

# Western Australian Auditor General's Report



## Measuring Tax Collection Performance



Report 30: December 2016

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ISSN: 2200-1913 (Print)  
ISSN: 2200-1921 (Online)

## WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

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### **Measuring Tax Collection Performance**



**THE PRESIDENT  
LEGISLATIVE COUNCIL**

**THE SPEAKER  
LEGISLATIVE ASSEMBLY**

### **MEASURING TAX COLLECTION PERFORMANCE**

This report has been prepared for submission to Parliament under the provisions of section 25 of the *Auditor General Act 2006*.

Performance audits are an integral part of the overall audit program. They seek to provide Parliament with assessments of the effectiveness and efficiency of public sector programs and activities, and identify opportunities for improved performance.

This audit examined how well the Office of State Revenue measures its collections of state taxes.

I wish to acknowledge the staff at the Office of State Revenue, the Department of Finance, and the Department of Transport for their assistance with this audit.

A handwritten signature in black ink, appearing to read 'C. Murphy'.

COLIN MURPHY  
AUDITOR GENERAL  
22 December 2016

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## Auditor General's overview

The Office of State Revenue (OSR) has an important role. The revenue it collects provides benefits for all Western Australians through funding for essential public sector goods and services.

However, OSR's job is not an easy one. The revenue base from which it collects taxes, and therefore the amount of tax that OSR can collect in any year varies. This has flow on implications for OSR in how it resources its operations and what work it prioritises.

I was pleased to see OSR performing well in many aspects of tax collection. However, there is extra tax that OSR could collect from taxpayers who do not meet their full tax obligations.

Accurately estimating the value of these taxes is increasingly recognised, both in Australia and overseas as necessary to closing the gap. OSR has started to make progress in this area but needs to make better use of the information it already has about taxpayer compliance. Progress made in other jurisdictions will provide OSR with valuable learnings in coming years.

As you will read from my report, I could only make a limited assessment of the efficiency of OSR's operations. This was in large part due to an absence of unit cost information.

Assessing whether a tax office is collecting all the tax it should, at the least cost, relies on comprehensive performance information and measures. OSR is taking action to improve the quality of its information and to reduce the cost of its operations. It was too early for us to assess their impact but initial results look promising.



# Executive summary

## Introduction

This audit assessed how well the Office of State Revenue (OSR) collects state revenue (taxes and duties). In this report, taxes and duties are referred to collectively as taxes except where it is relevant to refer to one or the other.

The audit also looked at how OSR manages the cost of delivering its services. This involved looking at what OSR is doing to operate more efficiently.

## Overview

OSR, a business unit in the Department of Finance with about 280 staff, is responsible for collecting most state taxes. In 2015-16, it raised \$7.3 billion in tax. Most of this came from collections of payroll tax, transfer duty and land tax. Appendix 1 describes the 8 main types of tax OSR collects, as well as the actual tax raised from each of these in 2015-16.

State taxes and duties help pay for critical public sector services such as education, health and justice.

Governments estimate the taxes they believe can be raised. In WA, this is mainly done as part of the Budget setting process. The actual tax collected may be more or less than government estimates. This happens because of changes in economic conditions, differences in tax law interpretations, how a tax office carries out its operations, and taxpayer knowledge and willingness to pay.

Tax offices cannot influence the tax 'lost' from changes in economic conditions but they can limit the losses from other factors. Knowing how much tax is lost, and why, helps government to improve its estimates and tax offices to best allocate their resources.

Taxpayers that do not report or pay their full tax obligations do so unintentionally, carelessly or deliberately. This results in less tax paid than would otherwise be the case – a difference known as the tax gap. Estimating the dollar value of the tax gap can be one baseline for evaluating tax office performance.

Public sector agencies like OSR are expected to continually improve their efficiency. To satisfy this expectation, agencies publicly report, and have audited, key performance indicators of efficiency.

## Audit conclusion

OSR generally performs well against government's tax estimates. Its tax collections met or exceeded most of the estimates in the Government Midyear Financial Projections Statements from 2011-12 to 2015-16.

However, there is more tax that could be collected but OSR is yet to measure the size of this tax gap. This means that OSR cannot show what impact, if any, its activities have on reducing the tax lost through the tax gap.

OSR knows what it costs to run the agency. However, more needs to be done to measure how efficiently it carries out its activities and how actively it manages these costs.

OSR is working to improve its service delivery by redesigning and simplifying its operations. While results from this work look promising it is too early to say if OSR will improve its efficiency.

# Key findings

## Collection of state taxes

- OSR has steadily collected more tax over time. The amount of tax raised in the last 4 years increased by \$1.3 billion. Reasons for this increase include additional work OSR did to reduce backlogs in its assessments; changes to legislation, tax rates and thresholds; and changes in economic conditions.
- OSR is doing well in collecting taxes when compared with government tax estimates, which take into account changes in legislation and economic conditions. In 2011-12, the total tax raised was almost \$6 billion compared with a midyear tax estimate of \$5.8 billion. In 2015-16, the \$7.3 billion raised was about \$59 million more than the estimate.
- Although OSR has raised more tax in total than estimated, there were major differences in the estimates for 2 types of tax.

Landholder duty<sup>1</sup> showed major differences in 4 of the past 5 years between the actual amounts raised and the respective midyear estimates. Transfer duty showed major differences in 3 of the past 5 years. The differences for landholder duty ranged from -22.3% to 358.9% and for transfer duty from -9.2% to 11.3%.

OSR does not know if incorrect estimates, a tax gap, or both, caused the differences. Until OSR identifies the reasons for the differences, it is not in a position to address potential tax gaps in its collection processes.

- OSR is aware of the risk that tax obligations can be underreported and that this can result in a tax gap. However, with the exception of vehicle licence duty, it does not estimate what the tax gap costs the state. Tax gap estimates provide a baseline for monitoring the loss of revenue and the impact of tax office actions to reduce the loss.
- In 2013, OSR estimated the vehicle licence duty tax gap and has been working on ways to collect some of it. In 2015 and 2016, it calculated new estimates but did not use results from its ongoing work to inform the estimates. An estimate based on actual experience would provide a stronger basis for measuring OSR performance in this area.
- There is a gap in OSR's public reporting of timely tax collection. OSR publicly reports on the percentage of tax assessments paid on time. In 2015-16, the figure was 90%. However, it does not say how much tax in dollars this represented or how soon it collected tax not paid on time. An internal measure OSR uses is tax debt less than 1% of tax collected. OSR performs well against this measure but by not reporting it publicly, it does not demonstrate that it gives adequate priority to collecting overdue taxes.

## Management of collection costs

- OSR does not use unit cost information to monitor if it carries out its activities at a higher or lower cost over time. This information would show which parts of its operations could become more efficient. The most important examples of what OSR does to measure its efficiency are:
  - Over the 5 years since 2011-12, OSR's efficiency key performance indicator – Cost to raise \$100 – has risen by 12.9%. An upward trend over time can indicate declining efficiency. While increases can be due to external factors outside OSR's

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<sup>1</sup> Landholder duty is payable when someone buys a major interest in a company or unit trust that owns land worth at least \$2 million.



control, such as public sector pay increases, they can also be offset by new systems, processes and continuous improvements. Whether the upward trend indicates declining efficiency can only be determined by regular monitoring of the costs of specific activities or services, which OSR did not do.

- OSR used 200 measures to track its core activities by volume. The results show volumes have increased over time. However, as OSR has received extra funding to do more over time, volume increases are not proof of increased efficiency. Unit cost information helps show if volume increases are due to greater efficiency or funding changes.
- OSR has programs underway to improve its operational efficiency. These include programs to make it easier for taxpayers to pay their tax electronically. Results to date are promising but it is too early to assess the impact.

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## Recommendations

1. By June 2017, OSR should provide regular reports to internal stakeholders on:
  - a. unit cost indicators for key activities or services
  - b. the impact of key activities and services on tax collection.
2. By December 2017, OSR should:
  - a. Determine whether it provides all the information its stakeholders need to readily evaluate its overall collection of taxes. This may involve using its website to display comparisons with tax estimates, tax gap estimates and tax not paid on time.
  - b. Identify the causes of the major differences between landholder duty and transfer duty collections and estimates and start to close these differences. This may include discussions with the Department of Treasury, government and other tax offices.
  - c. Start refining its tax gap estimate for vehicle licence duty. This is likely to involve using experience gained from the work it is doing to identify and investigate causes of the tax gap.
  - d. Determine whether it has all the information it needs to keep track of efficiency and provide the basis for well-informed external oversight. This may involve using its website to display the results.

## Response from the Office of State Revenue

The Office of State Revenue accepts the recommendations in the report and considers them achievable within the timeframes specified. State Revenue appreciates recognition of its effort to improve operational efficiency and service delivery by re-designing and simplifying its tax operations, including through programs that are making it easier for taxpayers to make electronic payments.

In broad terms, the recommendations and timeframes are consistent with the timetable of work already underway as part of State Revenue's 2016-17 Business Plan and the Department of Finance's 2015-2018 Strategic Directions. There are several factors likely to affect how State Revenue implements its findings once the analysis required by the recommendations has been completed.

The report places reliance on the use of tax gap estimates to indicate lost Government revenue and as a baseline measure of how State Revenue's programs affect taxpayer behaviour. Commonwealth and international research generally accepts that tax gap estimates, particularly for direct taxes, are not reliable indicators of a revenue administrator's performance due to the level of uncertainty associated with their measurement. State Revenue considers that tax gap analysis should only be published when the methodology and data is sufficiently robust to support the estimate. When this occurs, tax gap analysis should also be combined with other measures of effectiveness to give a more reliable indicator of performance. State Revenue is collaborating with its interjurisdictional counterparts to investigate a reliable methodology for estimating tax gaps on major State tax bases.

The report uses comparisons between revenue raised by State Revenue and the Government's mid-year revenue estimates as an indicator of revenue office performance. The Quarterly Financial Results Report published on the Department of Treasury website already includes comparisons of revenue raised with Budget estimates. Including an additional State Revenue performance target that incentivises the achievement of collections against revenue forecasts has the potential to undermine the fair and equitable administration of the revenue laws and potentially compromise the Commissioner of State Revenue's statutory independence.

State Revenue intends to publish more information on its website about its tax collection efficiency and effectiveness. In the longer term, the Department aims to complement this information with an improved suite of audited performance indicators in its Annual Report.

## Audit focus and scope

This audit examined how well the Office of State Revenue (OSR) collects state taxes.

Our specific lines of inquiry were:

1. Does OSR know the total value of taxes due to the state and how well it is collecting this amount over time?
2. Does OSR know what its collection costs are and is it actively managing them?

To assess how well OSR collected taxes we looked at the value of collections over time and how they compared to tax estimates, the tax gap, and payment trends.

In assessing how well OSR managed its collection costs we focused on unit costs. Specifically, we looked at how much it costs to collect a defined amount of tax as well as to carry out key activities or services like issuing assessments and conducting audits and investigations.

In undertaking the audit we:

- researched literature on assessing tax office performance
- reviewed OSR's strategic, business and operational plans
- analysed OSR's tax collection goals and objectives, and the indicators it uses to keep track of them
- reviewed OSR's programs and initiatives for improving efficiency
- interviewed staff responsible for various aspects of tax collection
- analysed data relating to these programs and initiatives to determine what impact they were having.

We did not review OSR's payment of grants and subsidies.

Wherever possible we audited at least 3 years of information (from 2013-14 to 2015-16), to look for trends in performance. However, some relevant programs and initiatives only operated over part of this period.

We conducted this narrow scope performance audit under section 18 of the *Auditor General Act 2006* and in accordance with Australian Auditing and Assurance Standards. Narrow scope performance audits have a tight focus and generally target agency compliance with legislation, public sector policies and accepted good practice. The approximate cost of tabling this audit was \$367,000.

## Audit findings

### OSR is collecting more tax over time but there is more tax that could be collected

OSR is collecting more tax over time and total collections compare well to government midyear tax estimates. This suggests OSR is doing well and provides assurance that tax collections are consistent with changes in economic conditions.

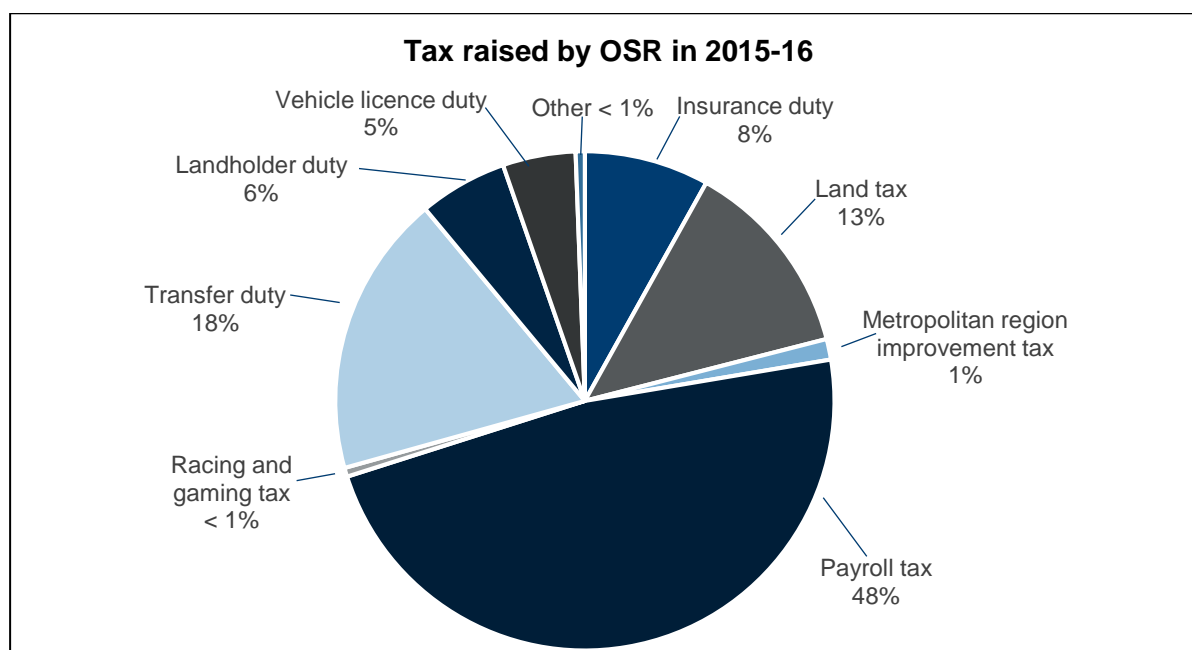
However, tax collections can also be evaluated by type of tax. We found major differences between tax collected and midyear estimates for landholder duty in 4 out of the past 5 years, and 3 out of the past 5 years for transfer duty. Comparing tax collected to estimates by type of tax can highlight possible areas of weakness that require special attention.

Another way of evaluating tax collections is by comparing them to the tax 'lost' to the state from taxpayer under-reporting. This gap is called the tax gap. OSR only estimates the tax gap for vehicle licence duty and this estimate is out-of-date. By estimating the tax gap, OSR would be able to show the impact of its efforts on reducing the tax gap over time.

Information about how often taxpayers pay their taxes on time can also help assess how well tax offices are collecting tax. OSR measures and reports how often taxes are paid on time. Currently the figure is 90% but OSR does not report on how well it collects taxes not paid on time. Performance information on collection of overdue taxes would provide assurance that OSR is ensuring the tax system operates fairly for all taxpayers.

### The amount of tax that OSR raised grew by \$1.3 billion in 4 years

OSR administers most state taxes. The 8 main types are listed in Appendix 1. In the period from 2011-12 to 2015-16, the revenue raised from these taxes grew from \$6 billion to \$7.3 billion. Payroll tax has been the single biggest source of revenue, followed by transfer duty and land tax. This pattern can be seen in OSR's 2015-16 tax collections (Figure 1).



Source: 2015-16 Department of Finance Annual Report and OAG

Figure 1: Tax raised by OSR in 2015-16

New tax laws and changes in economic conditions cause tax collections to rise and fall but tax offices have little or no control over these factors.

Extra funding can also increase tax collections. Since 2012-13, OSR has received an extra \$22 million in funding to carry out 4 packages of work to raise an estimated \$538 million additional tax. Most of the additional tax (84%) was expected to be raised by the 2013-14 Tax Administration Package (TAP). The other packages were the 2015-16 Revenue Resourcing Package, as well as the Payroll Tax Grouping and the State Tax Administration packages, both dating back to 2012-13.

The TAP consisted of 4 separate programs of work. In the first 2 years of TAP, OSR received more than \$2 million in extra funding and was expected to raise about \$308 million in additional tax. It actually raised almost \$443 million over this period. Most of the additional tax, almost \$237 million, came from a change in the law, suggested by OSR that allowed it to issue interim assessments.

Interim assessments allow OSR to collect agreed parts of a tax assessment even though other parts may be disputed. Interim assessments do not affect the amount of tax to be paid, but allow OSR to collect due taxes earlier.

The other TAP programs allowed OSR to do more of its existing work such as desk audits and issuing mid-complexity duties assessments (Table 1).

Actual tax raised			
TAP package	2013-14 (\$m)	2014-15 (\$m)	Total (\$m)
Outstanding returns	21.7	N/A	21.7
Desk audits	3.9	3.4	7.3
Mid-complexity duties assessments *	97.0	79.8	176.8
Interim assessments	196.7	40.2	236.9
<b>Total</b>	<b>319.3</b>	<b>123.4</b>	<b>442.7</b>

Source: OSR internal data

**Table 1: Actual tax raised from TAP extra funding**

\* Handled by senior assessors because the law or facts involved mean it is not a routine assessment.

## OSR's tax collections generally compare well to midyear tax estimates

Overall, OSR's tax collections compare well to midyear tax estimates. Two types of tax showed major differences in the past 5 years. Comparing tax collections to tax estimates can identify where corrective action is needed, such as changes to the estimates or added focus on collecting the tax.

Government regularly estimates tax collections for the Budget and revises them during the year in the Midyear Financial Projections Statements, commonly known as the midyear review. OSR is consulted about the estimates beforehand. The Department of Finance's annual financial statements include tables comparing OSR's tax collections to government estimates. When there are major differences between them, the financial statements include explanations.

We assessed OSR's collections to midyear estimates. Unlike Budget estimates, which are prepared several months before the start of the related financial year, midyear estimates reflect updated economic conditions and current tax laws. We also used OSR's latest definition of 'major' differences (greater than 5% and \$25 million). Using this definition resulted in a more favourable outcome for OSR than comparing actual tax collections to Budget estimates.

The midyear comparison identified major differences in:

- transfer duty in 2014-15
- payroll tax, transfer duty and landholder duty in 2015-16.

When our analysis was extended back to 2011-12, landholder duty showed major differences in 4 of the 5 years and transfer duty in 3 years. The actual differences for landholder duty ranged from about -22% to almost 359%. For transfer duty, the range was from -9% to 11%.

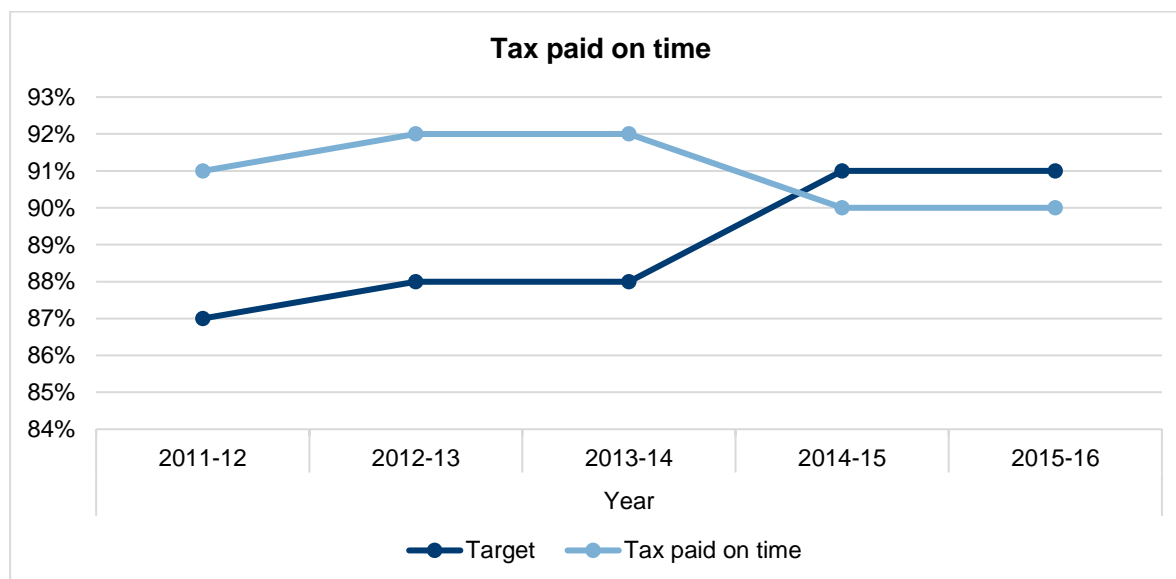
OSR does not know the extent to which the estimates are incorrect or if the differences represent a tax gap, or both. Until OSR knows this, it cannot determine what changes may be necessary in its collection processes.

### Ninety percent of OSR's tax assessments are paid on time

The publicly reported rate of tax paid to OSR 'on time' has varied since 2011-12, but has been steady at 90% since 2014-15. At the same time, OSR does not publicly report on what this represents in dollars of tax. It also does not report on how well it collects overdue taxes. Reporting on what happens to overdue taxes provides assurance that all taxpayers are treated equally. We also identified an issue with how OSR calculates the rate of tax paid on time. OSR is reviewing this matter.

OSR has an audited key performance indicator (KPI) on 'Extent to which due revenue is collected'. The indicator compares the number of issued assessments paid by the due date to the total number of assessments issued. An upward trend may free up staff to issue more assessments, and therefore increase total tax collections. A downward trend may cause the opposite to occur.

In March 2014, during the Budget process, the Commissioner of State Revenue increased OSR's target for 2014-15 to reflect the actual results from 1 July 2013 to March 2014. As shown in Figure 2, voluntary compliance in the past 5 years has been at between 90% and 92%. It is only in the past 2 years that OSR's performance has been below the target.



Source: Target figures taken from Budget Papers. Actual tax paid on time taken from Department of Finance Annual Reports.

**Figure 2: Tax paid on time from 2011-12 to 2015-16**

These publicly reported KPI results indicate the impact of OSR's efforts to improve timely payment of tax. The more tax paid in a timely manner, the less effort and resources OSR has to devote to chasing up overdue tax.

During our audit, we identified an issue with how OSR calculates its performance for this KPI. We expected it to use assessments paid on time in all cases. However, OSR uses returns lodged on time for returns-based taxes such as payroll tax. When we brought this to OSR's attention, it immediately began a review.

We also noted that there was no readily available public information showing what the 90% rate means in total tax dollars. Translating the rate into tax dollars collected on time would be more meaningful to stakeholders.

In addition, OSR does not publicly report on how well it collects overdue taxes. Reporting on this aspect of tax collection would help show government and the community that OSR seeks to collect all tax obligations.

OSR has an internal indicator that may help fill this gap. It measures 'debt as a percent of revenue collected' at 30 June. We found:

- up until 2012-13, the target was 1.8%. In 2013-14, the target was lowered to 'no more than 1%'
- OSR did not meet the lower target in 2013-14 when it recorded a result of 1.07%, but has met the target since, 0.86% in 2014-15 and 1% in 2015-16.

This suggests that OSR is managing this part of tax collection well.

### **OSR does not know what the tax gap costs the state in 'lost' tax**

With the exception of vehicle licence duty, OSR does not estimate the tax lost through the tax gap from taxpayers underreporting their tax obligations. Taxpayers may do this unintentionally, carelessly or deliberately. Without this information, government lacks important information for monitoring the tax gap and OSR lacks a useful baseline for measuring how its activities affect taxpayer behaviour.

OSR currently runs 20 programs to improve taxpayer compliance. However, the programs do not include initial estimates of the tax gap, which means OSR does not have a benchmark it can use to measure if its programs are effective in reducing the tax gap.

### **OSR can improve its estimate of the tax gap for vehicle licence duty**

OSR has an ongoing concern about the effect that understating the declared value of a vehicle has on vehicle licence duty. As a result, it estimated the tax gap in 2013 and has a program to identify and check suspect transactions. It calculated a new estimate in 2015 and again in 2016 but did not use the knowledge gained from its program to refine the calculations. In the absence of this information, OSR does not know if the resources it has set aside to identify and check suspect transactions are adequate.

#### **Case study: Estimating the tax gap for vehicle licence duty**


Vehicle licence duty is payable by a purchaser of a new or used vehicle. The duty is calculated on the declared value of the vehicle subject to some concessions, and paid when the licence is granted or transferred.

In some cases no duty is payable. This may be because of exemptions that apply to the type of vehicle, for example a caravan or camper trailer or a vehicle fitted with a wheelchair hoist; or to the purchaser, for example a charitable organisation or a local, state or federal government department.

The Department of Transport is responsible for processing both the transfer and the payment. It then passes the duty to OSR along with licence transfer information, including the vehicle's declared value. OSR has the power to issue re-assessments for example



We audited vehicle licence duty collection in 1998<sup>2</sup> and were critical of a general lack of procedures for verifying the declared value of a vehicle. Transport told us its procedures for assessing the duty on car sales have not changed since, although it has inserted a warning in the application form (excerpt below) about the legal consequences of understating a vehicle's value.



Government of Western Australia  
Department of Transport

Seller's Copy (green copy) **MR9**

# Notification of Change of Ownership

## Vehicle Licence Transfer

**Save time, transfer online with your DoTDirect account at [www.transport.wa.gov.au](http://www.transport.wa.gov.au) (individuals only)**

This form must be completed and signed by both the seller and the purchaser. The seller must mail the seller's copy to: **Driver and Vehicle Services, GPO Box R1290, Perth, WA 6844** within 7 days of the sale or an infringement penalty may be applied.

**Vehicle Details (Details to be completed from vehicle licence papers)**

<b>PLATE NUMBER</b> <div style="border: 1px solid black; height: 30px; width: 100%;"></div>	<b>LICENCE EXPIRY DATE</b> <div style="border: 1px solid black; height: 30px; width: 100%;"></div>	<b>ODOMETER READING</b> <div style="border: 1px solid black; height: 30px; width: 100%;"></div>
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If the vehicle has optional number plates fitted, you must also transfer the ownership of the Right to Display entitlement. See reverse page

<b>MAKE</b> <div style="border: 1px solid black; height: 30px; width: 100%;"></div>	<b>MODEL</b> <div style="border: 1px solid black; height: 30px; width: 100%;"></div>	<b>BODY TYPE</b> <div style="border: 1px solid black; height: 30px; width: 100%;"></div>	<b>TRANSMISSION TYPE (PLEASE TICK ✓)</b> AUTOMATIC <input type="checkbox"/> MANUAL <input type="checkbox"/>
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<b>CHASSIS/VIN NUMBER</b> <div style="border: 1px solid black; height: 30px; width: 100%;"></div>	<b>ENGINE NUMBER</b> <div style="border: 1px solid black; height: 30px; width: 100%;"></div>	<b>YEAR OF MANUFACTURE</b> <div style="border: 1px solid black; height: 30px; width: 100%;"></div>
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<b>SELLING PRICE</b> <div style="border: 1px solid black; height: 30px; width: 100%;"></div>	<b>DUTIABLE VALUE (SEE DEFINITIONS OVERLEAF)</b> <div style="border: 1px solid black; height: 30px; width: 100%;"></div>	<b>DATE OF DISPOSAL/PURCHASE</b> <div style="border: 1px solid black; height: 30px; width: 100%;"></div>
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**Selling price and Dutiable Value must be completed for the transfer process to proceed**

**WARNING**

A seller or purchaser who understates the purchase price or Dutiable Value of a Vehicle or who provides information which is false in a material particular (important details) commits an offence under the Duties Act 2008 and is liable to a penalty of \$20,000. The seller and the purchaser are liable for the payment of the amount of shortfall of Vehicle Licence Duty to the extent of the amount understated, together with a penalty of 100% of that Duty.

In 2013, OSR estimated the tax gap at between \$1 million and \$4.7 million. To do this, it compared licence transfer information to third party lists of vehicle values (RedBook). The total of all differences was used to estimate the higher figure. This is likely to have overstated the actual tax gap, as some vehicle values can justifiably be lower than the RedBook values. Examples of this include accident history or the kilometres recorded on the speedometer.

- it quantified the cost to the state
- it provided a useful basis for evaluating OSR's program to identify and check suspect declared values.

<sup>2</sup> Controls, Compliance and Accountability Audits 1998, Report No 8 – October 1998.



## OSR could do more to show it operates efficiently

OSR generally uses sound measures to report internally on its core activities. But, there is a lack of unit cost information. Therefore, OSR does not know if efficiency is increasing or decreasing at an activity level.

Externally, OSR reports on how well it meets its 7 customer service standards. In the interests of transparency and accountability, we expected at least the same weight given to how well it collected tax and its efficiency.

### OSR uses generally sound measures to track its core activities

OSR's measures generally complied with good practice. We checked 200 operational measures and tested in detail a sample of 5 of those that are regularly reported to executive management. We selected the sample based on our evaluation of their importance to tax collection. Measures are easier to understand and apply consistently, when they are objective and clearly linked to strategic goals. Appendix 2 lists the criteria we used to test whether the measures were soundly based.

In 2015-16, OSR used around 450 measures to show how well it was implementing its strategic, business and operational plans. The measures had varying degrees of relevance to efficiency. OSR used some to help allocate resources, others to monitor activity levels and others to keep track of tasks and their completion.

OSR identified 200 as related to core activities and services. We found these were generally sound. The measures clearly defined the activity or service involved and the targets were set objectively using numbers and values that could be specifically measured.

In addition, we expected the 30 measures regularly reported at executive management level would satisfy 6 basic criteria. We found our sample satisfied all relevant criteria.

At the same time, we identified 2 minor deficiencies in the measures. The deficiencies did not affect the quality of the measures, but did reduce transparency and accountability. The 2 were:

- The absence of documented acceptable performance ranges, above or below the target, within which activities can be managed without the need for additional action. OSR told us it has a general range of 10% above or below the target but there was no record of this.
- Information on what action to take when performance was outside the range.

### Performance monitoring would benefit from using information about the unit cost of activities

OSR has the ability to generate cost information at the level of individual activities but does not do so as part of its regular performance monitoring. OSR's total cost to raise \$100 in tax has been generally increasing. This is useful to know but properly evaluating efficiency requires cost information on individual activities, like assessments by type of tax. Activity cost information also helps agencies identify and take timely action to deal with activities having the greatest impact on costs.

A cost to raise \$100 in tax ratio is commonly used by other tax offices in Australia and overseas because it is relatively simple to understand. A downward trend in the ratio is evidence of a possible reduction in relative costs, that is, improved efficiency. An upward trend may indicate the opposite is happening.

At the same time, factors unrelated to changes in tax office efficiency can influence the ratio. For instance, higher rates of tax can cause the ratio to fall without any improvement in

efficiency and lower rates can have the opposite effect. Nonetheless, performance trends against this ratio provide a useful starting point for evaluating costs.

The ratio is reported in the Department of Finance's Annual Report. The results in Table 2 show costs went up over the past 5 years from a low of \$0.62 in 2011-12 to a high of \$0.71 in 2014-15. The cost in 2015-16 was \$0.70. OSR attributes the increases to economic conditions outside its control as well as to a large, unanticipated increase in legal costs.

	2011-12	2012-13	2013-14	2014-15	2015-16	% change 2011-12 to 2015-16
Revenue (\$m)	6,015	7,034	7,325	7,179	7,315	21.6%
Expenditure (\$m)	37	44	49	51	51	36.1%*
Cost per \$100	\$0.62	\$0.62	\$0.66	\$0.71	\$0.70	12.9%

OAG and OSR

**Table 2: Change in cost to raise \$100 in tax between 2011-12 and 2015-16**

\*Percent calculated on unrounded expenditure figures.

Given the 12.9% increase in this indicator across the last 4 years, we expected the trend would prompt OSR to check the costs of its most important activities. We found it did not have unit cost information for any of its 200 core activity measures. This included costs of audits and investigations, which are important tools for enforcing taxpayer compliance with the tax system.

During the audit, OSR provided results for 5 efficiency cost indicators measuring the average cost for various activity categories including per insurance duty client, payroll tax client, and manual assessments of duties. OSR used these indicators prior to 2013-14 but stopped doing so when it changed to the cost to raise \$100 revenue ratio.

The results showed all 5 average costs increased between 2012-13 to 2015-16 in a range from 8% for payroll tax to 73% for manual assessments of duties. OSR provided reasonable explanations for all but the 49% increase for insurance duties. OSR said the total cost involved to administer insurance duty clients was only a small part of the overall total to administer all 5 of the cost categories. It also said the total number of insurance duty clients was very small, ranging from 340 in 2012-13 to 369 in 2015-16.

We found the ratio of insurance client administration costs to total costs rose by 38% between 2012-13 and 2015-16. We accepted a change of up to 10% as reasonable but expected anything above would prompt a cost review including action if considered necessary. OSR did not do this.

A new project to develop efficiency measures started during our audit but these measures will not be available for review until next year.

### **Programs to increase efficiency have had promising early results but the full impact is unknown**

OSR has programs underway to improve its service delivery, including efficiency. Results to date are promising but it is too early to say what the overall impact will be.

The overarching intent of these programs is to make it easier and more convenient for taxpayers to comply with their tax obligations. OSR is trialling various actions, including letter writing campaigns, form redesigns and encouraging greater use of OSR's Revenue Online.

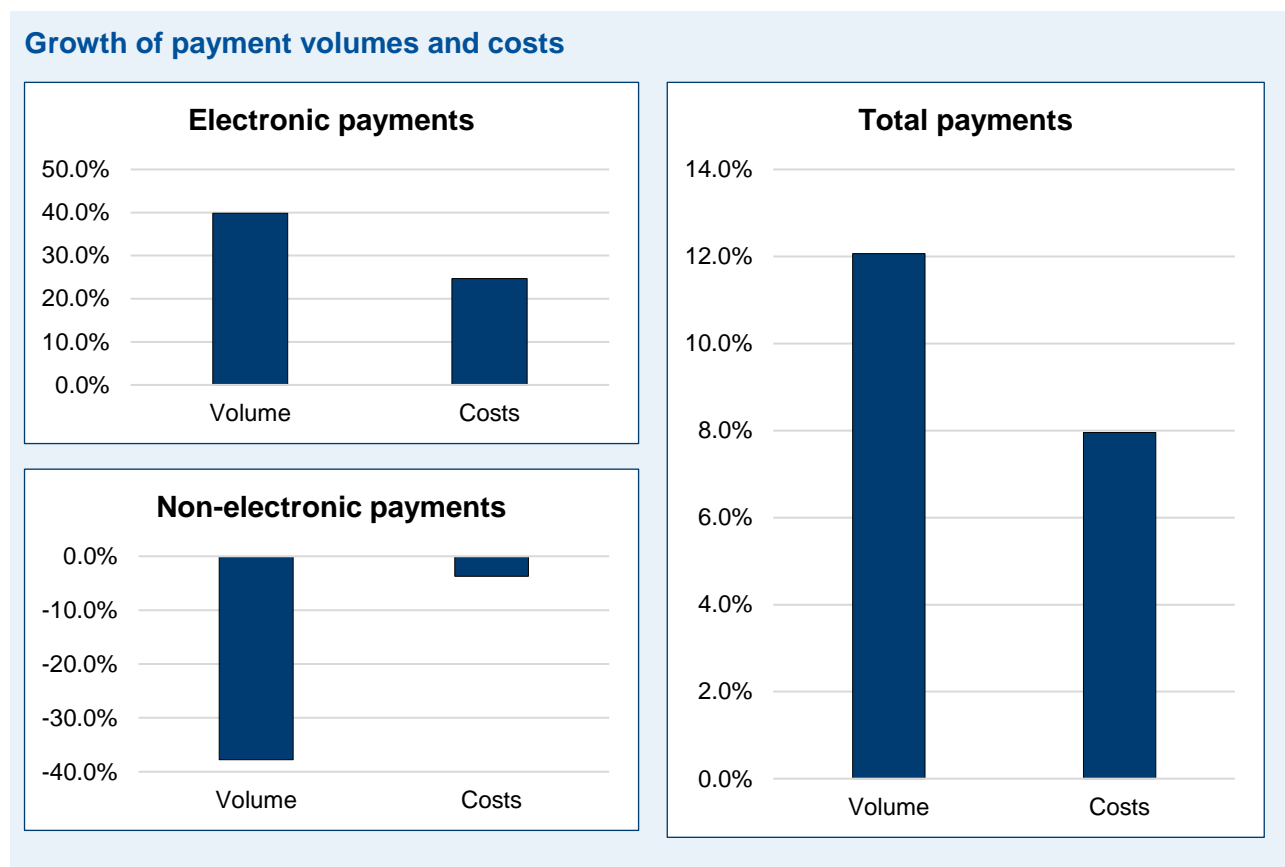
In February 2015, OSR approved a formal business case to run these programs. Since then it has set up strong management controls to oversee them and various trials before making

permanent changes to its business processes. Both of these features represent good project management. The first trial results are not expected before 30 June 2017.

However, OSR may find it difficult to demonstrate that these programs are responsible for improvements in areas like payroll tax where it has also received more funding to do more work.

Further, since 2012, OSR has been identifying preferred ways of delivering its services. For example, allowing taxpayers to use BPAY and credit cards to pay their taxes.

OSR data on electronic and manual payments, by volume and by cost, shows significant changes in volumes and processing costs between 2010-11 and 2015-16 (Figure 4).



**Figure 4: Growth of payment volumes and costs between 2011-12 and 2015-16**

The slower rate of the increase in costs compared to the increase in tax payment volumes suggests efficiency has improved in this area. The main contributor to this efficiency is the increase in electronic payments. But, a significant decrease in non-electronic payments has not yet translated into a similar rate of decrease in the cost.

### Public reporting of performance is limited and OSR could do more

OSR's public reporting of its performance is weighted in favour of compliance with customer service standards. We expected at least equal weighting on how well it is using its funding to collect tax and the efficiency with which it is doing this. However, OSR reports its performance internally in a timely way and at an appropriate level. This gives management a strong foundation for monitoring performance.

In 2015-16, OSR reported publicly against 11 measures. The reports included targets as well as results, and explicit statements about whether the results met the target. These characteristics represent good practice.

However, the focus was on reporting performance against customer service standards rather than tax collection. Customer service standards accounted for 7 of the 11 measures reported externally<sup>3</sup>, or 64% of the total, which was third highest amongst Australia's 9 tax offices. OSR could improve its public reporting to satisfy the information needs of all its stakeholders.

OSR's approach to the reporting of internal measures involves deciding on a case-by-case basis what it reports, to whom, and how often. We consider this approach reasonable, given that different measures will vary in significance to different levels of management.

In assessing internal reporting, we focused on operational measures linked to delivering core products and services. We found this category of measures was appropriately reported monthly to line management, and quarterly to executive management.

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<sup>3</sup> The other 4 were audited KPIs, only 2 of which related to tax collection in the broad outcomes sense we have defined the term for this audit.

## Appendix 1: Types of tax administered by OSR

The 8 main tax types are listed in order by value of actual tax raised in 2015-16.

	Name	Description <sup>4</sup>	Total tax raised 2015-16 (\$m)
1	Payroll tax	A general tax paid by an employer or group of employers who pay wages in WA when their total Australian wide wages exceeds \$70,833 a month. These employers must register, lodge and pay their payroll tax electronically using OSR's Revenue Online (ROL).	3,500
2	Transfer duty	A general tax imposed on transactions involving dutiable property (whether documented or not) including transfers of real estate and certain business assets.	1,300
3	Land tax	An annual tax on land owned on 30 June and calculated on its unimproved value. The land tax is nil where the total unimproved value is \$300,000 or less. Over that value, the tax varies from \$300 to more than \$186,000.	946
4	Insurance duty	Payable on general insurance policies and calculated at a rate of 10% on the policy premium. Common general insurance policies cover motor vehicles, and house and contents. The duty is payable if the insurance applies to a WA property or a risk or event that may occur within, and/or partly within, WA.	592
5	Landholder duty	A duty charged on purchases of a significant interest in a corporation or unit trust scheme that has an entitlement to land in WA with an unencumbered value of \$2 million or more.	419
6	Vehicle licence duty	Vehicle licence duty is payable when a motor vehicle is licensed or a current licence is transferred. These events normally occur when someone buys a new or a used vehicle.	346
7	Metropolitan region improvement tax (MRIT)	Payable in addition to land tax on property located in the metropolitan region. If land is not subject to land tax, it will not be liable for MRIT.	98
8	Racing and wagering WA tax	Tax paid on bets.	42

In 2015-16, OSR also raised over \$43 million in 'Commonwealth mirror taxes'. These are state taxes levied on Commonwealth territory but as a Commonwealth tax and returned to the state in the form of a grant.

<sup>4</sup> Descriptions taken from OSR's website at 18 October 2016.

## Appendix 2: Criteria for testing measures and targets reported to executive management

We checked if our sample of these measures and targets:

- were evidence-based, that is derived from surveys, statistical sampling, operational data or similar evidence. This helps build trust in the measures
- were linked to strategic and operational planning, that is they showed a strong relationship with goals, objectives and outcomes
- included quality, quantity and timeliness information, to enhance the effectiveness as measures of performance
- were regularly reviewed and updated. Measures and targets lose their usefulness to drive performance improvements if they are not regularly reviewed.
- set out consequences for over and under performance, to increase the likelihood of consistent action being taken
- were comprehensive, meaning as a group they give a balanced picture of the organisation and its service delivery.

Auditor General's Reports		
Report number	Reports	Date tabled
30	Assessment of Progress to Improve Payment Security for Government Construction Subcontractors	22 December 2016
29	Improving Immunisation Rates of Children in WA	21 December 2016
28	Malware in the WA State Government	7 December 2016
27	Opinions on Ministerial Notifications	7 December 2016
26	Opinion on Ministerial Notification	23 November 2016
25	Opinion on Ministerial Notification	9 November 2016
24	Audit Results Report – Annual 2015-16 Financial Audits	9 November 2016
23	Western Australian Waste Strategy: Rethinking Waste	19 October 2016
22	Opinion on Ministerial Notification	13 October 2016
21	Opinion on Ministerial Notification	6 October 2016
20	Ord-East Kimberley Development	7 September 2016
19	Information and Communication Technology (ICT) in Education	17 August 2016
18	Opinions on Ministerial Notifications	11 August 2016
17	Financial and Performance Information in Annual Reports	21 July 2016
16	Grant Administration	7 July 2016
15	Management of Feedback from Public Trustee Represented Persons	30 June 2016
14	Management of Marine Parks and Reserves	30 June 2016
13	Maintaining the State Road Network – Follow-on Audit	29 June 2016
12	Regulation of Builders and Building Surveyors	22 June 2016
11	Information Systems Audit Report	22 June 2016
10	Opinions on Ministerial Notification	8 June 2016
9	Payment of Construction Subcontractors – Perth Children's Hospital	8 June 2016
8	Delivering Services Online	25 May 2016
7	Fitting and Maintaining Safety Devices in Public Housing – Follow-up	11 May 2016
6	Audit of Payroll and other Expenditure using Data Analytic Procedures	10 May 2016
5	Audit Results Report – Annual 2015 Financial Audits – Universities and state training providers – Other audits completed since 1 November 2015; and Opinion on Ministerial Notification	10 May 2016
4	Land Asset Sales Program	6 April 2016
3	Management of Government Concessions	16 March 2016
2	Consumable Stock Management in Hospitals	24 February 2016
1	Supplementary report Health Department's Procurement and Management of its Centralised Computing Services Contract	8 June 2016 17 February 2016

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