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Tax Administration conference

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Why do taxpayers comply?

- Deterrence
- Personal and social norms
- Opportunity
- Fairness
- Economic factors

IR research on SME tax debt

**10% of SME's owe 50%
of tax debt**

**9 out of 10 SME's say
FINANCIAL sanctions
influential in paying on
time**

**One third of SME tax
debt is penalties and
interest**

**Size of penalty not as
important as existence.
75% of SME's say P&I of
3.3% would make them
pay by due date**

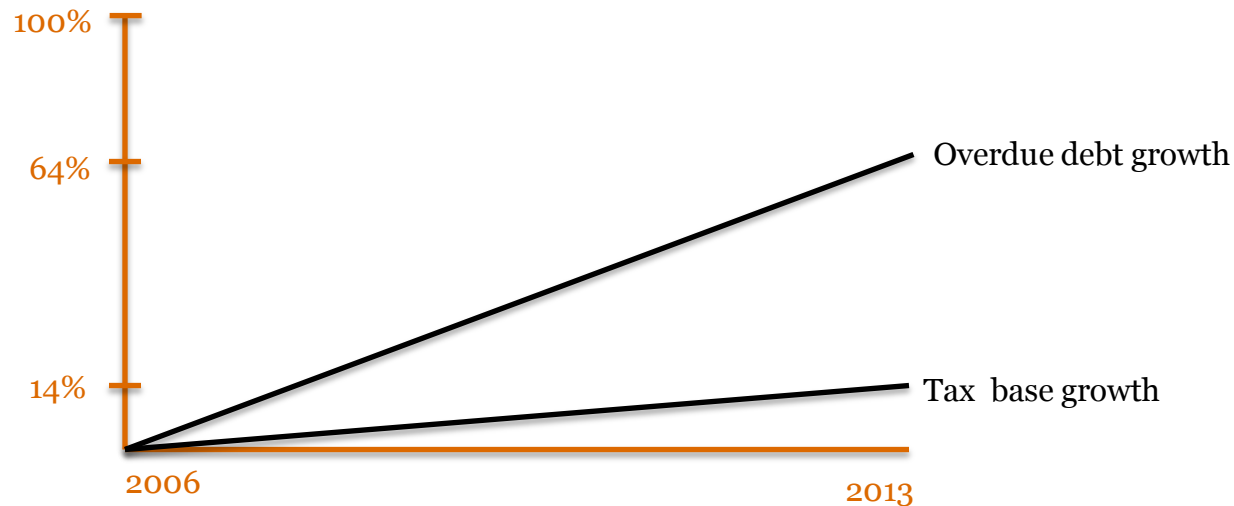
Tipping Point

- IR research shows a tipping point for SME's where accumulating penalties and interest discourage compliance.

Tipping point factors	
P&I > 50% of debt	Cumulative tax debt across several types
Cash for repayment only + P&I	Total grows out of proportion to annual income.

- Tax payer disengages from IR
- BALANCE: P&I high enough to encourage, not so high as overwhelm.

High P&I causes a highly impaired debt book



- Debt growth stabilised in 2013 (-1.1%)
- 81.3% of current debt impaired [2013]
- Imposing penalties only to w/o later increases IR compliance cost.

Options for Change

Option	Advantages	Disadvantages
Replace with a general interest charge (GIC)	Simple Effective at right rate	One-size fits all IR finance risk Reduce for incentive for instalment arrangement
Current approach but reduce incremental LPP rate	Simple to implement retains incentive for instalment arrangement Reduces total P&I	Same complexity level Reduces incentive?
Initial LPP, then GIC (no incremental) LPP	Retains incentive for instalment arrangement Slows P&I growth Reduces total P&I	More complex than straight GIC.
LPP Cap	Avoids debt tipping point Lowers debt book	Reduce incentive to pay once cap reached
GIC + IR discretion to impose LPP	Flexible Targeted	Reduced certainty IR resources Consistency

The Australian experience

- 1999 remove LPP's, replace with GIC
- Set using 90 day BBR + uplift (7%-8%)
- 9.59% to 14.75%
- Principle: Penalties for failing to file, interest for failing to pay
- Reviews: Treasury 2004, IG of Tax 2012
- Separate SIC (shortfall interest charge) added.
- No other changes
- ATO believes simple and effective

