) into its Integrated Core Processing System as a result of which certain age of debt data in relation to SGC for earlier years is not available without manual reconstruction.

Table 42: Age bracket of debt holdings, by head of tax (by proportion) FY16 – FY19

AS	< 1 year (%)	1 – 2 Years (%)	2 – 5 Years (%)	5 – 10 Years (%)	10+ Years (%)	Total
2015-16	62.0%	17.7%	15.9%	4.0%	0.3%	100%
2016-17	62.6%	16.5%	16.1%	4.3%	0.5%	100%
2017-18	63.2%	18.1%	14.7%	3.7%	0.4%	100%
2018-19	63.9%	17.8%	14.1%	3.7%	0.5%	100%

IT	< 1 year (%)	1 – 2 Years (%)	2 – 5 Years (%)	5 – 10 Years (%)	10+ Years (%)	Total
2015-16	65.3%	14.9%	14.0%	4.8%	1.1%	100%
2016-17	66.1%	13.0%	14.5%	5.2%	1.1%	100%
2017-18	63.7%	15.3%	13.7%	6.2%	1.1%	100%
2018-19	66.8%	17.5%	11.3%	3.7%	0.7%	100%

SGC	< 1 year (%)	1 – 2 Years (%)	2 – 5 Years (%)	5 – 10 Years (%)	10+ Years (%)	Total
2015-16	63.2%	31.6%	5.2%			100%
2016-17	20.0%	49.0%	31.1%			100%
2017-18	54.8%	17.2%	28.0%			100%
2018-19	44.7%	23.7%	30.0%	1.6%		100%

Source: ATO

Note: In 2014, the ATO moved SGC transactions and debt information from a legacy system (which was decommissioned in December 2015) into its Integrated Core Processing System as a result of which certain age of debt data in relation to SGC for earlier years is not available without manual reconstruction.

Table 41 and Table 42 set out the ATO's collectable debt holdings as at 30 June in FY16, FY17, FY18 and FY19, stratified debt type (Activity Statement, Income Tax and Superannuation Guarantee). The debt amounts are further stratified by their age brackets – less than 1 year old, 1 – 2 years old, 2 – 5 years old, 5 – 10 years old and older than 10 years.

Interestingly, for both Activity Statement and Income Tax debts, the proportion of amounts owing less than 1 year old have remained consistent between 62% and 66%, across all financial years. This is also the case across other age brackets with percentages remaining relatively stable. Amounts of debt which are 10 years or older, are less than 1% for Activity Statement debt across all years, whereas for Income Tax, they were 1.1% for all FYs except FY19 when they reduced to 0.7%. In relation to Superannuation Guarantee Charge, the proportions of debts less than 1 year old are more volatile with FY17, in particular, showing only 20% being newer debts while almost half (49%) were aged between 1 and 2 years. It is not clear on the data what events may have caused this aberration.

When the age data for Activity Statement and Income Tax debt is considered alongside the rate of payments received by the ATO within 90 days (i.e., Table 40) there is a degree of correlation between the proportion of debts less than 1 year old (i.e., 62%–66%) and the proportion of debts paid within 90 days of the end of the financial year (between 60% to 70%). It would be difficult to draw any definitive causative link, but it is likely that a large proportion of debts paid within 90 days are newer debts rather than those that have been aged for some time.

In relation to aged debts at the extreme end of the spectrum – 5 to 10 years, or over 10 years old – SGC debts showed very little, while Activity Statement and Income Tax debts reported approximately $400m to $650m across all FYs, with the exception of Income Tax in FY18 which reported approximately $750m within that age bracket although this reduced rapidly in FY19.

It is important to appreciate that the relative size of debts older than 5 years is small when compared with the overall debt holdings. However, in absolute terms, they do represent a significant sum of revenue that has gone uncollected for an extended period of time.

The underlying reasons for debt amounts remaining outstanding for so long, especially those that are undisputed, raises some queries about the nature of these liabilities, the taxpayers owing these debts and the ATO's collection efforts. A deep dive into specific case studies of debt accounts within these age brackets may yield further insights to assist the ATO in debt management.

Debts attributable to new businesses

The IGTO is aware of concerns raised that perhaps new entrants into the tax system, such as new businesses, may not be required to make progressive withholdings against income tax liabilities or GST until over a year has passed since the business began trading.

Table 43 shows how much collectable debt was attributable to taxpayers who were issued with an Australian Business Number (ABN) within the past 18 months – that is, new small business taxpayers who are yet to enter the instalments payment system or who may have otherwise not had a need to engage with the ATO.

The data shows the number of taxpayers in the Small Business Client Experience who were issued with an ABN within the 18 months prior to June 30 of the respective year:

(a) that had a collectable debt; and

(b) the value ($) of the collectable debt

Table 43: Amount of collectable debt owed by new small businesses (those issued with an ABN within 18 months prior to year-end)

Year	Number of new small businesses (Small Business clients who were issued with an ABN within the 18 months prior to June 30 of the respective year)	Value of Collectable debt owed by those clients	Percentage of total collectable debt owed by 'new small businesses'
FY16	39,881	$339,013,991.37	1.77%
FY17	41,906	$382,794,035.03	1.83%
FY18	50,287	$512,615,694.65	2.16%
FY19	51,678	$534,832,583.49	2.02%
FY20	67,487	$779,381,469.63	2.28%

Source: Constructed from ATO-provided data

Table 44: Amount of collectable debt owed by new small businesses (those issued with an ABN between 18 months to 36 months prior to year-end)

Year	Number of new small businesses (Small Business clients who were issued with an ABN 18 months to 36 months prior to June 30 of the respective year)	Value of Collectable debt owed by those clients	Percentage of total collectable debt owed by 'new small businesses'
FY16	77,305	$998,704,010.59	5.20%
FY17	80,400	$1,064,280,574.51	5.09%
FY18	92,324	$1,237,845,286.92	5.22%
FY19	99,375	$1,423,390,959.42	5.37%
FY20	125,511	$2,513,800,744.08	7.35%

Source: Constructed from ATO-provided data

As shown in Tables 43 and 44, levels of collectable debt owed by new small businesses (i.e., those who were issued ABNs up to 3 years prior to financial year end) has increased from $1.337 billion in FY16 to $3.293 million in FY19. As a percentage of total collectable debt, amounts owed by new small businesses have slightly increased from 6.97% in FY16 to 7.39% in FY19. In FY20, new businesses accounted for 9.63% of debts owed.

The overall impacts of new businesses on the debt book are relatively small. When considered in terms of average debts owing by each new business the sums owed are relatively small. For business that were issued ABNs within 18 months prior to financial year end, the average debt owed is between $8,000 and $12,000, across all FYs. For those whose ABNs were issued between 18 months to 36 months prior to financial year end, the average debt owed was between approximately $13,000 and $20,000 across all FYs.

These debts may be relatively easy to manage if newly registered businesses were given the option to 'opt in' to the PAYG Instalments system at the time their business is established, or an application is lodged for an ABN. This would enable taxpayers to progressively account for their liabilities rather than waiting until the first point a liability becomes payable or where entry into the PAYGI system is obligatory, which may be 12 to 18 months after commencement of trading.

The IGTO has previously observed that taxpayers may, at any time, proactively contact the ATO to voluntarily enter the PAYG Instalments system. In doing so, taxpayers are able to self-determine the quantum of their instalment.[140]

The IGTO has recommended that the ATO improvement to the Practitioner Lodgement Service allow registered BAS and tax agents to voluntarily enter their client into or exit out of the PAYGI system[141]. The ATO has agreed to, but not yet implemented this recommendation. At present, taxpayers or their representatives may contact the ATO to request entry into the PAYGI system.

140 Above n 33, p 4.

141 Above n 33.

The IGTO remains of the view that encouraging taxpayers to proactively engage with the ATO to progressively pay their taxation liabilities would be beneficial to the overall tax system and to the taxpayers themselves. To this end, the IGTO considers that the ATO should actively promote the benefits of taxpayers voluntarily entering the PAYGI system and identifying ways to make it as easy as possible for these taxpayers to enter and exit the system as well as to account for peaks and troughs in cash flows.

Appendix A – Terms of reference

The Inspector-General of Taxation and Taxation Ombudsman (IGTO) will commence an investigation and exploration into uncollected and undisputed tax debts[142] in Australia. This investigation will essentially scope and analyse the national undisputed tax debt position and as such will reference and build upon existing reports in this area including:

- Auditor General Report Number 42 – 2018 – Management of Small Business Tax Debt
- Inspector General of Taxation Report – 2015 – Debt Collection

A self-assessment system of tax administration depends on the voluntary compliance of all taxpayers to assess and report their tax liabilities and to make payment of any taxes owing in a timely manner. Although the vast majority of Australian taxpayers pay their taxes on time, there are circumstances which may hamper a taxpayer's ability to pay their undisputed tax liabilities on time. Tax disputes may also contribute to delays in tax collections. The efficient and cost-effective collection of these liabilities is an important element of good tax administration.

The investigation will examine the levels and composition of outstanding tax debts and in particular, the undisputed debts contributing to levels of outstanding tax debt.

During the last four financial years – FY16, FY17, FY18 and FY19 – the Australian Taxation Office (ATO) reported an increasing trend in the levels of undisputed debt (called 'collectable debt' by the ATO). The increasing trend is evident at both a headline level and within each of the major components of debt, as set out in the table below (rounding causes the totals to differ from the sum of the components).

ATO data[143]	FY16	FY17	FY18	FY19
Activity statement	$10.2 billion	$11.3 billion	$12.3 billion	$14.3 billion
Income tax	$8.3 billion	$8.8 billion	$10.3 billion	$10.8 billion
Superannuation guarantee charge	$0.6 billion	$0.7 billion	$0.9 billion	$1.1 billion
Total	**$19.2 billion**	**$20.9 billion**	**$23.7 billion**	**$26.5 billion**

142 The Australian Taxation Office uses the term collectable debt in their Annual Report. This term is deliberately not used since the expression itself may be confusing without the related defined meaning - debt that is not subject to objection or appeal or to some form of solvency administration.

143 Figures are sourced from Commissioner of Taxation, *Annual Report 2017-18*, p 198 and *Annual Report 2018 -19* pp 177–178. The breakdown of collectable debt lists only the major components. Rounding causes the totals to differ from the sum of the components.

Appendix A – Terms of reference

The Auditor-General Report notes that tax debt owed by small business makes up 63 per cent of overall tax debt, with collectable debt for small business totalling $15 billion in June 2018. The composition and reasons underlying the growth in undisputed debt are not entirely evident. Increasing undisputed debts may be attributable to a range of factors – interest and penalties, increasing tax collections, timing factors, internal changes within the ATO, including system and process changes as well as external environmental factors such as the performance of the economy, credit availability, and the introduction of new laws or policies that affect tax compliance.

The purpose of the review is to understand the trends and landscape of outstanding tax debts in Australia. The results can assist to identify and gain greater insight into which segments of the economy are experiencing increases in undisputed debt collections – that is, areas for further and targeted investigation.

The investigation will also consider international jurisdictions associated with low levels of undisputed tax debts and their related environments. Whilst direct international comparison is rarely possible owing to differences in tax systems, there may be some lessons or insights from overseas experiences that can be identified for further exploration.

Although this is largely an initial scoping study for a subsequent targeted review, the IGTO welcomes submissions, comments and observations from all stakeholders.

Appendix B – ATO response

Australian Government
Australian Taxation Office

Commissioner of Taxation

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

Dear Karen

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

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

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

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

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

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

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

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

Yours sincerely

Chris Jordan AO
Commissioner of Taxation
23 June 2021

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Annexure 1 – ATO Response to Recommendations

IGTO Review on undisputed tax debts in Australia

ATO comments regarding the final draft report recommendations

Recommendation	ATO Comments
Recommendation 1 *[Page 31]* *The IGTO recommends the ATO consult with key stakeholders and relevant participants in the tax system to co-design enhanced reporting in relation to its debt book and debt recovery activities throughout the year. This enhanced reporting may be shared publicly or with discrete stakeholders, as appropriate.* *Key stakeholders and relevant participants may include:* ▪ *Parliamentary Committees;* ▪ *Australian National Audit Office;* ▪ *The Treasury;* ▪ *Tax Practitioners and their Professional bodies;* ▪ *Peak industry bodies;* ▪ *Australian Small Business and Family Enterprise Ombudsman; and* ▪ *Academics.* *The IGTO considers that the following information may be of general interest and relevance to a range of stakeholders and the community.* *1. Debt Level data analysis, by client experience groups and industry divisions* *2. Actions that the ATO has taken to collect these debts, differentiated by client experience groups and industries, and actual interactions with taxpayers on their outstanding debts;* *3. The number of payment arrangements received, accepted and refused and the proportion of collectable debt subject to a payment arrangement;* *4. The total amount of debt deemed uneconomical to pursue at any given point in time;* *5. The estimated total amount of debt deferred or postponed due to natural disasters or other large-scale impact events;* *6. A profile of tax accounts by age, including amounts owing that are more than 10 years old, and the age of the debtor to determine*	**Agree** The ATO agrees to consult with key stakeholders on our broader debt approaches, including key debt metrics.

OFFICIAL 1

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

Appendix B – ATO response

Recommendation	ATO Comments
matters that they need to work with their membership or work with the ATO to address. For example – there is a service commitment between the ATO and the Australian Bar Association (ABA) - where data on outstanding tax debts and trends would be informative and instructive. Such information may include debt levels at an industry or profession basis, overlaid with information about interactions and activities the ATO has taken to try and recover the debts. *12. Academics are likely to find information that would aid them in longitudinal studies on the compliance effects of various ATO actions. For example, information that might assist to determine whether being successful for release on grounds of serious hardship positively impacts on compliance in later years, versus alternate courses of action such as declaring bankruptcy.* *The ATO should, if it does not already do so, provide a briefing to the Minister, and the Parliament (via the relevant Committees with oversight of the ATO) on these issues annually or at more frequent intervals where necessary.*	
Recommendation 2 *[Page 34]* *The IGTO recommends the ATO develops metrics to measure its debt collection performance, including a return on investment against its efforts to collect debts in relation to different client experience groups or industry groups. For example, the cost of the ATO's debt collection activities as a percentage of the total tax debts collected.* *These metrics should be reported alongside matters identified in Recommendation 1.*	**Agree** The ATO will continue to consider enhancements to its suite of metrics to measure debt collection performance. This includes assessment of a potential ROI metric, noting that the ATO's regulatory role involves debt collection irrespective of the likelihood of return.
Recommendation 3 [Page 35] *The IGTO recommends the ATO:* *1. report (in aggregate) to the Australian Parliament all taxpayer debts which exceed a benchmark dollar value and have been outstanding for more than (say) 100 days, by client experience and industry groups, and additionally, report information in relation to those debtors that have not engaged with the ATO about the outstanding debt (e.g., entered discussions to set up a payment arrangement); and* *2. remind taxpayers and their advisers in writing once the taxpayer's outstanding tax debt exceeds a benchmark dollar value and has been outstanding for more than (say) 100*	**Agree in part** **1. Agree** Subject to feedback about additional reporting needs (as per response to Recommendation 1), the ATO supports the proposal to share aggregated information to Parliament. **2. Disagree** Our own experience and insights into the best practice of behavioural economics suggest that anonymised and aggregated disclosure is not likely to influence the taxpayer to engage or generate payment.

OFFICIAL 3

Recommendation	ATO Comments
days and advise that their data will be reported (as aggregated information) to the Australian Parliament unless they have entered an agreed ATO payment arrangement or other debt management arrangement on or before a prescribed date.	
Recommendation 4 [Page 35] *The IGTO recommends that the ATO actively promote the benefits of new businesses voluntarily entering the PAYGI system and ensuring that the channels to enter, exit and vary instalments are readily accessible for both taxpayers and tax practitioners.*	**Agree** The ATO will continue to promote the benefits of participating in the PAYGI system and ensure channels that are available are readily accessible.
Recommendation 5 [Page 36] *The IGTO recommends the ATO:* 1. *provide greater insight into the ATO Special Division in its reporting through segmentation based on occupation (ANZSCO) codes; and* 2. *engage with the Australian Bureau of Statistics (ABS) to identify opportunities to improve segmentation and reporting of collectable debt by industry divisions and occupation codes to enable enhanced comparative analysis.*	**Agree in part** **1. Agree** The ATO will explore opportunities to improve its reporting related to the ATO Special Division. **2. Disagree** ANZSIC and ANZSCO codes are aligned with an international framework, adopted by numerous organisations for a large and diverse range of reporting and analysis across the Australian economy. For this reason, it may not be feasible to engage with the ABS for the sole purpose of improving debt reporting.

Appendix C – Our investigation process

Our investigation process is generally set out in the IGTO-ATO Review Operational Guidelines, which are available on our website.[144] However, each investigation is different and processes may need to be augmented to suit the particular review investigation. We have set out below a brief timeline of key milestones in the conduct of this investigation.

31 October 2019	IGTO publishes terms of reference and invites submissions
25 November 2019	Formal information request sent to the ATO. The IGTO continues to engage with the ATO in relation to information sought, clarification of information received and related matters throughout the review investigation process.
6 December 2019	Submissions officially closed. Due to the nature of the investigation (i.e., an exploration study of collectable debt trends based on ATO data), the IGTO did not expect and did not receive taxpayer insights on these issues at this early stage.
19 December 2019	Formal review investigation opening meeting between the IGTO and the ATO, attended by the IGTO herself and the ATO's Chief Service Delivery Officer, together with other IGTO and ATO executives and investigation team members.
9 January 2020	Workshop with the ATO to discuss progress of the review investigation, information requested, timeframes for provision of information and related matters.
28 February 2020	Workshop with the ATO in relation to calculation and reporting of debt and impairment figures appearing in the ATO Annual Report.
10 March 2020	Workshop with the ATO to discuss the progress of the review investigation, preliminary findings based on the data provided up to that point and related matters.
23 March 2020	State and Territory Government announce restrictions to non-essential services, following discussions at National Cabinet. IGTO office commences working from home in accordance with NSW Health Directives.
30 March 2020	The Prime Minister announces JobKeeper, the first of a series of economic measures to support taxpayers affected by the COVID-19 pandemic. ATO personnel are internally redeployed to work on implementing the economic support measures.

144 IGTO, *IGTO-ATO Review Operational Guidelines* (May 2019) https://www.igt.gov.au/about-us/guidelines.

9 April 2020	The IGTO formally announces a deferral of the review investigation as a result of the COVID-19 pandemic.
19 August 2020	IGTO-ATO Workshop in relation to its Debt and Lodgement Strategy. The meeting also provided an opportunity to discuss ATO resourcing availability to re-engage with the IGTO in relation to further information requests.
28 August 2020	A working draft of the review investigation report (as it largely was in April 2020) is provided to the ATO to provide insight on the status of the report prior to the deferral. This report was intended to prompt discussion on further information required to bring the document to finalisation. This version of the report was not intended to be a formal transmission of a report document and therefore did not require any official response from the ATO.
22 September 2020	Follow up workshop with ATO senior executives to discuss the working draft of the report and the IGTO's information requests to bring the document to finalisation. The IGTO review investigation team recommences engagement with ATO counterparts to request and incorporate additional data into the draft report.
1 April 2021	A formal, Preliminary Draft Report is provided to the ATO for its consideration and comments, in accordance with a statutory requirement to provide an opportunity for the Commissioner to make any comments on expressed or implied criticisms. Throughout this period, the IGTO continued to engage with the ATO as it considered the draft. The IGTO also engaged with other federal government agencies, peak tax and legal professional bodies as well as academics to seek input on potential improvement opportunities.
20 April 2021	Mid-Point meeting with ATO senior executives to discuss potential recommendations in the Preliminary Draft Report.
13 May 2021	Formal response to the Preliminary Draft Report received from the ATO's Chief Service Delivery Officer.
1 June 2021	Final Draft Report provided to the ATO for official response to recommendations
23 June 2021	ATO formal response received
30 June 2021	IGTO Final Report published

Appendix D – Lodgement requirements and due dates

Type of taxpayer	How you may Lodge	Specific circumstances which apply	When you must Lodge (assuming a 30 June year-end)
		Income Tax returns	
Individuals	myTax		31 October
	Registered Tax Agent		
		one or more prior year tax returns were outstanding as at 30 June	31 October
		Latest return resulted in a tax liability of $20,000 or more	31 March following year
		Tax returns of all remaining individuals	15 May following year
		Concessional due date for individuals with no amount payable or have 15 May due date (not a lodgement due date, but a concessional arrangement where penalties will be waived if lodgement and payment are made by this date.)	5 June following year
	By Paper (applies to self-preparers and agents)		31 October Paper returns may be lodged at any time, however, the due date will revert to 31 October
Partnerships	Standard business reporting software – self preparers		31 October
	Using a registered Tax Agent		Before the partners' individual tax returns are due (see section on Individual tax returns due dates above)
	By Paper		31 October

Type of taxpayer	How you may Lodge	Specific circumstances which apply	When you must Lodge (assuming a 30 June year-end)
Trusts	Standard business reporting software – self preparers	Self-preparers who did not lodge their income tax return on time for the previous financial year	31 October
	Using a registered Tax Agent		
		one or more prior year tax returns were outstanding as at 30 June	31 October
		Trusts with annual total income more than $10 million and were taxable in latest year lodged	15 January following year
		Trusts with annual total income more than $10 million and were non-taxable in latest year lodged; and New registrant trusts with annual total income more than $10 million	28 February 2020
		Latest return resulted in a tax liability of $20,000 or more	31 March following year
		Tax returns of all remaining trusts not required earlier	15 May following year
		Concessional due date for trusts with no amount payable or have 15 May due date (not applicable if total annual income over $10 million) (not a lodgement due date, but a concessional arrangement where penalties will be waived if lodgement and payment are made by this date.)	5 June following year
	By Paper		31 October

Appendix D – Lodgement requirements and due dates

Type of taxpayer	How you may Lodge	Specific circumstances which apply	When you must Lodge (assuming a 30 June year-end)
Companies	Standard business reporting software		Small – 28 February Medium and Large – 15 January (with 1 December payment date) if previously taxable and 28 February if previously non-taxable Companies (self prepares) with any prior year returns outstanding or who did not lodge their income tax returns on time the previous financial year – 31 October
		Companies with any prior year returns outstanding or companies that did not lodge their income tax return on time for the previous financial year.	31 October
	Using a registered Tax Agent		
		non full assessment company entities (reinsurance companies and overseas shipping companies)	1 December
		Large/medium taxpayers whose previous tax return was taxable	15 January following year (payment due 1 December)
		Large/medium taxpayer whose previous return was non-taxable or new large/medium registrants	28 February following year
		companies with total income more than $2 million, unless required earlier	31 March following year
		Head companies of consolidated groups and all remaining companies	15 May following year

Type of taxpayer	How you may Lodge	Specific circumstances which apply	When you must Lodge (assuming a 30 June year-end)
		Concessional due date for companies with no amount payable or have 15 May due date (except heads of consolidated groups) (not a lodgement due date, but a concessional arrangement where penalties will be waived if lodgement and payment are made by this date.)	5 June following year
	By Paper		
			Small – 28 February Medium and Large – 15 January (with 1 December payment date) if previously taxable and 28 February if previously non-taxable If the taxpayer has prior year outstanding returns or was prosecuted for non-lodgement of prior year tax returns – 31 October
Superannuation Funds			
	Using a registered Tax Agent		
		SMSF reviewed by ATO at registration	31 October
		SMSF returns selected for review in the first year of registration	31 October
		Large/medium super funds whose previous tax return was taxable	15 January following year (payment due 1 December)
		Large/medium super fund whose previous return was non-taxable; new large/medium registrants: and new registrant SMSF	28 February following year
		Super funds with total income more than $2 million, unless required earlier	31 March following year
		all remaining super funds, including SMSFs	15 May following year

Appendix D – Lodgement requirements and due dates

Type of taxpayer	How you may Lodge	Specific circumstances which apply	When you must Lodge (assuming a 30 June year-end)
		Concessional due date for super funds with no amount payable or have 15 May due date (not a lodgement due date, but a concessional arrangement where penalties will be waived if lodgement and payment are made by this date.)	5 June following year
	By Paper		
		If the taxpayer has prior year outstanding returns or was prosecuted for non-lodgement of prior year tax returns	31 October
		Superannuation funds with prior outstanding return(s) or previous tax return was lodged late	31 October
			Small – 15 May or 31 March if income more than $2 million Medium and Large – 15 January (with 1 December payment date) if previously taxable and 28 February if previously non-taxable
Other Lodgements			
Activity Statements (including GST, PAYG instalments)			
	By paper	Small GST-registered entities (less than $75,000 annual GST turnover)	Annual return due with individual tax return, or if no obligation, 28 February following year
		Medium (between $75,000 and $20 million annual GST turnover)	Quarterly lodgements due: - 28 October - 28 February - 28 April - 28 July
		Large (more than $20 million annual GST turnover)	Monthly instalments due on the 21st day of the following month

Type of taxpayer	How you may Lodge	Specific circumstances which apply	When you must Lodge (assuming a 30 June year-end)
	Electronic lodgement (by entity)	Medium (between $75,000 and $20 million annual GST turnover)	Quarterly lodgements due: - 25 November - 28 February - 25 May - 25 August Self-preparers receive a two-week lodgement deferral for eligible activity statements lodged electronically
	Electronic lodgement (via tax agent)	Medium (between $75,000 and $20 million annual GST turnover)	Quarterly lodgements due: - 25 November - 28 February - 26 May - 25 August
	PAYG withholding annual reports		
		PAYG withholding annual report: • for payments where ABN not quoted • for interest, dividends and royalties paid to non-residents • for payments to foreign residents	31 October
Employers		PAYG withholding annual report for employees, unless the employer reports through STP and has completed a finalisation declaration by 14 July.	14 August
	Finalisation Declaration		
Employers	Single touch payroll	A finalisation declaration stating an employer has fully reported for each of their employees using STP.	14 July
	FBT Annual Returns		
	By paper (Self prepared and tax agent)		21 May lodgement and payment
	Electronic lodgement (via tax agent)		25 June lodgement and payment

Appendix E – Strategic KPIs noted by the OECD

The following extract from the OECD's 2014 report – *Working Smarter in Tax Debt Management* (pages 80 to 82) – sets out and provides an explanation on a number of strategic KPIs used by revenue authorities in relation to their debt collection functions.

Strategic KPIs

At the strategic level most tax debt collection functions track the following indicators:

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

Size of debt book

Australia, Belgium and the Netherlands amongst others, measure the size of the debt book, which is the total value of outstanding undisputed tax debts at any given time. The desired outcome is to reduce the amount of total tax debt on hand.

Ratio of collectable debt to net tax collections

An internationally recognised KPI used in Australia is the ratio of collectable debt to net tax collections. This KPI puts the size of the debt book into perspective and is a good measure of tax debt management performance. This approach makes the KPI more valuable because it provides more insight into the effects of economics on the size of the debt book and so differentiates that from the performance of the revenue body.

Proportion paid on time

For every revenue body "paying on time" is very important. It is used as an outcome indicator for compliance in Belgium, France, Ireland and New Zealand, measured as a percentage of total amount of taxpayers who paid before due date. The ATO has KPIs that measure the value of income tax liabilities (company and individual) and the total value paid on time. They also measure according to the type of entity. It is important to distinguish how payment performance varies between different groups of taxpayers. It makes it easier to see where there is scope to try different approaches aimed at improving payment performance. It also helps to improve the quality of forecasting.

Recovery rate

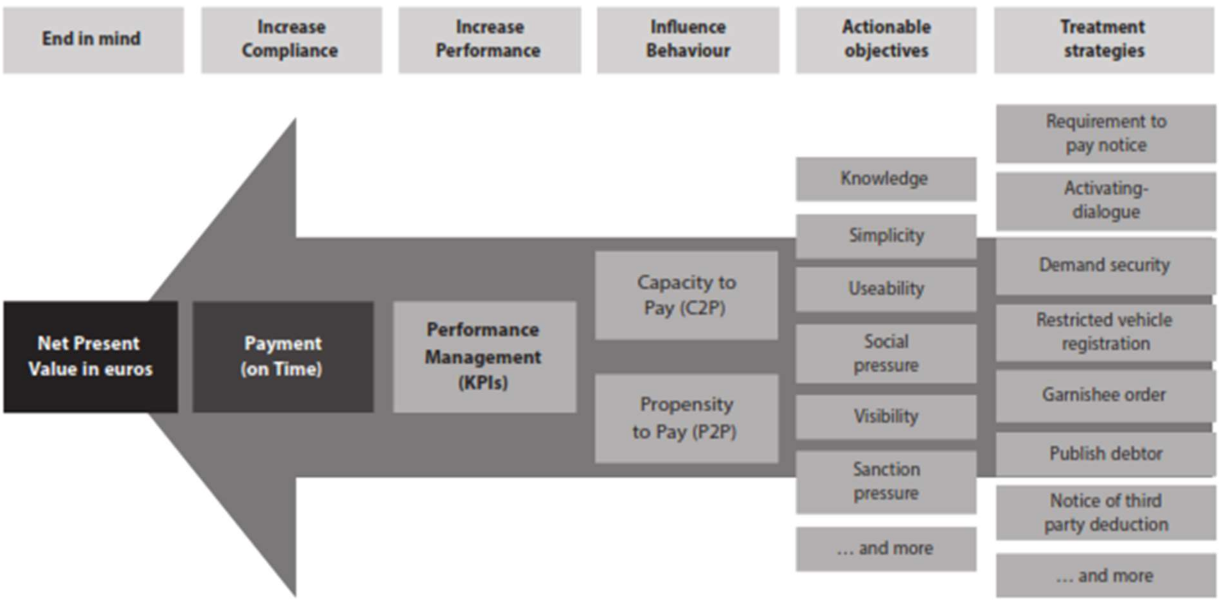
Canada, Japan and Sweden use this KPI as a fundamental indicator of how well tax debt has been managed during a year. It measures the effectiveness of debt collection.

Cost of collection

Australia measures the cost effectiveness of the debt collection process, which is stated as the cost of collecting AUD 1 000. They also measure, on a more operational level, the debt collection per FTE (Full Time Equivalent, (a measure of staffing).

It is notable that cost effectiveness is not a specific strategic KPI in other countries, although this does not mean that it's not recognised as an important issue. All the revenue bodies involved in this study are working actively to reduce the costs of collection. Nevertheless, as shown in Figure 5.4 "Value stream debt management", when the value stream is made visible it is important to know how cost-effective debt collection is and how much more cost effective it could be. The tax debt collection process is one of the contributors to the delivery of the overall level of tax compliance in a country. For more on measuring compliance outcomes see the FTA report "Measuring tax compliance outcomes".

Figure 5.4. **Value stream debt management**



Source: Van den Bogaard, R.B.P. (2014), Tax and Customs Administration of the Netherlands.

Write off

The amount of tax debt written off as irrecoverable is a key measure and one that attracts attention from oversight bodies and the public. There is also a category of debt that remains recoverable but not being economic to pursue, either because the cost of recovery exceeds the value of the debt or because of capacity constraints. Australia has a KPI that measures the trend in the value of debt that it is not economic to pursue. The Netherlands is going to implement a new KPI that will measure the percentage of write offs over a certain limited period. The Netherlands will also measure the added efficiency of "Dynamic monitoring". Dynamic monitoring is a near real-time check for a "match" between income and assets, the available collection measure and the current debt. This approach aims to reduce the amount of permanent write offs.

Paid against forecast

Forecasting the total amount of collected or recovered debt is not an easy exercise. Over the years there will be variations in the total amount of tax paid and the recovery rate. When the economy and tax policy framework are stable forecasting future revenues is a relatively easy task. This is also the case when there are no significant organisational changes in a revenue body. However much has changed over the last five or six years. The financial crisis resulted in fewer taxpayers meeting all their liabilities on time, reduced compliance and also less total tax revenue. There have been organisational changes in tax administration and new instruments have been developed to limit the amount of tax debt arising and also to increase the amount of debt that is collected. These variables make it harder for revenue bodies to use or develop reliable forecasting models. In this study, Ireland and Canada are identified as countries that are using specific strategic KPI's to measure the relationship between the actual collected amount and the amount forecasted.

Appendix F – Glossary and defined terms

Abbreviation or term	Definition
AAT	Administrative Appeals Tribunal
ADJR Act 1977	*Administrative Decisions (Judicial Review) Act 1977*
AFP	Australian Federal Police
Aged Debt	Debtors are categorised according to the period overdue. i.e.: • <1 Month • 1–2 Months • 2–3 Months • 3–6 Months • 6–12 Months • 1–2 Years • 2–5 Years • 5–10 Years • 10+ Years
AGIS	Australian Government Investigation Standards
ANAO	Australian National Audit Office
APH	Parliament of Australia
APPs	Australian Privacy Principles, as defined in Schedule 1 of the *Privacy Act 1988*
APS	Australian Public Service
ATO	Australian Taxation Office
ANZOA	Australian and New Zealand Ombudsman Association
ANZSCO	Australian and New Zealand Standard Classification of Occupations
ANZSIC	Australian and New Zealand Standard Industrial Classification
BAS	Business Activity Statement
CDDA	Scheme for Compensation for Detriment caused by Defective Administration
Client Experience	Broadly the ATO divides taxpayers into client experiences. All taxpayers are allocated to a primary client experience population for reporting purposes. The client experience allocation is based on definitions and hierarchical approach. It is also subject to the information we have for a particular taxpayer. The Client Engagement Group uses the client experience lens to view risk, investment and effectiveness and the ATO's Service Delivery Group uses it to report on the monthly debt holdings.
Client Experience – Individuals	Individual clients who have no: • business or personal services income; or • links to an active micro entity, excluding a link type of "member of an SMSF" if they receive passive income, it is from investments or distributions only.
Client Experience – Not-for-Profit organisations	An organisation is not-for-profit if it is not carried on for the profit or gain of its individual members. This applies for direct and indirect gains, both while the organisation is being carried on and on its winding up. We accept an organisation as not-for-profit if its constitution or governing documents prohibit distribution of profits or gains to individual members and its actions are consistent with the prohibition.

Appendix F – Glossary and defined terms

Abbreviation or term	Definition
Client Experience – Privately Owned and Wealthy Groups	The ATO views privately owned and wealthy groups as: • companies and their associated subsidiaries (often referred to as economic groups) with an annual turnover greater than $10 million, that are not public groups or foreign owned; or • resident individuals who, together with their business associates, control net wealth over $5 million.
Client Experience – Public and Multinational Businesses	Includes Australian public companies, listed and unlisted; widely held Australian partnerships, superannuation funds and managed investment trusts; and majority foreign owned entities.
Client Experience – Self-Managed Superannuation Funds	A complying superannuation fund with fewer than five members, who are individual trustees of the fund.
Client Experience – APRA regulated superannuation Funds	Large and small APRA-regulated superannuation funds.
Client Experience – Small Business	A business with less than $10 million aggregated turnover in the previous financial year. Prior to 2016-17, the threshold was $2 million. This group may include individual taxpayers by reason of their association with another entity – for example, director of a company, or a partner in a partnership.
Collectable Debt	Debt due to the ATO that is not subject to objection or appeal or to some form of insolvency administration.
Commissioner	Commissioner of Taxation
Complaint	A complaint is defined AS/NZS 10002:2014 Guidelines for complaint management in organizations *Expression of dissatisfaction made to or about an organization, related to its products, services, staff or the handling of a complaint, where a response or resolution is explicitly or implicitly expected or legally required.* *Disputes – Unresolved complaints escalated internally or externally, or both.* *Feedback – Opinions, comments and expressions of interest or concern, made directly or indirectly, explicitly or implicitly to or about the organization, its products, services, staff or its handling of a complaint. Organizations may choose to manage such feedback as a complaint.*
Compromise of debt	The Commissioner may permanently agree not to pursue recovery of the balance of a debt (effectively, to accept a sum less than the primary debt in full satisfaction of that debt) from an insolvent taxpayer under a compromise proposal. The circumstances in which this will occur are limited.
CPI	Consumer Price Index
Disclosures as part of a review and Investigation	these disclosures are protected because there is a Review, and the disclosure of information assists in achieving a public purpose.
Disputed Debt	Debt which is subject to objection or appeal – identified in systems by disputed accounting treatments.
DPN	Director Penalty Notice
Entity	an entity is defined in section 960-100 of the *Income Tax Assessment Act 1997* that is: • an individual • a body corporate • a body politic

Abbreviation or term	Definition
	• a partnership • any other unincorporated association or body of persons • a trust • a superannuation fund
FOI	Freedom of Information
FOI Act 1982	*Freedom of Information Act 1982*
FY19	Financial Year ended 30 June 2019
FY20	Financial Year ended 30 June 2020
GST	Goods and Services Tax
High Wealth Individual	An Australian resident who controls net assets of over $30 million.
IGIS	Inspector-General of Intelligence and Security
IGT Act 2003	*Inspector-General of Taxation Act 2003*
IGTO	Inspector-General of Taxation and Taxation Ombudsman. The acronym “IGTO” is used throughout the submission to denote both the “Inspector-General of Taxation”, as named in the enabling legislation, and “Inspector-General of Taxation and Taxation Ombudsman” as recently adopted due to recent calls for greater understanding and awareness of our complaints’ services function.
Impairment	Impairment in the administered financial statements includes the following: • Impairment allowance – The ATO estimates an impairment allowance on all unpaid debts recognised as receivables in the financial statements. This requirement arises from AASB 136 Impairment of Assets. This standard states that, “An asset is impaired when its carrying amount exceeds its recoverable amount.” (Paragraph 8). • Impairment on receivables (expense) – this amount includes: – Calculated movements in the impairment allowance, and – Actual write-offs of receivables.
Insolvent Debt	Debt which is subject to some form of insolvency administration – identified in systems by insolvent accounting treatments.
Irrecoverable at law	The Commissioner is satisfied that the debt is not legally recoverable, and the debt has been written off as authorised by an act.
IRS	Internal Revenue Service
ITR	Income tax return
JCPAA	Joint Committee of Public Accounts and Audit
Liabilities	Debts or amounts that the business owes. Liabilities are the claims of creditors against the assets of the business. These are to be met in the future.
Net Tax Collections	Total tax collections less refunds paid to taxpayers.
Non-Pursuit	The Commissioner can determine not to pursue a debt considered uneconomical to pursue (in which case it can be re-raised later), or permanently extinguish a debt that is irrecoverable at law.
NTA	National Taxpayer Advocate
OAIC	Office of the Australian Information Commissioner
OECD	Organisation for Economic Co-operation and Development
PAYG	Pay As You Go
Payment Plan or Payment Arrangement	An agreement with a client for scheduling of payments to repay their tax debt over a period of time.

Appendix F – Glossary and defined terms

Abbreviation or term	Definition
Payment on Time	A liability is deemed to be "paid on time" if it has a zero balance within 7 days after the due date or the date the liability is reported to the ATO, whichever is the latter.
PGPA Act 2013	*Public Governance, Performance and Accountability Act 2013*
PGPA Rule 2014	*Public Governance, Performance and Accountability Rule 2014*
PID Act 2013	*Public Interest Disclosure Act 2013*
Receivables	A receivable is an amount the ATO recognises in the administered financial statements when the following conditions are met: • the right to receive revenue is established by the relevant statutory requirements (for example, by the Taxation Administration Act 1953), • we have sufficient information to establish that a taxpayer has a taxation liability, • an assessment can legally be raised and applicable penalties and charges imposed. These amounts are recognised as receivables in the ATO's financial statements until paid, impaired or written off.
Release	The law allows for an individual to be partially or fully released from particular liabilities if payment would result in serious hardship. The provision also applies to the trustee of a deceased estate where the dependants of the deceased individual would suffer serious hardship if the trustee paid the liability.
SCTR	House of Representatives Standing Committee on Tax and Revenue
Settlement	A settlement is an agreement or arrangement between parties to finalise their matters in dispute. Settlements involve the balancing of the Commissioner's duties to administer the tax law and the tax system in a fair, efficient and effective way.
SG	Superannuation Guarantee
SGC	Superannuation Guarantee Charge
STP	Single Touch Payroll
TAA 1953	*Taxation Administration Act 1953*
Tax Gap	The tax gap is the difference between the actual amount of tax collected and the amount the ATO would expect to collect if every taxpayer were fully compliant.
Tax Official	The term 'tax official' is defined in section 4 of the *IGT Act 2003* to mean: • an ATO official; or • a Board member of the Tax Practitioners Board; or • an APS employee assisting the Tax Practitioners Board as described in section 60-80 of the Tax Agent Services Act 2009; or • a person engaged on behalf of the Commonwealth by another tax official (other than an ATO official) to provide services related to the administration of taxation laws; or • a person who: • is a member of a body established for the sole purpose of assisting the Tax Practitioners Board in the administration of an aspect of taxation laws; and • receives, or is entitled to receive, remuneration (but not merely allowances) from the Commonwealth in respect of his or her membership of the body. For the purpose of this report, the term 'tax official' is also used to refer to a 'taxation officer' to whom subdivision 355-B of Schedule 1 to the TAA 1953 applies.
TFN	Tax File Number
TPB	Tax Practitioners Board

Abbreviation or term	Definition
Uneconomical to pursue	The Commissioner considers that it is not cost effective to pursue recovery of the debt. Non-pursuit of debt is the decision to remove a debt from the account – it can be re-raised later.
Waiver	The Finance Minister may waive amounts owing to the Commonwealth. A waiver permanently extinguishes a debt owed to the Commonwealth. The Commonwealth cannot pursue the debt at a later date if the financial circumstances of the person or organisation which received the waiver improve. The Commissioner does not have the power to grant a waiver.
Write-off	A reduction in the recorded amount of receivables in the financial statements and occurs when the Commissioner ceases to pursue a debt. This includes debts that are not economical to pursue, irrecoverable at law, released due to serious hardship and amounts waived by the Finance Minister.