

DLK ADVISORY

TAX CRACKDOWN COMING



With the Budget deficit projected to blow out to \$36.9bn in 2022-23 and \$44bn in 2023-24, coupled with the slow projected growth in the economy (3.25% in 2022-23, dropping to 1.5% for 2023-24), the Treasurer outlined the commencement of “budget repair work” via various tax integrity measures. While some of the measures target multinationals, it appears the government will be leaning heavily on personal and SME tax compliance to make up the budget shortfall.

As announced in the Budget, the government will provide \$80.3m to the ATO to extend the Personal Income Taxation Compliance Program for 2 years from 1 July 2023. The extended program will focus on key areas of non-compliance, including overclaiming of deductions and incorrect reporting of income. It is estimated that this extension will increase tax receipts by \$674.4m and increase payments by \$80.3m over the 4 years from 2022-23.

In a recent address, the Second Commissioner Jeremy Hirschhorn noted that while individuals are correctly paying about 94% of the tax they should be at lodgment, there are still 3 areas that the ATO will be focusing on.

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to achieve your objectives*

The first area is the work-related expense claims, which account for almost \$4bn (or 44%) of the tax gap.

“So many [work-related expense] claims are an optimistic characterisation of personal expenses as work related, while others are even more creative claims.” – Second Commissioner Jeremy Hirschhorn

The second area is omitted income, particularly cash wages and income from the sharing economy. It is estimated that the tax gap attributed to unreported income was over \$1bn in 2018-19 and is possibly even higher now.

Finally, the ATO's last area of focus appears to be property investments which it says contributed to over \$1bn to the net tax gap. It recently conducted a Random Enquiry Program on property investments which revealed the startling statistic that 9 out of 10 returns reporting net rental income required adjustment.

To complement the personal tax compliance program, the government will also extend the existing Shadow Economy Program for a further 3 years from 1 July 2023 at a cost of \$242.9m. This measure is estimated to increase receipts by \$2.1bn over 4 years from 2022-23. Previous data provided by the ATO indicated that the Shadow Economy Program had raised an additional \$2.6bn over 3 years to June 2021 through various strategies including:

- removing tax deductibility of non-compliant payments;
- expanding the Taxable Payments Reporting System into new industries; and
- making it easier to report suspected or known illegal activity or behaviour of concern.

In addition to the above compliance programs, the government has also committed to provide \$200m per year over 3 years (2022 to 2024) and \$500m in 2025-26 to extend operation of the Tax Avoidance Taskforce. The boosting and extension of this taskforce is expected to support the ATO to pursue new priority areas of observed business tax risks, complementing the ongoing focus on multinational enterprises and large public and private businesses. This measure is expected to increase tax receipts by \$2.8bn and increase payments by \$1.1bn over 4 years.

The total cost of extending these compliance programs will be at least \$1.4bn but judging by the perhaps optimistic projected increase in tax receipts figure of \$3.7bn, the government will consider it money well spent.

CONTACT

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