

# AUSTRALIAN TAXATION OFFICE

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# AUSTRALIAN TAXATION OFFICE

## Section 1: Overview

The role of the Australian Taxation Office (Tax Office) is to manage and shape taxation, excise and superannuation systems that fund services for Australians, giving effect to social and economic policy. Through these systems the Tax Office is the Australian Government's principal revenue management agency. In 2006-07, the Tax Office will collect 90.3 per cent of the Australian Government's revenue on behalf of the Australian community.

The main role of the Tax Office is to administer legislation for taxes, superannuation and excise (but not customs duty). In doing this, the Tax Office addresses broad issues affecting Australia's revenue system, such as aggressive tax planning, persistent tax debtors, globalisation and the cash economy.

The Tax Office also supports the delivery of community benefits, having roles in other services, including:

- Private Health Insurance;
- Family Assistance;
- Energy Grants Credits Scheme;
- Valuation Services; and
- Cross Agency Support, such as working with Centrelink to reduce benefit fraud, with the Child Support Agency to ensure income transfer for the care of children, and with the Australian Bureau of Statistics to reduce the cost to the community of collecting statistical data.

**Table 1.1: Agency outcomes and output groups**

Outcome	Description	Output groups
<b>Outcome 1</b>		
Effectively managed and shaped systems that support and fund services for Australians and give effect to social and economic policy through the tax, superannuation, excise and other related systems	The provision of an integrated platform for a viable and sustainable revenue administration.	Output Group 1.1 Australian Taxation Office

## Section 2: Resources for 2006-07

### **2.1 APPROPRIATIONS AND OTHER RESOURCES**

The total appropriations (including capital appropriation) and other resources for the Australian Taxation Office (Tax Office) in the 2006-07 Budget is \$11,438.4 million.

Table 2.1 shows the total resources from all origins for 2006-07, including appropriations. The table summarises how resources will be applied by outcome, administered and departmental classification.

**Table 2.1: Appropriations and other resources 2006-07**

Australian Taxation Office	Departmental				Administered				Total
	Appropriation Bill No. 1 \$'000	Appropriation Bill No. 2 \$'000	Special Appropriation \$'000	Other resources \$'000	Appropriation Bill No. 1 \$'000	Appropriation SPP \$'000	Other \$'000	Special Appropriation resources \$'000	
Effectively managed and shaped systems that support and fund services for Australians and give effect to social and economic policy through the tax, superannuation, excise and other related systems	2,535,709	-	-	65,218	-	-	-	8,833,972	11,434,899
Equity injections	-	3,462	-	-	-	-	-	-	3,462
<b>TOTAL</b>	<b>2,535,709</b>	<b>3,462</b>	<b>-</b>	<b>65,218</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,833,972</b>	<b>11,438,361</b>

Note: Estimated expenses from individual special appropriations are shown in Table 2.5. The amount showing for appropriations represents appropriations to deliver Tax Office programmes. Amounts disclosed under special appropriations do not include expenditure to pay refunds under the tax system.

## **2.2 2006-07 BUDGET MEASURES**

Budget measures relating to the Tax Office as explained in Budget Paper No. 2, *Budget Measures 2006-07* are summarised in Table 2.2. The table also identifies the relevant outcomes, administered items and outputs associated with each measure.

**Table 2.2 Tax Office measures**

Measure	Output groups affected	2006-07 \$'000			2007-08 \$'000			2008-09 \$'000			2009-10 \$'000		
		Admin items	Dept outputs	Total	Admin items	Dept outputs	Total	Admin items	Dept outputs	Total	Admin items	Dept outputs	Total
<b>Expense measures</b>													
Amendments to the research and development provisions	1.1	7,000	-	7,000	7,000	-	7,000	7,000	-	7,000	-	7,000	
Fuel Excise Reform - implementation	1.1	-	14,261	14,261	-	16,079	16,079	-	5,515	5,515	-	1,122	
Goods and services tax - additional compliance activities	1.1	-	10,553	10,553	-	17,805	17,805	-	18,017	18,017	-	-	
Heavy vehicle road user charge - impact on fuel tax credit scheme	1.1	240,000	-	240,000	280,000	-	280,000	330,000	-	330,000	-	380,000	
Renewable diesel - new tax concession	1.1	20,025	-	20,025	26,700	-	26,700	26,700	-	26,700	-	26,700	
Superannuation Guarantee - improving the responsiveness to inquiries by employees	1.1	-	5,562	5,562	-	8,184	8,184	-	2,710	2,710	-	2,740	
Tax Practitioner Legislative Framework - implementation	1.1	-	12,710	12,710	-	13,843	13,843	-	13,077	13,077	-	10,720	
Tax compliance - high wealth individuals and associated entities	1.1	-	12,704	12,704	-	18,336	18,336	-	23,594	23,594	-	26,986	
Electronic data provision for e-tax returns	1.1	-	5,000	5,000	-	5,000	5,000	-	-	-	-	-	

**Table 2.2 Tax Office measures (continued)**

Measure	Output groups affected	2006-07			2007-08			2008-09			2009-10		
		Admin items	Dept outputs	Total	Admin items	Dept outputs	Total	Admin items	Dept outputs	Total	Admin items	Dept outputs	Total
<b>Expense measures (continued)</b>													
Private health insurance - enhanced choices (a)	1.1	29	-	29	132	-	132	216	-	216	284	-	284
Child Support Reforms - a new formula (b)	1.1	-	-	-	-	-	-	9,733	-	9,733	10,200	-	10,200
Child Support Reforms - aligning income definitions (b)	1.1	-	-	-	-	-	-	(4,235)	-	(4,235)	(4,365)	-	(4,365)
Child Support Reforms - changes to the Family Tax Benefit maintenance arrangements (b)	1.1	218	-	218	463	-	463	875	-	875	937	-	937
National Emergency Call Centre - establishment (b)	1.1	-	189	189	-	191	191	-	188	188	-	159	159
Family Tax Benefit - extending the large family supplement (b)	1.1	11,400	-	11,400	12,500	-	12,500	12,800	-	12,800	12,900	-	12,900
Family Tax Benefit - increase Family Tax Benefit Part A income threshold (b)	1.1	22,300	-	22,300	22,600	-	22,600	22,700	-	22,700	23,200	-	23,200
<b>Total expense measures</b>		300,972	60,979	361,951	349,395	79,438	428,833	405,789	63,101	468,890	456,856	41,727	498,583
<b>Capital measures</b>													
Tax Practitioner Legislative Framework - implementation	1.1	-	1,341	1,341	-	3,281	3,281	-	2,563	2,563	-	-	-
<b>Total capital measures</b>		-	1,341	1,341	-	3,281	3,281	-	2,563	2,563	-	-	-
<b>Total measures</b>		300,972	62,320	363,292	349,395	82,719	432,114	405,789	65,664	471,453	456,856	41,727	498,583

(a) This is a cross portfolio measure with the Health and Ageing Portfolio.

(b) These are cross portfolio measures with the Families, Community Services and Indigenous Affairs Portfolio.

## 2.3 OTHER RESOURCES AVAILABLE TO BE USED

Table 2.3 provides details of resources obtained by the Tax Office for provision of goods or services. These resources are approved for use by the Tax Office and are included in Table 2.1.

**Table 2.3: Other resources available to be used**

	Estimated resources 2005-06 \$'000	Budget estimate 2006-07 \$'000
<b>Departmental resources</b>		
Department of Families, Community Services and Indigenous Affairs	9,015	9,015
Department of Health and Ageing	677	611
Child Support Agency	15,038	21,912
Sub-lease revenue	1,918	1,918
AusAID	907	854
National tax equivalent regime	1,155	1,145
Legal recovery from taxpayers	1,650	300
Other - resources received free of charge	1,820	1,910
Other	3,362	2,220
<b>Total departmental resources available to be used</b>	<b>35,543</b>	<b>39,886</b>

Note: This table represents own source receipts available for spending on departmental purposes. It does not include departmental special accounts and therefore does not match Table 3.1. These resources are collected under section 31 of the *Financial Management and Accountability 1997* and cover a range of services provided by the Tax Office.

## 2.4 MOVEMENT OF ADMINISTERED FUNDS FROM 2005-06 TO 2006-07

**Table 2.4: Movement of administered funds from 2005-06 to 2006-07**

The Tax Office does not have any movement of administered funds.

## 2.5 SPECIAL APPROPRIATIONS

**Table 2.5: Estimates of expenses from special appropriations**

	Estimated expenses 2005-06 \$'000	Budget estimate 2006-07 \$'000
<b>Estimated expenses</b>		
Refunds - s16 <i>Tax Administration Act 1953</i> <sup>1</sup>	55,752,000	63,520,054
Family Tax Benefit <sup>2</sup>	1,900,000	1,973,918
Energy Grants (Credits) Scheme <sup>3</sup>	3,535,783	-
Fuel Sales Grants Scheme <sup>3</sup>	257,000	-
Measure for a Better Environment - Cleaner Fuels	13,000	86,000
Product Stewardship Waste Oil	19,000	21,000
Large Scale Film Production	40,000	50,000
R&D refundable tax offset for small companies	300,000	342,000
Superannuation Co-contribution	1,103,000	1,098,000
<i>Superannuation Guarantee (Administration) Act 1992</i> - Distribution of charges	200,000	175,000
<b>Total estimated expenses<sup>4</sup></b>	<b>63,119,783</b>	<b>67,265,972</b>

1 Refunds under section 16 of the *Tax Administration Act 1953* are primarily taxation refunds but may include amounts for the First Child tax offset, the Private Health Insurance Benefit and interest on overpayments. In 2006–07 refunds include amounts previously reported under the Energy Grants (Credits) Scheme and Fuel Sales Grants Scheme.

2 This represents the portion of the Family Tax Benefit administered by the Tax Office only.

3 These figures will be reported under section 16 of the *Tax Administration Act 1953* from 2006–07.

4 The total amount showing for special appropriations differs to the amount shown in Tables 2.1 and 3.1 as it includes appropriations for taxation refunds. In other tables, taxation refunds are netted off against taxation revenue.

## 2.6 SPECIAL ACCOUNTS

Special accounts provide a means to set aside and record amounts used for specified purposes. Table 2.6 shows the expected additions (credits) and reductions (debits) for each account used by the Tax Office.

**Table 2.6: Estimates of special account flows and balances**

	Opening balance <b>2006-07</b> 2005-06 \$'000	Receipts <b>2006-07</b> 2005-06 \$'000	Payments <b>2006-07</b> 2005-06 \$'000	Closing balance <b>2006-07</b> 2005-06 \$'000
Australian Valuation Office <sup>1</sup>	<b>3,472</b> 6,453	<b>26,794</b> 22,415	<b>26,605</b> 25,396	<b>3,661</b> 3,472
Excise Security Deposits <sup>2</sup>	<b>49</b> 46	<b>3</b> 4	<b>1</b> 1	<b>51</b> 49
Other Trust Moneys Account <sup>2</sup>	<b>776</b> 21,276	<b>5,000</b> 5,300	<b>5,000</b> 25,800	<b>776</b> 776
Superannuation Holding Accounts Reserve Trust Accounts <sup>3</sup>	<b>58,300</b> 59,300	<b>162,500</b> 11,000	<b>31,600</b> 12,000	<b>189,200</b> 58,300
<b>Total special accounts</b>				
<b>2006-07 Budget estimate</b>	<b>62,597</b>	<b>194,297</b>	<b>63,206</b>	<b>193,688</b>
Total special accounts 2005-06 estimated actual	87,075	38,719	63,197	62,597

1 This special account is departmental in nature and is governed by the *Financial Management and Accountability Act 1997*.

2 These special accounts are administered in nature and are governed by the *Financial Management and Accountability Act 1997*.

3 This special account is administered in nature and is governed by the *Superannuation Supervision Act 1995*.

## **2.7 ADMINISTERED CAPITAL AND DEPARTMENTAL EQUITY INJECTIONS AND LOANS**

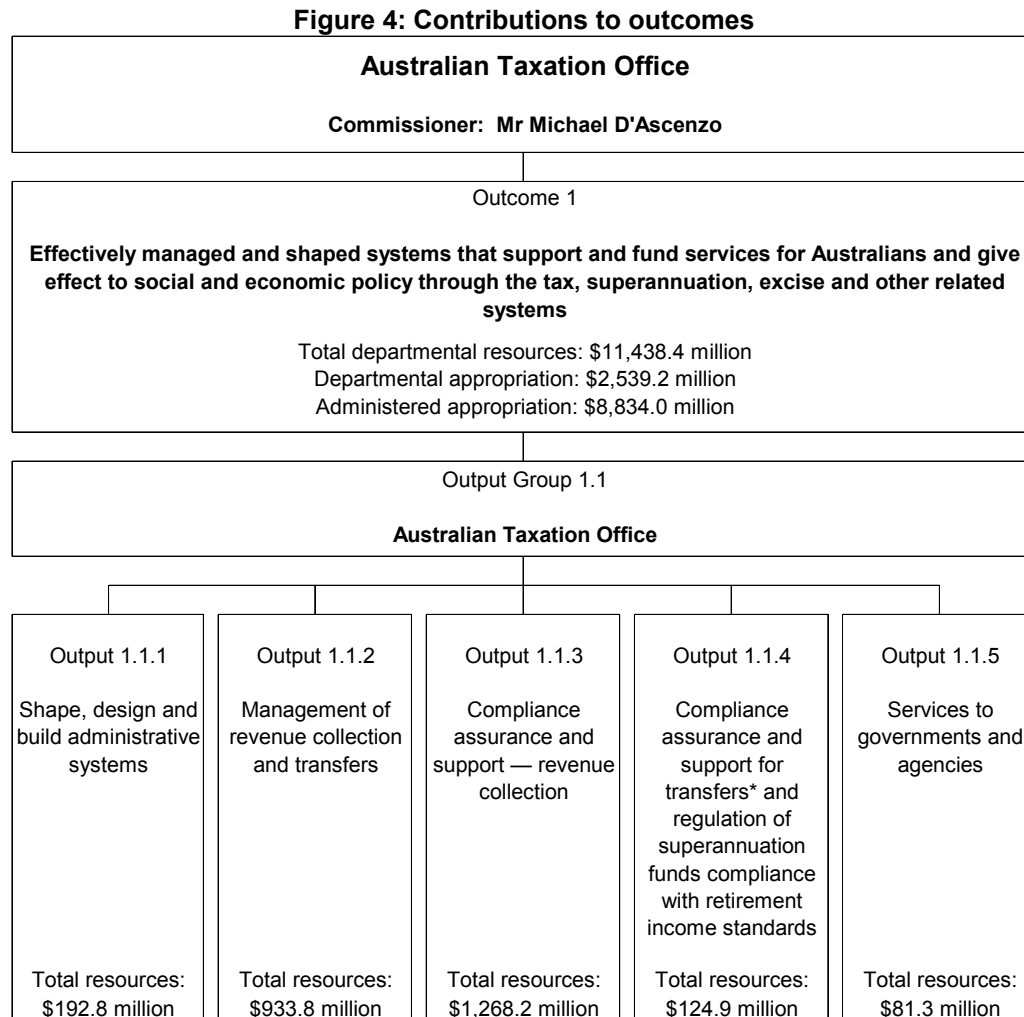
In the 2006–07 Budget, the Tax Office will receive a departmental equity injection of \$3.5 million. \$1.3 million is for the information technology system component of the Tax Practitioner Legislative Framework – implementation measure (refer Table 2.2) and \$2.1 million is for the information technology system component of Operation Wickenby – Investigations and Prosecutions (also refer page 113 of the *Treasury Portfolio Additional Estimates Statements 2005-06*).

## Section 3: Outcomes

This section explains how the resources identified in Section 2 will be used to deliver outputs and administered items that contribute to the outcome of the Australian Taxation Office (Tax Office).

### 3.1 SUMMARY OF OUTCOMES AND CONTRIBUTION TO OUTCOMES

The relationship between activities of the Tax Office and its outcome is summarised in Figure 4.



\* Transfers - movement of money that is not revenue, for example: tax offsets; grants; super guarantee vouchers; and benefits distribution.

The Tax Office uses a process of cost allocation to determine its actual costs incurred on each of the five outputs.

Cost allocations are based on cost centre manager estimates and the results of time recording. The costs of corporate services and facilities, for example, accommodation and information technology, and corporate overhead are attributed to outputs using relevant cost drivers. The cost drivers generally represent resource usage, cost or full time equivalent (FTE). The relationship between activities of the Tax Office and the outcome is summarised in Figure 4.

### **3.2 OUTCOMES — DEPARTMENTAL AND ADMINISTERED**

The Tax Office has one outcome, namely, 'effectively managed and shaped systems that support and fund services for Australians and give effect to social and economic policy through the tax, superannuation, excise and other related systems'. The total appropriation for this outcome for 2006-07 is \$11,369.7 million.

#### **Figure 5: Departmental appropriations by outcome, 2006-07**

As the Tax Office has one outcome, this figure is not applicable.

#### **Figure 6: Administered appropriations by outcome, 2006-07**

As the Tax Office has one outcome, this figure is not applicable.

### **3.3 OUTCOMES AND PERFORMANCE**

#### **Outcome 1 description**

Effectively managed and shaped systems that support and fund services for Australians and give effect to social and economic policy through the tax, superannuation, excise and other related systems.

#### **Outcome 1 resourcing**

Table 3.1 shows how the 2006-07 Budget appropriations translate to total resourcing for Outcome 1, including administered expenses, departmental appropriations and revenue from other sources.

**Table 3.1: Total resources for Outcome 1**

	Estimated actual 2005-06 \$'000	Budget estimate 2006-07 \$'000
<b>Administered appropriations</b>		
Special appropriations	8,168,783	8,833,972
<b>Total administered appropriations</b>	8,168,783	8,833,972
<b>Departmental appropriations</b>		
Output Group 1.1 - Australian Taxation Office		
Output 1.1.1 - Shape, design and build administrative systems	191,582	192,805
Output 1.1.2 - Management of revenue collection and transfers	927,890	933,811
Output 1.1.3 - Compliance assurance and support - revenue collection	1,219,251	1,268,186
Output 1.1.4 - Compliance assurance and support for transfers and regulation of superannuation funds compliance with retirement income standards	104,378	124,867
Output 1.1.5 - Services to government and agencies	15,938	16,040
<b>Total departmental appropriations</b>	2,459,039	2,535,709
<b>Departmental revenue from other sources</b>		
Goods and services	57,491	63,308
Other	1,820	1,910
<b>Total departmental revenue from other sources</b>	59,311	65,218
<b>Total departmental resources</b>	2,518,350	2,600,927
<b>Total resources</b>	10,687,133	11,434,899
	2005-06	2006-07
<b>Average staffing level (number)</b>	21,529	20,538

### Measures affecting Outcome 1

A list of measures for the Tax Office appears in Table 2.2. These measures are detailed in Budget Paper No. 2, *Budget Measures 2006-07*.

### Contributions to achievement of Outcome 1

#### Administered activities

The Tax Office is the Australian Government's principal revenue collection agency and forms part of the Treasury Portfolio. The Tax Office's aim is to manage and shape the revenue systems that support social and economic policy, and to fund services for Australians.

The Tax Office manages revenue through a range of collection systems, including income tax, GST (collected by the Australian Government on behalf of state and territory governments), superannuation and excise (but not customs duty). It also administers a range of benefits and refunds, including income tax and GST refunds, excise grants, family tax benefits, superannuation guarantees and the baby bonus.

The Tax Office also addresses broader issues affecting Australia's revenue systems, such as aggressive tax planning, persistent tax debtors, globalisation and the cash economy.

The main areas of legislation the Tax Office administers include:

- income tax;
- pay as you go withholding and instalments;
- the Australian Business Number and Australian Business Register;
- goods and services tax;
- fringe benefits tax;
- higher education funding (on a joint basis);
- excise duty;
- grants and schemes in relation to diesel and alternative fuels; and
- superannuation (including the superannuation guarantee, small superannuation accounts, 'lost' members, superannuation co-contribution and self managed superannuation funds).

The Tax Office also supports the delivery of community benefits, with roles in other areas such as private health insurance, family assistance and cross-agency support.

### **Departmental outputs**

There are five distinct outputs that contribute to Outcome 1:

- Output 1.1.1: reflects the Tax Office's role in effectively shaping the systems to give effect to the legislation administered by the organisation;
- Output 1.1.2: represents the operational aspects of managing the tax, superannuation and excise systems;
- Output 1.1.3: represents the processes required to assure and support compliance with tax obligations, providing the community with information and assistance;
- Output 1.1.4: represents the processes required to assure and support compliance with transfers and superannuation obligations administered by the Tax Office, providing the community with information and assistance; and

- Output 1.1.5: reflects the range of services the Tax Office provides the Treasurer and the Minister for Revenue and Assistant Treasurer, to the Parliament and to other Australian Public Service agencies.

### Performance information for Outcome 1

Performance information for administered items, individual outputs and output groups relating to the Tax Office are summarised in Table 3.2.

**Table 3.2: Performance information for Outcome 1**

<b>Overall achievement of the Outcome</b>	Effectiveness Indicators
<b>Deliver to Government</b>	Revenue collections as a per cent of budgeted revenue Dollar value of transfers by transfer type Overall levels of compliance improved Implementing new policy measures, and specifically funded activities, efficiently and effectively
<b>Maintain community confidence</b>	Client perceptions of Tax Office professionalism and service a. Professionalism survey b. Taxpayers' Charter service standards c. Technical Quality Assurance
<b>Minimise compliance costs (within Tax Office control)</b>	Increasing ease of compliance
<b>Efficient and adaptive organisation</b>	Manage the Tax Office within budget
<b>Performance indicators for administered items including third party outputs</b>	
The management of administered items is integrated into outputs 1.1.2 and 1.1.4 to enable cost effective delivery of both revenue and transfers	
<b>Performance indicators for individual outputs</b>	
<b>Output group 1.1 Australian Taxation Office</b>	
Output 1.1.1 - Shape, design and build administrative systems	<p><b>Quality:</b></p> <ul style="list-style-type: none"> <li>- Treasury is satisfied with the timeliness and quality of the Tax Office's input to the development of taxation policy and laws in relation to costings, modelling and forecasting work</li> <li>- The programme delivering easier, cheaper and more personalised service is implemented in accordance with the agreed intent and outcomes enabling delivery of of promised improved user experience</li> <li>- Integrated administrative design principles are applied in the implementation of all tax change</li> <li>- Tax Office evaluates the alignment of the change programme to progress or support strategic business outcomes</li> </ul> <p><b>Quantity:</b></p> <ul style="list-style-type: none"> <li>- Number of administrative advice and costings provided and managed to help shape the Government's programme</li> <li>-The programme delivering easier, cheaper and more personalised service is implemented in accordance with schedule and costs</li> </ul>
	<b>Price \$192.8 million</b>

**Table 3.2: Performance information for Outcome 1 (continued)**

<p>Output 1.1.2 - Management of revenue collection and transfers</p>	<p><b>Quality:</b></p> <ul style="list-style-type: none"> <li>- Performance to service standards</li> <li>- Client perceptions of professionalism in related areas against benchmark</li> <li>- Collectable debt compared with total collections</li> </ul> <p><b>Quantity:</b></p> <ul style="list-style-type: none"> <li>- Dollar value of revenue collected</li> <li>- Dollar value of revenue transferred</li> <li>- Number of registrations processed and records maintained</li> <li>- Number of accounts managed, refunds issued and payments processed</li> <li>- Number of debt cases finalised</li> <li>- Number of products processed</li> </ul> <p><b>Price \$933.8 million</b></p>
<p>Output 1.1.3 - Compliance assurance and support for revenue collections</p>	<p><b>Quality:</b></p> <ul style="list-style-type: none"> <li>- Evaluation of selected Tax Office information products from a client perspective, both pre and post implementation delivery</li> <li>- Percentage of technical advice passing quality assurance                             <ul style="list-style-type: none"> <li>- trend over time</li> </ul> </li> <li>- Performance to service standards</li> <li>- Client perceptions of professionalism in related areas against benchmark</li> <li>- Evaluation of Tax Office risk management and strategic intelligence</li> </ul> <p><b>Quantity:</b></p> <ul style="list-style-type: none"> <li>- Number of information, interpretation and active compliance products delivered, liabilities raised/collected and numbers of risk reviews conducted</li> </ul> <p><b>Price \$1,268.1 million</b></p>
<p>Output 1.1.4 - Compliance assurance and support for transfers and regulation of superannuation funds' compliance with retirement income standards</p>	<p><b>Quality:</b></p> <ul style="list-style-type: none"> <li>- Evaluation of selected Tax Office information products, from a client perspective, both pre and post implementation delivery</li> <li>- Percentage of technical advice passing quality assurance                             <ul style="list-style-type: none"> <li>- trend over time</li> </ul> </li> <li>- Performance to service standards</li> <li>- Client perceptions of professionalism in related areas against benchmark</li> <li>- Evaluation of Tax Office risk management and strategic intelligence</li> </ul> <p><b>Quantity:</b></p> <ul style="list-style-type: none"> <li>- Dollar value of required transfers effected</li> <li>- Numbers of information, interpretation and active compliance products delivered, liabilities raised/collected and numbers of risk reviews conducted</li> </ul> <p><b>Price \$124.9 million</b></p>

**Table 3.2: Performance information for Outcome 1 (continued)**

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Output 1.1.5 - Services to government and agencies	<p><b>Quality:</b></p> <ul style="list-style-type: none"><li>- Client satisfaction - number and percentage of work completed for Centrelink within seven to fourteen days</li><li>- Cross Agency Support delivered to agreed standard and timeliness</li><li>- Ministerial and Parliamentary services delivered to agreed standard and timeliness</li></ul> <p><b>Quantity:</b></p> <ul style="list-style-type: none"><li>- Number of Centrelink valuations completed</li><li>- AVO level of net operating profit - on-going performance against budget</li><li>- Required volume of services delivered for Cross Agency Support and Ministerial and Parliamentary services</li></ul> <p><b>Price \$81.3 million</b></p>
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### Evaluations for Outcome 1

The Australian National Audit Office and Tax Office Internal Audit have a rolling programme of issues that are audited during the financial year. Other issues are evaluated within the Tax Office during the financial year as required. Results of evaluations will be shown in the Tax Office Annual Report.

## Section 4: Other reporting requirements

### **4.1 PURCHASER-PROVIDER ARRANGEMENTS**

#### **Cross agency overview**

The Australian Taxation Office (Tax Office) maintains purchaser-provider arrangements with the Department of Families, Community Services and Indigenous Affairs (FaCSIA), Department of Human Services and the Department of Health and Ageing. These allow the Tax Office to provide services to each of these departments to enable them to achieve their stated outcomes in 2006-07.

The Tax Office will be providing services to:

- FaCSIA for the Family Assistance Office and administration of the Tax Office component of the family tax benefit;
- Department of Human Services for the Child Support Agency; and
- Department of Health and Ageing for the implementation of the Private Health Insurance rebate.

The Tax Office has negotiated a number of memorandums of understanding (MOUs) for the purchaser-provider arrangements outlined above. These MOUs include various levels and types of reporting responsibilities and control arrangements for the Tax Office and relevant agencies. Refer to Table 3.2 for performance information relating to cross agency support provided by the Tax Office.

### **4.2 COST RECOVERY ARRANGEMENTS**

The Tax Office does not presently have any significant cost recovery arrangements. The majority of receipts from independent sources are excluded for the purposes of the Australian Government's Cost Recovery Guidelines for Regulatory Agencies as they relate to intergovernmental charging, taxation and/or comply with competitive neutrality principles. The Tax Office plans to undertake an agency initiated review during 2006-07.

### **4.3 AUSTRALIAN GOVERNMENT INDIGENOUS EXPENDITURE**

For information on the Tax Office's Australian Government Indigenous Expenditure refer to the Portfolio table on page 8.

## Section 5: Budgeted financial statements

### 5.1 ANALYSIS OF BUDGETED FINANCIAL STATEMENTS

#### **Budgeted departmental income statement**

The Australian Taxation Office (Tax Office) is budgeting for an operating surplus of \$0.6 million in 2006-07 after income tax equivalents payable by the Australian Valuation Office (AVO).

#### **Operating revenues**

Total agency revenue is estimated to be \$2,600.9 million and consists of \$2,535.7 million appropriation and revenue from other sources of \$65.2 million. This is an increase of \$82.6 million from the 2005-06 estimated actual.

This rise in revenue is primarily a result of increases in appropriation flowing from new budget measures.

#### **Operating expenses**

Total expenses are estimated to be \$2,600.1 million. This is an increase of \$66.9 million from the 2005-06 estimated actual.

Operating expenses consist of \$1,609.8 million in employees, \$871.3 million in suppliers and \$118.9 million in depreciation and amortisation.

#### **Parameter adjustments**

There was a reduction in appropriation of \$2.4 million in 2006-07 as a result of applying revised economic parameters. Employees account for \$1.5 million of the reduction, with the remaining \$0.8 million being supplier expenses.

#### **Budgeted departmental balance sheet**

In 2006-07 the Tax Office's equity position will be negative \$53.0 million. This is a slight improvement over the estimated actual position for 2005-06 of \$56.7 million.

#### **Assets**

The Tax Office's assets are predominantly non-financial assets. In 2006-07 the Tax Office will continue to maintain its commitment to long term improvement, investing \$160.8 million in capital expenditure.

A significant proportion of the Tax Office's capital investment is directed toward the development or improvement of internally developed systems and software in support of the Tax Office's intention of making people's experience with the revenue systems easier, cheaper and more personalised, and improving the integrity/flexibility of the superannuation business systems.

**Liabilities**

The Tax Office's liabilities are predominantly employee entitlements. Total liabilities have increased by \$20.4 million from 2005-06. This has been driven primarily by an increase in employee entitlements of \$24.7 million which is partially offset by minor decreases in other provisions.

## 5.2 BUDGETED FINANCIAL STATEMENTS TABLES

**Table 5.1: Budgeted departmental income statement for the period ended 30 June**

	Estimated actual 2005-06 \$'000	Budget estimate 2006-07 \$'000	Forward estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000	Forward estimate 2009-10 \$'000
<b>INCOME</b>					
<b>Revenue</b>					
Revenues from Government	2,459,039	2,535,709	2,566,445	2,576,029	2,584,091
Goods and services	57,491	63,308	64,007	64,081	64,149
Other revenue	1,820	1,910	1,910	1,910	1,910
<b>Total revenue</b>	<b>2,518,350</b>	<b>2,600,927</b>	<b>2,632,362</b>	<b>2,642,020</b>	<b>2,650,150</b>
<b>Total income</b>	<b>2,518,350</b>	<b>2,600,927</b>	<b>2,632,362</b>	<b>2,642,020</b>	<b>2,650,150</b>
<b>EXPENSE</b>					
Employees	1,618,515	1,609,828	1,584,844	1,620,272	1,650,651
Suppliers	809,665	871,295	925,667	885,879	856,157
Depreciation and amortisation	105,000	118,936	120,985	135,000	142,473
<b>Total expenses</b>	<b>2,533,180</b>	<b>2,600,059</b>	<b>2,631,496</b>	<b>2,641,151</b>	<b>2,649,281</b>
<b>Operating result from continuing operations</b>	<b>(14,830)</b>	<b>868</b>	<b>866</b>	<b>869</b>	<b>869</b>
Income tax expenses	261	267	267	267	267
<b>Operating result</b>	<b>(15,091)</b>	<b>601</b>	<b>599</b>	<b>602</b>	<b>602</b>
<b>Net surplus or (deficit) attributable to the Australian Government</b>	<b>(15,091)</b>	<b>601</b>	<b>599</b>	<b>602</b>	<b>602</b>

**Table 5.2: Budgeted departmental balance sheet  
as at 30 June**

	Estimated actual 2005-06 \$'000	Budget estimate 2006-07 \$'000	Forward estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000	Forward estimate 2009-10 \$'000
<b>ASSETS</b>					
<b>Financial assets</b>					
Cash	28,454	37,265	33,250	36,864	48,029
Receivables	210,357	183,664	180,530	173,236	186,253
<b>Total financial assets</b>	<b>238,811</b>	<b>220,929</b>	<b>213,780</b>	<b>210,100</b>	<b>234,282</b>
<b>Non-financial assets</b>					
Land and buildings	87,272	94,888	94,361	93,834	93,307
Infrastructure, plant and equipment	107,707	99,082	94,924	90,766	86,608
Intangibles	289,373	332,218	365,628	375,186	374,708
Other	27,691	27,900	28,109	28,109	28,109
<b>Total non-financial assets</b>	<b>512,043</b>	<b>554,088</b>	<b>583,022</b>	<b>587,895</b>	<b>582,732</b>
<b>Total assets</b>	<b>750,854</b>	<b>775,017</b>	<b>796,802</b>	<b>797,995</b>	<b>817,014</b>
<b>LIABILITIES</b>					
<b>Interest bearing liabilities</b>					
Leases	52,176	52,176	52,176	52,176	52,176
Other	35,232	33,275	31,285	29,374	27,463
<b>Total interest bearing liabilities</b>	<b>87,408</b>	<b>85,451</b>	<b>83,461</b>	<b>81,550</b>	<b>79,639</b>
<b>Provisions</b>					
Employees	522,587	547,255	566,957	574,908	601,546
Other	29,818	29,550	29,283	29,283	29,283
<b>Total provisions</b>	<b>552,405</b>	<b>576,805</b>	<b>596,240</b>	<b>604,191</b>	<b>630,829</b>
<b>Payables</b>					
Suppliers	163,852	161,813	161,465	153,764	147,187
Other	3,900	3,907	3,907	3,907	4,174
<b>Total payables</b>	<b>167,752</b>	<b>165,720</b>	<b>165,372</b>	<b>157,671</b>	<b>151,361</b>
<b>Total liabilities</b>	<b>807,565</b>	<b>827,976</b>	<b>845,073</b>	<b>843,412</b>	<b>861,829</b>
<b>EQUITY</b>					
Contributed equity	184,896	188,358	192,758	195,321	195,321
Reserves	29,718	29,718	29,718	29,718	29,718
Accumulated deficits	(271,325)	(271,035)	(270,747)	(270,456)	(269,854)
<b>Total equity</b>	<b>(56,711)</b>	<b>(52,959)</b>	<b>(48,271)</b>	<b>(45,417)</b>	<b>(44,815)</b>
<b>Current assets</b>	<b>261,961</b>	<b>244,253</b>	<b>237,279</b>	<b>233,599</b>	<b>257,781</b>
<b>Non-current assets</b>	<b>488,893</b>	<b>530,764</b>	<b>559,523</b>	<b>564,396</b>	<b>559,233</b>
<b>Current liabilities</b>	<b>370,564</b>	<b>379,059</b>	<b>384,138</b>	<b>381,658</b>	<b>398,661</b>
<b>Non-current liabilities</b>	<b>437,001</b>	<b>448,917</b>	<b>460,935</b>	<b>461,754</b>	<b>463,168</b>

**Table 5.3: Budgeted departmental statement of cash flows for the period ended 30 June**

	Estimated actual 2005-06 \$'000	Budget estimate 2006-07 \$'000	Forward estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000	Forward estimate 2009-10 \$'000
<b>OPERATING ACTIVITIES</b>					
<b>Cash received</b>					
Goods and services	57,491	63,308	64,007	65,989	66,059
Appropriations	2,503,539	2,561,709	2,573,445	2,576,029	2,569,091
GST input credit receipts	81,867	85,043	86,154	91,972	78,404
GST receipts from customers	3,744	4,323	4,393	6,408	11,415
<b>Total cash received</b>	<b>2,646,641</b>	<b>2,714,383</b>	<b>2,727,999</b>	<b>2,740,398</b>	<b>2,724,969</b>
<b>Cash used</b>					
Employees	1,593,115	1,585,158	1,565,143	1,612,321	1,624,012
Suppliers	828,873	871,980	924,662	893,575	862,735
GST payments	85,104	90,553	96,321	93,000	89,747
Income tax equivalent payment	261	267	267	267	-
<b>Total cash used</b>	<b>2,507,353</b>	<b>2,547,958</b>	<b>2,586,393</b>	<b>2,599,163</b>	<b>2,576,494</b>
<b>Net cash from or (used by) operating activities</b>	<b>139,288</b>	<b>166,425</b>	<b>141,606</b>	<b>141,235</b>	<b>148,475</b>
<b>INVESTING ACTIVITIES</b>					
<b>Cash received</b>					
Proceeds from sales of property, plant and equipment	-	-	-	-	-
<b>Total cash received</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash used</b>					
Purchase of property, plant and equipment	154,524	160,772	149,710	139,873	137,310
<b>Total cash used</b>	<b>(154,524)</b>	<b>(160,772)</b>	<b>(149,710)</b>	<b>(139,873)</b>	<b>(137,310)</b>
<b>Net cash from or (used by) investing activities</b>	<b>(154,524)</b>	<b>(160,772)</b>	<b>(149,710)</b>	<b>(139,873)</b>	<b>(137,310)</b>
<b>FINANCING ACTIVITIES</b>					
<b>Cash received</b>					
Appropriations - contributed equity	100	3,462	4,400	2,563	-
<b>Total cash received</b>	<b>100</b>	<b>3,462</b>	<b>4,400</b>	<b>2,563</b>	<b>-</b>
<b>Cash used</b>					
Repayments of debt					
Dividends paid	294	304	311	311	-
<b>Total cash used</b>	<b>294</b>	<b>304</b>	<b>311</b>	<b>311</b>	<b>-</b>
<b>Net cash from or (used by) financing activities</b>	<b>(194)</b>	<b>3,158</b>	<b>4,089</b>	<b>2,252</b>	<b>-</b>
<b>Net increase or (decrease) in cash held</b>	<b>(15,430)</b>	<b>8,811</b>	<b>(4,015)</b>	<b>3,614</b>	<b>11,165</b>
Cash at the beginning of the reporting period	43,884	28,454	37,265	33,250	36,864
<b>Cash at the end of the reporting period</b>	<b>28,454</b>	<b>37,265</b>	<b>33,250</b>	<b>36,864</b>	<b>48,029</b>

**Table 5.4: Departmental statement of changes in equity — summary of movement (Budget 2006-07)**

	Accumulated results \$'000	Asset revaluation reserve \$'000	Other reserves \$'000	Contributed equity/ capital \$'000	Total equity \$'000
<b>Opening balance as at 1 July 2006</b>					
Balance carried forward from previous period	(271,324)	29,718	-	184,896	(56,710)
<b>Adjusted opening balance</b>	(271,324)	29,718	-	184,896	(56,710)
<b>Income and expense</b>					
Net operating expense	601	-	-	-	601
<b>Total income and expenses recognised directly in equity</b>	601	-	-	-	601
<b>Transactions with owners</b>					
<i>Contribution by owners</i>					
Appropriation (equity injection)	-	-	-	3,462	3,462
Returns on capital - dividends	(311)	-	-	-	(311)
<b>Sub-total transactions with owners</b>	(311)	-	-	3,462	3,151
<b>Estimated closing balance as at 30 June 2007</b>	(271,034)	29,718	-	188,358	(52,958)

**Table 5.5: Departmental capital budget statement**

	Estimated actual 2005-06 \$'000	Budget estimate 2006-07 \$'000	Forward estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000	Forward estimate 2009-10 \$'000
<b>CAPITAL APPROPRIATIONS</b>					
Total equity injections	100	3,462	4,400	2,563	-
<b>Total capital appropriations</b>	100	3,462	4,400	2,563	-
<b>Represented by:</b>					
Purchase of non-financial assets	100	3,462	4,400	2,563	-
<b>Total represented by</b>	100	3,462	4,400	2,563	-
<b>PURCHASE OF NON-FINANCIAL ASSETS</b>					
Funded by capital appropriation	100	3,462	4,400	2,563	-
Funded internally by departmental resources	154,424	157,310	145,310	137,310	137,310
<b>Total</b>	154,524	160,772	149,710	139,873	137,310

**Table 5.6: Departmental property, plant, equipment and intangibles — summary of movement (Budget year 2006-07)**

	Land	Investment property	Buildings	Specialist military equipment	Other infrastructure plant and equipment	Heritage and cultural assets	Computer software	Other intangibles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>As at 1 July 2006</b>									
Gross book value	-	-	14,659	-	153,538	-	554,534	-	822,731
Accumulated depreciation	-	-	(27,387)	-	(45,831)	-	(265,161)	-	(338,379)
<b>Opening net book value</b>	-	-	87,272	-	107,707	-	289,373	-	484,352
Additions:									
by purchase	-	-	35,140	-	12,150	-	113,482	-	160,772
Depreciation/amortisation expense	-	-	(27,524)	-	(20,775)	-	(70,637)	-	(118,936)
<b>As at 30 June 2007</b>									
Gross book value	-	-	149,799	-	165,688	-	668,016	-	983,503
Accumulated depreciation	-	-	(54,911)	-	(66,606)	-	(335,798)	-	(457,315)
<b>Estimated closing net book value</b>	-	-	94,888	-	99,082	-	332,218	-	526,188

**Table 5.7: Schedule of budgeted income and expenses administered on behalf of government for the period ended 30 June**

	Estimated actual 2005-06 \$'000	Budget estimate 2006-07 \$'000	Forward estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000	Forward estimate 2009-10 \$'000
<b>INCOME ADMINISTERED ON BEHALF OF GOVERNMENT</b>					
<b>Revenue</b>					
<b>Taxation</b>					
Income tax	177,420,000	185,340,000	193,490,000	203,250,000	215,820,000
Indirect tax	60,920,000	63,790,000	66,380,000	69,070,000	71,760,000
Other taxes, fees and fines	17,600	18,900	20,200	21,500	22,800
<b>Total taxation</b>	<b>238,357,600</b>	<b>249,148,900</b>	<b>259,890,200</b>	<b>272,341,500</b>	<b>287,602,800</b>
<b>Non-taxation</b>					
Other sources of non-taxation revenues	350,000	325,000	355,000	395,000	435,000
<b>Total non-taxation</b>	<b>350,000</b>	<b>325,000</b>	<b>355,000</b>	<b>395,000</b>	<b>435,000</b>
<b>Total revenues administered on behalf of Government</b>	<b>238,707,600</b>	<b>249,473,900</b>	<b>260,245,200</b>	<b>272,736,500</b>	<b>288,037,800</b>
<b>Total income administered on behalf of Government</b>	<b>238,707,600</b>	<b>249,473,900</b>	<b>260,245,200</b>	<b>272,736,500</b>	<b>288,037,800</b>
<b>EXPENSES ADMINISTERED ON BEHALF OF GOVERNMENT</b>					
Subsidies	4,164,783	4,909,025	5,136,700	5,526,700	5,648,700
Personal benefits	3,404,000	3,419,947	3,434,695	3,429,089	3,477,202
Write down and impairment of assets	2,750,000	2,760,000	2,785,000	2,790,000	2,815,000
Finance costs	400,000	330,000	330,000	330,000	330,000
Other	200,000	175,000	190,000	215,000	235,000
<b>Total expenses administered on behalf of Government</b>	<b>10,918,783</b>	<b>11,593,972</b>	<b>11,876,395</b>	<b>12,290,789</b>	<b>12,505,902</b>

**Table 5.8: Schedule of budgeted assets and liabilities administered on behalf of government as at 30 June**

	Estimated actual 2005-06 \$'000	Budget estimate 2006-07 \$'000	Forward estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000	Forward estimate 2009-10 \$'000
<b>ASSETS ADMINISTERED ON BEHALF OF GOVERNMENT</b>					
<b>Financial assets</b>					
Cash	69,350	69,350	69,350	69,350	69,350
Receivables	15,130,104	16,530,104	18,130,104	19,935,104	21,940,104
<b>Total financial assets</b>	<b>15,199,454</b>	<b>16,599,454</b>	<b>18,199,454</b>	<b>20,004,454</b>	<b>22,009,454</b>
<b>Non-financial assets</b>					
Other	9,369	9,369	9,369	9,369	9,369
<b>Total non-financial assets</b>	<b>9,369</b>	<b>9,369</b>	<b>9,369</b>	<b>9,369</b>	<b>9,369</b>
<b>Total assets administered on behalf of Government</b>	<b>15,208,823</b>	<b>16,608,823</b>	<b>18,208,823</b>	<b>20,013,823</b>	<b>22,018,823</b>
<b>LIABILITIES ADMINISTERED ON BEHALF OF GOVERNMENT</b>					
<b>Provisions</b>					
Taxation refunds provided	1,412,334	1,377,334	1,342,334	1,307,334	1,267,334
Other provisions	5,049,322	5,229,694	5,316,374	5,493,316	5,689,022
<b>Total provisions</b>	<b>6,461,656</b>	<b>6,607,028</b>	<b>6,658,708</b>	<b>6,800,650</b>	<b>6,956,356</b>
<b>Total liabilities administered on behalf of Government</b>	<b>6,461,656</b>	<b>6,607,028</b>	<b>6,658,708</b>	<b>6,800,650</b>	<b>6,956,356</b>

**Table 5.9: Schedule of budgeted administered cash flows for the period ended 30 June**

	Estimated actual 2005-06 \$'000	Budget estimate 2006-07 \$'000	Forward estimate 2007-08 \$'000	Forward estimate 2008-09 \$'000	Forward estimate 2009-10 \$'000
<b>OPERATING ACTIVITIES</b>					
<b>Cash received</b>					
Income tax	174,680,000	182,240,000	190,250,000	199,880,000	212,300,000
Indirect tax	60,010,000	62,790,000	65,310,000	67,930,000	70,560,000
Other taxes, fees and fines	17,600	18,900	20,200	21,500	22,800
Other	260,000	230,000	245,000	275,000	295,000
<b>Total cash received</b>	<b>234,967,600</b>	<b>245,278,900</b>	<b>255,825,200</b>	<b>268,106,500</b>	<b>283,177,800</b>
<b>Cash used</b>					
Interest paid	400,000	330,000	330,000	330,000	330,000
Subsidies paid	4,177,000	4,784,600	5,144,900	5,433,100	5,590,100
Personal benefits	3,005,000	3,349,000	3,379,815	3,390,747	3,385,096
Other	237,000	190,000	150,000	170,000	190,000
<b>Total cash used</b>	<b>7,819,000</b>	<b>8,653,600</b>	<b>9,004,715</b>	<b>9,323,847</b>	<b>9,495,196</b>
<b>Net cash from or (used by) operating activities</b>	<b>227,148,600</b>	<b>236,625,300</b>	<b>246,820,485</b>	<b>258,782,653</b>	<b>273,682,604</b>
<b>FINANCING ACTIVITIES</b>					
<b>Cash received</b>					
Cash from Official Public Account	7,819,000	8,653,600	9,004,715	9,323,847	9,495,196
<b>Total cash received</b>	<b>7,819,000</b>	<b>8,653,600</b>	<b>9,004,715</b>	<b>9,323,847</b>	<b>9,495,196</b>
<b>Cash used</b>					
Cash to Official Public Account	234,967,600	245,278,900	255,825,200	268,106,500	283,177,800
<b>Total cash used</b>	<b>234,967,600</b>	<b>245,278,900</b>	<b>255,825,200</b>	<b>268,106,500</b>	<b>283,177,800</b>
<b>Net cash from or (used by) financing activities</b>	<b>(227,148,600)</b>	<b>(236,625,300)</b>	<b>(246,820,485)</b>	<b>(258,782,653)</b>	<b>(273,682,604)</b>
<b>Net increase or (decrease) in cash held</b>					
Cash at beginning of reporting period	69,350	69,350	69,350	69,350	69,350
<b>Cash at end of reporting period</b>	<b>69,350</b>	<b>69,350</b>	<b>69,350</b>	<b>69,350</b>	<b>69,350</b>

**Table 5.10: Schedule of administered capital budget**

This table is not applicable to the Tax Office.

**Table 5.11: Schedule of administered property, plant, equipment and intangibles — summary of movement (Budget year 2006-07)**

This table is not applicable to the Tax Office.

## **5.3 NOTES TO THE FINANCIAL STATEMENTS**

### **Basis of accounting**

The budgeted financial statements have been prepared on an accrual basis.

### **Notes to the departmental statements**

Details of agency items in the financial statements included in Tables 5.1 to 5.6 have been prepared on the basis of Australian Accounting Standards and Department of Finance and Administration guidance for the preparation of financial statements.

The budget statements and estimated forward years have been prepared to reflect the following matters.

### **Australian Valuation Office**

The Tax Office's agency budget statements are consolidated to include the financial operations of the Australian Valuation Office.

### **Cost of administering goods and services tax**

Departmental statements include the estimated costs of administering the goods and services tax pursuant to the 'intergovernmental agreement on the reform of Commonwealth State Financial Relations'. The GST revenue is collected on behalf of the States and Territories which agree to compensate the Australian Government for the agreed GST administration costs.

The recovery of GST administration costs are reported under the Department of the Treasury.

### **Notes to the administered statements**

The administered financial statements included in Table 5.7 to 5.9 have been prepared on the basis of Australian Accounting Standards. These require that taxation revenue be recognised in the reporting period in which the taxpayer earns the income that is subsequently subject to taxation – the Economic Transactions Method (ETM). The standards also permit government report using an alternative approach when the ETM

approach would generate unreliable measures of taxation revenues – the Transactions Liability Method (TLM).

Commencing with this budget, the Tax Office has adopted ETM revenue recognition for all revenue heads where the measurement issues are not material, but will retain TLM revenue recognition where ETM measurement issues may be material. Consequently, the taxation revenues that will continue to be recognised on a TLM basis are:

- Individuals and other withholding taxation;
- Company income taxation; and
- Superannuation taxation.

The budget statements and forward years have been prepared on the basis noted below and to reflect the following matters.

### **Recognition of taxation revenue**

Since 1999-00 administered taxation revenue has been brought to account on a year by year basis where:

- the client or the client group can be identified in a reliable manner;
- an amount of tax or other statutory charge is payable by the client or client group under legislative provisions; and
- the amount of the tax or statutory charge payable by the client or client group can be reliably measured, and it is probable that the amount will be collected.

This recognition policy does not include the following items as revenue of the period:

- estimates of future collections or refunds from individuals in respect of income tax returns to be lodged for the current financial year ended at 30 June; and
- estimates of instalments of tax and final payments for companies due after 30 June.

### **Items recognised as reductions to taxation revenue**

The following items are recognised as reductions (increases) to taxation revenue and not as an expense:

- refunds of revenue; and
- increase (decrease) in movement of provision for credit amendments.