



Australian Government
Australian Taxation Office

MAKING A LASTING IMPROVEMENT TO COMPLIANCE

Canberra Evaluation Forum

Presented by
Adam Kendrick
Assistant Commissioner, Promoter Risk and Intelligence
Australian Taxation Office

15 March 2012

Overview Page

- Context we operate within
- ATO stock take on effectiveness
- Literature Review
- Conceptual Framework
- Designing the methodology
- Implementing the methodology
- The methodology in practice – FBT
- Benefits
- Challenges going forward





Strategic statement 2010–15

FROM THE COMMISSIONER

This strategic statement sets out our vision for the future. It is an aspirational statement describing our values and how we will work with government and the community in the years ahead.

The Australian Government and its agencies exist to improve the wellbeing of all Australians.

The ATO has important responsibilities, on behalf of the community, for the care of Australia's tax and superannuation systems and the Australian Business Register.

Revenue from Australia's tax system helps fund public goods and services that give effect to economic and social policies. Australia's superannuation system helps secure retirement income for Australians.

The Australian Business Register makes it easier for businesses and all levels of government to interact.

Australians already demonstrate a high level of willing participation in these systems. We believe this is a sign of good citizenship.



Australian Government
Australian Taxation Office

VISION

Australians value their tax and superannuation systems as community assets, where willing participation is recognised as good citizenship.

STRATEGIC THEMES

THE ATO WORKS WITH THE GOVERNMENT AND THE COMMUNITY TO:

Encourage

People support and understand the benefits of participation – they are engaged and willingly participate.

Support

People are helped and assisted to understand their rights and responsibilities and are able to fulfil their obligations easily at minimal cost.

Protect

Protecting people and the community by deterring, detecting and dealing with those who have not complied.

Enhance

We are passionate about improving our capabilities to be more innovative, agile and responsive to challenges and opportunities.

Champion

We champion the interests of both individual taxpayers and the community, advising government on ways to improve the operation of Australia's tax and superannuation systems.

VALUES

- Being fair and professional
- Applying the rule of law
- Supporting people who want to do the right thing and being fair but firm with those who don't
- Being consultative, collaborative and willing to co-design
- Being open and accountable
- Being responsive to challenges and opportunities

APPROACH

ATO outcome

Confidence in the administration of aspects of Australia's taxation and superannuation systems through helping people understand their rights and obligations, improving ease of compliance and access to benefits, and managing non-compliance with the law.



We use strategies that encourage willing participation

- We seek to create an environment conducive to high levels of willing participation.
- We believe that prevention is better than cure.
- We use risk-based choices to prioritise our work.
- We discourage people from ignoring their obligations by taking firm action against those who decide not to comply.
- We collaborate with the community to design systems that make it easier to comply at minimal cost.

NAV 70445105-2010 AUS 150671



Evolution of our strategic statement

2006/7 - *'optimising collections and make payments in a way that builds community confidence in the tax and super systems'*

2007/8 - *'optimise voluntary compliance and make payments in a way that that builds community confidence in the tax and superannuation's systems*

2010/15 - *'community values their tax and superannuation systems as community assets where willing and proper participation is recognised as good citizenship'.*

The problem:



How will we know that our compliance activities are having a positive impact on compliance behaviour – are we making a difference?

‘If an organisation does not measure what it values, it will value what it measures’

- Whilst there were pockets of effectiveness activity they were being undertaken in isolation of a broader framework;
- Majority of indicators were activity based and output focused;
- Inconsistencies in evaluation approaches;
- Insights not being identified and integrated into planning, reporting and risk cycles;
- Compliance officers were deciding on specific compliance interventions without giving enough attention to the actual outcomes or behavioural change they were looking for.

Literature review findings

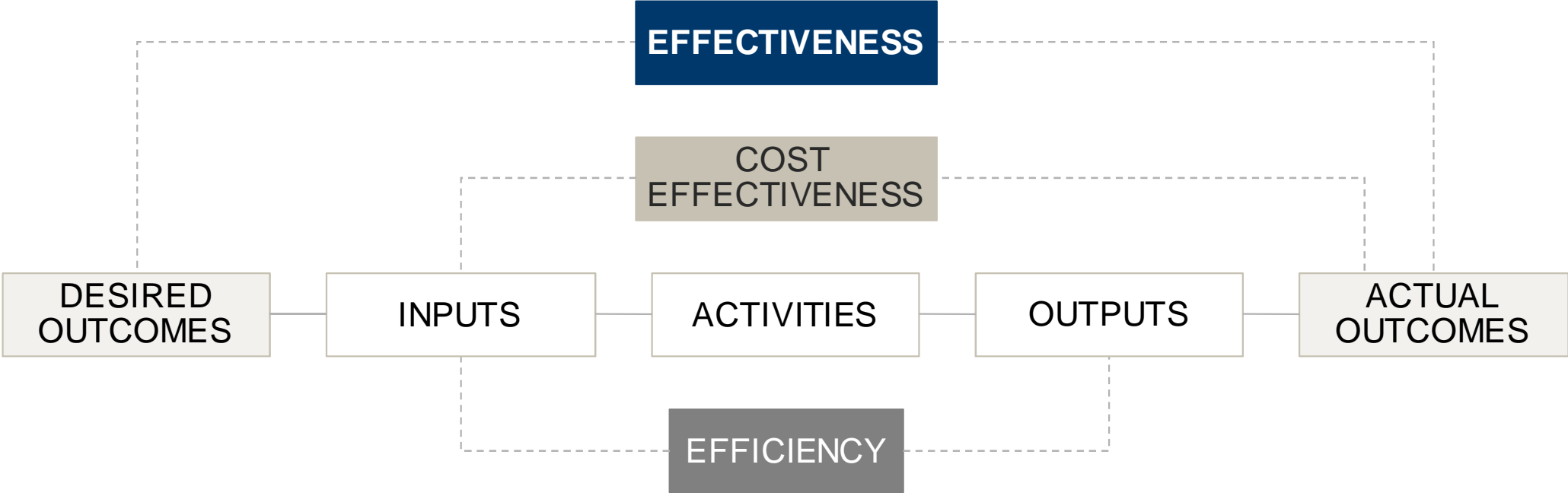


FIGURE 1: Program logic model

Literature review findings

- This is difficult and something that has long challenged revenue agencies.
- Evaluation starts up front – you need to define the specific outcomes you are seeking to achieve upfront and define success in more specific goals
- Risks need to be clearly understood and articulated in terms of the strategic intent;
- No one indicator will tell the story – you need a range of them;
- Causal inference needs to be established from other factors and can sometimes be difficult so we look to be **defensible** rather than definitive.
- Consider the ripple effect on those outside the immediate target group
- The sustainability or lock-in effect on compliance effectiveness evaluation is enduring – up to five years!
- Anticipate the unintended consequences that may result in unwanted shifts in compliance behaviour and look to include in your evaluation.

Our hypothesis

- If our compliance strategies have been effective then we should see positive and sustainable changes in taxpayer behaviour with one or more of the key compliance obligations and or community confidence.

The key compliance obligations being:

- registration
- lodgment
- correct reporting
- payment

The conceptual framework

Measuring the effectiveness of our compliance strategies < FRAMEWORK >

LEGEND

- Programme Impact Indicators: assess the cause and effect of compliance strategies.
- Macro indicators: a relationship between an aspect of compliance and an external benchmark.
- Public opinion indicators: information from public opinion research and client surveys at either the macro or project level.

1 Use the corporate risk and intelligence processes to identify the risk to be treated.

The proposed capability will be designed to integrate with current corporate processes such as the Health of the System Assessment (HOTSA) and Project Management, Corporate Management Procedures and Instructions.

2 Identify the compliance strategies to address the risk (based on Tax Office business model).

Compliance managers have a range of compliance strategies they may deploy. So when developing strategies, they need to determine which broad compliance approach will be used:

- create the right environment
- help taxpayers understand their rights and obligations
- make it easy to comply, and
- verify compliance and promote voluntary compliance.

The framework focuses on the first four elements of the business model.

3 Identify which Tax Office capability areas are needed to deploy the compliance strategies.

- Marketing & Education (sub-output 3.1, 4.1)
- Provision of Written Advice (sub-output 3.2, 4.2, proactive advice, ie public rulings), and/or
- Active Compliance (sub-output 3.4, 4.4).

Note: Provision of Written Advice – reactive advice is out of scope.

4 Identify the taxpayer attitude & compliance behaviour the Tax Office is trying to influence.

Compliance managers identify the compliance behaviours (obligations) they want to positively influence through compliance strategies.

Our key hypothesis is that if our compliance strategies are effective in changing taxpayer attributes / attitudes, then we should see positive, sustainable movements in compliance behaviour with one or more of the key compliance obligations.

The key obligations are correctly registering in the system, lodging tax information on time, reporting complete and accurate information, and paying tax obligations on time.

5 Develop a group of effectiveness indicators [i i i] following the corporate methodology.

- Identify the desired outcome (what result are we trying to achieve? Who are the target groups?)
- Define success (What would success look like? What factors affect success?), and
- Develop effectiveness indicators (What are the indicators?, What data is needed? What measurement comparisons are used? ie Baseline, benchmarks, control groups, targets, standards and trend over time?).

Note: No one indicator or measure alone will demonstrate effectiveness. Rather, a combination of indicators will provide the overall picture of effectiveness.

6 Ensure the indicators have a range of views.

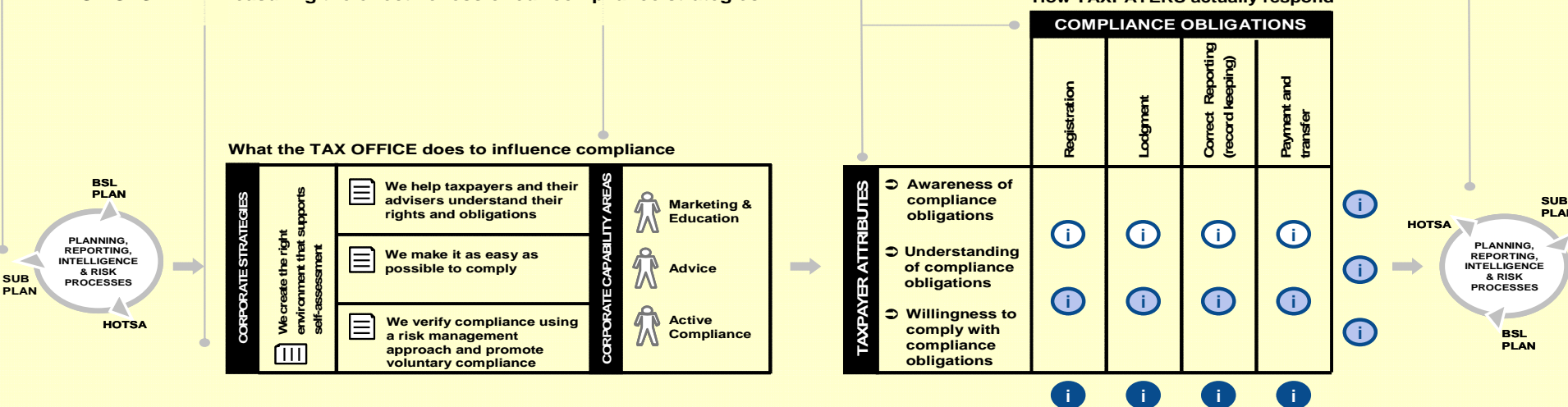
These views include the following levels:

- Project
- Product
- Segment, and
- Sub plan.

7 Monitor & report.

Report to Government against the outcomes output framework. Monitor and feed the learnings back into the development of future compliance strategies. This includes also the unintended consequences or alternative behaviours that have emerged.

REVENUE SYSTEM – Measuring the effectiveness of our compliance strategies



COMPLIANCE EFFECTIVENESS is about . . .

... identifying the risks to be treated

... the Tax Office employing these strategies

... applied through these capabilities

... resulting in changing taxpayer attributes / attitudes

... leading to changes in these behaviours

... and is measured through a range of EFFECTIVENESS indicators [i i i] which can be applied at a variety of levels

... monitoring & feeding the results back into future compliance strategies



Designing the methodology



ATO compliance effectiveness methodology

Phase 1
Articulate risk
Align with ATO business intent



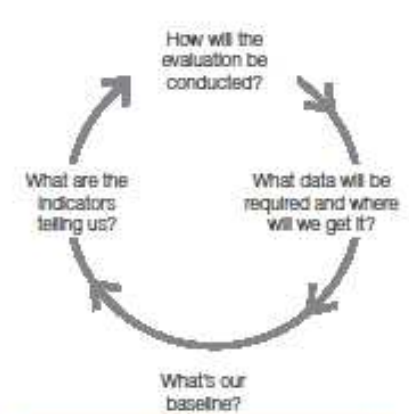
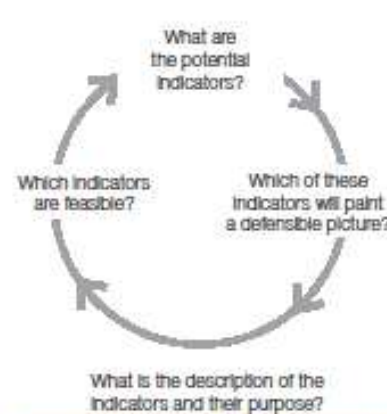
Phase 2
Define outcomes
Develop strategies



Phase 3
Design indicators



Phase 4
Validate indicators
Determine extent of effectiveness



- CHECKPOINTS**
You should ensure that:
- the risk aligns to our business intent
 - the risk adequately reflects the behaviours and drivers
 - the risk is refined, concise and not open to interpretation.

- CHECKPOINTS**
You should ensure that:
- the desired outcomes align to our business intent and the risk you have identified
 - the overall desired outcomes are adequately covered by your specific (success) goals
 - the strategies target participants of the risk and drivers of the behaviour
 - the strategies address any unintended consequences.

- CHECKPOINTS**
You should ensure that:
- each success goal can be measured and has a corresponding indicator (or suite of indicators)
 - potential indicators are aligned with the success goals, desired outcomes and business intent
 - indicators are viable and provide a balanced picture of performance
 - both qualitative and quantitative information is used.

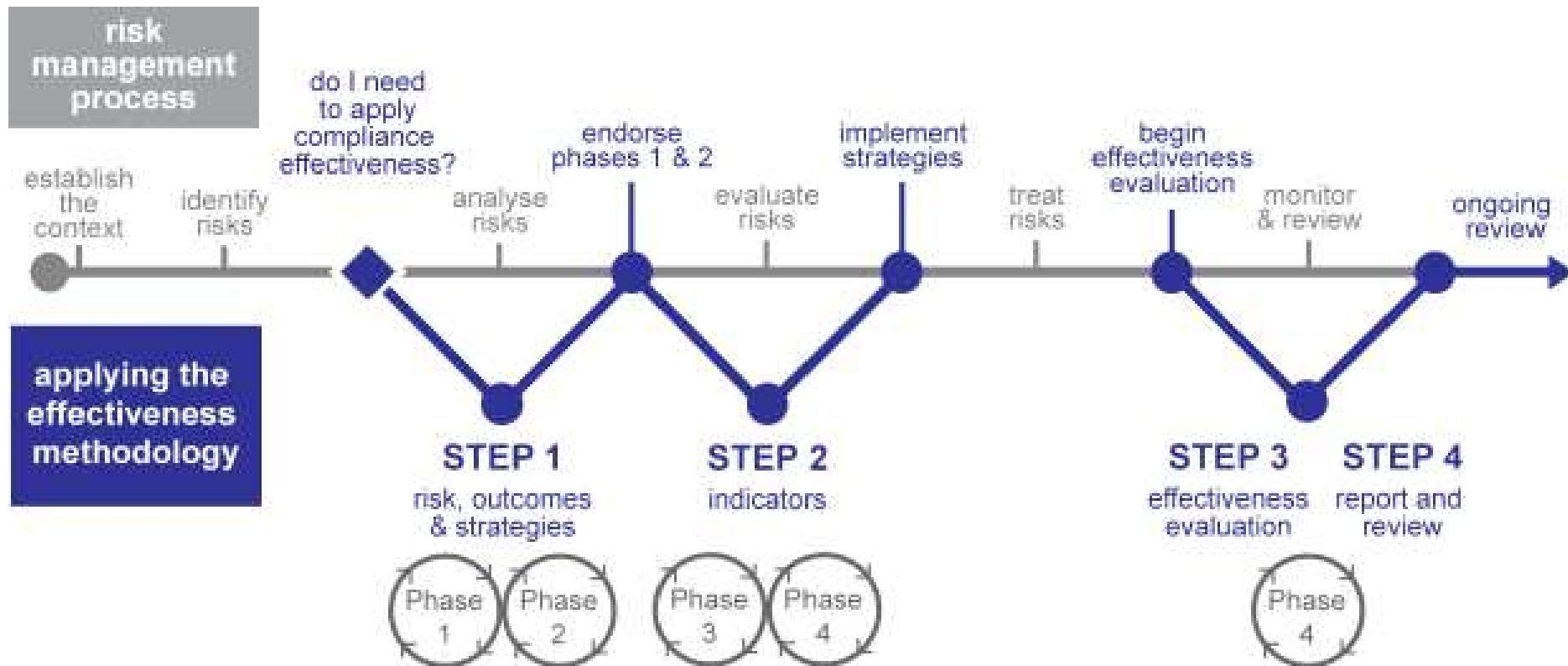
- CHECKPOINTS**
You should ensure that:
- data exists, is available, or can be acquired at a reasonable cost
 - we can explain how effective our compliance strategies have been – that is, the extent to which actual outcomes align with desired outcomes.

MORE INFORMATION
visit www.ato.gov.au/complianceeffectiveness

NAT 72375-07.2008 [25/11/2009]

IMPLEMENTATION

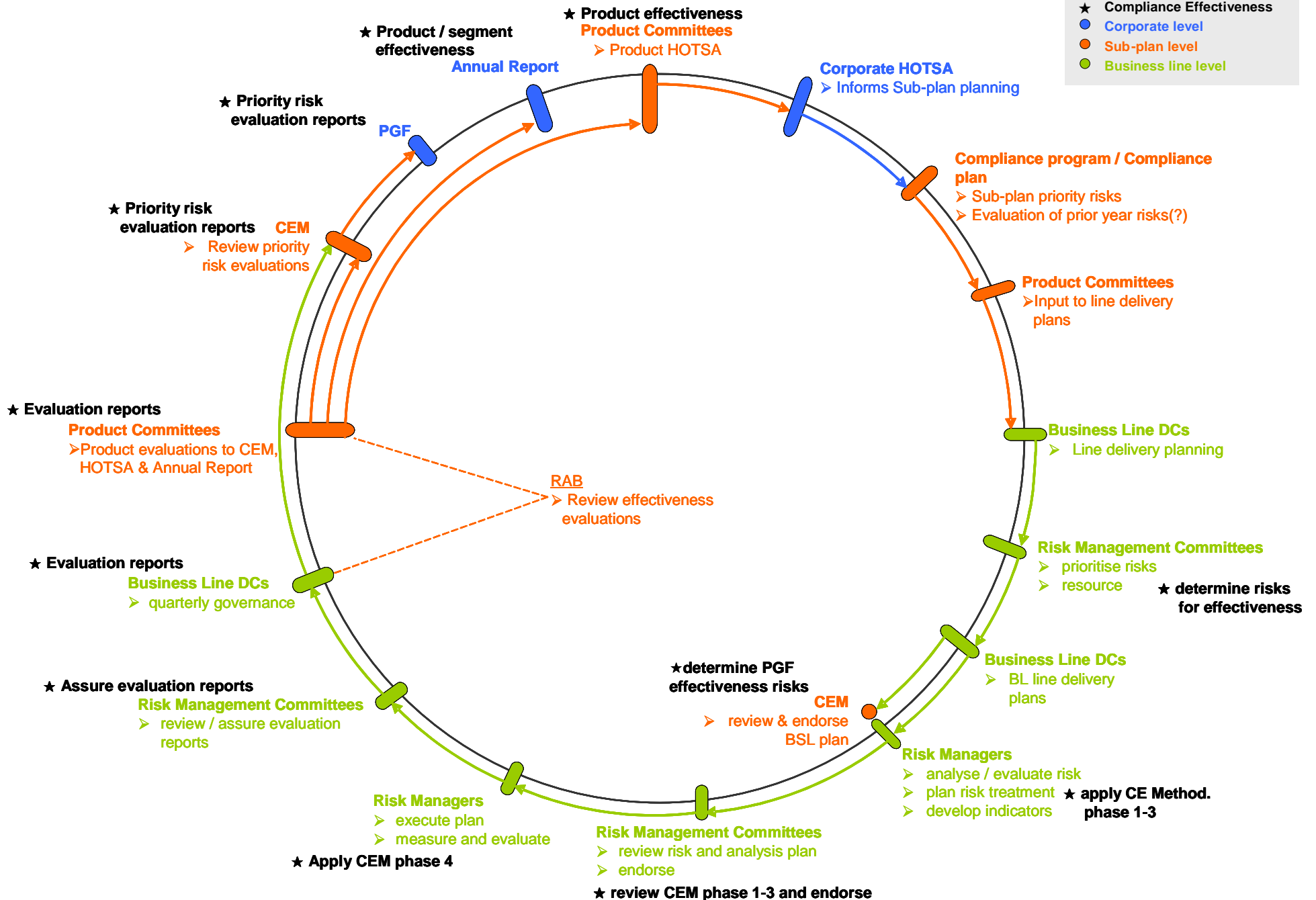
Risk management integration



Compliance Effectiveness Integration

★ Compliance Effectiveness

- Corporate level
- Sub-plan level
- Business line level



EXAMPLE 1: Fringe benefits tax

Year 1 – baseline

We completed the first compliance effectiveness evaluation for the FBT product in June 2010. We found that our compliance strategies had not been effective in;

- supporting those taxpayers who want to comply
- deterring non-compliance









While our evaluation showed that our strategies had not been effective in changing behaviour, it also gave us some insights into how we could improve - areas we could target and methods we could use.

We revised our strategy.



Fringe benefits tax

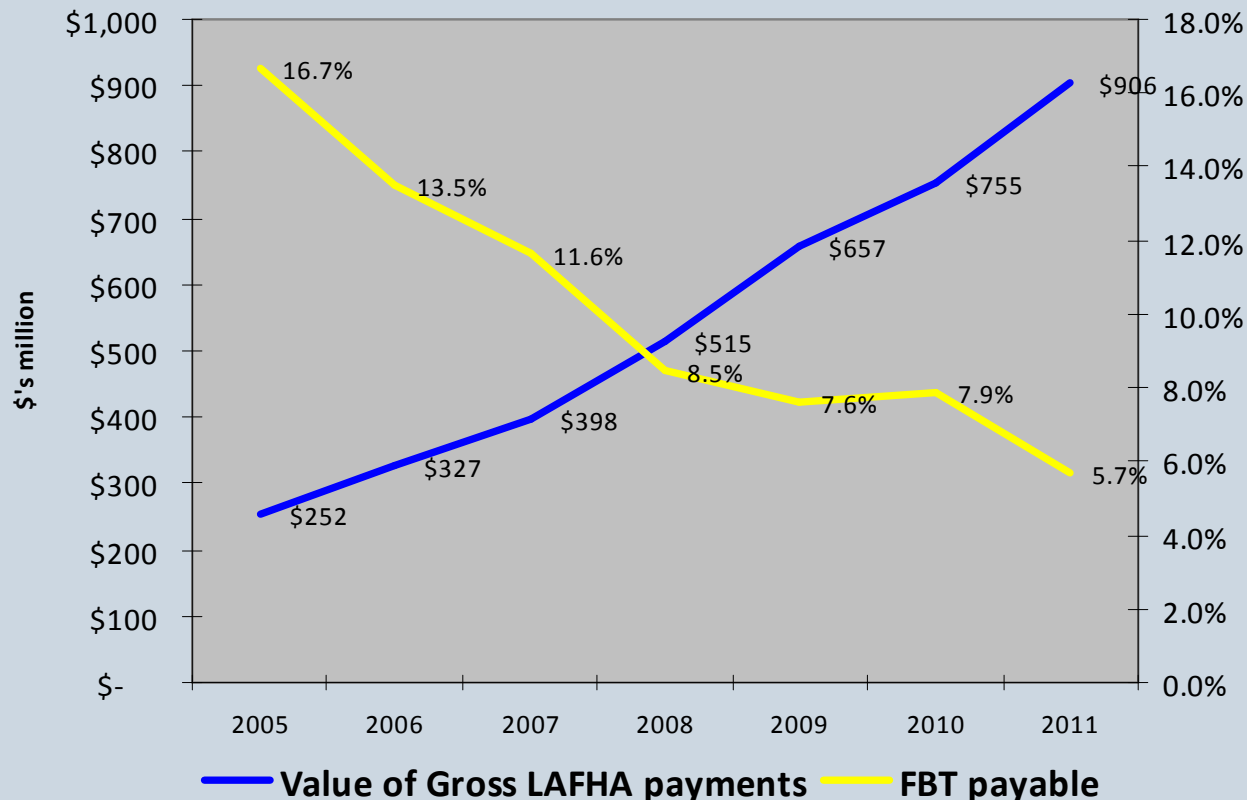
We've seen some significant, positive changes in the past year including;

- Returns lodged by the due date 
- Returns lodged within 30 days of the due date 
- FBT payable 
- Micro segment 
- Self preparers 
- Correct reporting of employee contributions 
- Exploitation of concessions (LAFHA) 
- Increased awareness of FBT compliance 

Living away from home allowance (LAFHA)

LAFHA grew from \$252m in 2005 to \$906m in 2011 (259%) while the tax collected on LAFHA payments fell from 16.7% of the value of payments to 5.7% over the same period.

Value of LAFHA benefits relative to FBT payable (as % of total LAFHA)



Living away from home allowance (LAFHA)

ATO research paper 2010 – key findings:

- The law is unclear and not aligned with the policy intent.
- There is a high degree of confusion in the community as to how the law operates.
- There is a strong community perception of unfairness and an uneven playing field.
- There is deliberate and growing exploitation of the existing law
- Living away from home allowance is the cause of a growing cost to revenue

Consistent with community concerns, the ATO's administration of the living away from home allowance provisions is hampered by legislative uncertainty. This ultimately has had a significantly detrimental effect upon revenue

Fringe benefits tax

What we learnt:

- Our strategy has been effective in changing the behaviour of taxpayers as evidenced by a number of our indicators.
- We propose to continue with this strategy
- Changes at tactical level and revised approaches for some areas of focus where positive change has not been observed
- Our evaluation report has been persuasive and has influenced our key stakeholders

'He uses statistics like a drunken man uses a light post, for support not for illumination'

Andrew Lang



Benefits

- Alignment with the Strategic Statement
- Improved risk management strategies
- Increased evaluation expertise
- Increased certainty in our decision making
- Increased differentiation of our strategies
- Productivity geared to changing behaviour as well as efficiency
- OECD leadership

Challenges going forward

- Ongoing tension between effectiveness and efficiency;
- Traffic light reporting versus continuous improvement;
- Organisation learns from insights
- Evaluation remains enduring over time (resource pressure)



For more information

<http://www.ato.gov.au/content/00149070.htm>



Questions?

© COMMONWEALTH OF AUSTRALIA 2012
This presentation was current in March 2012

