

# Tax Office audit practices probed

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The Australian Taxation Office faces an investigation into its audit and settlement practices amid concerns they are resulting in unnecessary disputes and prolonged litigation with taxpayers.

The new review, undertaken by inspector-general of taxation David Vos, will study why taxpayers are objecting to tax assessments and how those objections are treated by the Tax Office before reaching settlement. "We were concerned 70 per cent of cases settled [in the Administrative Appeals Tribunal in 2005-06] were settled in favour of the taxpayer," Mr Vos said.

"You can't expect the ATO to be Santa Claus. There has to be a reason why they back off."

The review will consider: the time taken to respond to taxpayer objections; audit, communication and decision-making processes within the ATO; use of alternative dispute resolution processes; and whether delays are caused by taxpayers providing better information later about their affairs or whether it is not until later in the objection process the ATO uses more senior decision makers and conducts further research.

"What we are trying to do is trace back from the decision to give the taxpayer a break to when they made the initial decision of the amended assessment to work out why the process takes so long," Mr Vos said. "The whole process can take two years from the date of the amended assessment to the time the decision is made to back off."

Figures show the ATO receives and finalises about 20,000 objections a year,

## KEY POINTS

- About 70 per cent of cases settled in the Administrative Appeals Tribunal in 2005-06 were in favour of the taxpayer.
- A review will study why objections to tax assessments are made and how the ATO treats them before settling.

the majority being from micro businesses – businesses with an annual turnover of less than \$2 million – and individuals.

According to the ATO in the 2005-06 year, about 4800 objections were allowed in full, another 2200 allowed in part and 6700 objections disallowed. Over 3000 objections were settled, withdrawn or otherwise finalised.

The new review comes after the release of the inspector-general's report into the ATO's management of litigation practices last year, which found the ATO concedes or settles a significant number of disputed assessments in the taxpayer's favour before the case goes before the court.

The Administrative Appeals Tribunal 2005-06 annual report shows in the taxation division of the court, 94 per cent of applications were finalised without a hearing with almost 70 per cent of the applications resulting in the ATO decision being set aside or changed.

An ATO spokeswoman said the tax office welcomed scrutiny: "We look forward to suggestions or recommendations the inspector-general may make in relation to improving the administration of the tax system for the benefit of the community."