



Australian Government
Inspector-General of Taxation

Future of the Tax Profession Symposium

Closing Address

23 November 2017

Introduction

Thank you for the invitation to deliver the closing address of this Symposium. It is a timely gathering and the discussions today have highlighted the importance of the work of all professionals in tax working together to prepare for the changes ahead. As you would be aware, my office is currently undertaking a review into the Future of the Tax Profession. It is being conducted in response to a request from the Commissioner of Taxation as well as concerns raised with my office by tax professionals.

Our review has attracted significant interest with submissions received from a diverse range of stakeholders. What has emerged from the submissions are some very clear themes on areas of change that are likely to affect the manner in which work is undertaken, how taxpayers are choosing to engage with each other and with government and, correspondingly, the services that are demanded of the Australian Taxation Office (ATO) and tax professionals. Broadly, these themes may be summarised under four main headings: technological, social, policy and regulatory. In addition to the submissions, my team is undertaking extensive research and engaging with our international counterparts to identify learnings and best practices that may be usefully adopted in Australia. All of this will aid in formulating our views and informing our discussions with you, the key stakeholders across all of the tax profession, as the review progresses further.

I would like to now share some of those insights with you.

Technological themes

The submissions appeared to show that many stakeholders have accepted and welcomed technological advances, including cloud technologies, automation, artificial intelligence, new payment systems and blockchain, citing improved efficiencies and data access that they bring. However, they have also expressed concerns that more open access to data heightens cybersecurity risks, potential for data breaches and identity theft. They questioned how the ATO, or the government, were guarding against these risks and whether their current strategies were sufficient.

It is clear from submissions that larger tax practices have embraced technology and automation to reduce costs and improve efficiencies. For example, they are already using Robotic Processing Automation (RPA) or artificial intelligence to undertake Goods and Services Tax (GST) and Business Activity Statement (BAS) preparation as well as simple audits and lodgments. They believe that automation has allowed them to deliver services beyond the traditional tax practitioner services at reduced cost and risk.

Larger firms are increasingly finding that they require a more diverse talent pool to deliver new and innovative value added services. There is likely to be a dramatic change in their recruitment strategy from sole reliance on the traditional areas of law, accounting and tax to include disciplines such as science,

technology, engineering and mathematics. There may also be a corresponding shift in education and training needs.

Such changes are also being considered by the corporate sector and revenue authorities in other jurisdictions. For example, the CEO of NAB recently announced efficiency measures over the next three years that will involve a reduction in its workforce of 6000 employees coupled with increasing use of automation, a streamlining of technological services and an expansion of its technological capability through recruitment of 2000 employees with these skills. Similarly, our research indicates that the Inland Revenue Department (IRD) of New Zealand, as part of its transformation, expects to reduce its current workforce by 25 to 30 per cent. Moreover, the IRD is also transitioning the capabilities of its workforce to better meet the needs of a future tax administration. Approximately 800 positions (representing 15 per cent of the current IRD workforce) will be substantially different to current roles.

In contrast to the experience of large firms, smaller firms appeared to still be coming to terms with the challenges and opportunities presented by technological advancement. Some felt that their clients would not readily embrace technological self-service channels at the expense of face-to-face interactions whilst others have explored options such as offshoring or merging with other practices to offer a broader range of services. There are clear efficiencies for tax practitioners making use of these opportunities, but there are also risks for both the practitioner and their clients. It is a telling sign that the Tax Practitioners Board (TPB) has, more recently, released a draft practice note for consultation on outsourcing, offshoring and the Code of Conduct. I will talk more on this later when discussing regulation.

Submissions from stakeholders representing smaller practices suggested that the ATO did not appear to be supporting them and was, in fact, using technology to displace them. In this regard, examples they have cited include myTax and the expansion of other ATO self-service products at the expense of maintaining and improving those that supported tax practitioners such as Electronic Lodgement Service (ELS), Practitioner Lodgement Service (PLS) and Tax Agent Portal.

Stakeholders have indicated that if the ATO were to continue developing its own systems and software products for taxpayers, then it needed to establish performance benchmarks, redundancies and failsafes that aligned with those of commercial providers and be held to account where there is a system failure and losses are incurred. They also believed that a tailored compensation scheme is needed to be made available for these types of issues. This is particularly important as stakeholders continue to raise concerns about the stability and risk of outages of ATO platforms and systems which are key parts of the tax system with tax practitioners being reliant on them as well as many taxpayers. It should be noted that the major ATO outages at the end of 2016 and early 2017 were raised in almost all submissions and prominently featured in many.

Some stakeholders have questioned whether the ATO should develop its own software products or outsource such tasks to third party developers. There are arguments to be made for both. As a key community service agency, it is incumbent on the ATO to deliver low cost or free services for citizens. It is also arguable that similar outcomes could be achieved through outsourcing and subsequent subsidising of low cost service options for taxpayers with simple affairs. Those who advocated for outsourcing of software development believed that the ATO should set standards, core system requirements and make more Application Programming Interfaces (APIs) available. In addition, they also believe that the ATO should actively test and certify third party software to provide taxpayers with assurance on their useability and robustness.

In considering the impact of technological advancements more generally, many stakeholders have asserted that while the ATO's messaging has been for them to consider their business models and processes, there was limited public information on how the ATO had actively considered the impact that these advancements will have on its own operations, the size and mix of its workforce and their education needs.

In our research to date, it has been clear that technological advancements present a host of varying opportunities for tax administrators and how those advancements are utilised would be a matter for each administrator, taking into account the socio-economic and legal environments within which they operate. Some of these strategies that have been brought to our attention include:

- making tax legislation machine-readable and ensuring that future tax design takes these matters into account;
- collecting employees' wage and salary taxes (i.e., Pay As You Go Withholding in Australia) in real time;
- implementing business-to-business and business-to-government e-invoicing for GST or Value-Added Tax (VAT) and working with taxpayers to implement machine-to-machine GST/VAT data reporting; and
- 'Compliance by design', an approach currently the subject of research by the Organisation for Economic Cooperation and Development (OECD), in which revenue authorities can leverage technology to incorporate tax compliance into natural systems used by taxpayers to manage their resources and financial affairs.

Social themes

Many stakeholders are of the view that the combined effects of an aging tax profession and a generational shift in taxpayers are creating a misalignment between services offered and those that are expected. It is not uncommon for taxpayers to now demand 24/7 instantaneous access to services and personnel across a range of platforms.

Moreover, as taxpayers' preferences shift away from face-to-face and traditional models of tax advice, some stakeholders queried whether taxpayers were making informed decisions. Even though increasing online platforms are available for this purpose, concerns were raised regarding their validity and robustness in addressing the risk that taxpayers could be lured into a false sense of security where they do not have independent advice and the benefit of a 'reality check' with skilled tax professionals. The combined effects of displacement of tax practitioners and the simplified nature of products such as myTax can lead to under- or over-compliance by taxpayers.

Stakeholders have also raised concern that the changing nature of tax work will ultimately diminish the size of the profession. Increased automation and offshoring would reduce the demand for tax practitioners and may present challenges in terms of attracting, retaining and developing the next generation of tax professionals. Some are also concerned as to how the current knowledge and experience of the tax profession will be transferred to future generations and how young professionals will be able to build up sufficient capability and skills.

In more established firms, the changing nature of tax work is already beginning to expose a risk of diminished deep tax expertise. The ATO, who may face similar challenges, may find itself in a difficult position of becoming the primary or the sole source of taxpayer advice. Such a situation, where complex or contentious tax matters go untested, may prove detrimental to the tax system in the long term.

Policy themes

The rapid technological and social changes have presented new work patterns and opportunities. The increasing number of participants in the 'gig' or 'sharing economy' will require both a policy framework and an administrative strategy to enable all employers to keep pace with these developments. For the ATO in particular, these developments have created some recent challenges as illustrated by the Uber litigation, online cross-border transactions, cryptocurrency and the status of workers on platforms such as Deliveroo.

Stakeholders have also noted that increasing automation depends on greater levels of robust data being made available. In this regard, access to data is a key policy issue that needs to be addressed. Stakeholders have observed that the reporting burden was increasingly being shifted from the individual to third parties and provides an opportunity for tax administrators to make it as easy as possible for individual taxpayers to comply with their tax affairs.

We have learnt some years earlier from our Data Matching Review that data available to the ATO is most robust and useful where it is legislatively mandated. These data sets require certain information and identifiers to be made available to the ATO within specific timeframes. Such data has a high confidence level and requires little validation. However, legislating the increased provision of data will result in higher costs for those required to comply and concerns have been raised that these costs were not sufficiently considered during policy and administrative design processes. A question that must be asked is whether the cost incurred by data reporters is likely to outweigh the benefits to the tax system as a whole through reduced compliance costs and increased revenue collection. Furthermore, consideration should be given to the way in which the administration of increased data provision can support those required to report the data.

At a general level, stakeholders raised concern that the full benefits of automation were unlikely to be realised in Australia for two reasons. Firstly, they believed that the complexity of the current tax system does not lend itself to the same degree of automation implemented in other jurisdictions. For example, they noted that deductions for work-related expenses remained a significant feature of the system and an impediment to automation. The requirement for paper receipts was cited as another example and one that appears to be addressed by other jurisdictions through the implementation of e-invoicing for business-to-business and business-to-government transactions.

Secondly, stakeholders believe that there needs to be a more consistent whole-of-government approach to technology and innovation. They have suggested that a single, overarching and enduring agency tasked with developing a whole-of-government strategy for adoption of new technology and innovation was essential for the benefits to be fully realised.

Regulatory themes

Australia is unique amongst its international counterparts in the realm of tax practitioner reliance. Over 70 per cent of individuals and more than 90 per cent of business taxpayers rely on a tax practitioner.

The OECD, some years ago, undertook a study into the role of tax intermediaries and the often quoted summary from that report is:

The importance of the role tax advisers play in a tax system can be tested by answering a simple question: would compliance with tax laws improve if tax advisers did not exist? The Study Team found no country where the answer to that question is yes. Across the whole range of taxpayers, taxes and

circumstances, the vast majority of tax advisers help their clients to avoid errors and deter them from engaging in unlawful or overly-aggressive activities.

We do not believe that that position has changed and the research from the ATO seems to bear this out, particularly where small businesses are concerned. However, there are significant changes as foreshadowed earlier.

One area of change within the profession itself is the likely increase in the number and types of professionals working in tax. This leads to the greater need to define what constitutes the 'tax profession'. Varying views were expressed on this issue with some stakeholders advocating a broad definition which would include tax (financial) advisers (TFAs), data analysts, economists, software developers, tax educators as well as the traditional tax and BAS agents, accountants and lawyers including ATO personnel. Some even suggested that sections of the judiciary and other external decision makers, who deal with tax matters, should be included. Other stakeholders have advocated for a narrower, more traditional definition.

Concerns associated with expanding the definition of the tax profession were highlighted by reference to the experience of TFAs whose inclusion in the TPB jurisdiction was questioned by certain stakeholders – including certain TFAs themselves. Other stakeholders commented that TFAs should not have been permitted to give tax advice at all, citing their different education, experience, skills or lack thereof. The combined regulation of these two professions has led stakeholders to question the adequacy of existing education requirements and the need to align them in a consistent manner such that the regulatory obligations are met. These considerations would require close consultation and collaboration with practitioners themselves, the professional bodies and tertiary institutions.

On the issue of education, we were interested to learn that the Inland Revenue Authority of Singapore (IRAS) in collaboration with the Big 4 accounting firms, the Institute of Singapore Charter Accountants and the Singapore Law Society established a Tax Academy to provide training on tax technical issues for tax practitioners. To further support tax practitioners in this regard, the IRAS set up a fund to subsidise the cost of attending this training. We raise this, not to suggest that the current training arrangements in Australia are in any way inadequate, but to highlight that where there are significant changes in training requirements and needs, a corresponding degree of support from the revenue authority is not out of the question.

However, the expanding tax profession requires consideration beyond the need for improved and realigned education standards. It goes to the fundamental reasons for the enactment of the *Tax Agent Services Act 2009* and its objective of ensuring that 'tax agent services are provided to the public in accordance with appropriate standards of professional and ethical conduct.' If, as we foresee, there will be increasing entrants in the tax profession, new and different ways in which taxpayers may receive 'tax advice' and manage their affairs, is it incumbent on the administrator to ensure they know what they are getting or is it simply a case of *caveat emptor*? It is likely to be a combination of the two. It is not possible for the ATO, the TPB and the Government to regulate every professional that is likely to interact with the tax system – nor is it desirable to do so. However, some degree of expanded oversight is likely necessary whether through a board such as the TPB, the ATO as gatekeepers of the tax system, another agency to be established or the respective professional and industry bodies. One submission suggested that some degree of consolidation and streamlining of regulatory requirements within a single 'super-regulator' could be considered.

Where to from here

Having heard today's speakers and the discussions from the room, I have no doubt that much of what I have said should come as no surprise to any of you. What I would like to leave you with are some of our preliminary thoughts:

- Australia is, in many respects, ahead of the curve in its consideration and preparation for the future and Symposiums such as these highlight that;
- although the future of the tax profession is a matter for the ATO, it is also a matter for the profession itself. Change is inevitable. Whilst these changes may affect the manner in which tax practitioner services will be delivered, it is unlikely to fundamentally shift the demand for them in the shorter term. Practitioners will need to consider how they adapt to these changes;
- as one of the largest agencies in the Public Service, the ATO is well-positioned to chart the course for future digital innovation and technological services and to bring others along with it; and
- collaboration is key – one of the messages that has come through most clearly in our discussions with stakeholders is that they would welcome further consultation and collaboration as the ATO designs its services for the future whether that be through outsourcing of the process, beta testing or otherwise.

As we progress this review into the next year, my team will continue to explore and interrogate the issues above by considering the opportunities and challenges presented to the tax profession, the work of the ATO and its forward planning strategies, the TPB and its current and future approaches to regulation as well as developments overseas. We aim to deliver a report that is balanced and informative, taking into account the views of all professionals working in the tax system, in order to plan for the challenges ahead and implement strategies to reap the benefits of opportunities that are presented. To this end, I would welcome any input that you may have to this review on areas that we should canvass as well as suggestions for improvement that may be implemented to improve the administration of the tax system for all Australians in the future.