

Data-matching a winner for taxman

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By Terry Hayes

If you haven't heard about the tax office's very successful tactical weapon of data-matching, you must have been conducting business from under a rock. It is an extensive and ever-expanding winning manoeuvre that isn't going to go away.



We have all heard about, or should have, the tax office's use of data-matching, which is proving a winner for the taxman. The practise matches data the tax office receives from a very wide range of sources against data provided by taxpayers – any discrepancies between the two can lead to audits, or at the very least, inquiries by the taxman. SMEs need to know how this works so they can be prepared.

Information sources

You might be surprised where the tax office gets its information. Its sources include:

- Employers.
- Land titles offices and planning authorities.
- Property title transfers from many state and territory authorities.
- Residential tenancy agreements from NSW, Victoria and Queensland.
- WorkCover authorities in various states and territories. Motor vehicle registers.
- Banks and other financial institutions, including providers of low-doc loans.
- Other federal, state and territory government agencies.
- Overseas governments.
- The Australian Transaction Reports and Analysis Centre (AUSTRAC).
- Horse trainers and jockeys.
- The Australian Stock Exchange.
- Share registers and managed investment funds.
- Professional associations.
- Aircraft purchases.
- Labour hire firms.
- Building contractors.
- Shopping centre lessors.
- The Yellow Pages.
- The fishing industry.

By comparing the data it receives with tax returns, the tax office seeks to ensure that things like capital gains and losses are correctly returned across a range of areas including real property, shares, charter boats and sections of the fishing industry.

This year's tax returns

For 2007 tax returns, the tax office will use data from state and territory revenue offices, managed funds, the Australian Stock Exchange and share registries, to match against tax return information to identify share and property sales that involve capital gains. A few points to be aware of include:

- Taxpayers who take advantage of the opportunity to invest into superannuation before 30 June 2007 and who sell assets may have made a capital gain. This gain may be subject to capital gains tax (CGT). The tax office warns that it is important for taxpayers to set aside funds to meet any tax liability (including CGT) from selling or transferring assets into super.
- Taxpayers who purchase or inherit an asset, receive an asset as part of a divorce settlement or as a gift, may be liable for CGT when they sell or otherwise dispose of it.
- Records on the purchase or acquisition and the sale or disposal of any asset that may attract CGT must be kept.

How it uses the data

The following examples also illustrate how the tax office uses third-party data:

- The tax office became aware of the sale of a property by two taxpayers and warned them to include any capital gain in their tax returns. Third-party data received by the tax office revealed that a publishing company had omitted \$462,000 from its business accounts by using a cheque cashing facility. The company made a voluntary disclosure when contacted. The tax office also became aware that the practice was being promoted by word of mouth. This case raised around \$219,000 (including penalties) in revenue, and the tax office says it is currently investigating several related cases.
- In another instance, a past employee of a landscaping business told the tax office that many employees were regularly being paid "cash in hand" amounts of around \$150 and that 75% of the business income was received in cash. The tax office investigated and found major discrepancies between financial institution records and amounts returned in tax returns and activity statements. The business operator was transferring cash between various trading and private accounts (including credit card and TAB accounts) to pay wages, and was not accounting for business income. The extra liability established (including penalties) was \$328,000.

Not just tax

And don't forget that data-matching is not limited to tax. Centrelink is about to complete its matching process of its customer records with debts against the tax office's Taxpayer Records System. This is designed to enable Centrelink to identify instances where a person with a debt owing to it is eligible for a payment from the tax office (for example, a tax refund or available credit).

Centrelink may then give a notice to the tax office requiring it to pay some, or all, of the amount to Centrelink in order to satisfy or partially satisfy a debt owed by the

person to Centrelink. In this process, up to 150,000 Centrelink records will be matched against tax office taxpayer records.

The tax office has also announced that it is working with the Federal Attorney-General's Department to test the integrity of identity data across a range of government identity registers. The pilot project will test the integrity of a sample of 25,000 records of the tax office's tax file number database.

The pilot will include cross-agency data-matching against the identity registers of a range of government agencies, including the Department of Immigration and Citizenship, Centrelink, Medicare, and the NSW Registrar of Births, Deaths and Marriages.

The tax office said the project will provide direction on how the data-matching and subsequent analytical phases of the pilot will be implemented. While the results of the data-match will not be used for tax administrative or compliance action, it is a pointer as to what the taxman is looking at.

Another way in which tax data is used concerns child support. The tax office and the Federal Government's Child Support Agency work together to improve tax lodgment rates among separated parents.

The project focuses on ensuring child support amounts are accurate and recouping unpaid child support via tax return intercepts. In this project, more than 125,000 Child Support Agency-registered parents who have not lodged tax returns are referred to the tax office each year. Some of these parents are suspected of minimising their incomes to avoid child support obligations.

Be alert!

The taxman is collecting a large volume of data about taxpayers and transactions they enter into, and has very sophisticated computer resources to process that information. A business needs to be on its toes and needs good record keeping and a good accountant. But every SME also needs to heed any and every warnings the taxman puts out.

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