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Assisting compliance and managing tax risks in the large market: understanding ATO approaches and perspectives'



Speech by Jim Killaly, Deputy Commissioner of Taxation, Large Business and International (Case Leadership) to the Fifth Annual Corporate Tax Forum, Sydney, 18 May 2009.

Thank you for the opportunity to speak today about assisting compliance and managing tax risks in the large corporate market.

During the 2007-08 financial year the Tax Office redefined the large business taxpayer population from business groups with an annual turnover greater than \$100 million to those with turnovers of more than \$250 million. In broad terms this represents a reduction from around 1900 groups in 2006-07, counted as large businesses, to a population comprising the top 1200 or so groups.

This has allowed the Tax Office to increase its risk assessment focus on this segment, including through the 'book-to-tax' project. It has allowed us, at the same, time to increase efforts to provide certainty and support through priority rulings and products like the Annual Compliance Arrangement and the Forward Compliance Arrangement.

These top 1200 groups pay about 35% of the total tax and 50% of the GST collected by the Tax Office. This segment includes around 80 superannuation funds with 18 million member accounts. The segment has significant tax and superannuation responsibilities in relation to its 25% share of the Australian workforce.

The segment is also the focus of a lot of investment activity by depositors, shareholders and unit holders, ranging from individuals to major businesses and investment institutions. Information about dividend and interest payments feeds into systematic income matching programs run by the Tax Office to support disclosure of income.

In the course of major transactions, or in developing new products, large businesses will often ask for a private ruling on the Tax Office view of the way the tax law operates. Consultation routinely occurs in relation to public

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rulings.

As part of the process of understanding the underlying economic trends in various industries, and what that might mean for revenue forecasts the Tax Office will, from time to time, conduct surveys of large businesses. This is particularly important in the context of the global financial crisis, and assists the Tax Office in striking the right balance between assisting those who need help to voluntarily comply in difficult circumstances, and identifying and dealing firmly with those who do the wrong thing.

The Tax Office also has various liaison arrangements that include large business representatives which look at important aspects of implementing administrative approaches and review current hot topics.

Taking all these aspects into account, one can readily see that the relationship between the Tax Office and the large business segment is multi-faceted and complex. This is often true also at the level of particular corporate groups where we may be providing rulings, discussing forward compliance, doing risk reviews or audits, litigating or settling issues, discussing economic factors affecting their industry, and trying to estimate final tax instalment payments. In some instances the Tax Office may be pursuing enquiries in relation to clients of the particular multinational, as has been the case with our follow up of certain Australian taxpayers investing in tax havens.

In the 2007-08 financial year companies with a turnover greater than \$250 million paid company tax of \$37.9 billion, which was around 61.4% of total company tax. This compares with \$37 billion paid in 2006-07, representing around 65.1% of total company tax and \$31.7 billion in 2005-06, again representing around 65.1%.

This level of tax revenue is a significant contribution that needs to be acknowledged.

At the same time we need to understand the reasons for the level of (and movement in) contribution from this sector from year to year, and to satisfy ourselves that it is consistent with the patterns, trends and drivers behind key benchmarks like gross operating surplus and industry performance. We are seeing the impacts of the global financial crisis on company tax payments. However, the Tax Office will continue to be discerning in distinguishing between businesses showing the causal impacts of the downturn, and cases where taxpayers may opportunistically use the crisis as a justification for what is really non-compliance or tax avoidance.

The compliance challenge for the Tax Office is to ensure that the tax performance of the top 1200 groups has been sufficiently uniformly good so as not to present a material risk to the whole revenue take, making proper allowance for current financial conditions, and that no large businesses are getting a competitive advantage by underpaying their Australian tax. The other key aspect is to ensure that even in relation to large businesses that are paying a lot of tax, that they are paying the right amount. Our casework is strongly indicating that in recent years, despite a reasonably high level of voluntary compliance in this segment, in some cases there are significant risks to the revenue that will require further attention by the Tax Office.

In our view the size and complexity of multinational groups, and the large numbers in their balance sheets and profit and loss statements, bring their own elements of tax risk. These risks are increased by the constantly changing context, group memberships and ways multinationals conduct business.

The framework of tax law that overlays the activities of large multinational groups can bring its own complexities and areas of uncertainty. How this plays out depends on the vigilance of the Tax Office, the ability of both sides to understand and manage the various levels of complexity, and the relationship between the Tax Office and the large business sector, generally and at the individual case level. Where taxpayers are open about the issues they face and seek dialogue with the Tax Office, the complexities and uncertainties can usually be sorted out. The Large Business and International business line commits a significant amount of its resources to the private rulings process and across the growing suite of cooperative compliance products that I referred to before. Centres of Expertise and Tax Counsel also make a major contribution. For its part, the Tax Office has also sought to flag issues with industry through the Public Rulings process, discussion papers, taxpayer alerts, and the various technical and compliance management liaison forums.

The Tax Office understands, and accepts, that it is appropriate for large businesses to consider the tax implications of their structures and operations and the choices that might be available to them under the law. This will be an ongoing feature of this environment, though there are signs that the intensity of this focus is increasing and that taxpayers, and in some cases advisers, are devoting more time to what we often hear referred to as 'strategic tax issues and opportunities'.

The area of concern for the Tax Office is where a particular adviser or large business has a significant appetite for

risk, and is prepared to adopt a tax planning mindset that runs counter to the policy purpose and language of the tax laws. In some cases we see taxpayers attempting to navigate around a whole series of tax provisions with the consequence that highly contrived and artificial arrangements are needed.

The hallmarks of these cases usually include structures that are far more complex than is needed to achieve a business outcome, fund flows that are circular or offsetting, arrangements that achieve a result that is inconsistent with the real world of the taxpayer group (like paper losses where there is no real loss, or tax arbitrage generated without a real underlying transaction or set of operations that add real value for the group), or arrangements that produce multiple tax advantages. Where cases present such anomalies that pose a significant revenue risk or undermine the legislative intent, it can reasonably be expected that the Tax Office will seek to challenge the outcome.

Our research and casework show that cross-border investment, trade and financing are significant features of much of this segment. The fact that very large amounts of cross border trade and investment are with related parties adds another dimension of risk, if those dealings are not properly managed. While transactions between the related parties wash out in the process of the group preparing its consolidated accounts, and hence do not reflect the generation of additional wealth for the group, they can have major impacts in terms of the tax impacts across the different countries where the group is operating. We have seen some cases with extensive tax planning in this area. This is why the Tax Office will remain active in examining transfer pricing, corporate restructuring, and group treasury and financing arrangements. It is also why we will continue to promote Advance Pricing Agreements, in appropriate cases, so that taxpayers can openly discuss any complex transfer pricing issues with us to see if an agreed approach can be reached.

One of the difficulties in advocating corporate citizenship in relation to tax compliance is that the benefits that large businesses derive from things like the rule of law, infrastructure development, the recognition of patents and copyrights, the protection of property, financial regulation (and the push for better transparency and regulation in that sector), and the negotiation of treaties, cannot be directly related to the balance sheet and profit and loss statement of a large business. In fact there is no asset or income that flows directly from tax expense; which is why there can be a temptation for some large businesses to regard the payment of tax as a cost that should be minimised or avoided. Australian based multinationals are more inclined to speak in terms of tax payments being 'optimised' since they may see important advantages in being able to pass imputation credits on to their shareholders, which in turn may help their share price.

Some large businesses (some foreign, some Australian based) show a reluctance to engage in tax avoidance and take great pride in their reputation as good corporate citizens.

Another structural dynamic affecting tax compliance in the large market is the positioning still being adopted by tax havens and other low tax jurisdictions. We sometimes hear comments by countries that their tax administration has, as one of its objectives, 'to grow the pie' for their country. I think there are strong indications that these countries grow their pie by eating someone else's lunch, by competing on tax rates and, in some cases, by refusing to exchange information.

To my mind, it is not fair that countries can compete to attract trade and investment on the basis of the secrecy they offer.

While one must accept that harmonisation of tax systems is not feasible, and probably not desirable, I think that it is clear that increasing transparency and international cooperation must continue to be a strategic focus if tax abuse is to be contained. Part of this is the task of the tax administrator. So, from a risk assessment and risk management perspective in relation to the large business sector, the Tax Office will continue to scrutinise any dealings large businesses conduct in low tax jurisdictions that may potentially adversely affect their tax position in Australia.

We will also be maintaining an active ongoing interest in the role of any large businesses that facilitate tax haven structures, accounts or dealings for clients seeking such services, or that operate as a reference point for such clients.

The Tax Office is conscious of the need to keep compliance costs to the minimum necessary to make a reasonable assessment of tax risk, and to follow up any issues warranting further investigation. We are also conscious of the need to ensure that the approach that we take to compliance management is even handed, and that large businesses, in competition with each other, are all treated appropriately in accordance with the requirements of the tax law and administrative fairness. We do not want the good compliers in the large business sector disadvantaged by the poor compliers.

That said, the Tax Office does not have the resources to follow up every possible tax risk. Our approach to compliance by large businesses must necessarily continue to be a risk based approach that is focussed on the identification and treatment of the causes of material issues that have the potential to adversely and inappropriately affect the mainstream of the company tax base. So, the first classification is to separate those cases that show good compliance from those showing aberrations in their tax performance relative to their economic performance or industry peers. We will always seek to leverage this risk-based approach by identifying leading cases and, more recently, by adopting sectoral or thematic approaches which might assist in the development of more general approaches and ensure prompt follow up of similar cases. Some examples are our ongoing focus on the aberrant cases in the high value sectors of the large market segment like energy and resources, banking and finance, and pharmaceuticals, and the topic focus on transfer pricing, corporate financing, group restructuring and losses.

In recent times there is a lot of discussion about what the marketing spiel refers to as 'the optimisation of the supply chain'. We see a lot of this discussion being generated by some professional firms who seem to be promoting a service based on the tax advantages that might be available. I say that simply because it seems to be the tax consulting part of the professional firm, or the tax section within the multinational group, that is promoting the restructuring and developing the rationale that is said to allow the offshore party to impose additional charges on the Australian side of the operations - or allow some of the revenue to arise in another country. It may be that in some cases tax is being overpaid in Australia. I put it no higher than saying that we will pay careful attention to such restructures that focus on the taxation outcomes. Such cases can be readily contrasted with cases where the business itself, or with the use of external expertise and assistance, has identified ways to improve its revenues or reduce its costs, or both, with a view to increasing its profitability.

One example we have seen in recent times is some multinationals establishing 'marketing hubs' in low tax jurisdictions and seeking to allocate billions of profits to those hubs by billing the Australian side of the business year after year for various 'services'. In some cases the ability of these marketing hubs to create wealth for the group, independent of the tax savings, appears dubious. An associated difficulty, in some of these cases, is the fact that the country hosting the marketing hub will not disclose information regarding the basis, and any tax incentives upon which the marketing hub was established and operates in the low tax jurisdiction. I might also add that in some cases we have encountered large businesses have not been completely open with the Tax Office about the arrangements they make with other tax authorities in relation to rates of tax payable.

We are also seeing some cases where Australian taxpayers are being charged for the use of intangibles, the ownership of which has been transferred to a tax haven. The Tax Office, and those responsible for the company's tax affairs, cannot operate on the basis that the intangible can be assumed to exist. It needs to be clearly established how it came to exist and who contributed to its creation.

In one case the intangible seems to have nothing to do with Australia. It has nevertheless formed the basis of a back to back licence and sub-licence back to the company licensing the intangibles, and the sale of a right to receive royalty payments to the Australian side of the business. Since the purchase of the stream of royalty payments required borrowings on the Australian side, the arrangement creates financing costs in Australia which are claimed as tax deductions. There does not appear to be any consideration of the fact that such a right is a mere expectancy which, even if other issues could be resolved, would seem to create contingencies that could impact the value of such an asset. Those contingencies do not appear to be able to be controlled from the Australian side. Given the uncommercial nature of the arrangement, consideration is being given to the application of the general anti-avoidance and the transfer pricing provisions.

Some elements of supply chain restructuring adopted by the more aggressive taxpayers depend on splitting normal business operations into a series of components, for example the separation of risk incidence and the use of intangibles from the normal run of business operations, and placing those elements in a tax preferred jurisdiction. This is done on the basis that the assumption of the risk and the ownership of the intangibles justify the bulk of the reward. The consequence, according to this line of thinking, seems to be that Australia is entitled only to a basic (lower) rate of return for what is done here and the bulk of the profit no longer arises in Australia and is sheltered from tax (or subject to a much lower tax rate) in another country.

There appear to be no concerns on the part of the proponents of such arrangements regarding capital gains tax impediments to such restructuring. While we are still exploring this aspect and have not formed concluded views, the activity we are seeing is presumably proceeding on the basis that either the scope of such measures is thought not to give rise to any taxation in Australia, or that roll-over relief or capital loss offsets are available. A number of such cases are currently under review by the Tax Office.

The Tax Office has concerns that in some cases the benefit that flows from the restructuring and transfer pricing

strategies derives principally, if not wholly, from the tax savings by reducing tax paid in Australia. Were such techniques to become mainstream across the top 1200 corporate groups, for example if the large businesses doing the right thing were faced with competitive pressures to adopt similar behaviour, the effect on Australia's tax base could be serious. Accordingly, we will continue to maintain coverage of cases that show tax performance to be poor relative to the economic performance of the business. We will continue to test all key assumptions behind restructuring and transfer pricing strategies that have material tax impacts to ensure they are soundly based having regard to the business context, and to ensure that transfer pricing and other tax rules have been properly implemented.

In one case we have seen that the disposal of part of a business to independent parties was scheduled to take place after the Australian side of the operations had been restructured and the assets being disposed of were revalued from cost to market price in reliance on the tax consolidation rules. The market price was set on the basis of a projection of what the group would receive from selling down its interest in a particular line of business. In fact the sale realised a smaller figure but the group still made a significant accounting profit. However for tax purposes it returned a significant capital loss so it paid no tax on the profit on the Australian side of the transaction. The Tax Office is currently examining the application of the general anti-avoidance provisions to this case.

Another important area of focus is corporate finance, both in relation to some domestic structures and in relation to cross-border finance.

On the domestic front the Tax Office is currently engaged in litigation of two major cases involving group financing structures. The tax shortfall and associated penalties and interest in contention in these cases total around two billion dollars. Each case is anomalous in the sense that multiple deductions have been claimed by the corporate group in respect of the same amount of debt funding. There is also a need to clarify, in the context of group in-house finance companies, the meaning and operation of the statutory requirement that for a bad debt to be deductible, in respect of the principal amount, it has to be in respect of a loan made in the ordinary course of the taxpayer's business of lending money.

One of the difficulties in some such cases is that, from an economic perspective, in-house finance companies do not generate additional revenue for the group, and there is not a corresponding increase in the overall tax payable by the group that would normally accompany the creation of such additional value. There are advantages in the marshalling of funds for the group but often the activities of the in-house finance company don't appear to generate advantages on the lending side. In some cases they seem to follow the normal treasury function of finding the money needed for the investments the group wants to make.

Such in-house arrangements can impact internal cashflows by moving funds from the borrower companies to the lender, at least in cases where the interest liabilities that are accrued are in fact paid, and thus allow the cash to flow where the group wishes. The arrangements may also facilitate the payment of dividends by the in-house finance company to the parent, and in turn to the shareholders, notwithstanding the lower tier operating entities may be in loss. However these cashflow management benefits do not advance the case that a business of lending money is being carried on.

In cases where all the lender and borrower companies are viable going concerns the overall effect is tax neutral. This is also the case where losses generated in the borrower company are transferred to other companies that use the losses to shield profits that would otherwise bear tax.

The real difficulties from a compliance management perspective arise in cases where the debt is not able to be repaid. This circumstance can give rise to multiple tax deductions, whether in the form of interest deductions, capital allowance deductions (depending on the use of the borrowed funds) and bad debt deductions for the lender, which may also have obtained tax deductions for its own interest expense. In some cases the borrower company may also have claimed bad debt deductions, for example where it made loans to third parties that went bad. There is a general question of whether such an outcome was intended by the legislative provisions.

From a legal and jurisprudential perspective, the cases raise an important question of whether the statutory test for deductibility of bad debts requires an objective commercial perspective that has regard to the essential nature of what is involved in the carrying on of such a business, having due regard to the wide range of manifestations that such a business may take. There are further aspects which, having regard to the history of the bad debt provisions, and the need to ensure the integrity of the fundamental capital/revenue dichotomy underpinning general deductibility, may warrant clarification. These issues appear to have an ongoing significance given the optional aspects of tax consolidation and the relevance of some of the core issues in a cross-border context.

Where the in-house finance company is conducted on a commercial basis and is adopting relevant industry practice, and assessing the credit risk of the borrower, setting terms and conditions appropriate to the borrowers circumstances (including the setting of interest rates by reference to the risk of default and the extent of losses if a default should occur), and is taking appropriate steps from time to time to continue to safeguard the repayment of principal and the servicing of the loan, the Tax Office would be comfortable with the arrangements. Necessary incidents of such arrangements are the ability to refuse debt funding to related parties where they are not creditworthy, and to enforce recovery where necessary. We see a fundamental difference between the assumption of credit risk (which can be seen to be compatible with a business of lending money) and the assumption of investment risk (which appears fundamentally incompatible).

There are very complex factual, market and legal issues involved in the litigated cases and I do not want to cover them all here. They are the subject of ongoing litigation. In one of those matters, *BHP Billiton Finance Limited and BHP Billiton Limited v Commissioner of Taxation* [2009] FCA 276, a single judge of the Federal Court has found against us and that decision is currently under appeal to the Full Federal Court.

In terms of cross-border group financing arrangements, we are seeing a higher gearing pattern overall amongst foreign owned multinationals compared to Australian-based multinationals. This is true also at the level of particular industries. It translates into higher deductions being claimed for interest expense and financing expenses. We are doing more research to better understand the trend and the reasons for it.

At the case level we are finding some large businesses in Australia reporting losses or very low profits year after year, but continuing to expand. These companies do not pay dividends to their overseas parents but have extensive debt funding arrangements with related parties offshore. While their Australian balance sheets are in the billions of dollars they have very little equity. No doubt these companies may say that they believe that they are entitled to structure and finance their businesses in the way they do.

The debate is really about whether such companies are claiming excessive amounts of interest expense deductions and other funding costs. Put another way, the real questions are whether the concessions in the thin capitalisation measures, stretch as far as allowing higher interest rates to be charged, by related parties, because the borrowing subsidiary is thinly capitalised; and whether transfer pricing rules justify the parent company charging guarantee fees where it has thinly capitalised its Australian subsidiary.

It may be that to the extent that interest charges are grossly excessive – judged on the basis that the thin capitalisation safe harbour concession is available - the excessive component is in any event not deductible under section 8-1.

There is a further issue of whether the arm's length principle that underpins the transfer pricing rules requires interest rates to be set on the basis that the subsidiary is wholly independent and unsupported by the parent. Alternatively, whether it is permissible to set interest rates by reference to what the market would allow - which may result in a lower interest rate because the lender takes account of the fact that the subsidiary is affiliated with a larger corporate group that is likely to stand behind the subsidiary notwithstanding the absence of a formal commitment.

This issue has presented something of a dilemma in the context of tax practitioners considering the application of the arm's length principle as reflected in Australia's treaties and domestic law. However, one might perhaps argue that any dilemma arises from the adoption by the parent company of a non-arm's length capital structure for its subsidiary, albeit the higher debt level may have been adopted in accordance with the safe harbour in Australia's thin capitalisation legislation. In other words, there arises a question as to whether the circumstances of such a case are truly comparable with dealings between independent enterprises on the open market, and whether higher interest rates (and the consequently higher levels of interest expense) that are the result of capital structures reflecting non-arm's length arrangements may require adjustment to achieve true comparability as required by the arm's length principle (see for example paragraphs 1.37 and 2.38 of the 1995 OECD Transfer Pricing Guidelines).

Even at the level of examining interest expense, accepting that the funding has been provided in the legal form of debt, differences in characteristics of the debt, the characteristics of the parties to the arrangement and the structure of the transaction may be important, especially to the extent that independent lenders may have been unprepared to lend in certain circumstances. It stands to reason that unless a funding arrangement is properly classified it cannot be properly priced. (See TR 92/11 and paragraph 1.19 of the 1995 OECD Transfer Pricing Guidelines.)

The question the market has to address –or more precisely an independent lender contemplating whether to

provide debt financing - is whether the non-arm's-length capital structure will present a real problem in terms of recourse, in the event that the borrower company finds itself in a position where it will default without further support from the parent.

At the end of the day, if the market provides funding at a better rate, without any further commitment or undertaking by the parent company, it could be argued that the outcome is an open market result of a transaction between independent parties dealing wholly independently with each other and is, on that basis, consistent with the arm's length principle. The benefit is conferred by the market simply because the loan applicant is well connected, without anything further being provided by the parent that would justify a charge by the parent on the subsidiary.

These matters are always subject to the evidence in the particular case and it cannot be assumed that the market will give a notching benefit in every case. Where such evidence is available the question then becomes: why shouldn't a borrowing subsidiary, that can obtain concessions on the open market by dealing with independent parties, obtain similar terms when obtaining funding from its offshore parent? No doubt this issue will be clarified as practical examples are progressively considered at the case level.

More generally, we are trying to work our way through the issues arising in relation to cross-border financing and guarantee arrangements in consultation with industry and tax practitioner bodies. Our goal is to arrive at a point where proper effect can be given to both the transfer pricing provisions in Division 13 and our treaties but at the same time make due allowance for the higher level of debt above the arm's length amount that can be adopted under the safe harbour rules in the thin capitalisation legislation. It is not our intention to disturb the concession on debt level. Nor do we see the operation of the transfer pricing rules in Division 13 and the Associated Enterprises Articles as overriding that concession.

As a practical rule of thumb, pending final resolution of the Tax Office position, taxpayers can deal with any uncertainty in relation to interest rates on related party funding by adopting the usual interest rate paid by the ultimate parent company, and applying it to the safe harbour amount of debt allowed under the thin capitalisation rules. We are working towards the issue of guidance on this range of issues as soon as practicable.

The examples that I have used serve to demonstrate that the Tax Office's approach to risk assessment is both 'top down' and 'bottom up'. I think it is fair to say that in recent times our approach, at the case level, has been more 'bottom up' - in the sense that issues identified at that level have become the focus of subsequent audit activity. In our publication 'Large business and tax compliance', we sought to strike a better balance between 'top down' and 'bottom up' approaches in order to satisfy ourselves that we were seeing tax issues properly in the context of the taxpayer's business - and that all material tax risks had been identified. Such an approach is justified in cases where there are material discrepancies between the underlying economic and financial performance of the large business in Australia and its tax performance. Our suite of audit products makes provision for special issue audits where appropriate.

In cases of major divergences between economic and tax performance that cannot be isolated to one particular feature, the exploratory work at the risk assessment stage is necessarily more broad-ranging and intensive. In 'Large business and tax compliance' we set out the steps in the processes of risk assessment and auditing. It is reasonable to expect that they will be put into practice in the casework.

The first step of those processes, is that of understanding the taxpayer's business. This is a more in depth stage than is presently appreciated. It has to be sufficiently granular to ensure that any material tax risks are identified.

There is a logic that connects the way that the business is planned, actually run day by day and periodically reported, usually referred to as business planning and reporting, and the subsequent processes of preparing the statutory accounts and the tax returns, and calculating the tax instalments and wash up payments. In my experience, it is not possible to understand the business properly without seeing the management reporting and the various reports to key committees and senior management. Nor is it possible to properly understand the business without regard to the way it derives its revenues, the pricing mechanisms it uses, and the way it funds its operations and manages cashflows.

Since the management information forms the basis of statutory accounts and tax returns, it is important for the Tax Office to understand it and the successive phases of translation. The statutory accounts are not necessarily a sufficient source. For example, in cases where transfer pricing appears to give rise to a tax risk, the hypothesis is that there is something unreliable about the balance sheet and the profit and loss statement since these reflect the outcome of the transfer pricing strategies and processes.

A good tax risk indicator in transfer pricing cases is a trend showing strong market performance, a growing balance sheet, increasing operating expenditure, the absence of dividends, and a lot of cross-border related party dealings. These indicators are suggestive of the confidence of the owners and the market in the business, and the expansion of operations – or at least an increasing intensity - but the absence of traditional rewards to the owners of the business suggests the possibility that they may be being rewarded in another way, the related party dealings providing that opportunity. There is a high risk that such cases will be the subject of a transfer pricing audit, especially if the rate of return shown in the statutory accounts is less than the risk free rate of return in the Australian economy.

Some specific comment should be made in relation to the Global Financial Crisis.

Particular care should be taken in relation to compliance with thin capitalisation legislation, given the possibility that asset values may have deteriorated and the level of debt may possibly be excessive.

The Tax Office will also be examining losses to ensure that they are properly attributable to the Australian side of the global operations and that they are real economic losses.

It will also be important for the Tax Office to obtain assurance that tax concessions are not being abused.

Conduit or carousel arrangements through Australia that seek to create tax advantages in Australia will be a special focus, in addition to those cases I referred to on the last occasion I addressed this forum.

Consideration may also need to be given to major legacy issues that create a tax risk exposure to ensure they are properly managed and the financial implications properly assessed.

The Tax Office will provide any assistance it reasonably can to companies that find themselves facing novel issues or temporary difficulties. At the same time we have to make sure that people do not take unfair advantage, and the community expectation is that we will continue to deal firmly with those who are intent on doing the wrong thing.

For completeness, I should say that audit activity does not always produce additional tax liabilities for large businesses. In a recent case we identified millions of dollars of double add backs in relation to the taxpayer's calculation of capital allowances and we made the corresponding credit amendments in the taxpayer's favour.

I also note that the feedback the Tax Office has received from large business in the course of the Professionalism Survey and the Client Feedback Questionnaires we issue in all completed risk assessment, audit and private rulings cases, shows very high ratings for the Tax Office. We will continue to strive for high levels of professionalism and continue to build engagement with large businesses at each stage of our audit and advice work with them – and more generally continue to strive to maintain community confidence.

Thank you again for the opportunity to speak today.

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