

AUSTRALIAN TAXATION OFFICE

Section 1: Overview, appropriations and budget measures summary

AGENCY OVERVIEW

The role of the Australian Taxation Office (ATO) 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 ATO is the Australian Government's principal revenue management agency. In 2004-05, the ATO will collect 89.4 per cent of the Australian Government's revenue on behalf of the Australian community.

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

The ATO 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 (CSA) to ensure income transfer for the care of children, and with the Australian Bureau of Statistics (ABS) to reduce the cost to the community of collecting statistical data.

APPROPRIATIONS AND RESOURCING

The total appropriation for the ATO in the 2004-05 Budget is \$7,907.9 million. Table 1.1 on the following page, shows the total appropriations by administered expenses, price of output appropriation and agency capital (appropriation for previous years' outputs).

Table 1.2 details funding provided for new budget measures in 2004-05.

Australian Taxation Office — appropriations 2004-05

Table 1.1: Appropriations and other revenue

Outcome	Agency (price of outputs) \$'000			Administered \$'000			\$'000
	Revenues from government (appropriations)	Revenue from other sources ⁽³⁾	Price of outputs ⁽²⁾	Annual appropriations	Special appropriations ⁽⁴⁾	Total administered appropriations	Total appropriations
	Bill No. 1	Special approps	Total	Bill No. 1 (F)	Bill No. 2 (SPPs & NAOs) (G)	(I = F+G+H) (I1) ⁽¹⁾	
Outcome 1 - 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	(A)	(B)	(C = A+B) (C1) ⁽¹⁾	(D)	(E = C+D) (E1) ⁽¹⁾	(H)	(J = C+I)
	2,329,585	-	2,329,585	55,150	2,384,735	5,568,660	7,898,245
			98%	2%	100%		
Total	2,329,585	- (K1) ⁽¹⁾	2,329,585	55,150	2,384,735	5,568,660 (K2) ⁽¹⁾	7,898,245
					Agency capital (equity injections and loans)	(K3) ⁽¹⁾	9,616
					Administered capital		-
					Total appropriations		7,907,861

1. C1, E1 and I1 refer to information provided in Table 2.1 Total resources for Outcome 1. K1 and K2 refer to information provided in Table 3.1, Budgeted Agency Statement of Financial Performance and Table 3.6, Note of Budgeted Financial Performance Administered on behalf of the Government, respectively. K3 refers to information provided in Table 3.4, Agency Capital Budget Statement.

2. Refer to Table 3.1 Budgeted Agency Statement of Financial Performance for application of agency revenue.

3. Revenue from other sources includes other revenues from government and revenue from other sources. Non-appropriated agency and administered revenues are detailed in Table 1.3.

4. Estimated expenses from special appropriations are shown in Table 1.5. The amount showing for special appropriations represents appropriations to deliver ATO programmes. Amounts disclosed under special appropriations do not include the expenditures to pay refunds under the tax system.

Note: Percentage figures indicate the percentage contribution of revenues from government (agency appropriations) to the total price of outputs, by outcome.

MEASURES — AUSTRALIAN TAXATION OFFICE SUMMARY

Table 1.2: Summary of measures disclosed in the 2004-05 Budget

Measure	Outcome	Output Groups affected	2004-05			2005-06			2006-07			2007-08		
			appropriations budget \$'000			appropriations forward estimate \$'000			appropriations forward estimate \$'000			appropriations forward estimate \$'000		
			Admin expenses	Agency outputs	Total	Admin expenses	Agency outputs	Total	Admin expenses	Agency outputs	Total	Admin expenses	Agency outputs	Total
AusLink - redirection of funds from the Fuel Sales Grants Scheme	1	1.1	-	-	-	-	-	-	(265,000)	-	(265,000)	(270,000)	-	(270,000)
Australian Taxation Office - taxation and superannuation compliance	1	1.1	15,000	45,262	60,262	35,000	60,202	95,202	30,000	57,009	87,009	30,000	53,889	83,889
Incentives for saving for retirement - enhancement of Government superannuation co-contribution scheme	1	1.1	-	-	-	595,000	-	595,000	730,000	-	730,000	790,000	-	790,000
More help for families - changes to Family Tax Benefit Part A - lump sum payment and reduction in the taper between maximum and base rates	1	1.1	88,000	-	88,000	118,000	-	118,000	125,000	-	125,000	129,000	-	129,000

Table 1.2: Summary of measures disclosed in the 2004-05 Budget (continued)

Measure	Outcome	Output Groups affected	2004-05 appropriations budget \$'000			2005-06 appropriations forward estimate \$'000			2006-07 appropriations forward estimate \$'000			2007-08 appropriations forward estimate \$'000		
			Admin expenses	Agency outputs	Total	Admin expenses	Agency outputs	Total	Admin expenses	Agency outputs	Total	Admin expenses	Agency outputs	Total
More help for families - changes to Family Tax Benefit Part B - increase in threshold and reduction in taper	1	1.1	-	-	-	19,000	-	19,000	22,000	-	22,000	23,000	-	23,000
More help for families - protect Family Tax Benefit Part B for secondary earners returning to the workforce after the birth of a child	1	1.1	-	-	-	10,000	-	10,000	10,000	-	10,000	10,000	-	10,000
More help for families - introduction of maternity payment and abolition of Baby Bonus	1	1.1	-	-	-	(50,000)	-	(50,000)	(100,000)	-	(100,000)	(140,000)	-	(140,000)
Oil recycling - new category of grant	1	1.1	900	-	900	1,000	-	1,000	-	-	-	-	-	-
Refundable Film Tax Offset - extension to episodic television	1	1.1	-	-	-	2,000	-	2,000	4,000	-	4,000	6,000	-	6,000

Table 1.2: Summary of measures disclosed in the 2004-05 Budget (continued)

Measure	Outcome	Output Groups affected	2004-05 appropriations budget \$'000			2005-06 appropriations forward estimate \$'000			2006-07 appropriations forward estimate \$'000			2007-08 appropriations forward estimate \$'000		
			Admin expenses	Agency outputs	Total	Admin expenses	Agency outputs	Total	Admin expenses	Agency outputs	Total	Admin expenses	Agency outputs	Total
State, territory and local government organisations - transitional grants as compensation for lost access to a fringe benefits tax concession	1	1.1	23,000	912	23,912	19,000	439	19,439	19,000	454	19,454	19,000	469	19,469
Superannuation - new qualifying criteria for Government Co-contribution Scheme	1	1.1	45,000	-	45,000	50,000	-	50,000	50,000	-	50,000	50,000	-	50,000
Superannuation co-contribution implementation campaign	1	1.1	-	8,228	8,228	-	-	-	-	-	-	-	-	-

AGENCY AND ADMINISTERED REVENUES

Table 1.3: Agency and administered revenues

	2003-04 estimated revenue \$'000	2004-05 estimated revenue \$'000
ESTIMATED AGENCY REVENUES		
Non-appropriation agency revenues		
Agency section 31 receipts	64,344	53,420
Other	1,650	1,730
Total non-appropriation agency revenues	65,994	55,150
Appropriation revenue	2,251,336	2,329,585
Total estimated agency revenues	2,317,330	2,384,735
ESTIMATED ADMINISTERED REVENUES		
Non-appropriation administered revenues		
<i>Superannuation Guarantee (Administration) Act 1992 -</i> shortfalls, penalties and fines	311,000	326,000
<i>Superannuation Industry (Supervision) Act 1993 -</i> Self Managed Superannuation Fund Levy	12,700	13,800
Total Taxation Revenue	201,434,000	211,160,000
Miscellaneous receipts	12,000	12,000
Total non-appropriation administered revenues	201,769,700	211,511,800
Appropriation revenue	4,754,618	5,568,660
Total estimated administered revenues	206,524,318	217,080,460
Total estimated agency and administered revenues	208,841,648	219,465,195

Note: The amount showing for administered appropriation revenue represents appropriations to deliver ATO administered programmes and benefits. This amount does not include expenditures against appropriations to pay taxation refunds. Total taxation revenue is shown net of taxation refunds.

The ATO's non-appropriation revenues are for services provided to other government entities, primarily sourced from the Australian Valuation Office (AVO) services, Child Support Agency (CSA) and the Department of Family and Community Services (FACS).

AVO charges for the provision of valuation services to the Australian, state and local governments and operates in accordance with Commonwealth Competitive Neutrality Principles. AVO's estimated receipts in 2004-05 total \$18.9 million (excluding services provided to the ATO).

As a result of the Administrative Arrangement Orders (AAOs) in October 1998, CSA was transferred from the ATO to FACS. Under a memorandum of understanding and several service level agreements, the ATO continues to provide CSA with a variety of services, predominantly information technology and accommodation, with an estimated value of \$19.9 million in 2004-05. Future periods will see a decline in the non-appropriation revenue derived from CSA as services provided by the ATO are reduced.

Part C: Agency Budget Statements – ATO

The Family Assistance Office is a joint initiative of the ATO, Centrelink, and the Health Insurance Commission, with FACS having overall responsibility. The ATO assists with the administration and processing of claims made against the family assistance benefits. Receipts are estimated at \$8.9 million in 2004-05.

All of the ATO's revenue from independent sources is excluded from the definition of 'Cost Recovery' for the purposes of the Commonwealth Cost Recovery Guidelines for Regulatory Agencies.

SPECIAL APPROPRIATIONS

Table 1.5: Estimates of expenses from special appropriations

	2003-04 estimated expenses \$'000	2004-05 estimated expenses \$'000
ESTIMATED EXPENSES		
Special appropriations		
Refunds - section 16 <i>Tax Administration Act 1953</i>	44,050,000	46,509,000
Family Tax Benefit	410,000	523,712
Energy Grants (Credits) Scheme	3,210,000	3,353,000
Fuel Sales Grants Scheme	240,000	250,000
Measure for a Better Environment - Cleaner Fuels	15,000	73,000
Product Stewardship Waste Oil	12,298	15,943
Large Scale Film Production	12,000	93,000
Research and development refundable tax offset for small companies	190,000	205,000
Superannuation Co-contribution	-	275,000
<i>Superannuation Guarantee (Administration) Act 1992</i> - Distribution of charges	186,000	182,000
<i>Superannuation (Unclaimed Money and Lost Member) Act 1999</i> - Repayment of unclaimed monies	320	5
Transitional grants for State and Territory Government Organisations		
Compensation for lost access to a FBT concession	-	23,000
Total estimated expenses from special appropriations	48,325,618	51,502,660

Note: The total amount showing for special appropriations differs to the \$5,568.7 million shown in Tables 1.1, 1.3, 2.1, and 3.6 as it includes appropriations for tax refunds. In other tables taxation refunds are netted off against the tax revenue. 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.

SPECIAL ACCOUNTS

Table 1.6: Estimates of special account flows and balances

	A ⁽¹⁾	2004-05	2004-05	2004-05	2004-05
	B ⁽¹⁾	2003-04	2003-04	2003-04	2003-04
		opening	receipts	payments	closing
		balance			balance
		\$'000	\$'000	\$'000	\$'000
SPECIAL ACCOUNTS					
Australian Valuation Office ⁽²⁾		5,868	19,021	18,552	6,337
		5,663	18,218	18,013	5,868
Excise Security Deposits ⁽³⁾		49	20	20	49
		36	26	13	49
Other Trust Monies ⁽³⁾		20,852	250	20	21,082
		20,352	520	20	20,852
Superannuation Holding Accounts		60,021	38,000	34,000	64,021
Reserve Trust Account ⁽⁴⁾		56,021	34,000	30,000	60,021
Total special accounts		86,790	57,291	52,592	91,489

1. The opening balance for 2004-05 (reference A) is the same as the closing balance for 2003-04 (reference B).

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

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

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

Note: Figures are cash based and include transactions between the Australian Valuation Office and the Australian Taxation Office.

ADMINISTERED CAPITAL AND AGENCY EQUITY INJECTIONS AND LOANS

The ATO will receive an appropriation for Previous Years' Outputs of \$9.6 million in the 2004-05 Budget.

The ATO will not receive an appropriation for an equity injection, loan or administered capital in 2004-05 Budget.

Section 2: Outcomes and outputs information

OUTCOMES AND OUTPUT GROUPS

The map below shows the relationship between government outcomes and the contributing outputs for the Australian Taxation Office (ATO). Financial detail for Outcome 1 by output appears in Table 2.1 while non-financial information for Outcome 1 appears in Table 2.2.

Output cost attribution

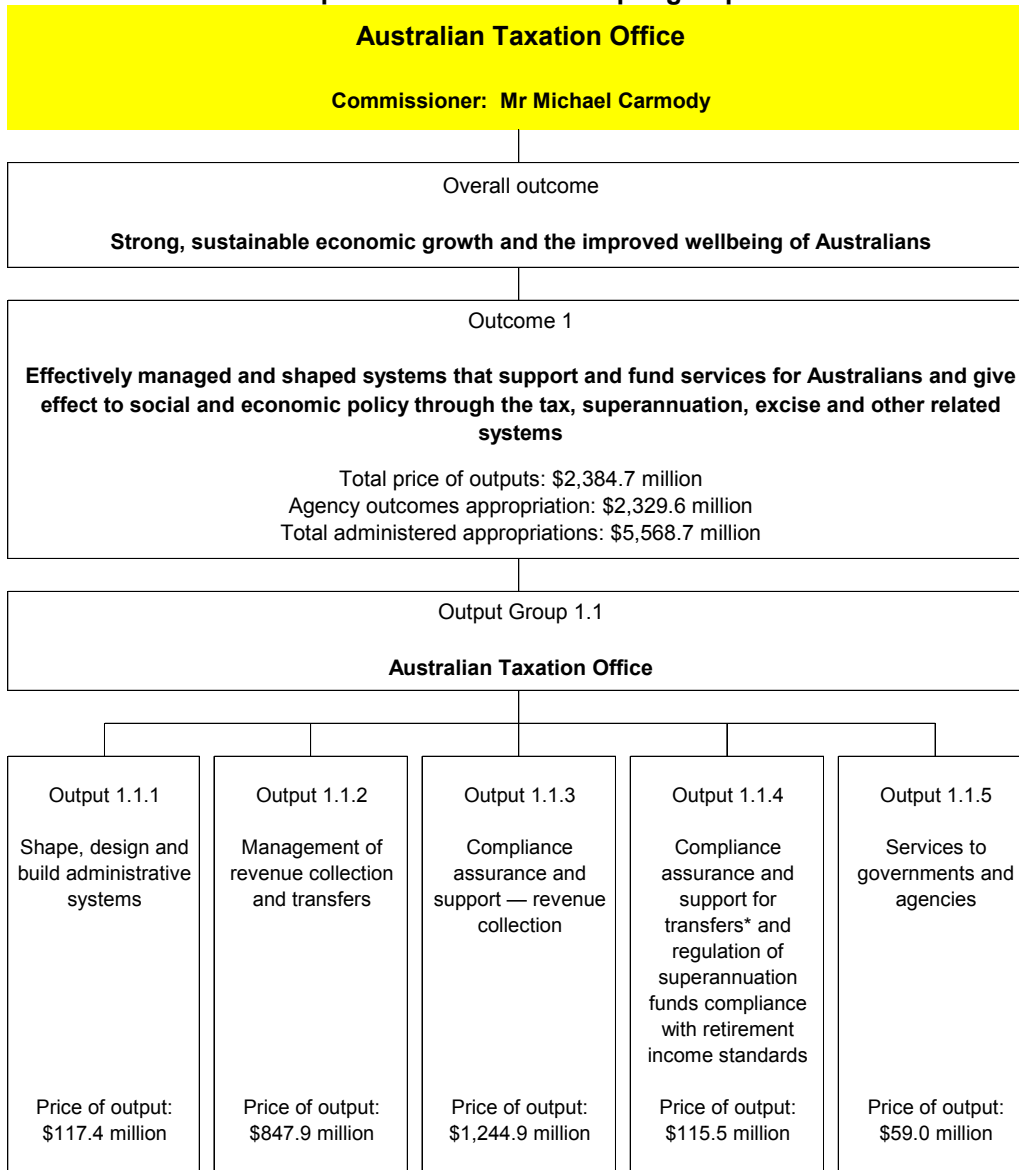
The ATO uses a process of cost centre mapping to estimate its actual costs incurred on each of the five outputs.

Mappings are based on cost centre manager estimates. The costs of corporate services and facilities, for example accommodation and information technology, are attributed to cost centres using relevant cost drivers. The cost drivers generally represent resource usage or headcount (where costs incurred directly relate to the number of staff). Corporate overhead and some information technology related costs are not attributed to cost centres but are instead attributed to outputs as a final step in the costing process.

The price of outputs outlined in Table 2.1 are based on the estimated 2003-04 result, adjusted for planned movements in 2004-05.

The ATO is currently reviewing its cost attribution processes for 2004-05.

Map 2: Outcomes and output groups



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

CHANGES TO OUTCOMES AND OUTPUTS

There are no proposed changes to the outcome or outputs.

OUTCOME 1 — DESCRIPTION

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

The single government outcome relating to the ATO properly reflects the nature of the services of the ATO. It provides an integrated platform for a viable and sustainable revenue administration. This is achieved through ensuring:

- effective and efficient administrative design for systems the ATO administers, consistent with policy intent and meeting community needs;
- an effective relationship and communication with taxpayers and Government;
- cost-effective collection of tax, transfers of revenue (to other agencies) and delivery of benefits through the tax system;
- compliance behaviour is maintained through providing comprehensive education and support services to the community and developing compliance strategies to address compliance risks;
- community confidence is maintained through working in partnership with the community to foster community ownership of the tax system and providing timely and professional service;

to enable Government to deliver on social and economic policy. The integrated approach enables cost-effective delivery of both revenue and transfers.

Measures affecting Outcome 1

AusLink — redirection of funds from the Fuel Sales Grants Scheme

The Government will cease the Fuel Sales Grants Scheme from 2006-07 and redirect funding to the new land transport infrastructure programme — AusLink. This funding will be allocated to improve roads in outer metropolitan, rural and remote areas.

See also the related expense measure *AusLink – National Land Transport Network* in the Transport and Regional Services portfolio.

Australian Taxation Office — taxation and superannuation compliance

The Government will provide additional funding of \$326.4 million over four years to the Australian Taxation Office to better educate taxpayers, raise the level of voluntary compliance with taxation obligations, and undertake additional compliance activities such as reviews and audits which will result in increased revenue.

The activities will focus on areas of: employer obligations; businesses with annual turnover of between \$2 million and \$100 million (in particular those with an annual turnover of more than \$50 million where evidence indicates financial arrangements are becoming more complex); individual taxpayer obligations in the areas of capital gains tax, rental deductions and high risk refunds; leveraging compliance through tax agents; and superannuation.

Additional revenue in superannuation guarantee payments on behalf of employees will also be recouped and the majority of the 4.6 million 'lost' superannuation members' records will be matched with Tax File Numbers for the purpose of re-attaching them to their entitlements. The return of these superannuation guarantee entitlements to the individuals' superannuation funds will be reflected in increased administered expenses.

Incentives for saving for retirement — enhancement of Government superannuation co-contribution scheme

The Government will enhance the superannuation co-contribution scheme by increasing the maximum co-contribution, giving \$1.50 for every \$1 of personal contribution, and by raising the income thresholds so that more employees will qualify under the scheme. These changes will apply for personal contributions made from 1 July 2004.

The maximum Government contribution will be increased under the new arrangements from \$1,000 to \$1,500. The Government will pay \$1.50 for every \$1 of contribution up to the co-contribution maximum.

The income level up to which the maximum co-contribution applies will be increased from \$27,500 to \$28,000. For incomes above \$28,000, the maximum co-contribution will reduce by 5 cents for each dollar of income, and phase out completely at an income of \$58,000. The co-contribution currently phases out at an income of \$40,000.

This measure will increase the incentive for people to save for their retirement through the superannuation system.

More help for families — changes to Family Tax Benefit Part A — lump-sum payment and reduction in the taper between maximum and base rates

The Government will make two changes to Family Tax Benefit Part A (FTB(A)).

There will be an increase in the rates of FTB(A) of \$600 per child to be paid as a lump sum upon reconciliation of entitlement, commencing in respect of the 2003-04 financial year. The lump sum represents an increase in the maximum and base rates of FTB(A) per child of \$600 per annum.

The lump sum will be paid to families as part of the reconciliation of FTB entitlement that normally takes place after families lodge their tax returns. If required, any family assistance overpayments received by the family will be offset against the lump-sum payment, with the remainder payable to the family.

Currently, once the income of families with dependent children exceeds \$31,755 per annum, their FTB(A) reduces from the maximum rate, at a rate of 30 cents for every extra dollar of income, until the base rate of payment is reached. From 1 July 2004, the taper rate that applies to this reduction will be reduced to 20 cents in the dollar.

More help for families — changes to Family Tax Benefit Part B — increase in threshold and reduction in taper

The Government will relax the income test for Family Tax Benefit Part B (FTB(B)). From 1 July 2004, the amount that a secondary earner can earn each year before their FTB(B) starts to be reduced will be more than doubled to \$4,000. At the same time, the rate at which FTB(B) is withdrawn once this income limit is exceeded will be reduced from 30 cents to 20 cents for every extra dollar of income.

More help for families — protect Family Tax Benefit Part B for secondary earners returning to the workforce after the birth of a child

The Government will change Family Tax Benefit Part B (FTB(B)) to benefit a parent returning to work after the birth of a child. From 1 July 2005, where the secondary earner (usually the mother) returns to work, income from employment will not be counted against their eligibility for FTB(B) already received. That is, they will keep the FTB(B) already received prior to re-entering the workforce. This option applies once in relation to each child.

More help for families — introduction of Maternity Payment and abolition of Baby Bonus

The Government will introduce a new universal Maternity Payment payable to families at the time of the birth of a new child. The Maternity Payment will be introduced on 1 July 2004 and will provide \$3,000 to families for each new child born after this date.

This new payment will incorporate the Baby Bonus, which will be phased out over four years.

Claims for the Baby Bonus can continue to be made in respect of children born (or for whom legal responsibility is otherwise gained) prior to 30 June 2004. Claims will be able to be made for the full five year entitlement. There will be no new claims after 30 June 2004.

Oil recycling — new category of grant

The Government has amended the *Product Stewardship (Oil) Regulations 2000* to provide oil recyclers who produce blended light fuel oil with a new grant of 9.557 cents per litre of oil recycled, with an expected cost of \$2.2 million over three years (including \$0.3 million in 2003-04).

The new grant fully offsets the impact of changes that took effect from 1 February 2004, when support for this activity moved from concessional treatment under the excise system to delivery under the Energy Grants (Credits) Scheme. The new grant meets the Government's intention that oil recyclers not be disadvantaged by the removal of the excise exemption and that an equivalent level of support for this oil recycling activity continues.

Refundable Film Tax Offset — extension to episodic television

The Government will provide \$12 million over three years from 2005-06 to extend the application of the existing Refundable Film Tax Offset to the production of television series.

The Refundable Film Tax Offset currently provides a rebate of 12.5 per cent of eligible film production costs in cases where qualifying Australian expenditure exceeds \$15 million.

State, territory and local government organisations — transitional grants as compensation for lost access to a fringe benefits tax concession

The Government will provide transitional grants totalling \$80 million over four years to certain organisations which had been endorsed by the Commissioner of Taxation as public benevolent institutions but were found to be ineligible for this status following a recent comprehensive review by the Australian Taxation Office. The funding will support these organisations in recognition of the loss of the fringe benefits tax (FBT) exemption of up to \$30,000 of the grossed up taxable value per employee which these organisations had been accessing as public benevolent institutions.

The transitional grants recognise the potential impact on State and Territory and local governments of increases in employment costs for around 350 organisations.

The transitional grants will include support for certain public ambulance services that had been accessing an FBT exemption of up to \$30,000 of grossed up taxable value per employee as public benevolent institutions. A recent court decision found that some of these organisations were ineligible for this concession. The Government subsequently announced that it would make an FBT exemption of up to \$17,000 of grossed up taxable value per employee available to all public ambulance services, consistent with that available for public and not-for-profit hospitals. The grants will support organisations in the transition to the lower FBT exemption.

The Government will also provide additional funding of \$2.3 million over four years to the Australian Taxation Office to administer the grants described above.

See revenue measure *Fringe Benefits Tax – ensuring concessions are available for public ambulance services* in the Treasury portfolio.

Superannuation — new qualifying criteria for Government Co-contribution Scheme

The Government will broaden the eligibility criteria for the Superannuation Co-contribution Scheme for low-income earners, at a cost of \$195 million over four years.

The broadened eligibility criteria replace the existing requirement that eligible participants receive employer superannuation contributions with a requirement that at least 10 per cent of an individual's income is earned as an employee. For example, this will include people who earn less than \$450 per month and are not eligible for employer superannuation support.

Further information can be found in the press release of 14 March 2004 issued by the Minister for Revenue and Assistant Treasurer.

See also the related expense measure titled *Superannuation co-contribution implementation campaign* in the Treasury portfolio.

Superannuation co-contribution implementation campaign

The Government will provide \$8.2 million in 2004-05 for the expansion of the Australian Taxation Office's communication and marketing campaign to reach and inform eligible recipients of the Superannuation Co-contribution Scheme.

See also the related expense measure titled *Superannuation – new qualifying criteria for Government Co-contribution Scheme* for the Australian Taxation Office in the Treasury portfolio.

OUTCOME 1 — RESOURCING

Table 2.1 shows how the 2004-05 appropriations translate to total resourcing by Output for Outcome 1, including administered expenses, revenues from government (appropriations), revenue from other sources, and the total price of outputs.

Table 2.1: Total resources for Outcome 1 (\$'000)

	2003-04 estimated actual \$'000	2004-05 budget estimate \$'000
Administered appropriations		
Special appropriations ⁽⁴⁾	4,754,618	5,568,660
Total revenues from government (appropriations)	4,754,618	(11) ⁽¹⁾ 5,568,660
Agency appropriations		
Output Group 1.1 - Australian Taxation Office		
Output 1.1.1 - Shape, design and build administrative systems	106,643	117,430
Output 1.1.2 - Management of revenue collection and transfers	840,449	847,938
Output 1.1.3 - Compliance assurance and support - revenue collection	1,190,991	1,244,900
Output 1.1.4 - Compliance assurance and support for transfers and regulation of superannuation funds compliance with retirement income standards	108,568	115,496
Output 1.1.5 - Services to government and agencies	4,685	3,821
Total revenues from government (appropriations)⁽³⁾	2,251,336	(C1) ⁽¹⁾ 2,329,585
Contributing to price of agency outputs	97%	98%
Revenue from other sources		
Goods and services	64,344	53,420
Other	1,650	1,730
Total revenue from other sources	65,994	55,150
Total price from agency outputs		
(Total revenues from government and from other sources)	2,317,330	(E1) ⁽¹⁾ 2,384,735
Estimated payments from special account balances⁽²⁾		
Australian Valuation Office	18,013	18,552
Excise Security Deposits	13	20
Other Trust Monies	20	20
Superannuation Holding Accounts Reserve Trust Account	30,000	34,000
Total agency special account outflows	48,046	52,592
Total estimated resourcing for Outcome 1		
(Total price of outputs and administered appropriations)	7,071,948	7,953,395
Average staffing level (number)	20,682	20,511

1. C1, E1 and I1 show the links back to Table 1.1.
2. Special account inflows and outflows are shown in further detail in Table 1.6 Estimates of special account flows and balances. Please note that these figures are cash based and exclude transactions between the Australian Valuation Office and the Australian Taxation Office.
3. This amount is higher than the 2003-04 Portfolio Additional Estimates Statements (PAES) figure due to the approval of funding subsequent to PAES. The accrual appropriation is recognised in 2003-04 and the cash will be included in the 2004-05 Appropriation Bill No. 2 as funding for previous years' outputs.
4. The amount showing for administered special appropriations represents appropriations to deliver ATO programmes. Amounts disclosed under special appropriations do not include the expenditures to pay refunds under the tax system.

OUTCOME 1 — CONTRIBUTION OF OUTPUTS

Table 2.2 details the performance indicators used to assess our achievement of Outcome 1, and shows the link between the outputs and the outcome.

There are five distinct outputs that contribute to Outcome 1:

- Output 1.1.1: reflects the ATO'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 ATO, providing the community with information and assistance; and
- Output 1.1.5: reflects the range of services the ATO provides to the Treasurer, the Minister for Revenue and Assistant Treasurer, the Parliament and to other APS agencies.

PERFORMANCE INFORMATION FOR OUTCOME 1

Table 2.2: Performance information for Outcome 1

Overall achievement of the Outcome	
	Effectiveness Indicators
Deliver to Government	Revenue collections as a per cent of budgeted revenue. Dollar value of transfers by transfer type • trend over time. Overall levels of compliance improved. Implementing new policy measures effectively and in accordance with Government's intent • Application of integrated tax design principles in the implementation of all tax change.
Maintain community confidence	Community perceptions of ATO fairness and effectiveness • trend over time. Client perceptions of ATO professionalism and service • trend over time. ATO's performance against Taxpayers' Charter Service Standards • maintain index > 1.
Minimise compliance costs (within ATO control)	Evaluation of administrative products in relation to community needs. Balancing revenue integrity with costs of compliance. Reduction in cost of compliance within ATO control.
Efficient and adaptive organisation	Management of financial resources • capital expense against budget • operating expense against budget • current ratio: indication of ATO's ability to satisfy its obligations in the short term • debt to asset ratio: indication of ATO's ability to satisfy its obligations in the long term. Effectiveness of key processes. Workforce management and development.

Table 2.2: Performance information for Outcome 1 (continued)

Overall achievement of the Outcome (continued)	
Performance information for administered items (including third party outputs)	
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.	
Performance information for agency outputs	
Output Group 1.1 - Australian Taxation Office	
Output 1.1.1 - Shape, design and build administrative systems	Quantity measures • Administrative advice and costings provided and managed to help shape Government's programme. • The programme delivering easier, cheaper and more personalised service is implemented in accordance with schedule and costs. Quality measures • Integrated tax design principles are applied in the implementation of all tax change. • Treasury is satisfied with the timeliness and quality of ATO's input to the development of taxation policy and laws and with the reliability of ATO advice on the system in operation. • ATO evaluates the alignment of the change programme to progress or support strategic business outcomes. • The programme delivering easier, cheaper and more personalised service is implemented in accordance with the agreed intent and scope enabling delivery of promised improved user experience.
Includes: • the ATO's contribution to policy advice and legislative design, reflecting ATO insight into administration, compliance and interpretation perspectives. • design, build and implementation of the administrative systems and products to enable the community to meet their obligations under the law.	
Output 1.1.2 - Management of revenue collection and transfers	Quantity measures • \$ value of revenue collected • \$ value of revenue transferred • Number of registrations processed and records maintained. • Number of accounts managed, refunds issued and payments processed. • Number of debt and lodgment cases finalised. Quality measures • Performance to Service Standards. • Client perceptions of professionalism of related areas against benchmark • Lodgment cases finalised as a percentage of cases referred. • Debt collection cases finalised as a percentage of cases referred.
Includes the transactions between the ATO and members of the community as they: • enter the tax and other systems through appropriate registration; • receive and provide the required information; • make payments; • receive refunds or other payments, or are notified of their obligations; and • receive advice about outstanding obligations and, if necessary, remedial action from the ATO to ensure lodgment and payment compliance.	

Table 2.2: Performance information for Outcome 1 (continued)

Performance information for agency outputs (continued)	
Output 1.1.3 - Compliance assurance and support for revenue collection Includes: • providing the community with information about their obligations and entitlements, and assistance to meet their obligations; • identifying and addressing non-compliance; and • providing assurance to the community and Government on the integrity of the tax system.	Quantity measures • Numbers of information, interpretation and active compliance products delivered, liabilities raised/collections and numbers of risk reviews conducted. Quality measures • Evaluation of selected ATO information products, from a client perspective, both pre and post implementation delivery. • Percentage of technical advice passing quality assurance - trend over time. • Performance to Service Standards. • Client perceptions of professionalism of related areas against benchmark. • Evaluation of ATO risk management and strategic intelligence.
Output 1.1.4 - Compliance assurance and support for transfers and regulation of superannuation funds' compliance with retirement income standards Includes: • providing the community with information about their obligations and entitlements, and assistance to meet their obligations; • identifying and addressing non-compliance; and • providing assurance to the community and Government on the integrity of the tax system.	Quantity measures • \$ value of required transfers effected. • Numbers of information, interpretation and active compliance products delivered, liabilities raised/collections and numbers of risk reviews conducted. Quality measures • Evaluation of selected ATO information products, from a client perspective, both pre and post implementation delivery. • Percentage of technical advice passing quality assurance - trend over time. • Performance to Service Standards. • Client perceptions of professionalism of related areas against benchmark. • Evaluation of ATO risk management and strategic intelligence.
Output 1.1.5 - Services to Governments and agencies	Quantity measures • Required volume of services delivered for Valuations, Cross Agency Support and Ministerial and Parliamentary services. Quality measures • Client satisfaction with accuracy and timeliness of Valuation Services. • Cross Agency Support delivered to agreed standard and timeliness. • Ministerial and Parliamentary services delivered to agreed standard and timeliness.

EVALUATIONS

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

Section 3: Budgeted financial statements

The budgeted financial statements will form the basis of the financial statements that will appear in the Australian Taxation Office (ATO) 2004-05 Annual Report, and for the input into the Whole of Government Accounts. The financial statements should be read in conjunction with the accompanying notes.

These budgeted financial statements and administered notes are consistent with the forms of financial statements specified under the 2003-04 Finance Minister's Orders '*Requirements for the Preparation of Financial Statements of Australian Government Entities*'.

ANALYSIS OF BUDGETED FINANCIAL STATEMENTS

Budgeted agency statement of financial performance

The ATO is budgeting for an operating loss of \$35.0 million in 2004-05 after income tax equivalents payable by the Australian Valuation Office (AVO). The operating loss allows the ATO to progress its corporate improvement program aimed at making the tax experience easier, cheaper and more personalised for taxpayers while maintaining compliance and current taxpayer services.

Operating Revenues

Total agency revenue is estimated to be \$2,384.7 million and consists of \$2,329.6 million in appropriation and revenue from other sources of \$55.2 million. This is an increase of \$67.4 million from the 2003-04 estimated actual.

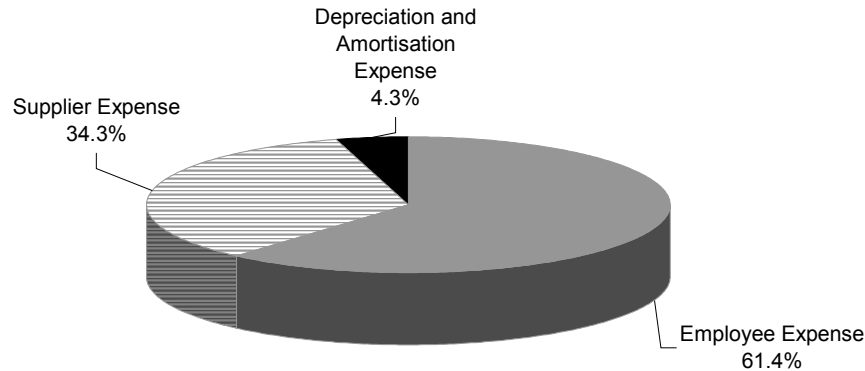
This rise in revenue is primarily an increase in appropriation as a result of Budget measures shown in Table 1.2.

Operating Expenses

Total expenses are estimated to be \$2,419.5 million. This is an increase of \$103.0 million from the 2003-04 estimated actual.

Operating expenses consist of \$1,485.0 million in labour expenditure, \$829.8 million in supplier expenditure and \$104.7 million in depreciation and amortisation, as illustrated in the following chart.

Budgeted total agency expenses 2004-05



The following movements have taken place since the 2003-04 Additional Estimates:

- Labour has increased by \$70.2 million, largely attributable to:
 - Taxation and superannuation compliance measure leading to increased workloads. The work targets several high risk areas which by their very nature are labour intensive, for example Capital Gains Tax (CGT) individuals, Small to Medium Enterprise debt (\$31.4 million);
 - The ATO will run at an operating loss in 2004-05 to continue implementing the corporate improvement program aimed at making the tax experience easier, cheaper and more personalised for taxpayers (\$32.6 million);
 - Costs associated with the implementation of superannuation co-contribution measures due to an increase in the number of eligible recipients and an expanded education and media campaign (\$2.0 million); and
 - Administration and implementation costs associated with transitional grants as compensation for lost access to a fringe benefits tax concession measure (\$0.6 million).
- Supplier expenses have increased by \$24.6 million, largely attributable to:
 - Taxation and superannuation compliance measure (\$13.9 million);
 - Superannuation co-contribution measures (\$6.2 million);
 - Comcover supplementation for increased premiums (\$0.7 million); and

- transitional grants as compensation for lost access to a fringe benefits tax concession measure (\$0.3 million).

Parameter Adjustments

There was a further reduction in appropriation of \$2.2 million as a result of applying the revised economic parameters. Labour accounts for \$1.4 million while the remainder of the reduction is in supplier expenditure.

Budgeted agency statement of financial position

In 2004-05 the ATO's equity position will be negative \$50.7 million. This is a decline of \$35.0 million from 2003-04 as a result of the approved operating loss.

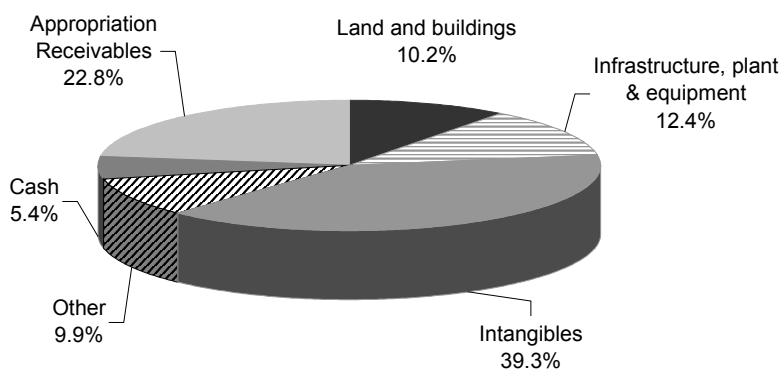
Assets

The ATO's assets are predominantly non-financial assets.

In 2004-05 the ATO will be maintaining its commitment to long term improvement, investing \$120.2 million in capital.

A significant proportion of the ATO's capital investment is directed toward the development or improvement of internally developed systems and software in support of the ATO's intention of making people's experience with the revenue systems easier, cheaper and more personalised.

Budgeted total agency assets 2004-05

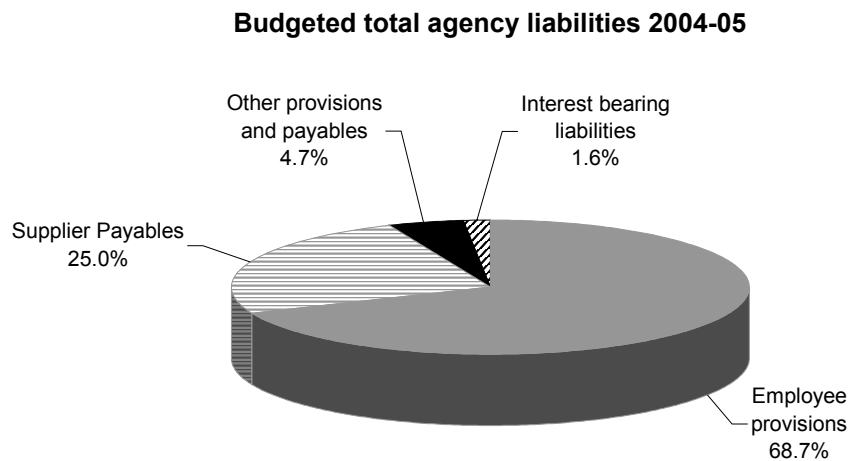


Liabilities

The ATO's liabilities are predominantly employee entitlements. There is no significant movement in total liabilities from 2003-04.

Part C: Agency Budget Statements – ATO

However, there is a reduction in employee entitlements offset by an increase in supplier payables. The reduction in employee entitlements is due to the timing of the final pay day. The increase in supplier payables is attributable to the measures impacting supplier expenses, identified above under the heading 'Operating Expenses'.



AGENCY FINANCIAL STATEMENTS

Budgeted agency statement of financial performance

This statement provides a picture of the expected financial results for the ATO by identifying full accrual expenses and revenues, which highlights whether the ATO is operating at a sustainable level.

Budgeted agency statement of financial position

This statement shows the financial position of the ATO. It enables decision-makers to track the management of the ATO's assets and liabilities.

Budgeted agency statement of cash flows

This statement identifies expected cash flows from operating activities, investing activities and financing activities.

Agency capital budget statement

This statement shows all proposed capital expenditure funded either through the Budget as appropriations or from internal sources.

Agency non-financial assets — summary of movement

This statement shows the movement in the ATO's non-financial assets over the budget year.

NOTES OF ADMINISTERED ACTIVITY

Details of transactions administered by the ATO on behalf of the Australian Government are shown in the following notes to the financial statements.

Note of budgeted administered financial performance

This note identifies the main revenues and expenses administered on behalf of the Australian Government. It also discloses administered revenues from government and transfers to the Official Public Account.

Note of budgeted administered financial position

This note shows the assets and liabilities administered on behalf of the Australian Government.

Note of budgeted administered cash flows

This note shows cash flows administered on behalf of the Australian Government.

**Table 3.1: Budgeted Agency Statement of Financial Performance
for the period ended 30 June**

	2003-04 estimated actual \$'000	2004-05 budget estimate \$'000	2005-06 forward estimate \$'000	2006-07 forward estimate \$'000	2007-08 forward estimate \$'000
REVENUES					
Revenues from ordinary activities					
Revenue from Government	2,251,336	(K1)(1) 2,329,585	2,381,202	2,408,118	2,429,626
Goods and Services	64,344	53,420	41,113	41,493	41,493
Other	1,650	1,730	1,820	1,910	1,910
Total revenues from ordinary activities	2,317,330	2,384,735	2,424,135	2,451,521	2,473,029
EXPENSES					
Expenses from ordinary activities (excluding borrowing costs expense)					
Employees	1,464,623	1,484,955	1,521,144	1,520,960	1,555,359
Suppliers	770,548	829,832	784,498	800,450	787,558
Depreciation and amortisation	81,080	104,697	117,623	129,242	129,242
Other	270	-	-	-	-
Total expenses from ordinary activities (excluding borrowing costs expense)	2,316,521	2,419,484	2,423,265	2,450,652	2,472,159
Borrowing costs expense	-	-	-	-	-
Operating surplus or (deficit) from ordinary activities	809	(34,749)	870	869	870
Income tax Expense	243	252	261	267	267
Net surplus or (deficit)	566	(35,001)	609	602	603

1. K1 shows the link back Table 1.1.

**Table 3.2: Budgeted Agency Statement of Financial Position
as at 30 June**

	2003-04 estimated actual \$'000	2004-05 budget estimate \$'000	2005-06 forward estimate \$'000	2006-07 forward estimate \$'000	2007-08 forward estimate \$'000
ASSETS					
Financial assets					
Cash	30,118	32,036	33,003	34,662	31,498
Appropriation Receivables	188,544	135,544	135,044	153,044	168,044
Other Receivables	25,890	24,633	22,285	22,491	22,373
Total financial assets	244,552	192,213	190,332	210,197	221,915
Non-financial assets					
Land and buildings	68,277	60,441	58,228	55,844	55,317
Infrastructure, plant and equipment	77,066	73,340	67,296	58,671	54,513
Intangibles	206,361	233,391	262,275	281,352	294,105
Other	34,028	34,132	34,300	34,509	34,718
Total non-financial assets	385,732	401,304	422,099	430,376	438,653
Total assets	630,284	593,517	612,431	640,573	660,568
LIABILITIES					
Interest bearing liabilities					
Other	10,143	10,064	9,985	9,906	9,827
Total interest bearing liabilities	10,143	10,064	9,985	9,906	9,827
Provisions					
Employees	454,590	442,760	467,896	492,473	512,682
Other	29,651	29,384	29,117	28,849	28,582
Total provisions	484,241	472,144	497,013	521,322	541,264
Payables					
Suppliers	150,395	161,089	154,898	158,512	158,352
Other	894	904	914	921	921
Total payables	151,289	161,993	155,812	159,433	159,273
Total liabilities	645,673	644,201	662,810	690,661	710,364
EQUITY					
Parent entity interest					
Contributed equity	185,996	185,996	185,996	185,996	185,996
Reserves	13,087	13,087	13,087	13,087	13,087
Retained surpluses or accumulated deficits	(214,472)	(249,767)	(249,462)	(249,171)	(248,879)
Total parent entity interest	(15,389)	(50,684)	(50,379)	(50,088)	(49,796)
Total equity	(15,389)	(50,684)	(50,379)	(50,088)	(49,796)
Current assets	272,999	220,747	219,009	239,047	250,939
Non-current assets	357,285	372,770	393,422	401,526	409,629
Current liabilities	320,860	308,326	313,728	328,155	334,405
Non-current liabilities	324,813	335,875	349,082	362,506	375,959

**Table 3.3: Budgeted Agency Statement of Cash Flows
for the period ended 30 June**

	2003-04 estimated actual \$'000	2004-05 budget estimate \$'000	2005-06 forward estimate \$'000	2006-07 forward estimate \$'000	2007-08 forward estimate \$'000
OPERATING ACTIVITIES					
Cash received					
Appropriations	2,307,336	2,382,585	2,386,202	2,410,118	2,429,626
Goods and services	64,261	55,167	43,082	41,432	41,493
GST - input credit receipts	76,742	81,747	78,721	79,771	78,778
GST - receipts from customers	2,285	2,751	2,106	2,141	2,141
Total cash received	2,450,624	2,522,250	2,510,111	2,533,462	2,552,038
Cash used					
Employees	1,463,226	1,496,785	1,496,007	1,496,381	1,535,152
GST - payments to suppliers	76,868	82,868	78,341	79,918	78,660
GST - payments (agency)	2,177	2,120	2,106	2,141	2,141
Suppliers	771,542	817,858	789,385	795,482	786,361
Cash to Official Public Account	15,000	-	4,500	20,000	15,000
Taxes Paid	243	252	261	267	267
Total cash used	2,329,056	2,399,883	2,370,600	2,394,189	2,417,581
Net cash from or (used by) operating activities	121,568	122,367	139,511	139,273	134,457
INVESTING ACTIVITIES					
Cash used					
Purchase of property, plant and equipment	123,456	120,165	138,250	137,310	137,310
Total cash used	123,456	120,165	138,250	137,310	137,310
Net cash from or (used by) investing activities	(123,456)	(120,165)	(138,250)	(137,310)	(137,310)
FINANCING ACTIVITIES					
Cash used					
Dividends paid	116	284	294	304	311
Total cash used	116	284	294	304	311
Net cash from of (used by) financing activities	(116)	(284)	(294)	(304)	(311)
Net increase/(decrease) in cash held	(2,004)	1,918	967	1,659	(3,164)
Cash at the beginning of the reporting period	32,122	30,118	32,036	33,003	34,662
Cash at the end of the reporting period	30,118	32,036	33,003	34,662	31,498

Table 3.4: Agency Capital Budget Statement

	2003-04 estimated actual \$'000	2004-05 budget estimate \$'000	2005-06 forward estimate \$'000	2006-07 forward estimate \$'000	2007-08 forward estimate \$'000
CAPITAL APPROPRIATIONS					
Previous Years' Outputs	-	(K3) ⁽¹⁾ 9,616	-	-	-
Total	-	9,616	-	-	-
Represented by					
Other	-	9,616	-	-	-
Total	-	9,616	-	-	-
PURCHASE OF NON-CURRENT ASSETS					
Funded by capital appropriations	-	-	-	-	-
Funded internally by agency resources	123,456	120,165	138,250	137,310	137,310
Total	123,456	120,165	138,250	137,310	137,310

1. K3 shows the link back to Table 1.1.

Table 3.5: Agency Non-financial Assets — Summary of Movement (Budget year 2004-05)

	Land	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
Carrying amount at the start of year	-	68,277	-	77,066	-	206,361	-	351,704
Additions	-	20,040	-	10,105	-	90,020	-	120,165
Disposals	-	-	-	-	-	-	-	-
Net revaluation increments/decrements	-	-	-	-	-	-	-	-
Recoverable amount write-downs	-	-	-	-	-	-	-	-
Depreciation/amortisation expense	-	(27,876)	-	(13,831)	-	(62,990)	-	(104,697)
Other movements	-	-	-	-	-	-	-	-
Carrying amount at the end of year	-	60,441	-	73,340	-	233,391	-	367,172
Represented by								
Self funded	-	20,040	-	10,105	-	90,020	-	120,165
Appropriations	-	-	-	-	-	-	-	-
Total represented by	-	20,040	-	10,105	-	90,020	-	120,165

Table 3.6: Note of Budgeted Financial Performance Administered on behalf of Government for the period ended 30 June

	2003-04 estimated actual \$'000	2004-05 budget estimate \$'000	2005-06 forward estimate \$'000	2006-07 forward estimate \$'000	2007-08 forward estimate \$'000
REVENUES					
Taxation					
Income tax	141,710,000	150,100,000	157,740,000	167,520,000	177,580,000
Indirect tax	55,190,000	56,500,000	58,870,000	61,330,000	63,720,000
Other taxes, fees and fines	4,182,700	4,193,800	4,285,000	4,446,100	4,607,200
Total taxation	201,082,700	210,793,800	220,895,000	233,296,100	245,907,200
Non-taxation					
Revenues from government	4,754,618	(K2) ⁽¹⁾ 5,568,660	6,388,799	6,470,875	6,603,955
Other	687,000	718,000	765,000	751,000	748,000
Total non-taxation	5,441,618	6,286,660	7,153,799	7,221,875	7,351,955
Total revenues administered on behalf of Government	206,524,318	217,080,460	228,048,799	240,517,975	253,259,155
EXPENSES					
Subsidies	3,679,298	4,012,943	4,126,003	4,077,000	4,238,000
Personal benefits	709,000	1,187,712	1,874,791	2,010,870	1,982,950
Write down and impairment of assets	1,991,527	1,380,000	1,430,000	1,450,000	1,530,000
Interest	180,000	180,000	180,000	180,000	180,000
Other	186,320	188,005	208,005	203,005	203,005
Total expenses administered on behalf of Government	6,746,145	6,948,660	7,818,799	7,920,875	8,133,955

1. K2 shows the link back to Table 1.1.

Note: The amount showing for revenues from government represents special appropriations to deliver ATO administered programs and benefits. This amount does not include amounts to pay taxation refunds. Total taxation revenue is shown net of taxation refunds. There are amounts included in other non-taxation revenue which in previous budget papers may have been disclosed as taxation revenues.

Table 3.7: Note of Budgeted Financial Position Administered on behalf of Government as at 30 June

	2003-04 estimated actual \$'000	2004-05 budget estimate \$'000	2005-06 forward estimate \$'000	2006-07 forward estimate \$'000	2007-08 forward estimate \$'000
ASSETS					
Financial assets					
Cash	83,598	83,598	83,598	83,598	83,598
Receivables	15,307,985	16,999,985	18,608,985	20,568,985	22,605,985
Total financial assets	15,391,583	17,083,583	18,692,583	20,652,583	22,689,583
Non-financial assets					
Other	4,440	4,440	4,440	4,440	4,440
Total non-financial assets	4,440	4,440	4,440	4,440	4,440
Total assets administered on behalf of government	15,396,023	17,088,023	18,697,023	20,657,023	22,694,023
LIABILITIES					
Provisions					
Taxation refunds provided	1,269,970	1,269,970	1,269,970	1,269,970	1,269,970
Other	222,005	228,005	241,005	249,005	256,005
Total provisions	1,491,975	1,497,975	1,510,975	1,518,975	1,525,975
Payables					
Grants and subsidies	66,393	66,393	66,393	66,393	66,393
Total payables	66,393	66,393	66,393	66,393	66,393
Total liabilities administered on behalf of government	1,558,368	1,564,368	1,577,368	1,585,368	1,592,368
Current liabilities	1,558,368	1,564,368	1,577,368	1,585,368	1,592,368
Non-current liabilities	-	-	-	-	-
Current assets	15,396,023	17,088,023	18,697,023	20,657,023	22,694,023
Non-current assets	-	-	-	-	-

**Table 3.8: Note of Budgeted Administered Cash Flows
for the period ended 30 June**

	2003-04 estimated actual \$'000	2004-05 budget estimate \$'000	2005-06 forward estimate \$'000	2006-07 forward estimate \$'000	2007-08 forward estimate \$'000
OPERATING ACTIVITIES					
Cash received					
Income tax	138,890,000	147,830,000	155,500,000	164,940,000	174,880,000
Indirect tax	54,250,000	55,750,000	58,090,000	60,500,000	62,840,000
Other taxes, fees and fines	4,112,700	4,163,800	4,305,000	4,466,100	4,627,200
Cash from Official Public Account - appropriations	4,754,618	5,562,660	6,375,799	6,462,875	6,596,955
Other	687,000	696,000	726,000	731,000	741,000
Total cash received	202,694,318	214,002,460	224,996,799	237,099,975	249,685,155
Cash used					
Interest paid	180,000	180,000	180,000	180,000	180,000
Subsidies paid	3,679,298	4,012,943	4,126,003	4,077,000	4,238,000
Personal benefits	709,000	1,187,712	1,874,791	2,010,870	1,982,950
Cash to Official Public Account - Other	197,939,700	208,439,800	218,621,000	230,637,100	243,088,200
Other	186,320	182,005	195,005	195,005	196,005
Total cash used	202,694,318	214,002,460	224,996,799	237,099,975	249,685,155
Net cash from or (used by) operating activities	-	-	-	-	-
Net increase/(decrease) in cash held	-	-	-	-	-
Cash at beginning of reporting period	83,598	83,598	83,598	83,598	83,598
Cash at end of reporting period	83,598	83,598	83,598	83,598	83,598

Note: The amount showing for administered appropriations represents appropriations to deliver ATO administered programmes and benefits. This amount does not include amounts to pay taxation refunds. Taxation receipts are shown net of taxation refunds.

NOTES TO THE FINANCIAL STATEMENTS

Basis of accounting

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

Notes to the agency statements

Details of agency items in the financial statements included in Table 3.1 to 3.5 have been prepared in accordance with the requirements and 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 Australian Taxation Office's agency budget statements are consolidated to include the financial operations of the Australian Valuation Office.

Cost of administering goods and services tax

Agency 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

Details of administered items in the financial statements included in Tables 3.6 to 3.8 have been prepared under the Tax Liability Method (TLM) of revenue recognition, consistent with the Australian Government's recognition of taxation revenue. Under TLM, taxation revenue is recognised at the time a taxpayer makes a self-assessment or when an assessment of a tax liability is raised by the Australian Taxation Office or the Australian Customs Service. This method retains some elements of cash revenue recognition, for example, when a cash payment occurs prior to an assessment being raised.

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 1999-2000 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;
- estimates of instalments of tax and final payments for companies due after 30 June;
- estimates of final amounts for petroleum resource rent tax due after 30 June; and
- actual payments for Pay As You Go, GST, excise and withholding taxes for amounts collected or withheld in June but not remitted to the Commissioner until July.

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.

Section 4: Purchaser/provider and cost recovery arrangements

PURCHASER/PROVIDER ARRANGEMENTS

The Australian Taxation Office (ATO) has entered into purchaser/provider arrangements with both the Department of Family and Community Services (FACS) and the Department of Health and Aged Care. These allow the ATO to provide services to each of these departments to enable them to achieve their stated Outcomes in 2004-05.

The ATO will be providing services to FACS for the Family Assistance Office and the Compliance Package – Prevention and Detection, and to the Child Support Agency.

The ATO will also be providing services to the Department of Health and Aged Care for the implementation of the Private Health Insurance rebate.

COST RECOVERY ARRANGEMENTS

The ATO does not presently have any cost recovery arrangements. All receipts from independent sources are excluded for the purposes of the Commonwealth Cost Recovery Guidelines for Regulatory Agencies as they are related to intergovernmental charging, taxation and/or comply with competitive neutrality principles.

