



Australian Government

Inspector-General of Taxation

The Future of the Tax Profession

Inspector-General of Taxation

November 2018

The Future of the Tax Profession

Inspector-General of Taxation

November 2018

© Commonwealth of Australia 2018

ISBN 978-1-925504-92-7

Ownership of intellectual property rights in this publication

Unless otherwise noted, copyright (and any other intellectual property rights, if any) in this publication is owned by the Commonwealth of Australia (referred to below as the Commonwealth).

Creative Commons licence

With the exception of the Coat of Arms (see below), the IGT logo and ATO sourced material, this publication is licensed under a Creative Commons **Attribution 3.0 Australia** Licence.



Creative Commons Attribution 3.0 Australia Licence is a standard form licence agreement that allows you to copy, distribute, transmit and adapt this publication provided that you attribute the work. A summary of the licence terms is available from: <http://creativecommons.org/licenses/by/3.0/au/deed.en>. The full licence terms are available from <http://creativecommons.org/licenses/by/3.0/au/legalcode>.

The Commonwealth's preference is that you attribute this publication (and any material sourced from it) using the following wording:

Source: Licensed from the Australian Government Inspector-General of Taxation under a Creative Commons *Attribution 3.0 Australia* Licence.

The Australian Government Inspector-General of Taxation does not necessarily endorse third party content of this publication.

Use of the Coat of Arms

The terms under which the Coat of Arms can be used are set out on the It's an Honour website (see www.itsanhonour.gov.au).



Telephone: (02) 8239 2111
Facsimile: (02) 8239 2100

Australian Government
Inspector-General of Taxation

Level 6, 321 Kent Street
Sydney NSW 2000
GPO Box 551
Sydney NSW 2001

1 November 2018

The Hon Stuart Robert MP
Assistant Treasurer
Parliament House
Canberra ACT 2600

Dear Minister,

The Future of the Tax Profession

I am pleased to present you with my report of the above review which was undertaken in response to a request from the Commissioner of Taxation (Commissioner) as well as concerns raised by stakeholders within the tax profession.

The review examined the challenges and opportunities presented by new and emerging digital technologies, along with the accompanying social, policy and regulatory impacts on the administration of the tax system and the tax profession.

The review highlights the need for all participants within the tax system to take prompt action to address the upcoming challenges and realise the benefits presented by emerging opportunities. Given the interconnectedness of the Australian Taxation Office (ATO), the Tax Practitioners Board (TPB) and tax professionals, it is imperative that they take collective and well-coordinated action which can only be achieved through a strong and collegiate working relationship. It is regrettable, therefore, that in recent years, the working relationship particularly between the ATO and the tax profession has been strained through ongoing IT stability issues and unfortunate ATO commentary such as those in a recent speech by the Commissioner regarding work-related expenses. Building on previous IGT reviews, there are further recommendations in this review aimed at improving this crucial relationship.

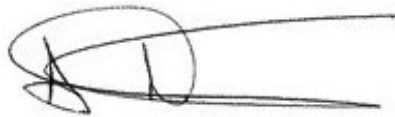
Overall, nine recommendations (comprising 28 parts) were made, three parts for the Government's consideration, 19 parts for the ATO and the remaining six parts for the TPB. The TPB has agreed to all recommendations made to it. Whilst the ATO had initially indicated agreement with the majority of recommendations, in the final stages of the review, it conveyed disagreement with eight parts of the recommendations. The ultimate disagreements are with parts of the recommendations aimed at enhancing the ATO workforce, assisting tax practitioners to prepare themselves to meet the future challenges and ensuring that the fragile relationship between tax practitioners and the ATO is carefully managed.

Notwithstanding the disagreement above, the ATO has agreed with the remaining parts of the recommendations and has advised that seven were either implemented before the completion of this review or were to be achieved as part of its existing programmes of work. Whether the ATO's implementation or existing programmes of work address the concerns raised with the IGT will be a matter for its Audit and Risk Committee. However, if these recommendations are not appropriately implemented, the IGT may have to conduct its own follow-up review.

The three parts of recommendations for the Government's consideration relate to reforming work-related deductions which will assist to fully realise the benefits of automation, enhancing whole-of-government digital transformation and bolstering the sanctions that the TPB may impose on non-compliant tax professionals.

I offer my thanks to all who contributed to this review including IGT, TPB and ATO staff, tax professionals and their professional associations as well as taxpayers.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'Ali Noroozi', with a stylized, elongated horizontal stroke extending to the right.

Ali Noroozi
Inspector-General of Taxation

TABLE OF CONTENTS

EXECUTIVE SUMMARY	VII
LIST OF RECOMMENDATIONS	IX
CHAPTER 1 — INTRODUCTION	1
Conduct of the review	1
Professionals, disruption and the future	2
Terminology used in this report	4
Structure of the report	4
Disclaimer	4
CHAPTER 2 — TECHNOLOGY IMPACTING ON THE TAX SYSTEM	5
Artificial intelligence	5
Blockchain technology	7
Robotic processing automation	10
Fintech	11
Robo-advice	12
Big data analytics	13
Cloud technology	15
Application programming interface	16
New Payments Platform	16
Other technological and system developments	17
CHAPTER 3 — INTERNATIONAL REVENUE AUTHORITY APPROACHES	19
New Zealand	19
United Kingdom	23
Canada	25
The Netherlands	27
Sweden	29
Finland	30
Estonia	31
Singapore	33
Russian Federation	35
United States of America	37
South Africa	39
CHAPTER 4 — OPPORTUNITIES AND CHALLENGES PRESENTED BY EMERGING TECHNOLOGIES	41
Social and community expectations and their impact	41
Future tax workforce and capabilities	51
ATO technology implementation and its impacts	60
CHAPTER 5 — TECHNOLOGY AND POLICY CHANGE	89
A policy framework for dealing with emerging technologies	89
Increased data access and optimising automation	93
Whole-of-government digital innovation	99
Whole-of-government cyber security risk management	103
CHAPTER 6 — THE FUTURE OF PROFESSIONAL REGULATION	113
The current regulatory system	113
Consistent regulatory approach to registered tax professionals	115
Education standards	118
Expansion of the tax profession	125

APPENDIX 1 — TERMS OF REFERENCE.....	135
APPENDIX 2 — ATO’S PRIORITY THEMES OF WORK.....	139
APPENDIX 3 — ATO RESPONSE.....	141
APPENDIX 4 — TPB RESPONSE	143
SHORTENED FORMS	145

EXECUTIVE SUMMARY

The Inspector-General of Taxation's (IGT) review into the Future of the Tax Profession was undertaken in response to a request from the Commissioner of Taxation as well as concerns raised by stakeholders within the tax profession.

The review examined the challenges and opportunities presented by new and emerging digital technologies, along with the accompanying social, policy and regulatory impacts on the administration of the tax system and the tax profession. It highlights the need for prompt and well-coordinated action by all within the tax system to manage the challenges and opportunities ahead.

As technology advances, whilst it may facilitate ease of compliance for taxpayers, it may create new complexities and the services required from tax professionals may vary accordingly potentially requiring changes to their business models. There are also opportunities for both the Australian Taxation Office (ATO) and the Tax Practitioners Board (TPB) to consider devolving certain aspects of their functions to the profession or professional associations, where that work could be undertaken more efficiently or cost-effectively.

The ATO plays a critical role in preparing the tax system for the future and its own technological innovation program is a key factor. The important role of tax practitioners within the Australian tax system must also be acknowledged. Given the interconnectedness of the ATO, the TPB and tax practitioners, it is imperative that they take collective and well-coordinated action. Such action is only possible through a strong working relationship. However, in recent years, the working relationship particularly between the ATO and the tax profession has been strained as a result of persistent IT outages and stability issues as well as unfortunate ATO commentary such as those in a recent speech by the Commissioner regarding work-related expenses. There are recommendations in this review which are aimed at improving this important relationship.

The IGT has also identified opportunities for the ATO consider its future workforce capability needs. Whilst some work has already been undertaken, it does not appear to have been done at the whole-of-ATO level. Additionally, as advancing technologies pose greater risks to the tax system, recommendations have been made to the ATO to consider its approaches to identifying and managing emerging tax issues as well as cyber security risks.

The TPB also plays a significant role in the tax system by regulating tax practitioners. The IGT observed that the TPB's role may need to expand in the future to keep pace with developments in the tax profession and workforce more generally. Specifically, the IGT believes that the TPB should consider the flexibility of the regime established by the *Tax Agent Services Act 2009* to deal with a wider range of professionals who may provide tax services in the future. Moreover, where emerging technology enables more unregistered people to provide tax services, the TPB would have to determine the extent of such risks and be prepared to address them including through collaboration with the ATO, the Australian Securities and Investments Commission and the Australian Competition and Consumer Commission.

Overall, the IGT made nine recommendations comprising 28 parts (three parts were for the Government's consideration, 19 parts for the ATO and six parts for the TPB).

The three parts of recommendations for the Government's considerations relate to reforming work-related deductions which will assist to fully realise the benefits of automation, enhancing whole-of-government digital transformation and bolstering the sanctions that the TPB may impose on non-compliant tax professionals.

The TPB has agreed with all recommendations made to it. While the ATO had initially indicated agreement with the majority of the IGT's recommendations, it ultimately disagreed with eight parts of recommendations. The disagreements relate to those parts aimed at enhancing the ATO workforce, assisting tax practitioners to prepare themselves to meet the future challenges and ensuring that the fragile relationship between tax practitioners and the ATO is carefully managed. Notwithstanding the disagreements, the ATO has agreed with 11 parts and has advised that seven of these have been implemented or are part of an existing programme of work. The appropriate implementation of recommendations and whether existing programmes of work address the concerns raised in this review are matters for the ATO's Audit and Risk Committee in the first instance.

Given the level of the ATO's disagreement, the benefits of the package of recommendations made in this review may not be fully realised. To the extent that concerns persist, the IGT may either undertake a follow-up review of the ATO's implementation of the recommendations or commence a new review covering the same or similar areas.

LIST OF RECOMMENDATIONS

RECOMMENDATION 4.1

The IGT recommends that:

- (a) *the ATO:*
 - i. *in collaboration with its staff and the unions, develop a roadmap outlining its current position, desired future state and how it intends to make the transition from one to the other, including redeployment and upskilling options for staff and support them through the transition;*
 - ii. *in consultation with recognised professional associations, offer assistance to tax practitioners who may wish to develop their own roadmaps to transition from the current to future states; and*
 - iii. *engage with the professional associations, tertiary institutions or other education providers to co-design training programs and courses to upskill ATO staff for the roles of the future; and*
- (b) *the TPB:*
 - i. *implement a framework to periodically review its workforce capability needs to meet future regulatory and compliance challenges; and*
 - ii. *in consultation with recognised professional associations, offer assistance to tax practitioners by, for example, providing advice on whether their future plans meet the ongoing obligations of the Tax Agent Services Act 2009.*

RECOMMENDATION 4.2

The IGT recommends that the ATO:

- (a) *conduct a cost-benefit analysis on the design and production of its own software solutions as compared to outsourcing the work to the private sector;*
- (b) *in collaboration with the relevant professional bodies, implement a communication strategy to inform tax practitioners of its research and adoption of new technologies that may impact on them and their business;*
- (c) *expand its beta testing program to reach as wide a spectrum of tax practitioners as possible, particularly those operating small businesses or who are remotely located;*
- (d) *assess the number of taxpayers who will continue to require access to traditional methods of communication, and use that research to develop a plan for meeting the needs of those taxpayers in the future;*
- (e) *determine the effectiveness of automated decision making tools to minimise the risk of under compliance or over compliance and ensure they are periodically tested to produce accurate outcomes;*
- (f) *consider whether it can devolve some of its functions to tax practitioners with appropriate safeguards;*
- (g) *align its service standards for the performance of its systems with those of commercial providers, including a dedicated scheme for compensation where outages or system failures result in loss for the users;*

RECOMMENDATION 4.2 (CONT.)

- (h) engage with the tax practitioner community to develop an action plan to bolster the stability of systems which enable them to assist the community to comply with their tax obligations, including an updated timeframe for the migration of the Tax Agent Portal functionality to ATO Online; and*
- (i) ensure that any future messaging regarding concerns it may have with the tax profession is appropriately considered and accompanied by robust and properly tested data.*

RECOMMENDATION 5.1

The IGT recommends that the ATO review its current framework for monitoring and identifying new or emerging technologies or innovations to ensure that it is able to take prompt action to address any tax implications.

RECOMMENDATION 5.2

The IGT recommends the:

- (a) Government consider reform of the work-related expense deduction regime, having regard to prior reviews in this area, including the possibility of introducing standard deductions with a view to eliminating the need for most individuals to lodge income tax returns; and*
- (b) ATO engage with:*
 - i. third party data providers to maximise access to reliable information whilst minimising costs and disruption to their business and systems; and*
 - ii. the CSIRO's Data61 group on the latter's work on machine-readability of tax laws.*

RECOMMENDATION 5.3

The IGT recommends that the Government, in seeking to improve the administration of the tax system as well as public service delivery more broadly, consider whether the Digital Transformation Agency, or a similar agency, should adopt a more comprehensive role in driving the whole-of-government digital transformation.

RECOMMENDATION 5.4

The IGT recommends that the ATO:

- (a) review its current internal arrangements for identifying and responding to cyber security risks to ensure efficiency, effectiveness and, in particular, that responsible areas within the ATO are clear on their remit, communicate and share intelligence appropriately and deliver a unified and coordinated response in addressing the risks;*
- (b) assist tax professionals, particularly those operating in small practices, to develop and maintain their own cyber security risk management and response plans; and*
- (c) broadly communicate and inform the public about the measures it has implemented to mitigate risks of cyberattacks and data breaches.*

RECOMMENDATION 6.1

The IGT recommends that the TPB, in consultation with recognised professional associations, undertake research to determine if its policies and procedures appropriately cater for all tax professionals within its jurisdiction, including tax (financial) advisers.

RECOMMENDATION 6.2

The IGT recommends that the TPB:

- (a) periodically review the suitability of the educational requirements of the Tax Agent Services Regulations 2009 and its own related guidance with input from practitioners, professional associations, tertiary institutions and the ATO and act upon any findings including requesting the Government to consider legislative change where necessary; and*
- (b) consider whether the TASA regime provides sufficient flexibility to manage the range of professionals who may offer tax services and present its findings to the Government.*

RECOMMENDATION 6.3

The IGT recommends that:

- (a) the Government consider increasing the range of sanctions that the TPB may impose on non-compliant tax professionals, including empowering the TPB to release information to the professional associations, in appropriate cases, to enable the latter to undertake disciplinary action against their members;*
- (b) the TPB undertake research to determine the extent to which tax services may be offered in the gig economy by people who are not appropriately registered and engage with other agencies, such as the ATO, the Australian Competition and Consumer Commission and the Australian Securities and Investments Commission to consider options to protect taxpayers from such service providers; and*
- (c) the ATO broaden the membership of its Tax Profession Future State Working Group to include new entrants into the tax profession such as digital service providers, tax (financial) advisers and their representative bodies as well as publish more comprehensive information about the work of the Group.*

CHAPTER 1 — INTRODUCTION

CONDUCT OF THE REVIEW

1.1 The Inspector-General of Taxation's (IGT) review into the Future of the Tax Profession¹ was undertaken in response to a request from the Commissioner of Taxation (Commissioner) as well as concerns raised by stakeholders within the tax profession, particularly tax practitioners, through our complaints handling service and in our other engagements with tax professionals.

1.2 In 2015, the IGT undertook a review into the *Australian Taxation Office's* [ATO] *services and support for tax practitioners*.² That review largely examined the ATO's relationship with, and services provided to, tax practitioners at the time. The current review is not intended to be a follow-up to the 2015 review but, rather, it is a forward looking examination of a range of current and future factors, such as advancement in technology, that are likely to reshape the tax profession and the way tax systems may be administered.³

1.3 The IGT received a range of submissions and also consulted with a number of stakeholders including taxpayers, registered tax and Business Activity Statement (BAS) agents and their representative bodies, tax (financial) advisers (TFAs), academics, legal practitioners, software providers and industry associations as well as senior staff at the ATO and other government departments to gain a better understanding of the issues. From these submissions and consultations, the IGT distilled four main themes under which the review was conducted, namely:

- technological changes;
- social changes;
- policy changes; and
- regulatory changes.

1.4 The IGT review team has undertaken considerable research and turned to an extensive body of literature in discerning the upcoming changes, the challenges they pose and the opportunities for the ATO and professionals working in tax to meet those challenges and reap the benefits. In doing so, a range of international revenue agencies have been consulted to understand their approaches to the future changes and initiatives to address them.

1.5 The IGT review team has also worked progressively with senior management of the ATO and the Tax Practitioners Board (TPB) to distil potential areas for examination and future action.

1 This review is undertaken pursuant to section 7(1)(d) of the *Inspector-General of Taxation Act 2003* and the report is produced pursuant to section 7(1)(f) of the *Inspector-General of Taxation Act 2003*.

2 Inspector-General of Taxation (IGT), *Review into the Australian Taxation Office's services and support for tax practitioners* (2015).

3 Terms of reference for the review were announced on 6 June 2017, a copy of which appears in Appendix 1.

1.6 The Commissioner and the Chair of the TPB were provided an opportunity to make submissions on any implied or actual criticisms in this report.⁴ In addition, the TPB also lodged a formal written submission in response to the IGT's terms of reference.

PROFESSIONALS, DISRUPTION AND THE FUTURE

1.7 This review is about the future but it does not seek to predict the future – history is littered with failures on that account – nor is it to engage in picking economic winners and losers for the tax profession.

1.8 Whilst it is the first time that the IGT has conducted a review that is largely forwarding looking in nature, where relevant, at certain points the current state of play regarding the tax profession will be required to contextualise the propositions or forecasts that have been advanced by various parties.

1.9 Engaging in a future state discussion does require a consideration of what changes are expected to impact upon those parties within particular groups or the underlying functions they perform. Many of the anticipated or touted changes are not unique to the tax profession – the review is being conducted with respect to a specific profession but the relevant developments have far wider impact. Indeed, at the extreme boundaries, it is the entire social and economic fabric of society that is evolving. We are on the cusp of a total 'paradigm shift' in how we live our lives. As the Executive Chairman for the World Economic Forum stated: '[t]he changes are so profound that, from the perspective of human history, there has never been a time of greater promise or potential peril'.⁵

1.10 The source of the changes is the quantum leap in technology which is considered in Chapter 2. These technologies that have or are anticipated to emerge are commonly referred to as being 'disruptive' for a range of social, political and economic endeavours. Groups that may have been previously exempt from such changes may now also be disrupted. These affected groups include professional services or so-called 'white collar' jobs. The expectation is that these roles are being, and will continue to be, substituted by machine based capital.

1.11 There is a key overarching theme which is 'this time it's different' because of the likelihood and consequences of the changes. Of course claims of this nature have been made before. When new technologies largely diminish previous services or supplies, they pose serious challenges and opportunities depending upon your relative position. Improved technology, in the form of substituting human capital for machine capital, is not new and, throughout history, has been adopted out of competitive need or for survival.

1.12 The industrial revolution was a major transformation of social and economic arrangements. The process of labour or service substitution by machine based capital was applied in many industries at that time – a process that has continued to the present day. At that time, new roles, such as mechanical engineers, did emerge through that process of change.

4 In accordance with sub-section 8(5) of the *Ombudsman Act 1976* which has effect by virtue of section 15 of the *Inspector-General of Taxation Act 2003*.

5 Klaus Schwab, *The Fourth Industrial Revolution* (2016) p 2.

1.13 A more recent example of current technology disruption presented in the media is the driverless or automated vehicle. The likely effect and expectation is that human drivers are replaceable. The advent of such change is also expected to have so-called 'knock-on' effects, in the form of risk transfers. For example, insurance premiums may reduce significantly due to the lower incidence of accidents.⁶

1.14 While all professionals have been cited as being at risk of machine capital substitution, taxation and audit related work have been identified as being 'at particular risk from technology'.⁷ An interesting underlying point of distinction is also raised in this context, namely that professions will continue to be needed but professionals currently conducting them may not or at least not in the manner in which they have been conceived historically.

1.15 The objective of this report is to provide insights regarding presently emerging and anticipated technologies to enable tax professionals to better inform their decision making process and consider the implications for their business models and livelihood. The aim is to forearm tax professionals regarding their own assessments of strengths, weaknesses, opportunities and threats in a manner that is empowering and, in doing so, promote positive and proactive thinking rather than conjure doomsday scenarios.

1.16 Change has been, and will be, a constant companion of the tax profession. The approach should always be to consider how one adapts to take advantage of that change. By way of progression using the earlier example, prior to the automobile driver there was the horse and cart coachmen. The latter still exists but on a smaller scale fulfilling an altered function.

1.17 Indeed, currently, there is no universal agreement on what constitutes a tax professional.⁸ Taxation, as a regulatory obligation, touches nearly every facet of modern life and as will be seen there are currently a myriad of professionals engaged in its various aspects. The key point underlying the review is to anticipate the likely responses of consumers or taxpayers in the future. In particular, what professional services consumers or taxpayers will want and how much they would be willing to pay, as compared to alternatives that may emerge. The underlying success of a taxation system rests upon the achievement of vertical and horizontal equity for citizens and the economy it serves.⁹

1.18 It is also important to appreciate the views of certain stakeholders and commentators who argue that while new technologies will have an impact, the nature of it is more limited in magnitude and likely to arise over a much longer term. Furthermore, the emerging and anticipated technologies carry a range of downside risks that may impact on their effectiveness. Some of these risks arise from perverse incentives that are actually enabled by the newer technologies, such as the continued growth in identity crime. These downside risks are often referred to collectively as 'cyber risks' and are not new but are being enabled in a manner that is highly scalable and pervasive in impact.

6 Oliver Ralph, 'Cost of car insurance to plunge with rise of driverless vehicles,' *Financial Times* (28 June 2016) <<https://www.ft.com>>.

7 Richard Susskind and Daniel Susskind, *The Future of the Professions – How Technology will Transform the Work of Human Experts* (2015) p 88.

8 It should be noted, however, that the *Tax Agent Services Act 2009* defines 'registered tax practitioner' as including tax agents, BAS agents and tax (financial) advisers.

9 Richard Tresch, *Public Finance: A Normative Theory*, 3rd ed. (Academic Press, 2014) pp 171 and 175.

TERMINOLOGY USED IN THIS REPORT

1.19 Throughout this report the IGT has adopted the term ‘tax professional’ in the general sense of referring to professionals working in tax. Given the nature of tax and its relationship to nearly every facet of modern life, the numbers of professionals whose work relates in some way to tax is myriad. The IGT will explore the definition and the need for regulation in detail in Chapter 6.

1.20 The term ‘tax practitioner’ is used to collectively refer to only registered tax and BAS agents. Where necessary, for clarity of discussion, the IGT will specifically refer to other tax professionals such as TFAs, digital service providers (DSPs) including software developers, and legal practitioners.

STRUCTURE OF THE REPORT

1.21 The report is arranged under the four main themes identified in the terms of reference, namely technology, social, policy and regulation. Accordingly, it is divided into the following chapters:

- Chapter 2 outlines the current and anticipated technological advancements that are driving digital disruption and the potential future application to tax administration and the work of tax professionals;
- Chapter 3 provides an international perspective on the adoption of new technologies across a wide range of revenue authorities in search of emerging best practices;
- Chapter 4 discusses the nature of the social impacts and opportunities presented by technological changes on the community, the tax profession and the ATO to foster greater understanding and empower decision making;
- Chapter 5 considers matters potentially requiring policy change in the tax and superannuation system arising from the technological disruption; and
- Chapter 6 examines the current role of the TPB in regulating the tax profession, followed by the potential expansion of the profession to include wider disciplines and its regulation in the future.

DISCLAIMER

References made in this report to particular commercial firms, software or platforms are for illustrative purposes only. They should not be taken to be endorsement by the IGT.

CHAPTER 2 — TECHNOLOGY IMPACTING ON THE TAX SYSTEM

2.1 The rapid pace and growth of technological advancements in recent times has seen the emergence and anticipation of a range of innovations which give rise to new ways of working and doing business. These technologies have numerous applications across multiple industries, including the tax profession.¹⁰ Accordingly, there is no universal or detailed awareness of the technologies that exist presently or those anticipated in the future.

2.2 Given that these technologies are the fundamental driver giving rise to disruptions in the economy, including the tax profession, it is appropriate to provide an overview of them and establish a firm foundation for the discussion that follows.

2.3 The opportunities and challenges presented by technology, from the perspective of revenue authorities across the globe, is outlined in Chapter 3. This international analysis provides important background for Chapter 4, which explores the issues, in the Australian context, for tax professionals, taxpayers and the ATO.

ARTIFICIAL INTELLIGENCE

2.4 Artificial intelligence (AI) refers to machines that can mimic human intelligence to perform certain tasks. One form of AI is ‘machine learning’ which provides computers with the ability to adapt or learn when exposed to new data without being specifically programmed to do so.¹¹

2.5 IBM Watson is one example of AI used in business. It is a cognitive computing platform that can analyse unstructured data, understand natural language questions which can have multiple meanings to determine what is being asked and present answers based on supporting evidence.¹² For example, within the insurance industry IBM Watson has recently been integrated into Suncorp’s online claims process to streamline more than 500,000 motor claims per year. The system has the ability to understand colloquialisms and Australian slang to analyse customer descriptions of motor accidents and determine liability. It enables a claim to be lodged, excess paid and repairs booked within 5 minutes, a process which historically would have taken 24 to 48 hours. In its trial period, the IBM Watson technology was able to accurately determine liability for approximately 90 per cent of claims.¹³

2.6 One of the benefits of AI is its ability to complete time consuming tasks, such as research or information retrieval, more accurately and efficiently with minimal manual input thereby allowing its users to focus on other activities, such as those requiring complex analysis and judgment.

10 Piergiorgio Valente, ‘Digital Revolution. Tax Revolution?’ (2018) 90(1) *Tax Notes International*, p 117.

11 Chartered Accountants Australia and New Zealand (CAANZ), *The Regulator of 2030: Regulating our digital future* (June 2017) p 10; Cameron Cooper, ‘5 ways accountants have mastered AI’ (15 September 2016) *Intheblack* <<https://www.intheblack.com>>.

12 IBM, *101 Guide: Talking about Watson* (undated), p 5 <www.ibm.com>.

13 Suncorp, *AI technology helps customers get back on the road sooner* (1 November 2017) <www.suncorp.com.au>.

2.7 Whilst AI brings many opportunities to provide a more efficient and cost-effective way of working, it could also significantly disrupt traditional work practices across a range of industries including tax.¹⁴ There are a number of examples of AI applications within the tax environment. In 2016 KPMG announced plans to:¹⁵

... further increase its cognitive capabilities and apply IBM Watson cognitive computing technology to a range of its professional services offerings in Australia.

2.8 KPMG stated that the use of this AI technology in audit will provide the ability to analyse and act on larger sets of financial and operational data to deliver greater insights.¹⁶

2.9 Internationally, IBM Watson has also teamed up with H&R Block. It is used by H&R block tax practitioners to provide clients with access to a more engaging and personalised tax experience that has the ability to 'uncover every deduction and credit available'.¹⁷ To do so, the technology takes into account what has happened in the taxpayer's life in the last year and highlights areas of possible tax implications.

2.10 The Artificially Intelligent Legal Information Research Assistant, otherwise known as Ailira, is an example of how AI can be implemented to support tax professionals in legal and tax research. In addition to such research, Ailira can also help with business structuring, wills and estate planning as well as creating legal documents.¹⁸ Similar to IBM Watson, Ailira scans information from tax law databases, legislation and ATO rulings to answer questions posed in natural language.¹⁹

2.11 It is also important to acknowledge some commentators' claims that the disruption in the case of AI may be overstretched in terms of expectation. For example, it has been likened to 'Excel spreadsheets on steroids',²⁰ and 'only as good as the data it receives and is able to interpret it only within the narrow confines of the supplied context.'²¹ In another case, the claim was that the AI of today cannot create, learn common sense or reasoning, deploy human judgment or professional scepticism.²²

2.12 The challenge is that while there is a range of perspectives on AI, the weight of support and investment is such that it is undeniably a scenario that needs to be considered regarding the future.

14 Steve Healey, *The Future Professional* (Paper presented at the Tax Institute 32nd National Convention, Adelaide, 16 March 2017) p 15.

15 KPMG, *KPMG invests in game-changing cognitive technologies for professional services* (Media Release, 29 June 2016) <home.kpmg.com/au/en/home>.

16 Ibid.

17 H&R Block, *Taxes will never be the same* (undated) <www.hrblock.com>.

18 Ailira, *About Ailira* (undated) <www.ailira.com/about.html>.

19 Tax & Super Australia, *Can AI deliver what tax practitioners need?* (3 August 2017) <<http://taxandsupernewsroom.com.au>>.

20 Vivek Wadhwa, 'Don't buy the hype: AI isn't taking over decision-making', *Sydney Morning Herald*, 19 March 2018.

21 Ibid.

22 Rachel Grimes, 'The Changing Face of the Accountancy Profession', *Bloomberg BNA* (28 September 2017) <www.bna.com>.

BLOCKCHAIN TECHNOLOGY

2.13 Blockchain technology is a form of distributed ledger technology – an open and de-centralised ledger that records information in individual blocks. Blockchains are managed and continuously verified by participants within the chain, thereby providing certainty that the information has not been altered.²³ It allows for the sharing of trusted information amongst its participants without the need for third party verification.

2.14 One of the most well-known applications of blockchain technology has been cryptocurrency, specifically Bitcoin, and the online platform through which it is traded. Bitcoin, and its underlying technology, was first proposed in 2008 as a:²⁴

... purely peer-to-peer version of electronic cash [which] would allow online payments to be sent directly from one party to another without going through a financial institution.

2.15 The value of blockchain technology lies within:²⁵

- increased speed of transactions;
- increased transparency in the case of public blockchains;
- increased confidence in the data which reduces the risk of fraud and errors;
- the removal of the central authority in order to process electronic transactions, such as a financial institution or clearing house; and
- the ability to enable or restrict access as necessary.

2.16 It is likely that blockchain technology would have a significant impact on processes which contain verification activities or where verified and trusted transactions are required.²⁶ Figure 2.1 below shows the various applications for blockchain, ranging from digital identity to digital assets, distributed apps and smart contracts.²⁷ It is important to note that these applications permeate many industries.

23 Maria Teresa Fabregas, 'Blockchain technology: why does it matter for tax administrations?' (2017) *Disruptive Business Models, Intra-European Organisation of Tax Administrations*, p 34; John Pavlus, 'The World Bitcoin Created' (2018) 318(1) *Scientific American* pp32-37.

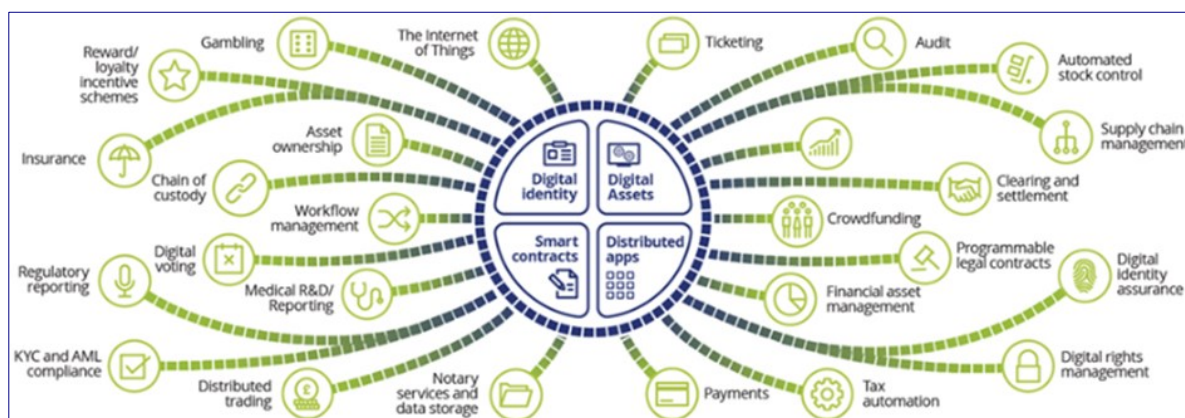
24 Satoshi Nakamoto, *Bitcoin: A Peer-to-Peer Electronic Cash System* (31 October 2008) p 1.

25 Deloitte, *Blockchain; Enigma. Paradox. Opportunity* (2016) p 9.

26 Department of Industry, Innovation and Science, 'The Digital Economy: Opening up the Conversation', 2017, p 19.

27 Deloitte, *The Blockchain Practice* (undated) <www2.deloitte.com>.

Figure 2.1: Applications of blockchain



Source: Deloitte

2.17 As shown in Figure 2.1 above, blockchain technology is revolutionising the way in which industries operate with applications such as ‘distributed trading’ and ‘asset ownership’. On 7 December 2017, the Australian Securities Exchange (ASX) announced that it is replacing its current system to record shareholdings and will manage the clearing and settlement of transactions with distributed ledger technology.²⁸ The new technology will allow for clearance and settlement to occur directly between participants, resulting in simpler, faster and more secure trades,²⁹ reducing costs for customers and ‘put[ing] Australia at the forefront of innovation in financial markets’.³⁰

2.18 Furthermore, applications of blockchain also include authenticating asset ownership as set out in Figure 2.1 above. For example, Australia's largest gold refiner, the Perth Mint, has plans to use blockchain technology and cryptocurrencies to draw investors back to precious metals. The Perth Mint plans to back their own cryptocurrency with physical precious metals which will have the dual benefit of stabilising the value of the cryptocurrency as well as the efficient and real time settlement of transactions.³¹

2.19 Internationally, Estonia and the Netherlands have also explored the benefits of blockchain technology. It has been implemented widely in Estonia, including many of Estonia's judicial, legislative and security registries to 'protect national data, e-services and smart devices both in the public and private sector'.³² The Netherlands has trialled the application of blockchain technology to payroll tax.³³ For more information, please see Chapter 3.

28 Australian Stock Exchange (ASX), *ASX selects distributed ledger technology to replace CHES* (Media Release, 7 December 2017) p 1.

29 Jason Potts, 'Bitcoin is in the spotlight, but the ASX shows blockchain could be a game-changing technology', *Business Insider* (12 December 2017) <<https://www.businessinsider.com.au/>>.

30 Above n 28.

31 Tara de Landgraaff, 'Cryptocurrency backed by gold being developed by Perth Mint to entice investors back to precious metals,' *ABC News* (24 January 2018) <<http://www.abc.net.au>>.

32 E-estonia, *We have built a digital society and so can you* (undated) <www.e-estonia.com>; E-estonia, *Frequently asked questions: Estonian blockchain technology* (undated) <<https://e-estonia.com>>.

33 Gerard Blankestijn, *Blockchain – new roles and ways of interaction, A proof of concept on payroll tax in Intra-European Organisation of Tax Administrations, Disruptive Business Models – Challenges and Opportunities for Tax Administrations* (2017) pp 41-43.

2.20 Within the tax profession and regulatory bodies, blockchain can be used in audits, as shown in Figure 2.1 above, to reduce the compliance burden and audit costs whilst at the same time, increasing accuracy and promoting trust. For accountants, it would mean less transactional processing and reconciliation as transactions are added by the parties involved and then automatically verified. Given that this then leaves an automated audit trail in real time, it could see a disruption in the work of auditors who would normally verify those transactions.³⁴ Financial data from the Big 4 accounting firms already show a decline in the proportion of revenue they derived from audit activities across four financial years from 2014 to 2017.³⁵

2.21 Tax professionals in advisory services will also be affected by blockchain technology. Similar to other technological advancements which may impact the profession, tax professionals will be increasingly engaged by clients to provide advice on the adoption, implementation and integration of this technology into their businesses. This would likely generate new business for tax professionals in the areas of systems solutions, cyber security and technology based audit expertise.³⁶

2.22 The benefits associated with blockchain technology in relation to decreased reconciliation and audit costs as well as increased audit accuracy also apply to revenue agencies such as the ATO. Given that data cannot be altered or deleted on a blockchain and is continuously verified, the ATO will have greater trust in the data. In addition, as blockchain technology operates in a decentralised network, there is no central point of failure and as such, it is more resilient to malicious attacks.³⁷

2.23 In conducting compliance activities and prefilling returns, the ATO often relies on third party information from the private sector obtained from financial institutions, share registries and health funds. As these businesses start to consider how blockchain technology may be implemented in their operations, revenue agencies such as the ATO have the opportunity to involve themselves in the design of governance structures so that any new standards will be developed in line with its requirements. Revenue agencies may also benefit from actively encouraging the private sector in participating in the blockchain ecosystem to make the most of the opportunities presented by blockchain technology.³⁸

2.24 It should be noted that blockchain technology is still in the very early stages and while the benefits are well documented, many of the risks associated with the technology are still emerging. These may include data security, privacy, lack of standardisation and jurisdictional risk.³⁹ Some commentators have raised concern that blockchain technology is 'overhyped.'⁴⁰ Specifically, the challenge is said to be its large storage and energy

34 Jan McCallum, 'Blockchain: how does it work?' (2017) *Intheblack* <<https://www.intheblack.com>>.

35 Edmund Tadros, 'Deloitte now barely an auditory echo of old,' *Australian Financial Review* (7 February 2018) p 12.

36 J. L. Alarcon and Cory Ng, 'Blockchain and the Future of Accounting' (Winter 2018) *Pennsylvania CPA Journal*, pp 5-6.

37 Maria Teresa Fabregas, 'Blockchain technology: why does it matter for tax administrations?' (2017) in Intra-European Organisation of Tax Administrations, *Disruptive Business Models – Challenges and Opportunities for Tax Administrations* (2017) 35-37, p 36; David Regan, 'Tax administration in the age of blockchain' (2017) Intra-European Organisation of Tax Administrations, *Disruptive Business Models – Challenges and Opportunities for Tax Administrations* (2017) 38-40, p 39.

38 Regan, *Ibid*.

39 CAANZ, *Above* n 11.

40 Nouriel Roubini and Preston Byrne 'We need to wake up from this blockchain pipe dream,' *Australian Financial Review* (6 March 2018) <www.afr.com.au>.

requirements.⁴¹ In one example, a Bitcoin software client was reported to only process 5 to 7 transactions per second in comparison to Visa which processes 25,000 transactions per second.⁴²

ROBOTIC PROCESSING AUTOMATION

2.25 Robotic processing automation (RPA) replicates tasks that would otherwise be performed by a human. It increases business efficiency as tasks are performed faster, more accurately and at reduced costs.⁴³

2.26 In 2015, the Committee for Economic Development of Australia (CEDA) delivered a report on Australia's future workforce and identified that:⁴⁴

... 40 per cent of jobs in Australia have a high probability of being susceptible to computerisation and automation in the next 10 to 15 years.

2.27 In a recent submission to the Senate's Inquiry on the Future of Work and Workers, Flinders University reported that three of the 20 occupations most vulnerable to automation include accounting clerks, payroll clerks and bookkeepers.⁴⁵ RPA allows businesses to refocus their resources to value-add activities such as the interpretation and analysis of data rather than calculating and generating reports. Examples of companies, known to tax professionals and already providing such services, include Thomson Reuters and Wolters Kluwer.⁴⁶

2.28 RPA is also commonly used in reconciliations and report generation where tasks are rules based. It can bring a multitude of opportunities through the expansion of service offerings. For example, PwC Australia offers a suite of RPA related services including:⁴⁷

- strategic design to incorporate RPA into an organisation's strategy, operating model, information technology (IT), workforce and risk;
- opportunity assessment to consider how RPA can benefit an organisation beyond cost reduction, such as improving customer experience, revenue growth, risk mitigation and operational agility;
- deployment of RPA; and
- providing sustainability options such as ongoing support.

2.29 The effects of RPA are also being felt more widely as well. In 2015, ANZ spoke to the Australian Financial Review (AFR) about the pilots it is running in the finance, human resources, payments and mortgage processing areas. In one example, ANZ explained that it

41 Ibid.

42 Above n 40.

43 Beverley Head, 'Will robots free accountants to be more creative?' (1 September 2017) *Intheblack*, CPA <<https://www.intheblack.com>>.

44 Committee for Economic Development of Australia, *Australia's future workforce?* (2015) p 58.

45 Flinders University, Submission to the Senate Select Committee Inquiry on the Future of Work and Workers (March 2017), p iv.

46 Above n 43.

47 PwC, *RPA and your digitisation strategy* (October 2016) p 13 <www.pwc.com.au>.

was able to reduce the number of employees in the payments area from 40 down to 2. Whilst ANZ is not using RPA as a method of reducing staff numbers, it does acknowledge that the pace of recruitment has dropped significantly.⁴⁸

2.30 Similar experiences with RPA have also been observed in international markets. For example, the Future [Inc] Report by Chartered Accountants Australia and New Zealand (CAANZ) and the New Zealand Institute of Economic Research has predicted that, in New Zealand, 46 per cent of all jobs will be at risk to automation in the next 20 years.⁴⁹ Furthermore, it predicted that all roles with the accounting profession other than corporate treasurers and secretaries are at high risk of automation.⁵⁰

FINTECH

2.31 The term Fintech refers to financial technologies applied to support or enable the delivery of financial services. Whilst the term was previously used to describe the technologies used by financial institutions themselves in the 'back end' of their businesses, it is increasingly used now to represent technologies disrupting traditional financial services, including mobile payments, money transfers, loans, fundraising, and asset management.⁵¹

2.32 Some of the more widely known examples of Fintech include:

- PayPal and Alipay which are online payment platforms, accepting credit and debit cards as well as automatically converting currencies to enable users to purchase goods from remote areas and overseas;⁵²
- digital wallets including Apple Pay, Android Pay and Samsung Pay which allow bank customers to make payments with the tap of a smartphone or smart watch;⁵³ and
- TransferWise which streamlines international money transfers at a 90 per cent discount on traditional bank transfer fees.⁵⁴

2.33 Fintech changes the way in which companies interact with their customers, bringing a range of positive impacts such as increased competition of technologies, a reduction in the prices that customers pay to transact and greater access to financial services.⁵⁵

48 Paul Smith, 'Rise of the machines as ANZ brings in robot workers to do the 'boring' jobs,' *Australian Financial Review* (24 August 2015) <www.afr.com.au>.

49 CAANZ, *future[inc] Disruptive Technologies Risks, Opportunities – Can New Zealand make the most of them?* (October 2015) <<https://www.charteredaccountantsanz.com>> p 4.

50 Ibid, p 23.

51 Bernard Marr, 'The Complete Beginner's Guide to FinTech in 2017,' *Forbes* (10 February 2017) <<https://www.forbes.com>>.

52 Ibid.

53 Lachlan Colquhoun, 'Cashless payments to transform business' (1 July 2017) *Intheblack* <<https://www.intheblack.com>>.

54 Above n 51.

55 Matthew Blake, Peter Vanham and Dustin Hughes, '5 things you need to know about fintech' (20 April 2016) *World Economic Forum* <<https://www.weforum.org>>.

2.34 The Australian Government estimated that Fintech investment reached an US\$20 billion globally in 2015.⁵⁶ It recognises that developing Australia's Fintech industry will 'not only help drive expansion and growth in our financial exports, it will also deliver benefits to Australians through new services that create value or bring efficiencies'.⁵⁷ As the Treasurer has stated:

FinTech is not an afterthought in Australia. It is front of centre in our national economic plan to boost jobs and growth; giving innovative businesses the encouragement and means to become leaders in a global marketplace where speed, simplicity and scale are non-negotiables.

*... the Australian Government continues to respond to the rapid development of FinTech. We're working constructively with industry leaders and regulators to ensure we provide every opportunity for FinTech firms to succeed.*⁵⁸

2.35 An international example of Fintech is WeChat, an instant messaging app used widely in China that also offers payment services. It is enabled on mobiles phones and can be used to transfer payments to other users as well as to make payments for services, almost everywhere in China, including for ordering taxis, at supermarkets and in hospitals.⁵⁹ It purports to have hundreds of millions of users every day and is one of the most popular payment methods in China.⁶⁰

2.36 A subset of Fintech is 'Regtech', otherwise known as regulatory technology,⁶¹ being the 'use of new technologies to solve regulatory and compliance requirements more effectively and efficiently'.⁶² It has been reported that Regtech software is becoming increasingly popular due to regulatory reporting and privacy requirements necessitated by the large amounts of data companies are now collecting.⁶³ It has the potential to help companies build a culture of compliance whilst reducing the associated costs.⁶⁴

ROBO-ADVICE

2.37 Robo-advice refers to digital financial advice that is provided to clients through a computer rather than by a traditional financial adviser. It uses algorithms and technology to generate financial advice based on the client's information such as age, gender, income, assets, financial goals and risk tolerance.⁶⁵ It is used widely around the world, in countries such as the United Kingdom (UK), the United States of America (USA), Canada, Estonia, Sweden and the Netherlands. For example, in many countries including the UK, Finland, the Netherlands and Sweden, ETFmatic manages a portfolio for each of their customers by

56 The Treasury, *Backing Australian FinTech*, (2016) p 16 <<http://fintech.treasury.gov.au>>.

57 Ibid.

58 The Hon Scott Morrison MP, 'Address to the International FinTech Conference' (Speech delivered at the International FinTech Conference, London, 22 March 2018) <<http://sjm.ministers.treasury.gov.au>>.

59 Tenpay, *WeChat Pay* (undated) <<https://pay.weixin.qq.com>>.

60 Ibid.

61 James Eysers, 'Welcome to the new world of 'regtech','' *Australian Financial Review* (20 June 2016) <<http://www.afr.com>>.

62 Institute of International Finance, *Regtech in financial services: technology solutions for compliance and reporting* (March 2016), p 2 <www.iiif.com>.

63 Beverley Head, 'Technology is slashing red tape' (1 April 2017) *Intheblack* <<https://www.intheblack.com>>.

64 Australian Securities and Investments Commission (ASIC), *Regtech* (10 May 2017) <<http://asic.gov.au>>.

65 ASIC, *Robo-advice* (10 November 2017) <<https://www.moneysmart.gov.au>>.

buying and selling Exchange Traded Funds (ETF) on their behalf.⁶⁶ Anyone is able to try a simulation account for free or open a real money portfolio in under five minutes using ETFmatic's App.⁶⁷

2.38 Robo-advice is considered a low-cost option for obtaining financial advice. It offers convenience but has potential to disrupt the financial services sector, particularly financial advisers. It can be accessed through a smart device 'on the go' at any time. In addition, as the advice is delivered by computers rather than traditional advisers, it is an option for people who cannot afford traditional advice, have smaller amounts to invest or only require simple advice.

2.39 It should be noted that the advice provided by Robo-advice is limited to one particular area at a time and does not necessarily take into account a client's circumstances in a holistic sense. For example, if broader investment advice is required, the end product does not consider other factors such as debt management, super contributions, tax planning or impacts on Centrelink benefits. Furthermore, Robo-advice does not clarify a client's goals or objectives nor does it account for changes in a client's circumstances such as taking breaks from work or loss of income due to illness.⁶⁸

2.40 Robo-advice has also given rise to regulatory concerns. In Australia, accountants are required to either hold an Australian Financial Services (AFS) licence or be a representative of a licensee to provide self-managed super fund (SMSF)-related services to their clients. The Australia Securities and Investments Commission (ASIC) recently reported that:⁶⁹

... a number of accountants who have chosen to operate without an AFS licence authorisation have entered into arrangements with digital financial advice providers (or "robo-advisers") to allow their clients to access digital advice about SMSFs.

and

These arrangements allow unlicensed accountants to continue to provide SMSF-related services to their clients, even where they need financial product advice.

BIG DATA ANALYTICS

2.41 Big data analytics or Big Data, refers to large sets of data and the tools used to manage and analyse them. The term is also used to describe data sets that are:⁷⁰

... so large (from terabytes to exabytes) and complex (from sensor to social media data) that they require advanced and unique data storage, management, analysis, and visualization technologies.

66 Planet of Finance, *The Rise of Robo-Advisors* (23 June 2017) p 30 <www.planetoffinance.com>.

67 Ibid.

68 ASIC, *Robo-advice* (10 November 2017) <<https://www.moneysmart.gov.au/investing/financial-advice/robo-advice>>.

69 Louise Macaulay and Joanna Bird, 'Robo-advice for SMSFs: what accountants need to know' (2 June 2017) *Intheblack*, <<https://www.intheblack.com>>.

70 Hsinchun Chen, Roger H. L. Chiang and Veda C. Storey, 'Business Intelligence and Analytics: From Big Data to Big Impact' (December 2012) 36(4) *MIS Quarterly* 1165, p 1166.

2.42 Big Data also comes in various formats such as texts, images, voices and videos and can include information such as the number of clicks on a particular advertisement.⁷¹ A significant amount of this data is generated by the 'Internet of People' and the 'Internet of Things'. The 'Internet of People' enables people to communicate with each other in ways not anticipated previously, by connecting 'various pools of talent, enabling continuous upskilling, boundaryless careers, access to work opportunities, income continuation solutions, and access to various other benefits'.⁷²

2.43 The 'Internet of Things' is the concept of devices communicating with each other using the Internet.⁷³ The Internet of Things offers the transmission of data in real time between all parties including businesses and government. It streamlines interactions resulting in increased convenience, efficiency and better quality information. An example of an application arising from the Internet of Things⁷⁴ is the online cash register which records all transactions and feeds the recorded information directly to revenue agencies. This has the benefit of assisting with business record keeping and compliance obligations as well as providing revenue agencies with more accurate data in real time.⁷⁵

2.44 In 2016, the World Economic Forum (WEF) conducted a survey which found that one of the top technological drivers of change in the future of jobs is processing power and Big Data.⁷⁶ Within the tax profession, Big Data can have the effect of improving both management and financial accounting. For example, Big Data may be used to value intangible assets such as brand names through the real time measurement of customer satisfaction and trends in social media.⁷⁷ Such valuations are important in many areas of taxation,⁷⁸ for example transfer pricing.

2.45 Big Data can also be beneficial in audit and compliance work, particularly where it is conducted by external auditors which may be from the private sector or government agencies such as the ATO. It can improve the quality and relevance of audit evidence as a greater variety of data is available to allow a more thorough examination. It can also improve the overall analysis of audit data as 'population' (as distinct from sample) based audits are attainable, enabling greater analysis of trends, ratios and comparisons. By way of an example, Big Data can consider the relationship between financial statements and actual business organisations to identify potential red flags requiring closer examination.⁷⁹

2.46 Internationally, Big Data is used by revenue agencies in countries such as Brazil and Russia to monitor Value-Added Tax (VAT) compliance. Chapter 3 provides more information in this regard.

71 Jiali (Jenna) Tang and Khondkar E. Karim, 'Big Data in Business Analytics: Implications for the Audit Profession' (June 2017) *CPA Journal* <www.cpajournal.com>.

72 Anna Tavis, 'How the Internet of People Will Change the Future of Work' (2017) *People + Strategy* 8, p 8.

73 Organisation for Economic Cooperation and Development (OECD), *Rethinking Tax Services: The Changing Role of Tax Service Providers in SME Tax Compliance* (2016), p 32.

74 An early example of which is car satellite navigation technology.

75 Above n 73, p 37.

76 World Economic Forum, *The Future of Jobs* (2016) p 8.

77 Above n 71.

78 IGT, *Review into the Australian Taxation Office's administration of valuation matters* (2015) <www.igt.gov.au>.

79 Above n 71.

CLOUD TECHNOLOGY

2.47 Cloud technology utilises the internet to store resources, data and information on offsite servers accessible from multiple devices⁸⁰ without the need to purchase the infrastructure which would otherwise be necessary to support such storage and data processing needs.⁸¹ The ability to access cloud applications through a web browser allows businesses to conduct work anywhere by using a computer, tablet or mobile device.

2.48 Cloud technology and cloud storage provides ready access to vast amounts of data, which allows for the real time automation or processing of tasks such as bookkeeping and reporting. This reduces the risk of errors as the need to exchange files manually is diminished, creating greater efficiency and more accurate lodgments.⁸²

2.49 Furthermore, cloud technology may result in capital savings as businesses no longer need to purchase both hardware and software previously required. Instead, businesses pay for cloud 'apps' on a subscription basis.⁸³ Traditional accounting and taxation related software companies such as Sage, MYOB and Reckon have adopted this technology and now offer cloud versions of their applications.⁸⁴

2.50 Tax professionals across a wide spectrum, from small to large scale practices, have also adopted cloud based technology. In addition to reduced costs and improved access, there are major client service benefits. Cloud technology allows real time two-way access between the practitioner and their client through a common data source. A recent global research survey found that 67 per cent of accountants utilise cloud technology and 53 per cent have adopted a cloud-based practice management solution.⁸⁵

2.51 Emerging technologies, such as cloud and RPA, provide opportunities for tax and accounting firms to offer new services. Ernst & Young (EY) recently developed a cloud-based program, 'EY Catalyst', to support and enhance manufacturing operations. It offers clients the ability to access an extensive global database of leading practices, training, analytics and tools to build capability. It allows users to track their development journey through a mobile app, providing eLearning modules and an online community forum to encourage interactions with others.⁸⁶ These are new services, not just old services offered in a new way.

2.52 The trend towards pursuing a digital business strategy has resulted in the adoption of cloud technology by revenue authorities as well. For example, Her Majesty's Revenue and Customs (HMRC) in the UK uses cloud technology to make available online secure digital tax accounts for taxpayers which enables them to see a complete financial

80 Sholto Macpherson, 'How will the cloud disrupt practice management software?' (2016) *Intheblack* <<https://www.intheblack.com>>.

81 Tathiane Piscitelli and Doris Canen, 'Taxation of Cloud Computing in Brazil: Legal and Judicial Uncertainties' (2018) 90(1) *Tax Notes International* 157, p 158.

82 Above n 73, p 38.

83 OECD, *Ibid*; Glenn Rees, 'A business guide to the cloud' (2012) *Intheblack* <<https://www.intheblack.com>>.

84 Rees, *Ibid*.

85 Sage, *The Practice of Now 2018* (2018) p 8 <www.sage.com/au>.

86 EY, *Manufacturing Accelerator and Supply Chain Accelerator* (3 October 2017) p 4 <www.ey.com>.

picture of their tax affairs and manage all of their liabilities and entitlements in the one place.⁸⁷

APPLICATION PROGRAMMING INTERFACE

2.53 Application Programming Interfaces (APIs) allow businesses to connect their software with other businesses as well as the ATO with data flowing in both directions.⁸⁸ APIs are attached to software products, acting as a 'translator between a user's request inputs and the software's understandable language'.⁸⁹ If the ATO, for example, wished to enable external applications to interact with its systems or part thereof, it would provide APIs for the relevant interactions so that the third party developers can incorporate them into those applications.

2.54 In the Australian accounting environment, APIs may be used in the collection of information from point-of-sale (POS) transactions. POS applications such as Vend, Kounta and others collect data from a business's sales for the day and transmits them directly into relevant accounting software. This effectively removes the need to conduct an end-of-day cash reconciliation.

2.55 APIs are also used by accountants in reporting work such as constructing graphs, tables and dashboards. It allows raw data to be drawn and fed directly from accounting software into the software that presents the data in the desired format. It has the benefit of automating low-value tasks such as copying and pasting data into Excel macros which can give rise to human errors thereby allowing accountants to focus on value-add services such as explaining reports to clients.⁹⁰

2.56 In addition, APIs are being used in accounting software to act as a gateway to payment platforms such as PayPal or eWAY. In these instances, APIs allow companies to issue invoices through accounting software which can be paid by the customer via a link, to the payment platform, in an email. Once the payment is processed successfully by the payment platform, the transaction is automatically reconciled against the invoice in the sellers' or suppliers' accounting software. Once again, this has the benefit of eliminating low-value tasks such as reconciling payment against invoices and eliminates human error.⁹¹

2.57 Internationally, APIs are released to DSPs by several of the revenue authorities examined by the IGT including those of the UK, Canada, Estonia and New Zealand. These are discussed in more detail in the next chapter.

NEW PAYMENTS PLATFORM

2.58 The New Payments Platform (NPP) is a result of the collaboration between the big 4 banks and 9 other financial institutions in response to the Real Time Payments Committee's recommendation for industry to develop a real time payments clearing and

87 Above n 73, p 40.

88 Sholto Macpherson, 'Cloud accounting: what you need to consider' (2017) *Intheblack* <<https://www.intheblack.com>>.

89 ATO, *Australian and global software development trends* (May 2016) p 4 <www.softwaredevelopers.ato.gov.au>.

90 Above n 88.

91 Ibid.

settlement system for consumers, businesses and government.⁹² The NPP, and related services such as PayID and Osko by BPAY, were deployed during the course of this review.⁹³

2.59 The NPP is a form of Fintech that enables real time clearing and settlement of payments. It allows for simplified payments through the use of a mobile number or email address rather than a BSB and account number. It also allows payments to include more information such as text or links to invoices and other documents.⁹⁴

2.60 The NPP is designed to be more 'data rich' and transmit more information with transactions than is currently possible on the existing payment platform. Given this capability, it is likely that future applications may include the collection of Goods and Services Tax (GST) at source. This could be made possible through financial institutions employing software with AI capabilities that analyses the data attached to individual payments to identify the GST component. The GST could then be instantaneously transmitted to the ATO thereby hardwiring compliance for businesses and enhancing ATO verification and collection processes.

2.61 Furthermore, the financial institutions may also develop 'overlay' services which use the NPP's data rich capabilities to deliver greater benefits to their clients. As yet, it is not known what kinds of 'overlay' services may be developed.

2.62 The NPP, whilst a unique Australian design, is similar to the UK's Faster Payments system which also enables real time payments. It was launched in May 2008, with a total of 21 participants, such as financial institutions, directly connected and 1 billion immediate one-off payments processed in 2017.⁹⁵

OTHER TECHNOLOGICAL AND SYSTEM DEVELOPMENTS

2.63 Other relevant technological and system developments include advancements in e-invoicing and enterprise resource planning (ERP) systems.

2.64 Electronic-invoicing or e-invoicing is not a new concept, particularly in the large market. It has been available for decades in electronic data interchange form. This form was typically used by parties that traded frequently with each other who were required to agree to a standard and fulfil strict conditions.⁹⁶ The e-invoicing system provides 'open' access and is more publicly available in new systems and apps with the 'exchange of invoice related documents between a seller and a customer in an electronic format' occurring more widely.⁹⁷ The e-invoice is generated directly from the information in a supplier's accounts receivable system or from a web-based form and sent to the buyer's accounts payable system. It bypasses historical human intervention such as manual processing both at the supplier's and buyer's end.⁹⁸

92 New Payments Platform (NPP), *Who is involved in the New Payments Platform* (undated) <www.nppa.com.au>; NPP, *History* (undated) <www.nppa.com.au>.

93 BPAY, *Frequently Asked Questions* <www.bpay.com.au>.

94 NPP, *What is the New Payments Platform?* (undated) <www.nppa.com.au>.

95 Fast Payments, *Our Achievements* (undated) <<http://www.fasterpayments.org.uk>>.

96 Kevin Mullock, Tom Birch and Suzanne den Breems, 'Electronic Invoicing: European developments' (2004) 18 *International Tax Review* <<http://www.internationaltaxreview.com>>.

97 ATO, *Issuing tax invoices* (23 November 2017) <<https://www.ato.gov.au>>.

98 E-InvoicingBasics, *What is e-Invoicing* (undated) <<https://www.einvoicingbasics.co.uk>>.

2.65 The use of e-invoicing is estimated to save the Australian economy \$7.8 billion annually.⁹⁹ It is said to be 60 to 80 per cent more efficient than traditional paper methods and allows businesses to transact seamlessly, reducing costs and processing times as well as eliminating processing errors.¹⁰⁰ Clearly, there is potential to automate GST and VAT payment and returns at the point of sale. Such automation would effectively hard-wire compliance with tax obligations and minimise activities in the black economy.¹⁰¹

2.66 ERP systems are business management systems that control multiple functions and integrate businesses' main activities to deliver time and resource efficiencies. Such functions include human resources (HR), inventory, sales and project management. ERP systems employ cloud technology to give online access, making it easier to set up and operate.¹⁰²

2.67 An application of the improved data support in an ERP system environment is PwC's Comply First Time, which is a one-stop platform solution to meet all indirect tax reporting requirements. The platform automates multiple compliance processes, such as BAS, GST accrual accounting, payroll tax and workers compensation. In addition to taxation matters, it also uses data feeds to create dashboards and visualisation reports¹⁰³ to provide senior management with a holistic view of the performance of their businesses. ERPs have traditionally been thought of as expensive, complex systems as they relied on large upfront investment in infrastructure and implementation. However, as they are now cloud-based and use applications, the costs of deployment are considerably lower. This has facilitated their use by mid-sized and even smaller practitioners.¹⁰⁴ Benefits of ERPs for these tax practitioners include being able to access detailed information faster, prepare customised dashboards for individuals and prepare key reports automatically.¹⁰⁵

2.68 The introduction of e-invoicing and ERP software is disrupting the traditional employee requirements for both the provider and the recipient of such services. Generally, the focus of major firms has been to service the compliance needs of their clients, however, in certain areas such as GST compliance, the focus is becoming more directed at developing the software platforms required to achieve such outcomes.

99 Digital Business Council, *Frequently asked questions* (undated) <<http://digitalbusinesscouncil.com.au/faqs/>>.

100 Ibid.

101 Treasury, *Black economy taskforce Final Report* (October 2017) pp 3 and 6.

102 Sholto Macpherson, 'Enterprise resource planning: taking the leap' (1 August 2017) *Intheblack* <<https://www.intheblack.com>>.

103 PwC, *Comply First Time* (undated) <<https://www.pwc.com.au>>.

104 Above n 102.

105 MYOB, *Business Management Systems: What can you improve* (2018) <<https://www.myob.com>>.

CHAPTER 3 — INTERNATIONAL REVENUE AUTHORITY APPROACHES

3.1 The nature of emerging technologies and their impact on the tax profession and revenue authorities in other jurisdictions are considered in this chapter to better understand the underlying nature of the issues and likely best practice, providing a basis for the comparison with developments in this country. The jurisdictions examined are New Zealand, the UK, Canada, the Netherlands, Sweden, Finland, Estonia, Singapore, the Russian Federation, the USA and South Africa.

3.2 In order to gain a deeper appreciation, the IGT review team has researched available material and directly engaged with the above revenue authorities, where possible, to obtain further insights regarding their current or planned use of new technologies along with the expected roles, relationships and support to tax professionals in this journey.

3.3 The consideration of each country as a separate case study is instructive. Each jurisdiction has responded to changing technologies and social expectations with a unique approach specific to their circumstances and needs. Each revenue authority did not start from the same basis. They also do not necessarily share all the same views on the future state, which is perhaps not surprising. However, almost all of them share the common goals of digitising services and adopting a user-centred approach to designing and developing a single taxpayer file or account.¹⁰⁶

3.4 The separate consideration of both the tax profession and revenue authority is important. Whilst points of intersection will arise, separate consideration of each facilitates a clearer comparative analysis between each party's current and future functions.

NEW ZEALAND

The role of tax professionals

3.5 The national revenue authority in New Zealand is the Inland Revenue Department (IRD). The IRD considers that tax practitioners or tax agents significantly contribute to the efficient operation of their tax system and will continue to play a key role in assisting the community to navigate the future tax administration.¹⁰⁷

3.6 The IRD currently provides a range of support services to tax agents including dedicated account managers, dedicated phone services and access to client information held in IRD's online service, 'MyIR'.¹⁰⁸

106 OECD, *Technologies for better tax administration: A practical guide for revenue bodies* (2016) pp 36-41.

107 Inland Revenue Department (IRD), *Future Role of Tax Agents - Towards a New Tax Administration Act* (undated) <<http://www.taxpolicy.ird.govt.nz>>.

108 Ibid.

3.7 The IRD supplies every listed tax agent with an account manager to provide support and assistance, including:¹⁰⁹

- Relationship management: a centralised point of contact for specific issues to facilitate resolution of exceptional issues and complaints as well as negotiate and update status.
- Education and information: to actively provide support and increase awareness of the self-service tools IRD provides, keep tax agents informed with information updates and provide reports which cannot be accessed through self-service.
- Compliance and monitoring: register and monitor tax agents to ensure they are meeting their legislative and compliance requirements.

3.8 As part of registering new tax agents, the IRD is required by legislation to maintain a list of tax agents, although the list is not made publicly available.¹¹⁰ Where it is detected that tax agents do not meet their obligations under the required guidelines or legislation, account managers can:¹¹¹

- withdraw extensions of time;
- negotiate interim guidelines and dates; or
- remove them as a listed tax agent.

3.9 In practice, it is rare for the IRD to delist or refuse to list a tax agent.¹¹² It has been suggested that more regulated tax agent rules, such as those in Australia, would be beneficial. However, it is considered that any tax integrity benefit is outweighed by higher compliance and administrative costs.¹¹³

3.10 Tax agents are encouraged to manage their clients' tax obligations using the IRD website and the various self-service options available, including:¹¹⁴

- MyIR Secure Online Services which allows tax agents to manage their clients' tax affairs such as linking clients, transferring credits and payments, viewing clients' earnings information, balances and transactions;
- E-File which facilitates the direct transmission of data directly from their own computer to IRD systems;
- tax agent's self-service line, a dedicated telephone service which they can use to confirm client earning information, check the status of a refund and link clients for example; and
- StationeryXpress which can be used by tax agents to request access to stationery produced by the IRD.

109 OECD, *Tax Administration 2015: Comparative information on OECD and other advanced and emerging economies* (2015) p 272.

110 IRD, *Tax agents – List of tax agents* (undated) <<http://www.ird.govt.nz>>.

111 Ibid.

112 Above n 107

113 Ibid.

114 Ibid.

Technological and future developments

3.11 The IRD is currently undergoing a business transformation process, which is a multi-stage change program, aimed at streamlining its processes, policies and customer services as well as upgrading its technology program.¹¹⁵

3.12 During the transformation, the IRD has shifted away from building and maintaining infrastructure to using standard off-the-shelf software solutions.¹¹⁶ It has actively sought assistance from a wide range of third party providers, spending \$211 million on contractor and consultant services. For example, in February 2016 the IRD entered into a 10-year contract with Spark and its subsidiary Revera to provide data centres and associated services.¹¹⁷ To upgrade the IRD technology program, IRD is using a FAST GenTax product, which is a commercial off-the-shelf solution providing specialist functionality for revenue authorities. In implementing this product, the IRD has worked closely with the Finnish tax authority who also uses this product and has successfully completed the first implementation in January 2016.¹¹⁸ The new systems are being run in parallel to legacy systems for several years as a risk mitigation strategy.¹¹⁹

3.13 The IRD has also leveraged technological developments such as APIs and facilitates collaboration with third parties. In March 2016, the IRD made the first API available for submitting GST returns and since that time, additional APIs have been released.¹²⁰

3.14 Software providers are encouraged to register with the IRD. They can do so by providing certain information to the IRD. They are also required to self-assess whether they meet a range of technical specifications and consent to a criminal history check. Registering allows software developers to gain access to a range of services, including those offered to tax agents.¹²¹

3.15 As part of its transformation, the IRD has also recently undertaken a major structural review of its operations. For some years, individuals have not been required to lodge an income tax return if they only earn salary and wages and pay the correct amount of tax.¹²² Under legislation currently before Parliament, the IRD will automatically calculate and issue refunds and bills where the Commissioner of Inland Revenue is reasonably satisfied that the income reported from third parties is the customer's only income. The legislation also includes proposals to extend some of the online services currently available to tax agents to other intermediaries such as bookkeepers.

115 IRD, *Business transformation – about business transformation* (2 August 2017) <<https://www.ird.govt.nz>>.

116 Ibid.

117 IRD, *July 2017 Transformation Update – Implementing Stage 2 of the future revenue system* (July 2017) p 20.

118 IRD, *Transforming Inland Revenue* (2016) <www.ird.govt.nz>.

119 IRD, *Communication with the IGT* (10 November 2017).

120 IRD, *Transforming Inland Revenue* (2015) <www.ird.govt.nz>.

121 IRD, *Software developers – New to working with us* (2 June 2017) <<https://www.ird.govt.nz>>.

122 IRD, *Individual Income Tax* (2010) <<http://www.ird.govt.nz>>.

3.16 The IRD anticipates that the investigations and compliance areas, which currently comprise approximately 1,200 Full Time Equivalent (FTE) employees may be impacted in the future by the increased use of data analytics which will inform its knowledge and identification of potential issues.¹²³ In fact, its current workforce is expected to be reduced by 25 to 30 per cent as part of transitioning the capabilities to better meet the needs of the future.¹²⁴

3.17 To assess the progress of IRD's transformation, a rigorous program of independent quality assurance reviews is conducted.¹²⁵ The latest review was conducted by KPMG in August 2017 to assess its readiness to complete the next stage of implementation. KPMG found that:

*... the Programme continues to be well managed as it progresses towards both its short and long term goals. Programme control remains good (indeed in many areas the programme continues to be among the most effective we have seen), and generally, the Programme continues to demonstrate the characteristics of a high performing team ...*¹²⁶

3.18 In relation to tax agents, the IRD expects that even though the nature of services provided to their clients will change in the future, they will continue to have a vital role in shaping compliance outcomes.¹²⁷ To enhance access to IRD tax agent services, tax agents in the future may have better access to information held by the IRD about their clients and any actions the IRD may be taking. It is believed that such a change would enable tax agents to work in 'real time' and reduce tax time pressures.¹²⁸

3.19 The IRD will also be seeking to determine what services are most important to tax agents, what additional services may assist them in their future role and what they would like the IRD to consider in designing more digital service offerings for tax agents and other tax service providers in the future.¹²⁹

3.20 The IRD plans to support the tax profession in adapting to changes so that they can continue to meet their obligations and their client's needs.¹³⁰ For example, from mid to late 2017, the IRD focused on building awareness and understanding of recent changes amongst service providers, software developers and tax agent professional bodies by increasing face-to-face, video and digital engagement through social media, webinars and apps.¹³¹

123 IRD, Communication with the IGT (10 November 2017).

124 Above n 117, p 19.

125 IRD, *Business transformation* (30 Aug 2017) <<http://www.ird.govt.nz/transoformation>>.

126 KPMG, *Inland Revenue – Independent Quality & Technical Assurance – Business Transformation Programme* (August 2015).

127 Above n 107.

128 IRD, *Making Tax Simpler – Towards a New Tax Administration Act – A Government Discussion Document* (November 2015) p 65.

129 IRD, *Towards a New Tax Administration Act – Overview* (undated) <<https://taxpolicy.ird.govt.nz>>.

130 Above n 117, p 15.

131 Ibid, pp 16-17.

UNITED KINGDOM

The role of tax professionals

3.21 HMRC believes that tax agents will continue to play an important and integral role in the future tax system but, as technology drives change in the tax system, they may focus more on complex issues and assisting taxpayers to comply with their tax obligations rather than on administrative tasks.

3.22 It is estimated that approximately 72,000 tax agent firms are currently acting on behalf of 12 million individuals and businesses. Most businesses, including approximately 86 per cent of small and mid-size businesses, engage the services of tax agents preferring to spend time running their business than dealing with the complexities of taxation.¹³²

3.23 Knowing that many taxpayers rely on tax agents, HMRC has made a strategic decision to welcome the use of those agents to represent customers where they add value in helping their clients get their tax right.¹³³ HMRC is of the view that the 'one-to-many' relationship between agent and client offers great potential.

3.24 The key pillars of HMRC's Agents Strategy are:

- providing digital services for agents which allow them to see and do what their clients can see and do;
- raising professional standards in the tax agent market; and
- enabling agents to add greater value to the tax system through a range of services and compliance approaches.

3.25 Through its Making Tax Digital (MTD) program, HMRC has built the digital foundations for the above strategy, and already has a range of services available to agents, including a real time digital service for clients to authorise new agents to act on their behalf.

3.26 HMRC also provides agents with expert curated information on complex technical matters and is working towards enabling them to see and do what their clients can see and do digitally. The role of the tax agent is also built into the design of new digital services and compliance work.

3.27 The tax profession in the UK is self-regulated through a number of professional bodies. Approximately two-thirds of tax agents are estimated to be members of one or more professional bodies. Several of these bodies jointly own a set of standards called the Professional Conduct in Relation to Taxation (PCRT). The PCRT was updated in March 2017 to make clear that members must not engage in tax avoidance arrangements.

¹³² Above n 73, p 61.

¹³³ GOV.UK, *HMRC Strategy 2017* (undated) <<https://www.gov.uk/>>.

3.28 Approximately one-third of tax agents are not affiliated with a professional body. They are only subject to 'regulation' by HMRC who applies a standard which complements the PCRT.¹³⁴ HMRC is currently discussing with the profession how to ensure common standards are set and enforced across the whole of the tax services market, including firms which are not members of professional regulatory bodies.

3.29 Options are being explored for strengthening the above regulatory framework. This includes HMRC's use of existing powers, amongst which is disclosure of information to the professional bodies about members whose conduct is unacceptable. As the Second Permanent Secretary of HMRC has noted that:¹³⁵

... the more we can get agents up that value chain, the more we can remove the need for those [compliance] interventions; and the more agents can sit down with clients and deal with compliance risks themselves, by taking a broader view of what's in the best interests of a client.

3.30 HMRC is also considering options for differentiating service provision for tax agents to support this aim.

Technological and future developments

3.31 Following extensive consultation, HMRC is introducing MTD for Business. There is estimated to be £9 billion tax lost due to error and carelessness each year in the UK and such digitisation should assist in alleviating this issue.

3.32 From April 2019, all VAT registered businesses with a taxable turnover above the VAT threshold (currently £85,000) are required to keep digital VAT business records and send their VAT returns to HMRC using MTD compatible software.

3.33 Respondents to the original consultation supported the move to a digital tax system, but had concerns about the pace of change and the capability of small businesses to adapt. As a result, the Government announced in 2017, that MTD will not be made mandatory for other taxes until at least 2020. MTD for income tax is available now on a voluntary basis.

3.34 It is believed that the move to digital integration will eliminate many of the existing paper based processes, allowing businesses and their agents to devote more time and attention to maximising business opportunities, encouraging growth and fostering good financial planning.

3.35 HMRC recognises that many businesses and agents choose to use third party software over HMRC's own digital services, and the majority of online lodgements are via software products designed by a community of approximately 600 developers. Accordingly, as part of its third party tax software and API strategy, HMRC has significantly increased the support given to third party software developers. It has created an API Developer Hub providing developers with a 'one-stop shop'. More sophisticated APIs are also being released and developers are being provided with operational and

134 GOV.UK, HMRC: the standard for agents (undated) <<https://www.gov.uk/>>.

135 Jim Harra, Q&A: HMRC's plans on working with tax agents (4 March 2015) 1253 *Tax Journal* <<https://www.taxjournal.com>>.

relationship management support. The intent is to 'enable more third party products to carry out more tax functions and in greater detail', providing a better experience for all taxpayers and improving compliance as the inclusion of business rules and validation within the APIs is reducing the amount of errors.

3.36 Similar to New Zealand, software developers must register with HMRC on the API Developer Hub. HMRC conducts a number of checks before approving their registration which gives the developer access to 'production APIs'. They cannot access production APIs without being approved.

3.37 In addition to APIs, HMRC has had successes in using robotics to automate tax processes. For example, tax refund claims submitted online are now handled by a robot that processes simple cases in full including writing back to the taxpayer and adding an audit trail to HMRC's records. More complex claims are referred for manual handling.

3.38 HMRC has also begun looking at use cases for AI and blockchain. It has introduced a 24-hour online assistant, called *Ruth*, who is available to provide guidance on tax queries — where necessary, queries may be referred to an actual tax officer. With respect to blockchain, its Chief Technology Officer has stated that a 'slow-and-go-approach' has been adopted due to security concerns, regulatory oversight and reputational risk.

CANADA

The role of tax professionals

3.39 Canada's tax administrator, the Canada Revenue Agency (CRA), values the role that tax professionals play in the tax system. This was highlighted in 2014 when the CRA and Chartered Professional Accountants of Canada (CPA of Canada) signed a framework agreement calling for an enhanced working relationship.¹³⁶ The CRA and the CPA of Canada engage in open and collaborative dialogue, including the use of a working committee as a feedback mechanism to improve program delivery.¹³⁷

3.40 The CRA has a Tax Professionals webpage which provides a broad range of information, including latest news items affecting tax professionals and how they may use CRA services.¹³⁸ It also has a 'Represent a Client' portal which provides registered tax preparers with access to their client's tax information, depending on the authorisation provided by the client.¹³⁹

3.41 The CRA has implemented a 3-year pilot project whereby a dedicated telephone support line provides small and medium income tax service providers with increased access to CRA income tax technical information through which they can assist their clients.

3.42 On 14 January 2014, the CRA issued a consultation document entitled Proposal – Registration of Tax Preparers Program (RTPP). As a part of the proposal there were extensive cross country consultations with the tax practitioner community. Having regard

136 Chartered Professional Accountants Canada (CPA Canada), CRA and CPA Canada sign framework agreement to enhance working relationship (26 November 2014) <<https://www.cpacanada.ca>>.

137 Above n 73, p 100; CRA, *Framework Agreement – Canada Revenue Agency and Chartered Professional Accountants of Canada* (11 December 2014) <<http://www.cra-arc.gc.ca/taxprofessionals/>>.

138 CRA, *What's new for tax professionals* (undated) <<https://www.canada.ca>>.

139 Above n 109, p 273.

to the feedback, the CRA undertook further research and analysis to determine the level of systems and legislative changes that would be required to implement the RTPP.

3.43 As the CRA's research found that significant investment would be required to implement the RTPP as originally designed, it is now considering other options that would serve to implement the objectives of the proposed RTPP, through existing CRA programs, in a more cost-effective manner.

3.44 At the end of 2016, the CRA held a series of forums with professional accountants as well as small to medium enterprises (SMEs), called the 'Serving You Better (SYB)' consultations, to determine ways in which government services can be adapted to their needs.¹⁴⁰ Further SYB consultations were held with small and medium businesses and professional accountants in 2018 to find ways to improve its programs and services. These consultations are a key component of the CRA's commitment to delivering enhanced federal government services to SMEs.

Technological and future developments

3.45 The CRA has implemented an e-services modernisation strategy aimed at allowing Canadians to interact with them digitally and securely. This strategy seeks to improve 'digital service options to provide end-to-end, modern e-services, which are fast, easy, and secure'.¹⁴¹

3.46 The CRA also allows third party software providers to access the APIs it has developed. This has resulted in development of software which has facilitated online lodgment of a significant number of income tax returns.¹⁴² In addition to being able to lodge an initial return, the CRA's ReFILE service enables individuals and EFILE¹⁴³ service providers to send online adjustments for income tax and benefit returns with certified software. Although it does not automate tax returns to the extent where lodgment is not required, it offers a service called 'Auto-fill my return' which allows individuals and authorised representatives to automatically fill in parts of an income tax and benefit return with information that the CRA has available at the time of lodgment.¹⁴⁴

3.47 The CRA has also made progress in relation to real-time processing of their income tax and benefit returns. The CRA's Express NOA service enables individuals and authorised representatives to view and print the notice of assessment in their EFILE or NETFILE-certified¹⁴⁵ tax preparation software after the return has been received and processed by the CRA, usually within a matter of seconds after lodgment.

3.48 Further technological development opportunities were announced as part of the Budget 2017, in which the Government of Canada announced the creation of an

140 CRA, *Summary of the Corporate Business Plan 2017-18 to 2019-20* (10 March 2017) p 5.

141 Ibid, p 23.

142 Treasury Board of Canada Secretariat of Canada, Government of Canada, *API Strategy Enabling a Digital Service Revolution with Canada's Vision for Government as a Platform* (Draft for Discussion April 2017).

143 EFILE is an automated service that allows approved tax preparation service providers and **discounters** to send individual income tax return information to the Canada Revenue Agency (CRA) directly from EFILE-certified tax preparation software.

144 CRA, *About Auto-fill my return* (2017) <<https://www.canada.ca/>>.

145 NETFILE is an electronic tax-filing service that allows you to send your individual income tax and benefit return directly to the Canada Revenue Agency (CRA) using the Internet and a NETFILE-certified software product.

independent research facility for artificial intelligence. Canada's Finance Minister has stated that:¹⁴⁶

Technology is changing fast, and with it comes opportunity. By encouraging cutting-edge technology like AI while at the same time creating a culture of lifelong learning, we will be with Canadians every step of the way as they lead us into a future filled with possibility.

3.49 The establishment of this facility may open up opportunities for the CRA to assess the benefits that AI may offer.¹⁴⁷

THE NETHERLANDS

The role of tax professionals

3.50 At the Organisation for Economic Cooperation and Development's (OECD) Forum on Tax Administration in Cape Town, a Deputy Commissioner of the Netherlands' Tax and Customs Administration (NTCA) observed that tax intermediaries play a pivotal role by endorsing compliant behaviour and transparency and thus can become trustworthy stakeholders for tax authorities.¹⁴⁸

3.51 In 2005, the NTCA introduced a 'horizontal monitoring' program to enhance relationships and endorse compliance arrangements with large taxpayers. This program enables large businesses to commit themselves to 'tax control frameworks' which provide the NTCA with increased confidence that those businesses are in control of their tax compliance.¹⁴⁹ Tax practitioners play a large role in the development and maintenance of these frameworks.

3.52 The NTCA also offers cooperative compliance with tax practitioners who serve large businesses and SMEs.¹⁵⁰ These cooperative compliance arrangements are concluded between the NTCA and tax practitioners.¹⁵¹ The arrangements enable the NTCA to reduce the level of supervision on participating taxpayers, for example through conducting a limited number of randomly selected audits.¹⁵² To determine the suitability of tax practitioners for co-operative compliance arrangements, the NTCA considers whether there is mutual trust, transparency, understanding as well as an appropriate level of co-operation and delivery of outcomes.

3.53 The NTCA considers the horizontal monitoring program a success as the tax returns submitted by taxpayers under the program have been more accurate than those not under the program. Nevertheless, the NTCA has noted that improvements can be made to the program as, to date, only 140,000 SMEs (through approximately 350 tax service

146 Department of Finance Canada, *Growing Canada's Advantage in Artificial Intelligence* (30 March 2017) <<https://www.fin.gc.ca>>.

147 Ibid.

148 Filipa Correia and Rudolf Reibel, *Change of Climate in Taxation: Are You Prepared for Extended Responsibilities?* (Report from the 6th CFE Professional Affairs Conference in Milan, 22 November 2013) p 270.

149 Ibid.

150 Ibid.

151 Ibid.

152 Above n 73, pp 43-44.

providers, including two of the Big 4 accounting firms) participate in Horizontal Monitoring.¹⁵³

3.54 A key advantage of cooperative compliance to the taxpayer is that relevant tax risks and positions can be discussed and the NTCA's views obtained efficiently. Its disadvantages are said to include the fact that the approach taken may depend on the individual tax inspector in the absence of objective criteria that are yet to be developed.¹⁵⁴

3.55 In the Netherlands, there is no legally imposed regulatory scheme for tax practitioners. However, there are two strong private organisations that impose strict rules on their members, the *de Nederlandse Orde van Belastingadviseurs* (The Dutch Order of Tax Advisors) and *de Nederlandse Federatie van Belastingconsulenten* (The Dutch Federation of Tax Consultants).¹⁵⁵ There are also organisations such as the *Samenwerkende Registeraccountants en Accountants-administratieconsulenten* (SRA), an association of accountancy firms that specialise in the SME sector, which set professional standards and oversee the quality of the work of their members. It has been noted that this model would be difficult for other countries to follow as it relies on time and tradition.¹⁵⁶

Technological and future developments

3.56 A few years ago, the NTCA sought to invest in its future and explored how Big Data could be used to complement its compliance activities. Insights gained from analytics and opening up data sources were considered in conjunction with AI and machine learning. In 2017, the NTCA commenced a project to digitise processes that had previously been paper based. These new processes are being designed to reduce the need for manual input in low-risk tasks.

3.57 In the Netherlands, income tax returns can only be lodged electronically.¹⁵⁷ Individual taxpayers, with simple tax affairs, are presented with a largely pre-filled income tax return. If they agree with the pre-filled information, they can sign the document electronically and submit it. Pre-fill is not currently available for business taxpayers or individual taxpayers with more complex affairs.¹⁵⁸ The NTCA is currently looking to work with software developers to enable pre-filling of tax returns for SMEs.¹⁵⁹

153 Netherlands' Tax and Customs Administration (NTCA), Communication with the IGT (18 December 2017). There are two variants of cooperative compliance (also called horizontal monitoring). They have same starting points: mutual trust between the taxpayer and the tax authorities, precise specification of each other's responsibilities, mutual understanding and transparency. In respect of very large companies, individual agreements (or covenants) are concluded. In this variant, the company itself is responsible for fiscal risk management and the correctness of the tax returns. As smaller companies are more dependent on the support of tax service providers for providing acceptable tax returns, these companies can make use of the tax service providers variant of horizontal supervision. The quality of the tax returns is then guaranteed by the tax service provider. Tax service providers must meet strict quality requirements to participate in this program. They determine which of their clients may wish and be entitled to participate in horizontal monitoring.

154 PwC, *Doing Business in the Netherlands 2017* (2017) p 18.

155 Victor Thuronyi and Frans Vanistendael, 'Regulation of Tax Professionals' in Victor Thuronyi (ed), *Tax Law Design and Drafting* (International Monetary Fund, 1996) 1, p 3.

156 Ibid.

157 Belastingdienst, *How to file a tax return* (undated) <www.belastingdienst.nl>.

158 NTCA, Communication with the IGT (18 December 2017).

159 Above n 73, p 40.

3.58 The NTCA is also examining possible uses of AI in virtual assistance, dialogue support and cognitive search which would enable its website to respond to specific questions rather than search terms. The use of virtual assistance is also available to NTCA staff.

3.59 In addition to the work on AI, the NTCA is also undertaking proofs of concept on potential uses of blockchain technology, particularly in relation to payroll tax. One such project involves enabling employers and employees to execute 'smart contracts' held on the blockchain.¹⁶⁰ The NTCA uses the data transmitted on the blockchain to calculate and collect the tax owing and then allocate the net payment to the employee. This approach effectively removes the involvement of the employer once the contracts are finalised.¹⁶¹ The NTCA is also offering funding to start-ups to explore other uses of blockchain on their behalf.¹⁶²

3.60 The NTCA and the tax profession, including accountants, software providers and bookkeepers, have recently developed a joint online platform called 'Secure Online'. The platform aims to improve knowledge sharing amongst members of the tax profession.¹⁶³

SWEDEN

The role of tax professionals

3.61 The role of tax professionals in Sweden, similar to those in other Scandinavian countries, is not typical to that in most OECD jurisdictions. The number of taxpayers that seek assistance of a tax agent is low. The *Skatteverket* or Swedish Tax Agency (STA) notes that the main type of assistance sought by businesses is bookkeeping support.

3.62 Approximately 78 per cent of income tax returns and 89 per cent of VAT returns are lodged electronically with the STA. The STA provides individual taxpayers with completely prefilled income tax returns. Recent statistics show that approximately 76 per cent of individual taxpayers make no changes to their prefilled income tax returns, preferring to accept the information from the STA. Deductions are possible although the threshold for such claims is high (10,000 Swedish Krona or approximately AUD \$1,571) and taxpayers are required to demonstrate that the expenses are directly related to earnings.¹⁶⁴

Technological and future developments

3.63 The STA foresees that in the future more Swedish businesses will be able to get electronic assistance for bookkeeping and taxation purposes. The STA plans to support the development of digital and automated communications by developing APIs so other parties can connect to their systems.

¹⁶⁰ Above n 33, pp 41-42.

¹⁶¹ Ibid.

¹⁶² NTCA, Communication with the IGT (18 December 2017).

¹⁶³ Above n 73, pp 40, 71.

¹⁶⁴ NTCA, Communication with the IGT (18 December 2017).

3.64 The STA also intends to utilise AI and RPA to improve its services in the future although it acknowledges that in order to implement these technological changes, staff with the appropriate skillsets such as mathematics and data analytics will need to be recruited.¹⁶⁵

3.65 The STA has developed e-services for tax compliance and has released APIs for third party software developers to provide software that connects with those e-services.¹⁶⁶ The STA has been collaborating with a range of software developers to enhance the quality of lodgments and the data that it receives. For example, it has been working with software developers to better integrate SME bookkeeping software with lodgment services that feed into its systems.¹⁶⁷ Such collaboration is expected to reduce the cost of the STA maintaining and developing its own software.¹⁶⁸

3.66 In relation to system stability and outages, the STA indicated that although it is rare for it to experience system outages, it does provide compensation if it has caused direct financial loss. The compensation scheme is enshrined in legislation and STA compensation decisions are reviewable by the courts.¹⁶⁹

3.67 The STA is also considering a project to convert tax legislation into a machine-readable format, enabling decisions to issue automatically without any judgment having to be exercised by STA employees.¹⁷⁰ This will involve examining opportunities to simplify the legislation and its requirements.

FINLAND

The role of tax professionals

3.68 Similar to Sweden, individual taxpayers in Finland do not generally need to use the services of tax professionals. However, Finland's revenue authority, Vero Skatt (VS) estimates that approximately 75 to 80 per cent of the SMEs are using the services of tax professionals.¹⁷¹

3.69 VS does not currently have a register of tax professionals. However they expect that in the first half of 2019, they would have implemented a system for the authorisation and registration of tax professionals.¹⁷²

Technological and future developments

3.70 The main objective of VS, along with all other Finnish government agencies, is to digitise the service offerings to the community.¹⁷³ Since 2013, VS has been conducting a major program to improve the flexibility of its tax processes, tax legislation and to replace

165 NTCA, Communication to IGT (7 September 2017).

166 NTCA, Communication to IGT, (7 September 2017 and 7 August 2018).

167 Above n 73, p 122.

168 NTCA, Communication to IGT (7 September 2017).

169 NTCA, Communication to IGT (18 December 2017).

170 NTCA, Communication to IGT (7 September 2017).

171 Vero Skatt, Communication to IGT (9 January 2018).

172 Vero Skatt, Communication to IGT (9 January 2018).

173 Amelia Schwanke, 'Tax technology: A brave new world' (23 August 2016) *International Tax Review* <<http://www.internationaltaxreview.com>>.

its 70 current IT applications with one core application, namely FAST GenTax.¹⁷⁴ This program was introduced after discovering that its IT maintenance costs were increasing whilst performance was not improving. The program is currently on schedule to be completed by 2019.¹⁷⁵

3.71 VS expects that having one core application will result in significant simplification, increased work productivity, reduced system maintenance costs and shorter implementation timeframes.¹⁷⁶ VS has delivered extensive training to explain to its staff the reasons for changes being made and how their daily work would be impacted.¹⁷⁷

3.72 In addition to implementing GenTax, VS is also replacing almost all eServices with one off-the-shelf solution called MyTax.¹⁷⁸

3.73 As part of the nationwide imperative to digitise, several other programs are being implemented across all government agencies. These programs include:¹⁷⁹

- X-Road which exchanges information between basic registers maintained by government agencies;
- ‘Suomi.fi’ messages for communicating securely with other government agencies; and
- ‘Suomi.fi’ eAuthorisations which enables corporations to authorise certain individuals to act on their behalf.

3.74 The VS also seeks to foster cooperative relationships with software developers through ongoing consultation and meetings¹⁸⁰ as well as an online portal and mailbox to respond to questions.¹⁸¹

3.75 The VS also expects that by 2020, it would be digitally accessible to all taxpayers at all times including being a single point of access through which taxpayers can view and change their tax information as well as offering services such as income tax registrations, real time VAT data collection and online payment functions.¹⁸²

ESTONIA

The role of tax professionals

3.76 Estonia’s tax administration, the Estonian Tax and Customs Board (ETCB) indicates that individual taxpayers are generally able to perform tax operations without the

174 Vero Skatt, Communication to IGT (9 January 2018).

175 OECD, *Tax Administration 2017: Comparative Information on OECD and other advanced and emerging economies* (2017) p 49.

176 Ibid.

177 Ibid, p 50.

178 This product is different to the MyTax product that has been developed by the ATO.

179 Vero Skatt, Communication to IGT (9 January 2018).

180 Vero Skatt, Communication to IGT (9 January 2018).

181 Vero Skatt, Communication to IGT (9 January 2018).

182 Above n 173.

assistance of tax professionals. However, the services of tax professionals are used when more complicated processes are involved.¹⁸³

3.77 The electronic lodgment of income tax returns has been mandated in Estonia since the 1990s.¹⁸⁴ In 2015, a survey of taxpayers indicated that 95 per cent of all tax returns were filed online.¹⁸⁵ It is estimated that the average taxpayer only requires three minutes to file their income tax return as they are only required to confirm that the information within the return is correct and add information where necessary.¹⁸⁶

3.78 An automated accounting software called 'e-Financials' has also been developed for SMEs by the Centre of Registers and Information Systems (also known as RIK) within the Ministry of Justice.¹⁸⁷ The software consists of five modules: settlements, accounting, reporting, personnel and settings modules. The accounting module is a key part of the software which enables SMEs to execute transfers, keep a logbook and a general ledger, check balances and calculate fixed assets.¹⁸⁸

Technological and future developments

3.79 Since the 1990's, Estonia has invested heavily in digitalisation. The transformation that has occurred since then has been driven by Estonia's vision to achieve a modern, paperless, efficient and forward-thinking government.¹⁸⁹

3.80 The provision of digital services in Estonia relies on the following three interdependent pillars:¹⁹⁰

- X-Road is a single shared platform that links all databases and services from different government departments and private sector organisations along with internet banking through the largest Estonian banks. Each registry has an authorised owner who is responsible for its maintenance and security.
- Electronic ID enables all users to identify themselves using digital signatures to access services from the public and private sectors.
- Platforms which provide access to more than 800 services, leveraging off X-Road. All individuals can view who has accessed their data and why, as there is an audit trail of all access and change to the data.

3.81 The ETCB's digital transformation and its usage of the above three pillars have been commended by many tax authorities around the world. For example, Estonia featured

183 Estonian Tax and Customs Board (ETCB), Communication to IGT (15 December 2017).

184 Helen Margetts and Andre Naumann, *Government as a Platform: What Can Estonia Show The World?* (Research Paper, University of Oxford) p 13.

185 E-Estonia, *e-Tax* (undated) <<https://e-estonia.com/solutions/business-and-finance/e-tax>>.

186 Ibid.

187 eRIK Centre of Registers and Information Systems, *e-Financials - About the service* (unknown) <www.rik.ee>.

188 Ibid.

189 Ergo Ottoson, Monika Nikitina-Kalamee and Natalja Gurvits, 'The role of Accountant in the Estonian Enterprise' (2016) 5(2) *Central European Business Review* 47-56.

190 Above n 184, p 5.

in first place in the 2016 Digital Public Services index of the European Commission's Digital Progress Report.¹⁹¹

3.82 In 2008, the Estonian government began testing the benefits of blockchain, particularly in relation to cyber security. In 2012, blockchain was applied widely amongst government registries.¹⁹²

3.83 In relation to APIs, in 2014, the ETCB launched a new strategy to address tax fraud which required each business transaction over €1,000 to be declared monthly by the relevant entities. To enable the transfer of information, an API that allows information to be exchanged between the company's accounting software and the state's tax system was developed.¹⁹³

3.84 ETCB also has a solid cooperative relationship with several software developers. By involving software developers at an early stage, the ETCB can determine if concepts being considered are feasible and enter the development stage being better informed.¹⁹⁴

SINGAPORE

The role of tax professionals

3.85 The Inland Revenue Authority of Singapore (IRAS) values tax agents as its 'partners in the administration of the Singapore tax system'.¹⁹⁵ Their importance is due in part to the valuable insights they gain from the close relationships with their clients.¹⁹⁶

3.86 Due to the common interest of ensuring tax compliance and facilitating business growth, the IRAS has established a framework for an enhanced relationship with tax agents that is mutually beneficial and balanced. It is built on openness, transparency and trust.¹⁹⁷

3.87 The above principles are supported by the following strategies:¹⁹⁸

- profiling tax agents;
- facilitating growth of tax agent competence;
- improving communication and service; and
- enhancing consultation and collaboration.

3.88 To achieve the goals under the enhanced relationship, the IRAS helps tax agents to deliver greater value to their clients by providing a one-stop platform that allows

191 Above n 189.

192 E-estonia, *We have built a digital society and so can you* (undated) <www.e-estonia.com>.

193 Dan Bogdanov, Marko Joemets, Sander Siim and Meril Vaht, *How the Estonian Tax and Customs Board Evaluated a Tax Fraud Detection System Based on Secure Multi-party Computation* (2015) <https://fc15.ifca.ai/preproceedings/paper_47.pdf>.

194 ETCB, Communication to IGT (15 December 2017).

195 Inland Revenue Authority of Singapore (IRAS), *Enhanced IRAS-Tax Agent Relationship* (17 August 2017) <<https://www.iras.gov.sg>>.

196 Ibid.

197 Ibid.

198 Ibid.

authorised tax agents to have an overview of their clients' corporate tax matters, including the status of the clients' tax returns and tax assessments, and to perform transactions on behalf of these clients. The IRAS has also created a webpage especially for tax agents to provide updated information about key changes in tax policy or administration rules. The IRAS actively consults tax agents in the 'designing of policies, refining of rules and even crafting of legislation via surveys, consultations and focus group sessions'.¹⁹⁹

3.89 In 2006, the IRAS in collaboration with the Big 4 accounting firms, the Institute of Singapore Chartered Accountants and the Law Society of Singapore established a Tax Academy to raise professional competency of the tax community by offering training programs, seminars and conferences on tax technical issues for tax professionals.²⁰⁰ To further support tax practitioners in this regard, in 2009, the IRAS set up a fund to subsidise the cost of attending such training programs.²⁰¹ The fund has since been fully utilised, and was closed in 2013, at the end of its intended 5-year run.

3.90 An accreditation body for tax professionals, the Singapore Institute of Accredited Tax Professionals (SIATP), was established in 2010. It aims to raise the standards of tax practice in Singapore through accreditation and continuing professional education. The President of the Institute of Certified Public Accountants of Singapore and chairman of SIATP has stated that:

*With more cross-border businesses and an increasingly complex tax environment, demand for highly-skilled tax professionals will increase. SIATP will play a vital role in ensuring tax professionals are equipped with the right skills, which is imperative in an increasingly globalised business environment.*²⁰²

Technological and future developments

3.91 Between October 2014 and September 2016, the IRAS conducted a pilot for IBM Watson's Virtual Assistant, *Ask Jasmine*. *Ask Jasmine* received a total of 123,699 questions from 48,667 conversations. Through natural language processing and cognitive capability, it was able to answer questions with higher variation than had been planned.²⁰³

3.92 Despite the benefits, including the overall improvement over other virtual assistants, significant effort was required to maintain content and to train *Ask Jasmine*. For example, due to the time difference between Singapore and the USA, where the IBM Watson maintenance team was located, there was a delay in servicing IRAS requests. As a result, during peak periods, IBM deployed local personnel to assist with urgent requests.

3.93 The IRAS also noted that during the pilot, there were noticeable improvements to the ability of *Ask Jasmine* to accurately answer questions. However, there were still limitations to its cognitive capabilities. For example, it did not have contextual memory and was therefore unable to recall the context of a previous question or conversation. Following the end of the pilot, the IRAS made the final decision to onboard *Ask Jamie* as part of the Whole-of-Government direction for public service agencies. The Whole-of-Government

199 Above n 195.

200 Tax Academy of Singapore, *Mission and Corporate Goals* (2015) <<https://www.taxacademy.sg/about.html>>.

201 IRAS, *Annual Report 2008/09* (2009) p 8.

202 Dr Ernest Kan, *Speech at the official launch of the Singapore Institute of Accredited Tax Professionals* (7 May 2010) <www.iras.gov.sg>.

203 IRAS, communication to IGT (21 November 2017).

virtual assistant enabled IRAS to leverage common capabilities and retrieve answers from cross-agency knowledge bases for a more seamless experience for citizens.

3.94 To mitigate risks of cyber security, hacks and identify theft, a number of measures have been implemented²⁰⁴ including Digital IDs for individuals and businesses. A further authentication system has been implemented for certain services such as tax filing that are considered more sensitive.²⁰⁵ Another initiative is the use of text-mining techniques to analyse emails from taxpayers to assist in pre-empting or reducing contact with IRAS as well as improve service delivery for taxpayers.²⁰⁶

3.95 In 2016, the IRAS organised a Hackathon as part of the Government's agenda to adopt a more citizen-centric approach when providing public services. The Hackathon brought about the coming together of start-ups, developers, tax and accounting professionals, industry experts, students and IRAS' staff to 'co-create new solutions to deliver taxpayer-centred experiences for SMEs, the self-employed and individual taxpayers'.²⁰⁷

3.96 In light of the importance of accounting software in helping businesses comply with their tax obligations, the IRAS has maintained an Accounting Software Register (ASR) on its website. Software developers are able to apply to IRAS to have their accounting software listed on the ASR by demonstrating that their software meets a set of IRAS' technical requirements.²⁰⁸

3.97 In an attempt to improve staff productivity, the IRAS has also recently piloted the use of robotics to automate manually intensive processes.²⁰⁹

RUSSIAN FEDERATION

The role of tax professionals

3.98 In Russia, individual taxpayers are only required to lodge an income tax return if they have to declare non-employment income or if they are claiming tax deductions.²¹⁰

3.99 Over 97 per cent of all tax and 100 per cent of VAT returns are lodged electronically with the Russian Federal Tax Service (FTS).²¹¹ Since the early-2000s, many business taxpayers have been utilising commercial off-the-shelf accounting software to file their own tax returns.²¹²

204 IRAS, communication to IGT (21 November 2017).

205 Above n 106, p 82.

206 OECD, *Advanced Analytics for Better Tax Administration: Putting Data to Work* (2016) p 27.

207 IRAS, *IRAS Hackathon 2016* <<http://upsingapore.com/events/iras-hackathon/>>.

208 IRAS, *Guide on Accounting Software (for Software Developers)*, <www.iras.gov.sg>.

209 Peter Green, 'Talking to the OECD: Tech disruption in tax administration' (2017) 28(5) *International Tax Review* 23.

210 Ibid.

211 Ibid.

212 Ibid.

Technological and future developments

3.100 Since 2010, a 'digital first' strategy has been more rigorously pursued by the FTS.²¹³ A key initiative has been the development of a central database which uses a common structure for all taxpayers and links them into relevant systems. In 2011 the FTS conducted a study on the issues inhibiting communication with taxpayers. The results helped it to adapt its communication strategy.²¹⁴

3.101 In December 2012, inspired by the work of the OECD Forum on Tax Administration on horizontal monitoring, the FTS introduced a horizontal monitoring pilot. In relation to the value of the pilot, a Deputy Commissioner of the FTS said:

The pilot projects on Horizontal Monitoring evidence the fact that the tax authorities are ready for constructive cooperation with taxpayers. Such cooperation will contribute to the improvement of Russia's attractiveness for international investors. Application of the Horizontal Monitoring approach will lead to the development of a culture of paying taxes and lead to a reduction of tax disputes. The tax authorities will be able to react promptly to uncertain issues in tax legislation and make the procedure of tax calculation and payment more convenient for taxpayers.

The pre-litigation methods of tax dispute resolution have proven their effectiveness: since 2009 the total amount of tax litigation cases has declined annually by 15-20%, while the number of cases won by the tax authorities has increased. The Russian tax authorities are ready to apply, in practice, enhanced relationship mechanisms that are used in many OECD countries.²¹⁵

3.102 As part of the pilot, the FTS signed agreements with large taxpayers including a leading energy company, the largest telecommunications group and one of the largest power-generating companies. The pilot focused on developing enhanced relationships between the FTS and taxpayers based on transparency, trust and cooperation.²¹⁶

3.103 A key innovation of the FTS has been the implementation of a system which enables the monitoring of VAT compliance on a nationwide basis in real time. The system is 'based on automatic cross-matching of all VAT paid with all VAT claimed across all transacting parties.'²¹⁷ The system enables the FTS to 'zoom-in' on particular transactions or VAT taxpayers to automatically identify related tax risks and to initiate a VAT audit where necessary. The system also enables the FTS to monitor the performance of tax inspectors and their respective local and regional offices.²¹⁸

3.104 The implementation of the above system was made possible following legislative amendments which mandated the digital lodgment of all VAT returns, VAT invoices and ledgers as well as the construction of new information technology infrastructure in the form

²¹³ Above n 210.

²¹⁴ Ibid.

²¹⁵ Sergei Arakelov quoted in Alexandra Lobova, 'Horizontal monitoring pilot brings enhanced relationship to Russia' (2013) 24(2) *International Tax Review* 16, 16.

²¹⁶ Lobova, Ibid.

²¹⁷ Above n 109, p 101.

²¹⁸ Ibid.

of data processing centres.²¹⁹ In 2014, 2015 and 2016, the FTS reported increases in VAT collection of 16.8 per cent, 12.4 per cent and 8.5 per cent, respectively.

3.105 In February 2017, the FTS commenced transition to mandatory online cash registers. Cash registers, used by organisations or individual entrepreneurs, transmit sales information, in real time, directly to the FTS and upload it to its data processing centres. The receipt can be provided to the customer electronically or in paper form.²²⁰ It is a legislative requirement that each of these receipts has a scannable QR-code which enables taxpayers to verify the transaction by comparing it to the FTS' records.²²¹

UNITED STATES OF AMERICA

The role of tax professionals

3.106 The principal national revenue authority in the USA is the Internal Revenue Service (IRS). There is presently little regulatory oversight of tax agents or tax preparers, as they are known. Accordingly, regardless of education, knowledge or experience, any person can offer tax return preparation services. As a direct result, it has been commented that millions of incorrect or inaccurate income tax returns are lodged each year.²²² Recent attempts of the IRS to expand its regulation of non-professional tax preparers have been short-lived. In *Loving v IRS*,²²³ the court concluded that the IRS had limited statutory authority to regulate non-professional tax preparers.²²⁴

Technological and future developments

3.107 The IRS' 'Future State' plan aims to improve its ability to enhance and expand services for all taxpayers over the next five years and beyond. Consistent with developments in the majority of OECD countries, the IRS wants to decrease the time and effort required by taxpayers and tax professionals to interact with it.²²⁵

3.108 In support of providing its citizens with free lodgment services, the IRS has partnered with the Free File Alliance, a non-profit coalition of leading tax software companies. Approximately 70 per cent of taxpayers are eligible to use Free File.²²⁶ The IRS's website provides links to each of these free file software providers' websites as well as a 'Free File Software Lookup Tool' to determine which software a taxpayer will be eligible to use.²²⁷

3.109 Some commentators have observed, however, that the uptake of the Free File options has been low with only approximately 3 per cent of all eligible lodgments being

219 Above n 109, p 101.

220 Schneider Group, *The new law on transition to cash register equipment allows the tax authorities to track cash payments online – Newsletter* (28 October 2016) p 1.

221 Above n 109, p 60.

222 Jay A Soled and Kathleen DeLaney Thomas, 'Regulating Tax Return Preparation' (2017) 57 *Boston College Law Review* 151, 152.

223 *Loving v IRS*, 742 F.3d.

224 Jamie Hopkins, *Loving v. IRS's Achilles' Heel for Regulated Tax Advice?* (2014) *Virginia Tax Review* 34, 191.

225 IRS, *Tax Professionals Provide Insights on IRS Future State; Feedback Efforts Continue in 2017 as Online Account Shows Strong Early Use* (21 December 2016). <<https://www.irs.gov/newsroom>>.

226 Free File Alliance, *Free File* (undated) <<https://freefilealliance.org/>>.

227 IRS, *Free File Software Offers* (undated) <<https://apps.irs.gov/app/freeFile/jsp/index.jsp>>.

made through these programs since 2003.²²⁸ Furthermore, limited awareness by taxpayers eligible to use these free options and the difficulties associated with locating them have also contributed to low adoption rates. It has also been observed that in entering the agreement with the Free File Alliance, the IRS has effectively been prevented from developing its own free software offerings or to explore opportunities to pre-fill and push returns to taxpayers.²²⁹ The IRS also invites software developers to register with them. To register, software developers are required to complete an online account and then apply to become an authorised provider if they anticipate filing more than 11 of certain forms during a calendar year.²³⁰ The process to become an authorised provider involves the IRS conducting a suitability check, which may include tax compliance, credit and criminal background checks on each person listed in the application as well as the relevant entity.²³¹

3.110 Academics in the USA have urged Congress to regulate tax preparation software companies. They argue that this would ‘lead to more accurate tax returns, protect taxpayers, and ensure a fairer and more efficient tax system’.²³² They note that at present, apart from the IRS’ minor verification requirements such as requiring software companies to update tax rates and calculations, tax return software companies are largely granted free rein. Generally, the IRS does not test to ensure that guidance provided by tax return preparation software companies is accurate.²³³

3.111 Despite the focus on the expansion of online services, the IRS believes that in the future it will be important to maintain a human element. Accordingly, the IRS Commissioner has stated that ‘while technology and new service options are important parts of Future State, you can’t overlook the continuing need to have in-person service available to taxpayers over the phone and in-person’.²³⁴ The National Taxpayer Advocate (NTA) has also highlighted the potential inappropriate outcomes resulting from automation noting that:

*... as IRS employees rely more heavily on computer programs to flag returns for audit or to waive penalties for reasonable cause, they are losing the ability to discern when the programs have made a mistake. For example, she said, the IRS tested employees in a case in which a penalty should have been waived for reasonable cause although the computer program determined that it should not have been, and none of the participating employees were able to identify cases in which the penalty clearly should have been waived under the applicable regulations or case law.*²³⁵

228 Tik Root, ‘Why Are Millions Paying Online Tax Preparation Fees When They Don’t Need To?’, *ProPublica* (18 June 2018) <<https://www.propublica.org>>.

229 Root, *Ibid*; ProPublica, Liz Day, ‘How the Maker of TurboTax Fought Free, Simple Tax Filing,’ *ProPublica* (26 March 2013) <<https://www.propublica.org>>.

230 IRS, *E-File for Tax Professionals* (2018) <<https://www.irs.gov>>.

231 IRS, *Become an authorized e-file provider* <www.irs.gov>.

232 Above n 222, p 152.

233 Above n 222, p 177.

234 IRS, *Tax Professionals Provide Insights on IRS Future State; Feedback Efforts Continue in 2017 as Online Account Shows Strong Early Use* (21 December 2016) <<https://www.irs.gov/newsroom>>.

235 Alexander Lewis, ‘Big Data could help tax authorities profile all taxpayers,’ *Worldwide Tax Daily* (4 May 2018).

SOUTH AFRICA

The role of tax professionals

3.112 The South African Revenue Service (SARS) is the national revenue agency for South Africa. Tax practitioners in South Africa provide a range of advisory and lodgment services to their clients. SARS has stated that it ‘places great value on a healthy professional relationship with Tax Practitioners who are key in providing a service to our clients the taxpayers’ and has therefore committed to:²³⁶

- engaging with practitioners continuously and constructively;
- providing access and channels to practitioners;
- specific service offerings to registered practitioners; and
- providing specific communications for practitioners.

3.113 SARS provides a range of services to tax practitioners who are listed on its website together with the appropriate channel through which those services may be accessed.²³⁷

3.114 Similar to Australia, tax practitioners in South Africa are required to be registered. All individuals who provide advice or assist others with lodgment under relevant tax legislation are required to be registered with both the SARS²³⁸ and a Recognised Controlling Body (RCB).²³⁹

3.115 The requirement to register with both the SARS and an RCB was intended to give effect to a ‘framework that will make sure that tax practitioners are properly qualified and that a mechanism is available, both to taxpayers and SARS, to address misconduct.’²⁴⁰

3.116 All RCBs are required to maintain minimum qualifications and experience requirements, continuing professional development (CPD) requirements, a code of ethics and conduct as well as disciplinary processes and procedures.²⁴¹ The latter is particularly important as any complaints (including those from the SARS itself) regarding the conduct of a tax practitioner are made to, and investigated by, the RCB under its own rules.²⁴²

Technological and future developments

3.117 The main technological offering from the SARS is eFiling:

... a free, online process for the submission of returns and declarations and other related services, for more information visit the eFiling Services page. This free service allows taxpayers, tax practitioners and businesses to register free of charge and submit returns

236 South African Revenue Service (SARS), *Welcome to the Tax Practitioners Webpage* (1 June 2018) <<http://www.sars.gov.za>>.

237 SARS, *Service offerings per channel for tax practitioners* (undated) <<http://www.sars.gov.za>>.

238 *Tax Administration Act 2011* (South Africa), ss 240 and 240A.

239 *Tax Administration Act 2011* (South Africa), s 240A.

240 SARS, *Controlling Bodies for Tax Practitioners* (27 March 2018) <<http://www.sars.gov.za>>.

241 *Tax Administration Act 2011* (South Africa), s 240A.

242 *Tax Administration Act 2011* (South Africa), ss 241, 242, 243.

*and declarations, make payments and perform a number of other interactions with SARS in a secure online environment.*²⁴³

3.118 The eFiling system provides a range of different services for tax practitioners which are not necessary for individual taxpayers.²⁴⁴ Additionally, the SARS has also released two linked pieces of software aimed at assisting employers deal with a range of obligations including payroll as well as for taxpayers and intermediaries to report dividend transaction data.²⁴⁵

3.119 SARS has stated that 'the eFiling service is on par with international standards, being comparable with services offered in the USA, Australia, Singapore, Ireland, Chile and France'.²⁴⁶ Furthermore, SARS has indicated that as eFiling matures, it intends to expand the services that are able to be offered on that platform.²⁴⁷

243 SARS eFiling, *What is eFiling?* <<http://www.sarsefiling.co.za/AboutPage.aspx>>.

244 See for example: SARS, *Guide for Tax Practitioners on eFiling* <www.sars.gov.za>.

245 SARS, *E@syfile* (8 August 2018) <www.sars.gov.za>.

246 SARS eFiling, *About us – Services offered* <www.sarsefiling.gov.za>.

247 Ibid.

CHAPTER 4 — OPPORTUNITIES AND CHALLENGES PRESENTED BY EMERGING TECHNOLOGIES

4.1 Technology is changing the very fabric of our society – the way business, work and communication are conducted and even how social interactions are managed.

4.2 This chapter considers opportunities, challenges and insights presented by digital disruption in the Australian context and particularly for the tax profession. It is also necessary to consider other relevant parties, such as their clients, who may be affected given the wide ranging impact of digital disruption on society as a whole.

4.3 Clients of tax professionals are diverse and include businesses, not-for-profit organisations and individuals. The manner in which these clients choose to engage and the services they require are central to any future planning or projections by the tax profession, government and its regulatory or administrative bodies including the ATO.

4.4 Accordingly, in this chapter, digital disruption is discussed in terms of the following themes:

- social and community expectations including the services and support that the ATO and tax professionals would be required to provide;
- future tax workforce and capabilities; and
- the ATO's application of emerging technologies and its impacts.

SOCIAL AND COMMUNITY EXPECTATIONS AND THEIR IMPACT

Stakeholder views

4.5 Many tax professionals have observed the benefits that technology can deliver. In particular, larger tax practices have embraced technology and automation to reduce costs and improve efficiencies. They believe that automation has allowed them to deliver services beyond the traditional tax practitioner services at reduced cost and risk.²⁴⁸

4.6 While smaller firms appear to still be coming to terms with the challenges and opportunities presented by technological advancement, some have explored options such as offshoring or merging with other practices to offer a broader range of services,²⁴⁹ including business strategy advice and cyber security solutions as their clients increasingly integrate technology into their businesses.

4.7 Other value-added services that tax practices believe they may be able to offer in the future include using RPA for automating BAS lodgment and to assist with simple GST audits as well as using AI to solve more complex tax problems. Furthermore, they believe that leveraging technology, such as video calling and cloud, would enable them to connect in real time with their clients and expand their reach beyond geographical barriers.

²⁴⁸ IGT, *Closing Address to the Future of the Tax Profession Symposium* (23 November 2017) <www.igt.gov.au>.

²⁴⁹ Ibid.

4.8 Some stakeholders have also observed that the aging tax practitioner population and the generational shift of taxpayers toward being more 'tech-savvy' may create a misalignment between the services provided and those being demanded. Citizens are now expecting 24/7 instantaneous access to services and personnel across a range of platforms.

4.9 In contrast, some stakeholders have observed that the age of the practitioner should not be equated to lack of technological proficiency, citing many seasoned practitioners who have implemented new technologies in their practice or changed their business models to broaden the services they offer to their clients in line with some of the opportunities identified above. Furthermore, these stakeholders believe that for a range of reasons, including level of access, technological proficiency and preference for personal service, many taxpayers may still opt for traditional face-to-face models of seeking tax advice rather than moving towards electronic engagement.

Relevant materials

Technology's disruption on society and its workforce

4.10 Technology may be defined as either 'sustaining' or 'disruptive'.²⁵⁰ Sustaining technologies are those that 'support and enhance traditional ways of operating in an organisation or an industry, whereas disruptive technologies are those that fundamentally challenge and change working practices'.²⁵¹ As the McKinsey Global Institute has noted, technology may:

*... disrupt the status quo, alter the way people live and work, rearrange value pools, and lead to entirely new products and services ... supplanting older ways of doing things and rendering old skills and organisational approaches irrelevant ...*²⁵²

4.11 Some have noted that the language of disruption is misplaced as it fails to recognise that the disruption may be empowering for those receiving the services as it may result in improvements in affordability and accessibility. Instead they prefer to re-phrase 'digital disruption' as 'innovation'.²⁵³ Collectively, Amazon, Apple, Facebook and Google are considered the leaders in innovative digital disruption. They are currently growing at a rapid pace and permeating all aspects of society. For example, Apple built partnerships with telecommunications companies to launch the first iPhone and Amazon has now expanded beyond books to hosting other businesses,²⁵⁴ including industry leadership in the provision of cloud services.²⁵⁵

250 Productivity Commission, *Digital Disruption: what do governments need to do?* (2016) p 15 <www.pc.gov.au>.

251 Above n 7, pp 109-110.

252 McKinsey Global Institute, *Disruptive Technologies: Advances that will transform Life, Business, and the Global Economy* (2013).

253 Above n 7, pp 109-110.

254 Sarv Girm, 'Digital Disruption – Opportunities for Innovation and Growth', (Speech delivered to the Committee for Economic Development of Australia Adjusting Series, Sydney, 11 June 2014) <www.rba.gov.au>.

255 See for example: Amazon Web Services <aws.amazon.com>.

4.12 The pace at which technology is developing shows no signs of abating. For example, in the European Union, its impact on the economy has been rapidly accelerating. In 2006, only one technology company was amongst the top 20 operating in the EU, accounting for 7 per cent of the market capitalisation. By 2017, these figures had risen such that 9 of the top 20 companies were technology companies, accounting for 54 per cent of the market capitalisation.²⁵⁶

4.13 Domestically, it has been estimated that digital technologies have contributed an additional \$79 billion to the Australian economy up until 2014. It is forecast to grow to \$139 billion by 2020.²⁵⁷ In addition, Australia's Information and Communications Technology workforce is expected to increase to approximately 695,000 workers by 2020, with increased demand for experts such as software engineers and developers in a range of areas including cloud computing and cyber security.²⁵⁸

4.14 In the Australian tax sphere, technology has had many positive impacts for taxpayers, the system and the tax profession. For example, taxpayers have increased levels of access and channels through which they may seek advice from the ATO. For many taxpayers, such as small businesses, the ability to access information and assistance outside of usual channels is critically important because of the standard operating hours of their business – they can only focus on matters such as tax compliance outside trading hours.

4.15 The ATO's use of technology has also yielded positive outcomes in terms of more efficient processing of income tax returns and BAS lodgment, benefiting taxpayers, tax practitioners as well as the ATO. Notwithstanding concerns with the Tax Agent and BAS Agent Portals, they have been particularly beneficial to tax practitioners who have described them as 'the most useful tools that the ATO has ever provided' and 'tools which they cannot do without'.²⁵⁹

4.16 More recently, technology has enabled the ATO to receive, analyse and make available increasing amounts of data for the purposes of pre-filling income tax returns, both for taxpayers who choose to self-prepare and for tax practitioners.²⁶⁰ Advancements in technology and greater integration of systems and services by the ATO have also afforded tax practitioners with greater access than ever before to information that can be used to assist and service their clients, including Single Touch Payroll (STP) reports and the Small Business Superannuation Clearing House.²⁶¹

4.17 Increasing robust data and insights may also allow the ATO to further refine its risk assessment models to direct its resources to areas of the highest risk, minimise instances of compliant taxpayers being unnecessarily targeted and reducing administrative costs for taxpayers as well as the ATO itself. There is also scope for the ATO to utilise such data and technology to more proactively aid vulnerable taxpayers, including small businesses. The ATO could more accurately detect signs of financial distress and ability to

256 European Commission, *A Fair and Efficient Tax System in the European Union for the Digital Single Market* (21 September 2017) p 4.

257 Deloitte, *Australia's Digital Pulse* (2016), p 3.

258 Ibid, p 4.

259 Above n 2, p 52.

260 ATO, *About pre-filling* (26 February 2018) <<https://www.ato.gov.au>>.

261 ATO, *Tax Agent Portal* (26 February 2018) <<https://www.ato.gov.au>>.

pay their tax debt.²⁶² Earlier identification and intervention would enable the ATO to take more proportional 'lighter touch' actions which would assist the taxpayer to better manage their tax debts.²⁶³ This has clear benefits for the taxpayer, the ATO as well as the broader economy.

4.18 In 2016, the Australian Productivity Commission (APC) released a research paper which sought to provide policy direction to address the upcoming technological changes²⁶⁴ and, on the issue of potential workforce reductions, observed that whilst there is little evidence suggesting that digital disruption has had any significant economic impacts, there is a gradual trend towards declining numbers of employees in firms. The APC noted that these trends appeared to be more pronounced in the USA than in Australia.²⁶⁵ It further observed that:

*... automation of many tasks in the workplace, with large labour-saving technological advances, has not led to unemployment rates trending upwards over long periods of time. However, there is concern in parts of the community that the pace of change will accelerate, leading to substantial unemployment in the future. But dire employment scenarios remain speculative given the considerable uncertainty about the impact of automation on employment.*²⁶⁶

4.19 Given the APC's report and the findings above, it is useful to reflect upon recent announcements made by several Australian companies regarding workforce reductions as a result of technological advancements. In 2017, NAB announced the loss of 6,000 jobs stating that the need for less people is driven by customer expectations for digital channels.²⁶⁷ In addition, NAB has announced that it will hire or retain 2,000 employees in technology related jobs.²⁶⁸ Furthermore, it was reported that ANZ is cutting 10 per cent of its full-time employees over two years, that is, 5,256 jobs. As noted earlier in Chapter 2, there have also been reports that the use of RPA will result in ANZ reducing the number of employees in the payments area from 40 down to 2.²⁶⁹ ANZ has stated that 'we have been really clear about the sorts of skill sets where we will need to double down', that is, staff with expertise in data science, engineering and design. NAB and ANZ have pledged to be open and transparent with staff about job losses.²⁷⁰

4.20 As noted in the previous chapter, New Zealand's IRD has also forecasted a reduction in its current workforce by 25 to 30 per cent as part of its transformation journey, a long-term program to modernise New Zealand's revenue system.²⁷¹ The use of technology and automation by other revenue authorities, including the ATO, may give rise to similar reductions or redeployment of their workforce.

262 IGT, *Debt Collection* (2015) p 54.

263 Above n 262, pp 66-67.

264 Above n 250, p 2.

265 Ibid, pp 44-45.

266 Ibid, p 8.

267 Stephen Letts, 'NAB rebounds with \$5.3b profit, announces 6,000 job losses,' *ABC News* (2 November 2017) <www.abc.net.au>.

268 James Frost, 'Financial tech push: Big four banks to cut 20,000 jobs, experts predict,' *Australian Financial Review* (2 January 2018) <www.afr.com>.

269 Above n 48.

270 James Eyers, 'NAB and ANZ pledge transparency on job cuts,' *Australian Financial Review* (15 November 2017) <www.afr.com>.

271 Above n 117, pp 5 and 19.

Demographic shifts and changing expectations

4.21 It is widely accepted that the aging population is a significant contributor to the changing demographic in the Australian workforce.²⁷² This issue, as it relates to tax practitioners, has been frequently raised with the IGT. ATO statistics, provided as part of a 2015 IGT review, confirm the aging of the tax practitioner population. At that time, 37.4 per cent of active tax agents and 11.9 per cent of BAS agents were over the age of 60 and had either reached or were approaching retirement age.²⁷³ It should be noted that these statistics relate only to registered tax and BAS agents, and do not include staff who work for them and whose role may include engaging with clients and assisting them with tax-related enquiries. The ATO has, more recently, commenced research in relation to this latter population of professionals, noting the younger demographic, to better inform the ATO's support and services for them.

4.22 The general Australian population is also aging. In 2010, the Attorney-General's Department released a report predicting that the number of people aged 65 years or over will increase from 13 per cent to 23 per cent by June 2050 with a corresponding reduction in the numbers of those of working age.²⁷⁴ In 2016, the Commonwealth Scientific and Industrial Research Organisation (CSIRO) released a report which recognised that the demographics of the future will be divergent with an increasingly large aging population.²⁷⁵

4.23 As Australia's aging population increases, concerns of elder abuse is predicted to correspondingly grow. The Older Persons Advocacy network has stated that 'some people become physically frail or have cognitive impairment as they age ... they become dependent on others who are in a position of trust'.²⁷⁶ In 2017 the Australian Law Reform Commission (ALRC) highlighted the lack of national data available about the extent of elder abuse in Australia.²⁷⁷ A key recommendation of the report was the establishment of a National Plan, encouraging all areas of Government to work together to address this problem. This plan is forecast to be drafted by the end of 2018.²⁷⁸ It has also led to the development of a National Research Agenda for Elder Abuse.²⁷⁹

4.24 The ATO, TPB and tax profession are in significant positions of trust. Elder Australians rely on the ATO and the TPB to assist them, particularly where they are in a vulnerable position, not technologically literate or unable to access online services. Elder Australians also rely on tax professionals as their trusted advisers who have a duty to act in the public interest and provide competent and ethically sound advice.²⁸⁰ Furthermore, if

272 Commonwealth Scientific and Industrial Research Organisation (CSIRO), *Tomorrow's Digitally Enabled Workforce – Megatrends and scenarios for jobs and employment in Australia over the coming twenty years* (2016) p 7.

273 Above n 2, p 6.

274 Attorney-General's Department, *Australia to 2050: future challenges – the intergenerational report* (2010) p 4.

275 Commonwealth Scientific and Industrial Research Organisation (CSIRO), *Tomorrow's Digitally Enabled Workforce – Megatrends and scenarios for jobs and employment in Australia over the coming twenty years* (2016) p 15.

276 Aged Care Guide, *New research aims to bring extent of elder abuse to the surface* (February 2018) <<https://www.agedcareguide.com.au>>.

277 Australian Law Reform Commission, *Elder Abuse – A National Legal Response* (May 2017) p 93.

278 The Hon. Christian Porter MP, *National Plan to address elder abuse* (20 February 2018) <<https://www.attorneygeneral.gov.au>>.

279 The Hon Christian Porter MP, *5th Elder Abuse Conference – Together Making Change* (20 February 2018) <<https://www.attorneygeneral.gov.au>>.

280 It should be noted that the *Tax Agent Services Act 2009* does not expressly require registered tax practitioners to act in the public interest or to provide ethically sound advice. However, other requirements, such as the Code of

accountants suspect their client is the subject of elder abuse by others, they 'must let the client know that an unlawful act may have been committed and advise them of their rights'.²⁸¹ They should also 'advise the client on potential responses to the situation, satisfy themselves that the client understands their rights and the advice, and then seek instructions, confirmed in writing'.²⁸²

4.25 In the discharge of the above duties, the ATO, TPB and tax professionals must have processes in place to identify and manage situations of elder abuse, as well as to guard against such abuse occurring against their clients and, for older tax practitioners, against themselves personally.

Increasing individual connectedness and privacy management

4.26 As Australians become increasingly interconnected in the global community, through an expanding network of real time communication channels, they have greater access to knowledge and information than ever before. They can now choose how they communicate and are willing to consider non-traditional services where they lead to cost savings and faster delivery.²⁸³

4.27 To keep pace with society and the increasing connectedness of people, a large number of jurisdictions around the world have been striving towards greater government connectedness by leveraging technology. The United Nations views such an approach and 'connected governance' as:

*... the means to achieve maximum cost savings and improved service delivery. The underlying principle is to improve the internal workings of the public sector by reducing financial costs and transaction time, to better manage the work flow and processes, to improve institutional linkages between different government agencies, ministries and units and enable a better flow of resources and allocation of responsibilities to promote the delivery of public services.*²⁸⁴

4.28 The increasing connectedness of people has led many to believe that younger generations do not care about their privacy as they share, or rather overshare, their life on social media.²⁸⁵ Despite this, in a recent survey of 1,600 people, commissioned by the digital rights and governance group at the University of Sydney, it was found that 67 per cent of Australians take steps to protect their privacy online, however only 38 per cent feel that they are in control.²⁸⁶ A further breakdown of the findings also demonstrated that half of 18 to 29 year olds felt that they could control their privacy online compared to 34 per cent of those aged over 40.

Professional Conduct and requirements for registered tax practitioners to be 'fit and proper' arguable incorporate elements of public interest and ethics.

281 CPA Australia, *Ethical and Professional Considerations* <<https://www.cpaaustralia.com.au>>.

282 Above n 281.

283 Above n 14, pp 5-6.

284 United Nations, *E-government survey 2008: From E-government to Connected Governance* (2008) p iii.

285 Data Governance Australia, *Millennials don't care about privacy because they share (or overshare) their life on social media, or so we are told* (undated) <<http://datagovernanceaus.com.au>>.

286 Gerard Goggin, Adriadne Vromen, Kimberlee Weatherall, Fiona Martin, Adele Webb, Lucy Sunman and Francesco Bailo, *Digital Rights in Australia* (2017) p 1.

4.29 The results of the survey may be attributable to the platforms that they use. For example, younger generations using platforms such as Snapchat and Tumblr are able to control their privacy to a degree by being able to remain anonymous, which is more difficult to do on platforms such as Facebook.²⁸⁷ The survey found that people were mostly concerned about what corporations and governments were doing with the information that they held about them, rather than them having the information in the first place. Nonetheless, the survey found that 78 per cent of Australians want to know what information of theirs is being accessed, who is accessing it and how they can report and correct inaccuracies.²⁸⁸

4.30 In addition to privacy, increasing connectedness has resulted in different ways of communicating. Two decades ago, it may not have been anticipated that communication systems and services such as Twitter, Facebook, eBay and YouTube would be used by billions of people around the world. Two decades from now, it is highly likely that the systems and services available will not resemble what they do today.²⁸⁹

Changing nature of work

4.31 Technological and demographic shifts have not only changed the nature of tax interactions but have also led to demands for greater flexibility in how individuals and organisations operate. Online platforms, enabling people to connect with each other, businesses and government, have made flexible working arrangements more easily accessible. As a result, people have greater control over when they work, how they work and how much work they perform. Additionally, technologies such as the Cloud have enabled the creation of virtual teams²⁹⁰ resulting in more flexible collaboration.

4.32 In February 2016, the Minister for Jobs and Innovation said:

The future won't be about people competing with machines, it will be about people using machines and doing work that is more interesting and fulfilling.

We need to acknowledge the changing nature of work and allow for flexibility.

*We also need to invest strategically in skills and training and encourage people to apply the skills they already have to different types of work.*²⁹¹

4.33 In this regard, a shift in mindset is required to appreciate the way technology may empower or constrain employees rather than the technology itself.²⁹² The gig economy uses new technologies, such as digital online platforms, to enable work to be commissioned in a non-traditional model. The provision of freelance services is made possible through platforms such as Airtasker and Freelancer that link the provider to the requester of services.²⁹³ A brief search of Airtasker using the term 'tax' returns multiple requests for

287 Above n 285.

288 Above n 286, p 1.

289 Above n 7, p 177.

290 Jamie Kerr, 'The future of work is ... flexible' (July 2017) *Director* pp 60-65.

291 Senator the Hon Michaelia Cash, *Report reimagines Australia's working future* (26 February 2016).

292 Ramiro Montealegre and Wayne Cascio, 'Technology-Driven Changes in Work and Employment' (2017) 60(12) *Communications of the ACM*, pp 60-67, 60.

293 Senate Education and Employment References Committee, *Corporate avoidance of the Fair Work Act 2009*, (2017) p 85; Derek Parker, 'Accountants and the gig economy' (2017) *Intheblack* <<https://www.intheblack.com>>.

tax-related services including individual lodgment of returns, tax advice and accounting reconciliations.

4.34 The gig economy also gives rise to benefits such as achieving cost savings through the hiring of workers on an as-needed rather than permanent basis which include indirect costs such as superannuation, payroll taxes, worker's compensation and leave liabilities.²⁹⁴ From a worker's perspective, freelancing in the gig economy can provide flexibility which may not otherwise be available with full time employment. Whilst there is a level of income insecurity involved in this method of work, it provides income earning opportunities for those who have family commitments or are transitioning to retirement.²⁹⁵

4.35 The technologies discussed in Chapter 2 and other services have also enabled significantly greater cross-border interactions for many business owners. What was once the exclusive remit of large corporations with complex supply chains has become more readily available to all business who are increasingly transacting globally. As tax law develops to keep pace with increasing global transactions,²⁹⁶ taxpayers will need and expect their advisers to be well-informed on their ever more complex compliance requirements.

The important role of the tax practitioner as a 'trusted adviser'

4.36 Despite the myriad of changes that are likely to impact the tax system, intelligence gathered by the ATO confirms that the important role of tax practitioners in the tax system is likely to continue. In 2016, the ATO commissioned research to understand 'the small business education experience and their needs in relation to financial management'.²⁹⁷ One of the key findings was that a significant proportion of small businesses need educational support as they lack knowledge and confidence in managing tax and super obligations. Such support was considered to require tailoring to different competence levels and learning styles.²⁹⁸ The ATO has also commissioned other research 'to obtain the views of small business on their current and preferred engagement experience with the ATO, tax professionals and business advisers'.²⁹⁹ This research found that small businesses have a low tendency to seek information when starting their business. Those that do seek information seem to approach accountants.

4.37 Over the lifetime of a small business, they remain highly dependent on tax professionals. The ATO has found that 'of the 74 per cent who have ever sought information or advice about their business tax requirements, 80 per cent went to an accountant as their first source'.³⁰⁰ This high percentage is driven by the perception that accountants prioritise small businesses' best interests, understand their specific needs, interpret information to offer a tailored and holistic service, offer 'peace of mind' and save

294 Ibid.

295 Above n 293; Michael Bailey, 'Airtasker who makes \$100k a year rejects regulation call,' *Australian Financial Review* (26 March 2018) <<http://www.afr.com>>.

296 See for example *Treasury Laws Amendment (GST Low Value goods) Act 2017* which has, amongst other things, increased requirements for suppliers of low value goods, including non-resident suppliers, to collect and remit GST to the ATO.

297 ATO, *New Small Business Education* (22 November 2016) <www.ato.gov.au>.

298 Ibid.

299 Winangali and Ipsos, *Small Business Engagement 2017* (November 2017) p 21 <www.ato.gov.au>.

300 ATO, *Small Business engagement research* (5 April 2018) <www.ato.gov.au>.

time.³⁰¹ Figure 4.1 below shows the differing perceptions that small businesses have of tax professionals in comparison to the ATO.

Figure 4.1: Small business perception of tax professionals and the ATO



Source: ATO

4.38 Across all measures of perceptions, taxpayers preferred the services of tax professionals to those offered by the ATO. Of particular interest is the perception that tax professionals are a more 'cost-effective' avenue of advice rather than the ATO, despite the fact that the ATO's services to the community are provided without charge.

IGT observations

4.39 The extent of digital disruption on society and the economy is clear and such disruption is likely to increase in the years to come. The manner in which society and businesses will operate will correspondingly be reshaped. This view is not universally held. However, past experience shows that the demand for more efficient, accessible and low cost options overrides any desire to maintain the status quo. Consumer demand in a competitive market will force the hand of change.

4.40 The IGT is of the view that the most prudent approach is not to seek to hamper innovation or progress but rather examine it carefully through the lens of benefits to be derived and challenges to be met for the tax profession and others. The issue then becomes not whether technology will disrupt the tax profession, but how will the disruption manifest itself and how tax professionals may take advantage of any opportunities and mitigate any risks.

4.41 The IGT acknowledges that there are concerns particularly in relation to the impact on employment levels and, potentially, a significant reduction in the workforce. We have not yet experienced such reductions in Australia. However, based on past experience, a rebalancing of market forces may inevitably lead to a decrease in workforce in certain

³⁰¹ Ibid.

areas and growth in others. A key consideration in this regard is the opportunity for reskilling and redeployment which are discussed in the next section.

4.42 Consistent with the changes being experienced elsewhere in the economy, the nature of the advice or services that taxpayers may seek is likely to evolve and tax practitioners will have to keep pace with such changes. It is important to acknowledge that service models based on simple compliance activities will increasingly be substituted by technology – this is already well advanced in many jurisdictions. However, demand for independent advice and service to individual, not-for-profit and business taxpayers with more complex tax affairs is likely to continue in the short to mid-term. The impact of technology on such services may have been overstated or, to paraphrase Mark Twain, the reports of the early death of these services may have been greatly exaggerated.

4.43 The IGT believes that other opportunities may become available to tax practitioners to expand their service offering. These opportunities may not manifest in the same way and at the same time for all tax practitioners. There are a number of steps that tax practitioners could consider to assist them in managing the upcoming changes. As a first step, tax practitioners may consider assessing their own relative strengths, weaknesses, opportunities and challenges with a view to developing a plan or roadmap for transition from their current to future state. In this regard, the brand of the tax practitioner as a ‘trusted adviser’ is well-established and should not be overlooked as highlighted in the ATO’s research discussed above.

4.44 It is acknowledged that the size and nature of each tax practice will dictate the extent of the planning process contemplated above. It would be beneficial if professional bodies could assist in developing such plans particularly for smaller practices. In this regard, professional bodies and tax practices may find collaboration with the ATO and the TPB of significant assistance. Given the nature of the relationship between the three parties, their respective plans or actions are likely to affect each other. Keeping each other informed and working together in this regard is important. They may also benefit from the learnings of each other as they go through the same planning processes. In addition, the ATO and TPB may provide critical input into whether tax practitioners’ transformation plans meet certain requirements such as those of the *Tax Agent Services Act 2009* (TASA).

4.45 Secondly, as technology advances, a range of categories of work currently undertaken by tax practitioners are likely to be disrupted.³⁰² The key for tax practitioners will be to apply technology in a manner which augments their practice and tailors services to the needs of their clients. Given taxpayers’ expectations of services are shifting towards convenience, there will be a demand for one-stop shop businesses that can provide a broad range of services, including domestic and foreign tax business advisory services, both by residents of Australia and those of other jurisdictions seeking to do business in Australia.³⁰³ While developing such expertise may prove challenging for many in the short term, the use of client referral programs or mergers with locally-based or overseas practices may assist to provide tax practitioners with increased access to resources, knowledge, drive synergies and enable greater innovation. As a regional practitioner, who had merged his practice with an investment advisory firm, has noted:

302 Above n 73, p 55.

303 Ibid, 58-61.

*Both parties really do benefit. We have a limited licence in terms of being able to advise clients on whether they're in a great spot to be able to set up a SMSF, and we have a strategic partnership for a financial planner to take care of the investment side of things.*³⁰⁴

4.46 Thirdly, the proliferation of the gig economy will provide opportunities for the tax profession through more flexible client engagement models. For example, rather than requiring key clients to come into existing offices, making opportunities available to visit those businesses to understand and observe their operations and offering more tailored advice and services. Such an approach would be analogous to business models adopted by certain mortgage brokers and financial planners to meet the demands of their clientele. When coupled with developments in cloud technology, real time capture of transactional data through platforms such as the NPP and sophisticated machine learning capabilities to consolidate and analyse significant amounts of data, tax practitioners in the future are very likely to be able to expand their service offerings beyond current resource and geographical constraints.

4.47 Finally, there needs to be recognition and forward succession planning, having regard to the aging population of the tax practitioner community. As noted earlier, the statistics presented in the IGT's 2015 report shows an aging tax professional community. The TPB have also indicated that a significant proportion of individual tax and BAS agents are still over the age of 50. The failure to appropriately plan for their departure from the profession will likely result in significant knowledge and expertise gaps. Hand in hand with the succession planning is also a need to consider ways in which the profession positions itself to attract a new cohort of tax professionals. These newer and younger professionals will possess a different set of values and expectations for their future careers (such as portability and flexibility), may prefer to transact differently with clients (cloud-based, online and real time) and possess inherent digital competencies that will likely drive practical and cultural innovations within the profession. Given the ATO's more recent research into the demographics of younger professionals who work for or in support of registered tax and BAS agents, it may be able to shed further light on how best to attract and engage the new generation of tax professionals once the research is complete.

FUTURE TAX WORKFORCE AND CAPABILITIES

4.48 In 2015, CEDA stated that a significant proportion of Australian jobs that exist today will no longer exist in 20 years' time.³⁰⁵

4.49 As noted, a number of organisations in Australia have already announced or forecasted a reduction in their workforce and the transition of their capabilities to meet future needs. The revenue authorities of a number of countries have, similarly, predicted smaller workforces with a higher level and broader range of skills. While it is likely that there may be a reduction in workforce in some areas, other areas may experience growth and there may be some redeployment opportunities.

4.50 The ATO also believes that technologies such as automation and AI will be used to enhance the work of its staff rather than replace them.³⁰⁶ However, it has acknowledged

304 The Australian, *Is becoming a licenced adviser right for you?* (26 October 2016) <www.theaustralian.com.au>.

305 Committee for Economic Development of Australia, *Australia's future workforce?* (2015).

that there will be a need for changing skillsets, capabilities and education requirements as well as to align our workforce management decisions with future location and technology plans to achieve cost-effective business outcomes.³⁰⁷

Stakeholder views

4.51 Stakeholders have raised concerns that the changing nature of tax work will ultimately reduce the demand for tax practitioners, present challenges in terms of attracting, retaining and developing the next generation of tax professionals resulting in an overall diminishing tax profession.

4.52 Concerns have also been raised as to how the current knowledge and experience of the tax profession will be transferred to future generations and how young professionals are able to build up sufficient capability and skills. More established tax firms have commented that the changing nature of tax work is already beginning to expose a risk of diminished deep tax expertise.

4.53 Additionally, stakeholders have also expressed uncertainty as to how the size and mix of the ATO workforce will be impacted and what is being planned to meet changing community expectations.

4.54 Furthermore, there may be significant implications for tertiary institutions, professional bodies and other tax-related course providers. Stakeholders have raised concern that many courses offered appear outmoded for both current and future needs of the tax profession.

Relevant materials

4.55 In 2015, the WEF stated that there are a range of foundational literacies, competencies and characteristics that are critical for the 21st century.³⁰⁸ The WEF has identified scientific and information and communications technology (ICT) literacies as two critical components of 21st century education and skillsets.³⁰⁹

4.56 The WEF has forecasted that the skillsets of the workforce as a whole will need to alter. It noted that jobs which now seem unaffected by technology will be affected in the years to come as the ecosystems within which they operate adjust.³¹⁰

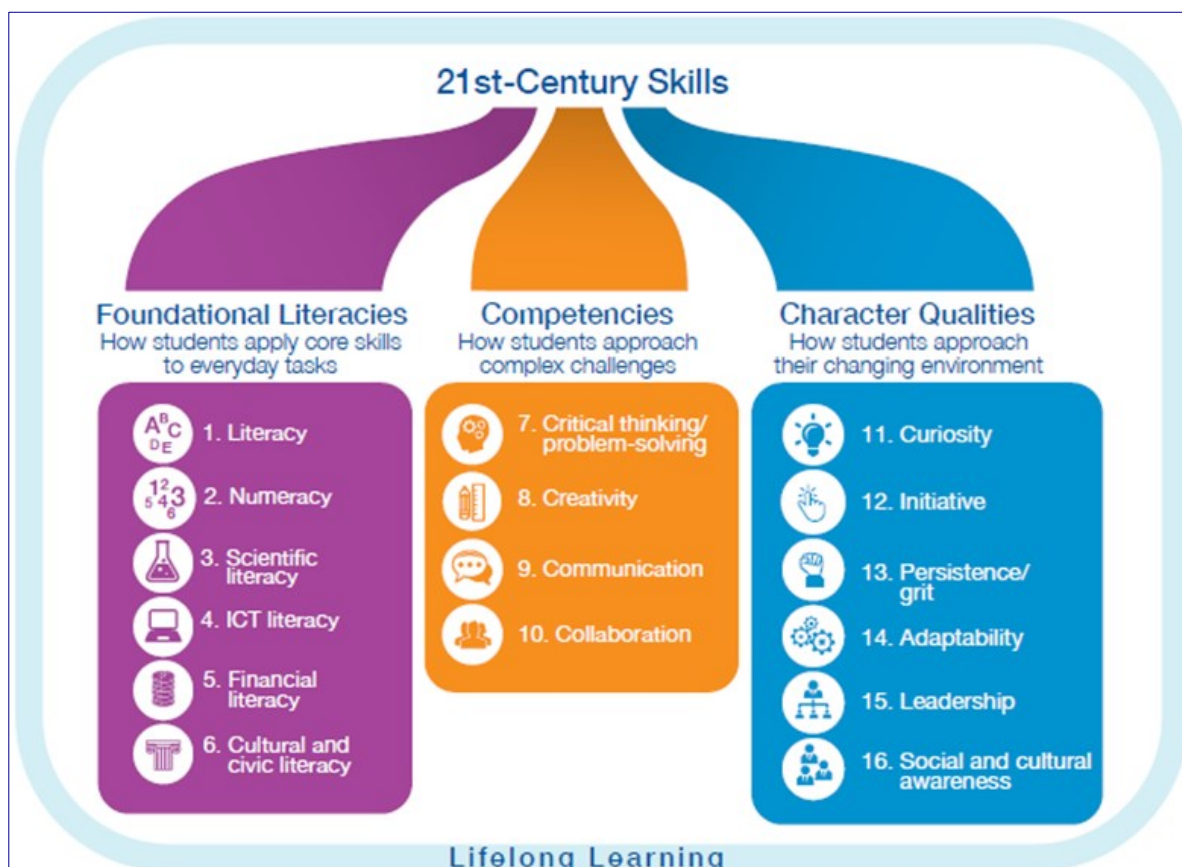
306 ATO, Communication with the IGT (8 December 2017).

307 ATO, *ATO Workforce Plan* (12 October 2017) <www.ato.gov.au>.

308 World Economic Forum, *New Vision for Education Unlocking the Potential of Technology* (2015), p 1.

309 Ibid, p 2.

310 World Economic Forum, *The Future of Jobs* (January 2016) p 19.

Figure 4.2: 21st Century Skills

Source: World Economic Forum, *New Vision for Education Unlocking the Potential of Technology* (2015).

4.57 The WEF research accords with feedback from stakeholders in respect of the skillsets needed within the tax profession. Whilst the tax profession has traditionally drawn upon graduates from accounting, finance, economics and law, the future skillsets are increasingly expected to move towards science, technology, engineering and mathematics (STEM) skills as well as soft skills,³¹¹ as depicted in Figure 4.2 above.

4.58 In addition to the change in skillsets, some commentators believe that flexibility is critical to respond to rapidly changing requirements.³¹² It is likely that these new skillsets will not remain stagnant and will also change over time.³¹³

4.59 Australia's Chief Scientist has urged the Government to focus on STEM skills amongst the workforce to ensure that Australia continues to remain productive and competitive in the future.³¹⁴ Following these recommendations, the Government released a discussion paper supporting high quality STEM education and training across all industries

311 Department of Industry, Innovation and Science, Submission to the Senate Select Committee Inquiry on the Future of Work and Workers (January 2018) p 13.

312 Above n 7, p 114.

313 Shop Distributive and Allied Employees' Association, Submission to the Senate Select Committee Inquiry on the Future of Work and Workers (January 2018) p 8.

314 Australian Government Chief Scientist, *New Research into Stem Skills in the Workforce* <<https://www.chiefscientist.gov.au>>; Australian Government Chief Scientist, *Science, Technology, Engineering and Mathematics: Australia's Future* (2014) <<https://www.chiefscientist.gov.au>>.

and professions as they lead to new products, more efficient services, and a more diverse, resilient and sustainable economy.³¹⁵

4.60 In addition to building STEM skills, there is also a need to build strong soft skills within the workforce as set out in the orange and blue boxes in Figure 4.2. Whilst traditionally perceived as supplementary to STEM skills, soft skills will play an increasingly important role in the future.³¹⁶ It has been predicted that soft-skill-oriented occupations will comprise two-thirds of all jobs by 2030.³¹⁷ PwC's Global CEO Survey, released at the 2017 WEF in Davos, found that 'the rise of automation and robotics in the workplace is driving a greater need for people that possess qualities that can't be replicated by machines'.³¹⁸ These skills are increasingly being sought by CEOs around the world³¹⁹ and include such qualities as communication, problem solving³²⁰ and emotional intelligence, which is 'a measure of someone's ability to identify, use, understand and manage the emotions of themselves and others in a positive way'.³²¹

4.61 Importantly, the education and training provided to tax professionals, including ATO staff, needs to equip them with the skills required to service clients or taxpayers and remain competitive and successful over a period of time that may witness significant change. Accordingly, it is pertinent to consider the measures currently being taken by the ATO, the professional associations and universities.

ATO individual job skills and capability development

4.62 The need for revenue authorities, such as the ATO, to acquire new specialist capabilities has been supported by the OECD:³²²

The use of digital technologies to increase reach and engagement and the introduction of sophisticated tools to analyse Big Data to adjust and improve customer experience require specialist skills, especially in the areas of service promotion, data analytics and IT.

4.63 The ATO's existing capability framework for core capabilities was developed and established by the Australian Public Service Commission (APSC) in the early to mid-2000s.³²³ It is regarded by the ATO as out-dated and not supportive of the development of the capabilities that will be needed in the future.³²⁴ For example, the ATO

315 Australian Government, *STEM – Vision for a Science nation* <<https://www.science.gov.au>>.

316 Professor Toby Walsh, *Artificial Intelligence and the Future of Work*, Submission to the Senate Select Committee on the Future of Work and Workers (January 2018) p 1.

317 Deloitte, *Soft skills for business success* <<https://www2.deloitte.com.au>>.

318 PwC, *Digital Pulse, Report: CEOs seek the human connection* (16 February 2017) <<http://www.digitalpulse.pwc.com.au>>.

319 Ibid.

320 Above n 317; Flinders University – Australian Industrial Transformation Institute, *Creative solutions – creativity, innovation and sustainable jobs in South Australia*, Submission to the Senate Select Committee on the Future of Work and Workers (January 2018) p 19.

321 Mark Phillips, 'Accounting for EQ: Why emotional intelligence matters for accountants' (8 September 2017) *Intheblack* <<https://www.intheblack.com>>; Productivity Commission, Submission of the Senate Select Committee on the Future of Work and Workers (January 2018) p 2.

322 Above n 106, p 35.

323 ATO, *Refreshing the ATO's capability framework – National Consultative Forum update* (November 2017) [Internal ATO document].

324 Ibid.

has identified that the framework does not support the development of digital and data literacy.³²⁵

4.64 In an effort to prioritise the development of a workforce of the future, the ATO has commenced work on developing a new capability framework. This framework forms the foundation for the ATO's Digital Strategy and Data and Analytics Strategy, however, it is not limited to digital and data skills.³²⁶ The ATO believes that strong people capability will ensure that it can deliver on government and community expectations and prepare for future challenges and opportunities.³²⁷

4.65 The ATO has also commenced research and consultation to determine the future skilling needs of its officers, including the impact that it will have on recruitment and training.³²⁸ In doing so it has analysed other government agencies and organisations' capability models and built partnerships with the APSC and the Digital Transformation Agency (DTA) to identify and build digital and data capability.³²⁹

4.66 The ATO has also taken some initial steps to raise awareness amongst its staff about the need for change in mindsets and skillsets in the coming years through:³³⁰

- the Virtual Career Expo which commenced on 13 November 2017 to 8 December 2017 with livestreaming, webinars, and online resources;
- learning and development products including online express learning sessions and instructional videos; and
- the digital mentoring network which has been set up to support staff in the completion of the above learning and development products.

4.67 The ATO also has plans to develop a data literacy capability plan to ensure that all employees have at least a foundational level data literacy. This plan will also include timeframes within which data specialist capabilities must be developed.³³¹ This new capability plan was due for completion in June 2018 after consultation, user testing and the integration of current core capabilities. Once implemented, the ATO plans to continually develop capability building products and approaches.³³²

Professional associations

4.68 A large proportion of professional associations are educating their members on the benefits that can be gained through acquiring STEM and soft skills. For example, the CAANZ Chartered Accountants Program consists of a compulsory 'Capstone' module designed to develop competencies in soft skills including research, problem solving, analysis, professional judgment, communication and thinking 'outside the box'.³³³ This

325 Ibid.

326 Ibid.

327 Ibid.

328 Ibid.

329 Ibid.

330 ATO, Communication with the IGT (8 December 2017).

331 ATO, Communication with the IGT (8 December 2017).

332 Above n 323.

333 CAANZ, Capstone Candidate Resource Material (2018) p i.

module was created in recognition that the automation and increased use of AI in accounting and commerce will result in clients expecting more than just technical answers from their Chartered Accountants. CAANZ has also developed a training technology and data analytics platform called *CA Kairos* to help tax professionals uncover meaningful insights to assist their clients and improve their business.³³⁴ The Institute of Public Accountants (IPA) has partnered with financial software company, *myprosperity*, to assist their members in providing services to their clients. This strategic partnership is designed to help accountants implement technologies in their practices to increase efficiencies.³³⁵

4.69 Other associations have mandated information technology to form a part of recognised or accredited higher education courses. For example, CPA Australia's international accreditation standards require that higher education institutions seeking accreditation of their course ensure that it contains 'information technology across the curriculum' either by way of integration with existing subjects or as a separate subject on its own.³³⁶ CPA Australia expects that the courses, for which accreditation are sought, would cover areas including 'the design of computer-based accounting information systems and their application to solve business problems. Accounting information systems and information technology are important elements in the development of new accounting and business professionals'.³³⁷

4.70 The IGT review team has also undertaken an environmental scan of CPD events offered by a number of the leading professional associations which have moved beyond traditional tax technical issues. For example:

- CPA Australia provides corporate learning solutions including an 'Excel in Finance' component which recognises that 'digital automation is essential to future business operations' and offers its members the opportunity to grow their 'ability to automate, analyse and create action with our tailored learning solutions'.³³⁸
- the Tax Institute offers an online presentation on 'Data assets, big data and the new tax world' and other events to raise awareness on issues such as cryptocurrency;³³⁹
- CAANZ has held conferences focusing on the 'increasingly important role of digital innovation, big data and disruption in the accounting profession and finance industry' as well as courses in relation to cyber security and a 'tech-bootcamp';³⁴⁰ and

334 CAANZ, *Big Data analytics* <<https://charteredaccountantsanz.com>>.

335 IPA, *Rapidly growing financial software company partners with renowned accounting body* (2017) <<http://www.publicaccountants.org.au>>.

336 CPA Australia, *International accreditation guidelines – assuring accounting education quality* <<https://www.cpaaustralia.com.au>>.

337 Ibid.

338 CPA Australia, *Excel and Business Intelligence Corporate Learning Solutions* <<https://www.cpaaustralia.com.au>>.

339 The Tax Institute, *Data assets, Big Data and the new tax world presentation* (2014) <www.taxinstitute.com.au>.

340 CAANZ, *Accounting Conference 2018* (2018) <<https://events.charteredaccountantsanz.com/events>>.

- the IPA has offered online presentations focusing on issues such as ‘taxation and the Online Sharing Economy’ which introduces participants to the different business models used by parties engaged in the sharing economy.³⁴¹

Tertiary institutions and other education providers

4.71 Australian tertiary institutions are also recognising the need to modify and expand their course offerings by including disruptive technologies and other subjects tailored to future learning needs. For example, the University of Technology Sydney recently added a ‘Disruptive Technologies and the Law’ subject stating that there is a ‘need to be adaptive and technically capable’ and that ‘FinTech and LegalTech fluency should be part of every law graduate’s armoury’.³⁴²

4.72 The University of Melbourne currently offers an undergraduate subject ‘Accounting Processes and Analysis’ which provides a broad introduction to core business processes that support organisational business activities and generate accounting transaction data.³⁴³ The Australian National University (ANU) also recently announced the ‘ANU Cyber Institute’ which is intended to encourage collaboration between students, academics, government agencies and private sector organisations on complex issues in the cyber domain.³⁴⁴ The ANU Cyber Institute was inspired by the Australian Government’s 2016 Cyber Security Strategy and the International Cyber Engagement Strategy to protect the community from cyber risk as well as educate the cyber workforce.³⁴⁵

4.73 In addition to their course offerings, the tertiary institutions also provide and host forums in which key issues are discussed and debated to identify opportunities moving forward. In this regard, it is worthwhile noting that in 2017, La Trobe and Edith Cowan Universities, with the support of the ATO and CAANZ, hosted a Future of the Tax Profession Symposium which drew together some 100 tax professionals across multiple fields to discuss the challenges and opportunities facing the profession.³⁴⁶ Similarly, in early 2018, the University of New South Wales’ bi-annual ATAX Tax Administration Conference had as its theme ‘Tax system integrity in a digital age.’³⁴⁷

4.74 Other education providers have also taken steps to review and bolster their course offerings to meet future needs. For example, following industry consultation and with input from the TPB, PwC’s Skills for Australia streamlined two previous Certificate IV qualifications in bookkeeping and accounting into a single diploma aimed at aligning practitioner competencies, industry needs and TPB requirements.³⁴⁸

341 IPA, Taxation and the Online Sharing Economy (Uber, AirBnB etc) (2018) <cpdlive.com/ipa>.

342 University of Technology, Sydney, *Disruptive Technologies and the Law* <handbook.uts.edu.au/subjects/76105.html>.

343 The University of Melbourne, *Accounting Processes and Analysis* (ACCT10003) (2017) <handbook.unimelb.edu.au/2017/subjects/acct10003>.

344 The Australian National University, Submission 12 to the Senate Select Committee on the Future of Work and Workers (January 2018) p 2.

345 The Australian National University, *ANU announces new Cyber Institute* (29 October 2018) <www.anu.edu.au>.

346 La Trobe University and Edith Cowan University, *The Future of the Tax Profession Symposium* (23 November 2017).

347 University of New South Wales Business School, 13th International Conference on Tax Administration – Tax system integrity in a digital age (2018) <<https://www.business.unsw.edu.au>>.

348 PwC, *Year One Business Case Financial Services (FNS) Appendix A* (October 2016) <<https://www.skillsforaustralia.com>>; Australian Government, *training.gov.au* <<https://training.gov.au>>.

IGT observations

4.75 As a former Prime Minister has said, Australia needs to be able to keep retraining and reskilling to 'ensure that growth and the advantages that we get from technology do not leave individuals or regions behind'.³⁴⁹

4.76 In the tax space, work on developing specialised skilling and reskilling is well advanced in New Zealand's IRD. As part of its transformation program, a core set of 12 capabilities have been identified, each with three tiers of sophistication. IRD has used these capabilities as a driver for creating and shaping new roles that will deliver services it would be expected to provide in the future.

4.77 It is commendable that the ATO has also taken initial steps to reassess its workforce and identify capabilities necessary to deliver services that are increasingly demanded of it. As the ATO develops and implements its plan in this regard, it is important that it works collaboratively, constructively and transparently with all the relevant parties, particularly its employees. The digital disruption path will be made all the clearer with the strong support of employees and is essential to minimise risks associated with disengagement.

4.78 As with any project where a reduction in workforce is one possible outcome, a degree of anxiety and disquiet is to be expected. The IGT is of the view that, as soon as practicable, the ATO should develop a roadmap for itself, its staff and the community, outlining its current position, its desired future state and how it intends to make the transition from one to the other. It should include functions that may no longer be required or are to be automated together with new services or capabilities that have yet to be developed. It should also set out potential redeployment options and plans to transition, upskill and support staff to take up new roles to assuage concerns and anxiety where possible. The collaboration with and support of the unions to implement the planned changes is critical to maximise staff engagement.

4.79 The TPB may also need to consider the likely impact of future changes on its workforce and plan for these changes. However, the IGT notes that the TPB's remit is significantly narrower than the ATO's and, therefore, impacts are likely to be limited. Furthermore, as the ATO provides the secretariat to the TPB, those working at the TPB would benefit from the ATO's training and development program as part of their ongoing career and professional development as well as the TPB's own learning and development program.³⁵⁰ If the TPB's work diverges significantly from that of the ATO and it becomes necessary for the TPB to employ its own workforce, the TPB will correspondingly need to increase its workforce planning to meet the demands of the future.

4.80 In discussions with the TPB, the IGT has been informed that while the TPB expects to transition many of its staff away from registration and towards more compliance-based work, it believes that current qualifications (such as Certificate IV in investigations) are adequate to accommodate that transition.³⁵¹ Whilst this may be currently true, the nature of

349 The Hon Malcolm Turnbull MP (Transcript for the Q&A at the National Governor's Association Winter Meeting, 25 February 2018).

350 Tax Practitioners Board (TPB), *Annual Report 2016-17* (2017) p 61.

351 TPB, Communication with the IGT (24 August 2018).

such work will likely evolve in the future and ongoing monitoring and agile response will be required to ensure that the TPB and its workforce are well-equipped to meet future challenges.

4.81 In seeking to upskill its staff, the ATO could partner with the professional associations, tertiary institutions or other education providers to design training programs that fit both its needs as well as those of the broader tax profession. This would yield significant synergies as future tax professionals attend the same tertiary institutions and require broadly the same knowledge and skills irrespective of whether they eventually work in the private or the public sector. Furthermore, increasingly there is significant movement of staff, in both directions, between for example the ATO and tax practices in the private sector.

RECOMMENDATION 4.1

The IGT recommends that:

(a) the ATO:

- i. in collaboration with its staff and the unions, develop a roadmap outlining its current position, desired future state and how it intends to make the transition from one to the other, including redeployment and upskilling options for staff and support them through the transition;*
- ii. in consultation with recognised professional associations, offer assistance to tax practitioners who may wish to develop their own roadmaps to transition from the current to future states; and*
- iii. engage with the professional associations, tertiary institutions or other education providers to co-design training programs and courses to upskill ATO staff for the roles of the future; and*

(b) the TPB:

- i. implement a framework to periodically review its workforce capability needs to meet future regulatory and compliance challenges; and*
- ii. in consultation with recognised professional associations, offer assistance to tax practitioners by, for example, providing advice on whether their future plans meet the ongoing obligations of the Tax Agent Services Act 2009.*

ATO RESPONSE

(a) (i) Disagree

Workforce planning is an ongoing part of our corporate planning and strategy development. A new workforce planning program is underway that is considering capability retention and development of staff across the workforce taking into account the changing operational environment, budgetary considerations and government priorities. Consultation and engagement form key components of our workforce planning approach. Given the work being progressed we do not see benefit in the development of a separate roadmap and framework.

(a) (ii) Disagree

The ATO can provide general information and support relating to the services and products it delivers but cannot be directly involved with the practitioner in managing their business or their practice.

(a) (iii) Existing Programme of Work

The ATO will continue to work with the professional associations, educational institutions and other relevant parties to assist the ongoing development of staff who choose or need to transition to other roles. Solutions may vary from standard offerings through to tailored solutions, based on identified needs.

(b) (i) and (ii) Matter for the TPB

TPB RESPONSE

The TPB agrees with recommendations 4.1(b) (i) and (ii)

- In relation to recommendation 4.1(b) (i), the following is noted:
 - the TPB agrees that it is appropriate to implement a framework to periodically review its workforce capability needs to meet future regulatory and compliance challenges;
 - the TPB welcomes the distinction that the IGT has drawn between the role of the TPB from that of the ATO. Importantly, the ATO is a revenue authority whereas the TPB is a regulator of tax practitioners; and
 - the TPB already has in place measures to address a shift from our current state to a future state and is continuously reviewing these measures to ensure that they meet operational requirements. The TPB's expected future state reflects one where the TPB's registrations function becomes largely business as usual and the bulk of the TPB's operational staff are dedicated to compliance activity.
- In relation to recommendation 4.1(b)(ii) the TPB will continue to always work together with tax practitioners and the professional associations to provide guidance on how they can ensure that they continue to meet their ongoing obligations under the Tax Agent Services Act 2009, including the Code of Professional Conduct.

ATO TECHNOLOGY IMPLEMENTATION AND ITS IMPACTS

4.82 The ATO is responsible for ensuring that citizens comply with a broad range of obligations and in doing so it interacts with the vast majority of the Australian population.

4.83 The ATO has, in recent years, developed and released several significant platforms and services which make it easier for individuals and businesses to engage with the ATO and comply with their tax obligations. These include myTax, the ATO's virtual assistant Alex, the mobile app, voice biometrics as well as cloud authentication and authorisation.

4.84 As noted earlier, the ATO has also developed platforms and services specifically for tax practitioners.

Stakeholder views

4.85 Stakeholders have expressed a number of concerns regarding the ATO's use of technology to extend its service offerings. These concerns include the competitive tension between the ATO's self-service platforms for taxpayers and the services that are provided by

tax practitioners. In a similar vein, although not raised to the same extent, there is clearly a competitive tension between the ATO developing its own software and third party software developers. A further issue raised was stability of the ATO system particularly where outages or failures occur and there is a lack of appropriate redundancies to act as safeguard.

4.86 Stakeholders contend that the ATO's creation and release of taxpayer self-service channels, such as myTax, which operates in parallel with tax practitioner's services essentially disconnects them from their clients. This has especially been the case since myTax has become accessible through the myGov system which has been designed to send correspondence directly to the taxpayer.

4.87 Furthermore, stakeholders are of the view that the ATO is encouraging taxpayers to rely on general information contained on ATO websites to lodge returns on myTax without the expertise of tax professionals. This may result in inadvertent over or under compliance which taxpayers may not appreciate, creating a false sense of security. Intentional under compliance may also go unchecked. Tax practitioners have asserted that their role is essential in the tax system and they should not be bypassed to ensure strict compliance with the tax laws and that taxpayers should be afforded due process and equity, given the ATO's extensive powers. At the 33rd National Convention of the Tax Institute in March 2018, the extent of the Commissioner's powers was described as 'almost unlimited power to assess any person to any amount at any time'.³⁵²

4.88 The sense of further disintermediation of tax practitioners has been heightened by the perception that the ATO has spent more resources on their self-service platform offerings in preference to those that support tax practitioners. Examples cited include the comparison of the ATO's expenditure on myTax to the Practitioner Lodgment System. It was also noted that the ATO has forgone initiatives beneficial to tax practitioners such as providing multi device access to the Tax Agent Portal in favour of direct taxpayer self-service initiatives. Similarly, tax practitioners noted that the ATO's more recently released platforms and products have not been tailored to their needs. They believe that this was the result of a lack of consultation with them during the design process. Others have suggested that a lack of beta testing of the platform prior to its release may have been the cause or a contributory factor.

4.89 While the above concerns were expressed, stakeholders also recognised that the ATO, as the administrator of the tax system, may need to provide a low cost or no cost compliance option for taxpayers, particularly where no such product is available in the market. However, it has been suggested that governments or their agencies are generally not well placed to build and maintain the very complex systems required by a modern digital society. Accordingly, the ATO and other revenue authorities should outsource the development of software to the market, even in the case of free to use self-service options, by setting standards and releasing more APIs. Such an approach is argued to foster competition and innovation. A key component of the suggested approach was a requirement for the revenue authority to regularly conduct governance and integrity checks on third party providers to assure the community of their robustness.

352 Mark Leibler AC, 'Perspectives on Tax Administration' (Speech delivered at the 33rd National Convention of the Tax Institute, Cairns, 14 March 2018), p 2-3.

4.90 Other outsourced options included the support for a more level playing field, by augmenting the status-quo through the introduction of a taxpayer subsidy for the engagement of tax practitioner services or users of third party software.

4.91 An ancillary issue to the use of third party software was that any upgrades of ATO systems ran the risk of rendering the third party software incompatible if there was inadequate consultation and beta testing beforehand.

4.92 An ongoing issue which has been raised again relates to the stability of ATO systems. It had been raised previously through the IGT's 2015 review into the *ATO's services and support for tax practitioners*, and continues to be raised through the complaints handling service. Further issues were raised following the 2016 and 2017 whole-of-ATO systems outages which caused significant community concern, particularly for tax practitioners.

4.93 Stakeholders have indicated that as the ATO and the tax profession become increasingly reliant on technology to carry out day-to-day operations, disruptions in technology will have even greater adverse effects on users. They have highlighted that outages, such as those from 2016 and 2017, resulted in costs to business, missed deadlines and due dates as well as client dissatisfaction particularly where there was a delay in receiving their refunds.

4.94 Digital Service Providers (DSPs) have also explained to the IGT that ATO outages can result in tax practitioners calling their support lines for assistance under the mistaken belief that it is a software issue. Whilst the reputation damage is low once it is explained that the issue originated from the ATO, additional time and resources are needed to respond to queries and manage relationships.

4.95 Stakeholders have pointed out that the ATO is a monopoly service provider and is not subjected to market forces, that is, taxpayers and tax practitioners cannot simply seek another provider if ATO system failures cause them significant losses. Consequently, stakeholders have called on the ATO to provide a dedicated compensation process for such failures and to be held to account on the same level as commercial providers.

Relevant materials

ATO's current and planned implementation of emerging technologies

4.96 In 2015, the ATO commenced the reinvention program.³⁵³ The program sought to offer streamlined, contemporary and tailored services to make it easier for everyone to participate in the tax system.³⁵⁴ The ATO consulted with the community to identify how they use the tax system and what they want in the future. From this consultation process, the ATO developed the Program Blueprint which outlined its six strategic programs to transform its culture, systems, practice and processes:³⁵⁵

353 Australian National Audit Office (ANAO), *Costs and Benefits of the Reinventing the ATO program*, (Report no. 15 2017-18), p 7.

354 ATO, *Transcript – Commissioner Chris Jordan's welcome* (14 July 2016) <<https://www.ato.gov.au>>.

355 ATO, *Program Blueprint* (2015) p 7.

1. contemporary digital services;
2. working with our partners in the tax and super systems;
3. smarter data;
4. optimised workforce capability and culture;
5. tailored engagement and support; and
6. governance, design and evaluation.

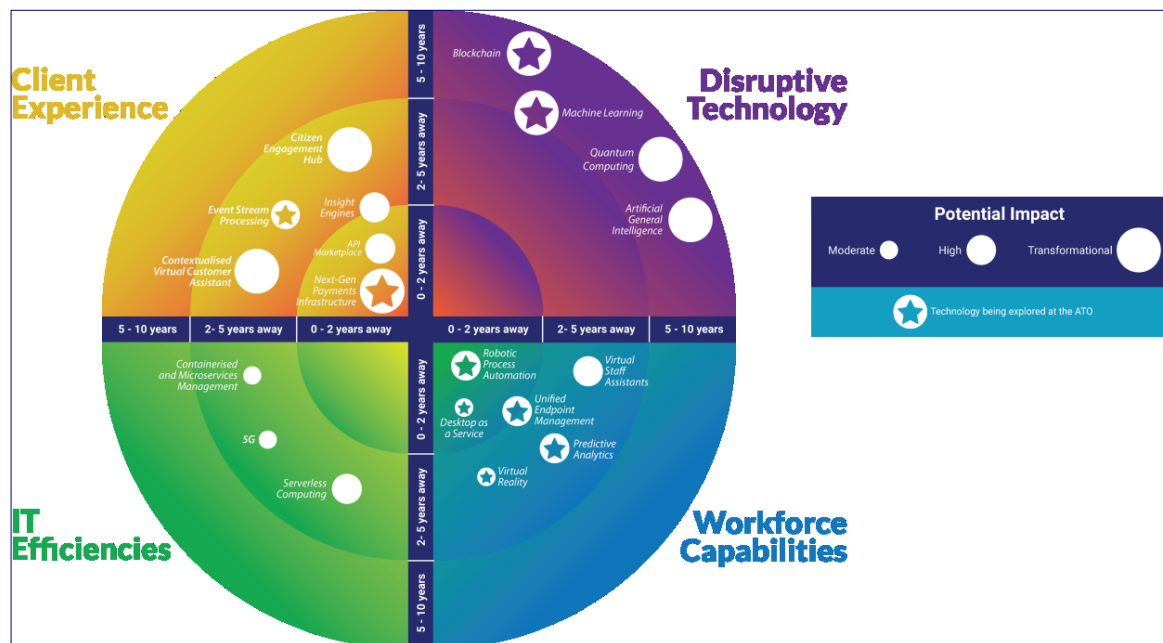
4.97 In October 2017, the ATO Executive endorsed a new Enterprise Governance model working towards the ATO's 2024 vision of building trust and confidence for Government and the community and ensuring that its services are streamlined, integrated and data-driven where possible.³⁵⁶ The new model replaced the six strategic programs of the ATO reinvention with four newly created committees each focusing on a different area, namely: Client Experience, Staff Experience and Integrity, Partner Experience and Policy Design.³⁵⁷ Each of these committees provides input into the Strategy and Implementation Committee, headed by the ATO's Chief Information Officer (CIO), to guide and support the implementation of the ATO's 2024 vision³⁵⁸ as well as ensuring that the ATO's business, digital and technology strategies are aligned. As at the date of this report, the ATO has not released any public documents about its roadmap towards 2024 or the initiatives that are being pursued under that program.

4.98 In addition to the above strategies, the ATO has also created an Innovation and Tactical Improvements (ITI) Committee which focuses on innovation. It directs the principles, governance and flow of the ITI program of work.

356 ATO, *2024 - What is it?* [Undated internal ATO document].

357 ATO, Charter Client Experience Committee (December 2017) [Internal ATO document]; ATO, Charter Staff Experience and Integrity Committee [undated Internal ATO document]; ATO, Charter Partner Experience Committee (February 2018) [Internal ATO document]; ATO, Charter Policy Design Committee (February 2018) [Internal ATO document].

358 ATO, Charter Strategy and Implementation Committee (January 2018) [Internal ATO document].

Figure 4.3: ATO Emerging Technology Watchlist

Source: ATO. Information current as at June 2018.

4.99 Figure 4.3 above sets out the range of initiatives that the ATO is currently exploring as well as the timeframes for those technologies to reach maturity based on industry research. For example, the ATO is currently considering how blockchain technology may be integrated into its operations. It anticipates that blockchain will be a transformational opportunity that the ATO could adopt within two to five years. Another significant item is the ATO's intention to implement a fully cloud hosted workspace within the next two to five years, which will be an inevitable transformational change.³⁵⁹

4.100 In seeking to ensure that its Digital Strategy aligns with whole-of-government imperatives, the ATO's Chief Digital Officer (CDO) works closely with the DTA. The CDO provides support to the CIO and, as a member of the both the Client Experience and Partners Experience committees, the CDO also works to align the range of different initiatives across the ATO with broader policy directives and community needs.

4.101 As part of its Digital Strategy, the ATO has explored the current state of its digital services and remarked that whilst these offerings have evolved, it is still 'characterised by multiple, inconsistent, duplicated and disconnected services'.³⁶⁰ Specifically, the ATO noted that its services are not tailored to taxpayers' needs which impact their engagements with the ATO, leading to increased compliance costs and a damaged relationship.³⁶¹

359 ATO, 'Digital Innovation Update, Emerging Technology Watchlist and Innovation Backlog' (June 2017) [Internal ATO document].

360 ATO, *ATO Digital Strategy* (December 2016), p 4.

361 Above n 360.

4.102 In bringing together its future design, the ATO sees an integration of tax and superannuation services with the digital environment which will be delivered through:³⁶²

- digital services which will be embedded into a business or tax practitioner's natural systems;
- the automatic exchange of taxpayer information in real time;
- greater support to ATO staff to broaden their digital and business capabilities;
- visibility of taxpayer's overall taxation and superannuation position;
- the ATO's ability for early identification of when a taxpayer needs assistance with taxation and superannuation obligations; and
- minimisation of the need for taxpayers to report or transact with the ATO.

4.103 In support for its future design, the ATO has also developed a document setting out its recent and planned technological initiatives called the 'Priority Themes of Work'. This document has been recreated in Appendix 2. A summary of those initiatives is provided in Table 4.1.

Table 4.1: Summary of the ATO's significant initiatives

Initiative	Description	Implementation status
myTax	myTax is a web-based platform which allows individuals and sole traders to lodge income tax returns across a range of devices. It is available through myGov and prefills a wide variety of information.	Implemented on 1 July 2016
ATO AI Assistant, 'Alex'	Alex is the ATO's AI assistant that is available at the bottom of the ATO's website 24 hours a day, 7 days a week to assist taxpayers with general tax questions. Alex is designed to understand everyday conversational language and asks clarifying questions to provide targeted answers, learning from every interaction she has.	Implemented in February 2016
ATO mobile app	The ATO's mobile app provides easy access to tax and super information and tools for individual taxpayers, small business owners and self-managed super fund trustees. Its main feature is myDeductions which allows users to keep track of deductions and income records in the one place which is then prefilled into tax returns once the information is uploaded at year end.	Implemented in June 2013
Voice biometrics	The ATO's voice authentication system uses a taxpayer's voice to verify their identity. Since its introduction in the ATO's call centres, more than 3.2 million taxpayers have been enrolled with voice biometrics, with 35 per cent of all authenticated calls using this technology. Voice biometrics has also recently been made available on the ATO app which has since enrolled over 39,000 voiceprints.	Implemented in September 2014
Cloud Authentication and Authorisation	The Cloud Authentication and Authorisation (CAA) solution is a whole-of-government initiative that enables users of cloud accounting solutions to transmit data and lodgments to the ATO. It allows businesses and registered agents to authenticate themselves when interacting with the ATO and other agencies using cloud software.	Transition from AUSkey for all clients completed in September 2016

362 Ibid.

Initiative	Description	Implementation status
Practitioner Lodgment Service and Standard Business Reporting	<p>Standard Business Reporting (SBR) is an Australian Government initiative which simplifies business reporting by linking standard terms used in government reporting with business software terms so that information recorded in accounting software can be extracted to prefill relevant government reports.</p> <p>Practitioner Lodgment Service (PLS) is the ATO's main electronic lodgment channel for tax practitioners, replacing the Electronic Lodgment Service (ELS). PLS uses SBR which means that PLS has the ability to allow users to lodge returns and forms to multiple agencies.</p>	<p>SBR was introduced in 2010</p> <p>PLS is currently in transition phase with forms progressively being removed from ELS</p>
Using IBM Watson to analyse data and intelligence	The IBM Watson Content Analytics software is text mining software that extracts information from free-form text such as PDF or Word documents, emails and web-based information. It is currently being used internally by the ATO to analyse intelligence datasets to identify patterns and trends.	Pilot completed in 2015 and deployed internally in the ATO
Digital business account	The digital business account was designed to be a one-stop shop for businesses to access a variety of government services online. The concept will make it easier for businesses to interact with government and reduce administrative burden with features such as the digital inbox.	Currently in beta phase
Digital Identity Program	<p>The ATO is collaborating with the DTA to deliver on two services as part of the DTA's broader work to develop a national federated identity ecosystem, namely myGovID and the Relationship and Authorisation Manager (RAM):</p> <ul style="list-style-type: none"> - myGovID is the Government's single identity proofing provider and enables taxpayers to prove their identity to access a range of government services; and - RAM enables taxpayers to manage who is authorised to act on their behalf when accessing online government services. 	Currently in private beta
Single Touch Payroll	STP is a government initiative that is being introduced by the ATO, designed with the purpose of streamlining business reporting obligations. It allows employers to report salary or wages, pay as you go (PAYG) withholding and superannuation information to the ATO from their payroll software when they pay their employees.	Required to be implemented by employers with 20+ employees from 1 July 2018
Push returns and progressive accounts	The ATO will be piloting push assessments during the 2018 tax time for selected individuals as part of its Digital Strategy. At the moment, the push return will only be trialled for a small group of individuals who can choose to 'opt in' for the service.	Pilot commencing for the 2018 tax time
Robotic Procession Automation Proof of Concept	The ATO is currently conducting a Proof of Concept to explore how it can employ RPA technology in its operations. It will consider and compare a range of RPA tools which may have varying degrees of functionality.	Proof of concept completed in May and recommendations are under consideration for further implementation
New Payment Platform Proof of Concept	The ATO is currently considering conducting a Proof of Concept to explore using a Tax Convenience Overlay Service for the NPP to transmit and store tax invoice information to be included in pre-filled BAS. This will reduce compliance costs for taxpayers and provide the ATO with the tools to enforce GST compliance and increase revenue collection.	Should the Proof of Concept commence, it will be finalised by early 2019
Blockchain Proof of Concept	<p>The ATO is currently conducting 4 Proof of Concepts on blockchain technology in the following areas:</p> <ol style="list-style-type: none"> 1. Australian Business Register (ABR) to store and manage the workflows of various licences, permits and grants, facilitated through the use of smart contracts; 2. E-invoicing to automate a part of the procure-to-pay process and hardwiring compliance checks within the supply chain; and 3. Land Registry to track the sale and transfer of land titles. 	One of the 4 Proofs of Concepts had been completed; the other 3 have either failed or are not being progressed at this point in time

Source: IGT constructed from ATO information.

ATO's services and expenditure on its applications of technology for the tax profession

4.104 The ATO has provided information in relation to the work it is currently doing to improve tax practitioner online services. Existing tax practitioner portal functionality will become accessible online across different devices including mobile phones and tablets. The key focus in this project is system performance. The ATO launched a new beta pilot in December 2017 to test these online services with about 110 tax practitioners who volunteered to work with the ATO. Currently, the number of tax practitioners involved has increased to 600. They have been drawn from all states and territories throughout Australia and will incorporate a mix of metropolitan and regionally-based practitioners.³⁶³ Figure 4.4 below is a summary of the high level features for the online services for tax practitioners.³⁶⁴

4.105 The features listed below were progressively released into Online Services for Agents homepage from December 2017 to June 2018 via the ATO's scheduled quarterly releases. Enhancements to that functionality continue to occur through quarterly releases based on feedback from private beta participants.

Figure 4.4: Online services for agents – high level features

High level features	17Q4 private beta 11 December 2017	18Q1 release 7 April 2018	18Q2 release 23 June 2018
Agent home page and menu	✓	✓ enhancements	✓ enhancements
Search and Client list	✓	✓ enhancements	✓ enhancements
Add/remove clients, manage authorisations	✓	✓ enhancements	-
Client summary including For action	✓	✓ enhancements	✓ enhancements
Accounts and transactions	✓	✓ enhancements	-
Income tax	✓	✓ enhancements	-
Client details and demographics	✓	✓ enhancements	-
Tax registrations	✓	✓ enhancements	-
Payments	✓	✓ enhancements	-
Payment plans	✓	✓ enhancements	-
Support functionality e.g. Staff view, feedback	✓	✓ enhancements	-
Reports	✓ some	✓ more	-
Authentication and authorisations	✓	-	-
Lodgment Program status	✓	-	-
Activity statements and instalment notices	✓	-	-
My details	✓	-	-
Online forms	-	✓	✓ enhancements
File transfer /BDE	-	✓	-
Superannuation features	-	✓	-
Your dealings	-	✓	-
Practice mail	-	-	✓
Refund and transfer requests	-	-	✓

Source: ATO.

Note: The green ticks represent functions that were implemented during the beta or releases, with comments indicating the extent of their implementation or enhancements.

363 370 practitioners who are regionally-based and 232 from metropolitan areas.

364 ATO, 'Tax practitioner digital services' (9 November 2017) [Internal ATO document] pp 15-17.

4.106 The Online Services for Agents homepage will display features depending on whether the user is a tax or BAS agent and will vary based on how the agent has customised what is displayed. A variety of tailored services are planned such as notifications and alerts, practice mail, lodgment program status, favourite clients and customisable quick links. Services are optimised for viewing from a range of mobile devices. Access to Online Services for agents on mobile devices is dependent on the implementation of programs to replace AUSkey.

4.107 The client summary pages will include a 'for action' feature to provide a quick snapshot of outstanding client obligations including lodgments and accounts with a debit balance or payment plan.

4.108 Tax practitioners will also be able to view a larger list of accounts and transactions. For example, the portal currently only provides 8 tax accounts per page whereas the new online services for tax practitioners will display 25 tax accounts.³⁶⁵

ATO expenditure on self-service channels vs intermediary channels

4.109 Tables 4.2 and 4.3 below set out the ATO's expenditure on self-service and intermediary channels in 2014-15 to 2016-17. It spent a total of \$33,708,590 on the myTax and e-tax platforms, of which \$14,272,022.68 was in relation to capital expenses.³⁶⁶ In addition, the ATO spent a total of \$39,491,979 on the Tax Agent Portal and Practitioner Lodgment Services, of which \$27,684,200.94 was for capital expenses.³⁶⁷

Table 4.2: ATO expenditure on self-service platforms from 2014-15 to 2016-17

Platforms	Operating expenses	Capital expenses	Total expenses
myTax	\$13,846,443.85	\$14,272,022.68	\$28,118,466.53
e-tax	\$5,590,123.86	\$0.00	\$5,590,123.86
Total	\$19,436,567.71	\$14,272,022.68	\$33,708,590.39

Source: ATO.

Table 4.3: ATO expenditure on intermediary platforms from 2014-15 to 2016-17

Platforms	Operating expenses	Capital expenses	Total expenses
Tax Agent Portal	\$9,074,134.16	\$13,177,169.94	\$22,251,304.10
Practitioner Lodgment Services	\$2,733,645.00	\$14,507,031.00	\$17,240,676.00
Total	\$11,807,779.16	\$27,684,200.94	\$39,491,980.10

Source: ATO.

4.110 Figure 4.5 below sets out the ATO's capital expenditure in 2014-15 to 2016-17. Specifically, it shows that whilst the ATO has increased its spending on internally developed software, it has decreased its expenditure on purchased software.³⁶⁸

³⁶⁵ Above n 364.

³⁶⁶ ATO, Communication with the IGT (16 April 2018).

³⁶⁷ ATO, Communication with the IGT (16 April 2018).

³⁶⁸ Commissioner of Taxation, *Annual Report 2016-17* (2017) p 122.

Figure 4.5: ATO capital expenditure

Capital budget expenditure	2014–15 \$m	2015–16 \$m	2016–17 \$m
Building improvements	33.1	36.2	15.7
Internally developed software	89.5	114.2	124.6
IT infrastructure and hardware	13.2	20.9	17.2
Purchased software	14.1	25.5	6.3
Total capital expenditure	149.9	196.8	163.7

Source: ATO.

4.111 The ATO has also advised that it has plans to spend a further \$258 million on internally developed software and \$20 million on purchased software over the next four years from 2018-19 to 2021-22.³⁶⁹

4.112 In addition, the ATO has provided its own intelligence report regarding the tax practitioner landscape and movement of clients between different intermediary options and self-service channels. The most recent insights, drawn from February 2016 data, show that while there were significant movements from taxpayers who used tax agent services to myTax, there was a similar movement in the opposite direction. For example, in 2016, 364,420 taxpayers who in the previous year had used tax agents to lodge their returns opted to use myTax. In the same period, 331,583 taxpayers who lodged using myTax in 2015 chose to use a tax agent service in 2016. The ATO observed similar results when considering movements between the 2014 and 2015 years.

4.113 The ATO's research indicated that tax agents were most at risk of losing clients to other tax agents. In the 2016 year, the ATO's showed that 1.3 million (or approximately 14.5 per cent) taxpayers who used tax agents chose to move from one agent to another. Accordingly, the expenditures above notwithstanding, the ATO does not consider that its investment in self-service channels for taxpayers to be a material risk to the tax practitioner community. Rather it is of the view that internal competitiveness within the tax practitioner industry itself is the most significant risk, particularly for those operating within the micro-tier. The ATO has noted that while:

... a client wouldn't necessarily know that their agent is a micro, small or a medium tier agent, however more mature marketing, wider availability of a range of services from the one practice, style of return preparation (online/electronic/digital v paper) and price competition would be clearly visible to the client and would be some of the drivers for clients to change agent.³⁷⁰

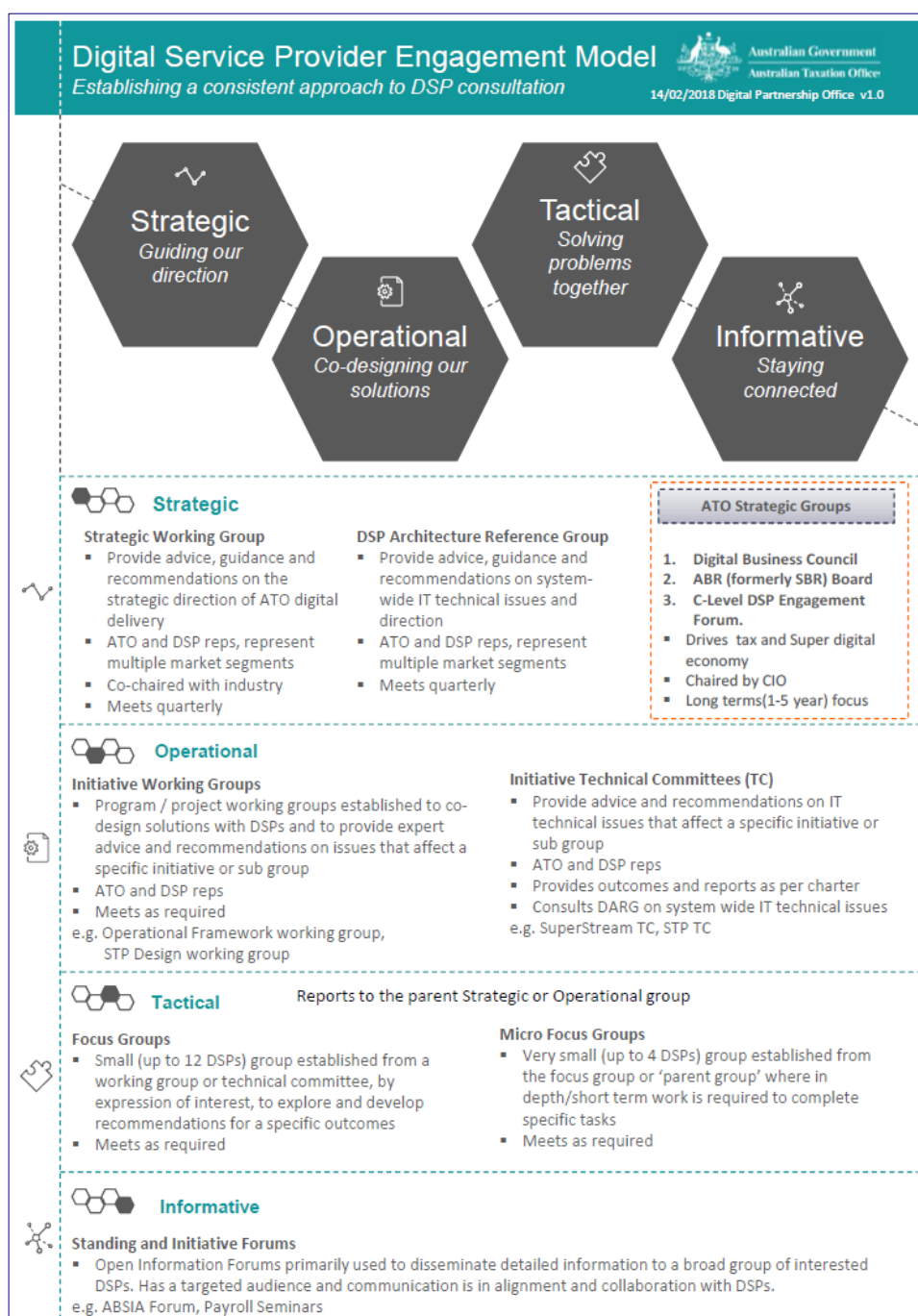
³⁶⁹ ATO, Communication with the IGT (16 April 2018).

³⁷⁰ ATO, *Tax Practitioner Landscape Report Edition 7* (March 2018) [Internal ATO document] pp 12 and 16.

ATO's engagement with Digital Software Providers

4.114 The ATO has recently reviewed its engagement model for DSPs to establish a consistent approach in consultation forums and released a Digital Service Provider Engagement Model. The Model separates the existing working groups, committees and forums into four categories: strategic, operational, tactical and informational. Figure 4.6 below sets out the Model and the various channels of engagement and some high level information on the purpose of each channel.³⁷¹

Figure 4.6: DSP Engagement model



Source: ATO.

³⁷¹ ATO, *DSP Engagement* (1 December 2017) [Internal ATO document].

4.115 The ATO also provides support to DSPs via its Digital Partnership Office which is responsible for developing and maintaining relationships with DSPs as well as internal ATO stakeholders. For example once a DSP registers as an SBR software developer, an account manager from this team is allocated and has responsibility for:³⁷²

- assisting with software and technical related questions for all ATO web service delivery;
- facilitating the integration of software developer partners' systems to SBR;
- being the ATO advocate for software developer partners; and
- providing management and technical resolution of on-boarding issues.

4.116 A 2016 ATO survey on DSP client experience revealed that DSPs are satisfied with ATO communication channels. However, DSPs felt that tailored enhancements are required and that they prefer to receive ATO news and updates in an online format.³⁷³

Impact of ATO's applications of technology

4.117 The Commissioner, together with tax professional associations, had undertaken to develop a statement of intent for working with the tax profession.³⁷⁴ It recognised that:

Administration of the tax and superannuation systems will change in the coming years because of:

- *greater automation and digital business*
- *increased transparency through data sharing between taxpayers, third parties and government*
- *reduction in transactional requirements*
- *whole-of-government services.*³⁷⁵

4.118 The statement provides for an intention to work together with the tax profession to deliver expert services, and recognises that tax professionals have a critical role in the tax system in providing expert advice.³⁷⁶ It sets out the principles for working together effectively, such as all parties taking responsibility for their own development, acting ethically, professionally, with integrity and transparency to deliver contemporary services.³⁷⁷

³⁷² ATO, SBR II Software Developer Training (21 February 2017) [Internal ATO document] p 9.

³⁷³ ATO, *Client experience – software developers (baseline report), Intermediaries – Software Developers* (March-May 2016) p 4.

³⁷⁴ Chris Jordan, 'Commissioner's address to the Tax Institute National Convention 2017' (Speech delivered at the Tax Institute 32nd National Convention, Adelaide, 16 March 2017).

³⁷⁵ ATO, *Working with the tax profession* (5 April 2017) <<https://www.ato.gov.au>>.

³⁷⁶ Ibid.

³⁷⁷ Ibid.

4.119 Furthermore, the statement recognises that the ATO has always offered taxpayers, particularly those who choose to manage their own affairs, the option of interacting with them directly. Moving forward, the ATO will continue to offer a ‘contemporary service’ so that taxpayers can choose to engage with the ATO directly or with a tax professional for advice or lodgment services.³⁷⁸

4.120 The Commissioner has reiterated the nature of ATO’s partnership in a holistic sense that is inclusive of the tax profession. In March 2017 while addressing the Tax Institute’s National Convention, he stated:

*Our presence and contribution here demonstrates our willingness to work with the tax profession, key players and the community more generally – through thick and thin.*³⁷⁹

4.121 More specifically regarding tax practitioners, at the IPA National Congress in November 2017, he stated that:

*I am well aware that the ATO and tax practitioners are dependent on each other for success every day and I would like to see us work more in concert to achieve common strategic goals – like becoming fully digital where possible.*³⁸⁰

4.122 The ATO’s Roadmap for Change to the Tax Profession also reflects these statements.³⁸¹

The risk of under and over compliance

4.123 As more taxpayers opt to use self-service channels,³⁸² tax practitioners believe that the risk of under or over compliance will also increase. To address such risks, the ATO has developed the ‘Nearest Neighbour’ tool which is within myTax to provide prompts to taxpayers who have entered deductions greater than their peers. The tool considers a taxpayer’s occupation, employment income and location to derive an average work-related expense (WRE) claim for the taxpayer’s ‘nearest neighbours’ to calculate an expected WRE claim. Where a taxpayer enters a WRE that is significantly higher than the calculated average, a prompt such as ‘did you know your claim is much more than those who are similar to you?’ will appear.³⁸³

378 Above n 375.

379 Above n 374.

380 Chris Jordan, ‘Address by Commissioner of Taxation, Chris Jordan’ (Speech delivered at the IPA National Congress, Gold Coast, 23 November 2017) <www.ato.gov.au>.

381 ATO, Roadmap of Change for Tax Professionals (2016).

382 Commissioner of Taxation, *Annual Report 2015-16* (2016) p 20; Commissioner of Taxation, *Annual Report 2016-17* (2017) p 16.

383 Andrew Mills, ‘Tax Administration Continuum – ‘The Law was Made for Man, not Man for the Law’ (Paper updated from the paper presented at the Tax Institute WA State Convention on 17 August 2017) <www.ato.gov.au>; Chris Jordan, ‘Better Services and a better experience for Australians’ (Speech delivered at the 12th International Conference on Tax Administration Sydney, 31 March 2016) <<https://www.ato.gov.au/>>.

4.124 The effectiveness of the 'Nearest Neighbour' tool is supported by the findings of a 2015 UK behavioural insight study which considered the effects of pre-populating tax returns with third party data and using 'nudges' to increase compliance.³⁸⁴ The study showed that:

*... prompts reminding subjects that a lower declaration of income would lead to a higher probability of audit along with a message concerning a descriptive norm of compliance is much more effective in increasing compliance, but only when it is responsive to the values inputted by the taxpayer; passively displaying the same content on the form does not induce changes in compliance behaviour.*³⁸⁵

4.125 The ATO has also acknowledged that community confidence can be fostered through the use of this tool to inform taxpayers about under claiming or entitlements. It has suggested that 'taxpayers could be advised that the deductions they had claimed were below the amounts others in similar occupations had claimed and that they should re-check whether they had claimed all the deductions they were entitled to'.³⁸⁶

4.126 Notwithstanding the concerns regarding over-claiming in returns by self-preparers, the Commissioner has recently asserted that its program of random audits has revealed the over-claiming of WREs is 'actually worse in agent prepared returns'.³⁸⁷ At the time, the Commissioner did not provide the facts to support these comments. However, the ATO has provided to the IGT the relevant data for the 2015-16 financial year which is captured in Table 4.4 below.

Table 4.4: 2016 individual and entity income tax returns that were subsequently amended by the ATO

Taxpayer type	Lodgment channel	Number of lodgments	Number of ATO amendments	% of returns which were amended	% of total ATO amendments
Individual	Agent lodgments	10,040,000	227,758	2.3%	64.9%
	Self-lodgments	3,790,000	104,009	2.7%	29.7%
Entity	Agent lodgments	2,630,000	7,915	0.3%	2.3%
	Self-lodgments	80,000	11,066	13.8%	3.1%
TOTAL			350,748		100%

Data source: ATO.

4.127 In the 2015-16 financial year a total of 16.54 million income tax returns were lodged, of which 13.83 million were for individuals and 2.71 million were for entities.³⁸⁸ The ATO initiated amendments on a total of 350,748 income tax returns.³⁸⁹

384 Miguel Fonseca and Shaun Grimshaw, 'Does using behavioural prompts in pre-populated tax forms affect compliance? Results from an artefactual field experiment with real taxpayers' (Discussion Paper: 015-15, Tax Administration Research Centre, 2015).

385 Above n 384, pp 4-5.

386 Above n 383.

387 Above n 374.

388 ATO, Communication with the IGT (21 December 2017).

389 ATO, Communication with the IGT (21 December 2017).

4.128 Table 4.4 above shows that whilst the number of ATO initiated amendments for entity returns were similar for both agent and self-lodgments, the instance of ATO initiated amendments for individual returns lodged by agents were materially higher than those which were self-prepared. Specifically, 67.2 per cent of all ATO initiated amendments were initially lodged by agents whilst only 32.8 per cent were initially lodged by taxpayers themselves. When examining the proportion of returns through each channel which were subsequently amended, ATO amendments of individual self-lodgments are marginally higher than agent lodgments (2.7 per cent and 2.3 per cent, respectively). In relation to entities, the differences are stark with 13.8 per cent of self-lodgments being amended compared to 0.3 per cent of agent lodgments.

4.129 In a separate paper published by the ATO's Smarter Data business line in October 2016, the results of analysing 1.3 million individual income tax returns from the 2012-13 and 2013-14 financial years were presented. The paper considered the amount of average income and deductions reported by self-preparers compared to the amounts reported in returns lodged via tax agents. These results have been replicated in Table 4.5 below which show that the average income reported and deductions claimed by tax agents on behalf of their individual clients is slightly higher than the income reported and deductions claimed by individuals who self-prepared. The outcomes of this paper suggested there does not appear to be material differences between the level of deduction claims as lodged by agents when compared with taxpayers who prepared their own income tax returns.

Table 4.5: Income and deductions for the 2012-13 and 2013-14 financial years

Lodgment channel	Average income (\$)	Average deductions (\$)	Deduction to income ratio
Agent lodgment	47,816	1,471	3.8%
Self-lodgment	45,180	1,182	3.3%
Total	47,270	1,438	3.7%

Data source: Information provided to IGT on 21 December 2017.

4.130 In July 2018, the ATO published its tax gap analysis for individual taxpayers not in business.³⁹⁰ The analysis drew upon a random sample size of 858 cases from the 2013-14 and 2014-15 financial years, which is significantly less than the figures provided to the IGT in Tables 4.4 and 4.5. The data presented in these statistics starkly contrasts with those contained in Table 4.4 above. In particular, based on the ATO's sample, 78 per cent of tax returns prepared by agents were adjusted as compared to 57 per cent for tax returns by taxpayers themselves.³⁹¹ Importantly, not all adjustments were as a result of incorrect WRE deductions.

4.131 The ATO has advised that the above three studies were undertaken for different purposes and using different methodologies. In particular, the ATO has informed the IGT that the data in Tables 4.4 and 4.5 were the results of risk-based analyses of returns (that is, the study aimed at areas where the ATO expected to find errors) whilst the data presented in the tax gap arose from a random sample of cases. Accordingly, the ATO does not believe that the three sets of results are directly comparable.

³⁹⁰ ATO, *Tax Gap for Individuals Not in Business* (12 July 2018) <www.ato.gov.au>.

³⁹¹ Ibid.

4.132 It is evident from all three studies that there are inaccuracies in returns lodged by taxpayers or tax agents. It has been suggested that these inaccuracies may be to some extent attributable to inherent complexities of the tax system. The Treasury has noted that the complexity associated with managing work-related deductions is significant. The compliance burdens involved are due to substantiation requirements such as written evidence, characterisation of expenses and apportioning.³⁹² CAANZ has also highlighted such complexity by citing an example relating to the deductibility of clothing, uniforms and footwear. The submission stated that a 25 page public ruling has been devoted to explain the general principles in this regard and there are even more public rulings available that address specific occupations.³⁹³

Tailoring platform releases for tax practitioners

4.133 In the 2016-17 Annual Report, the ATO stated that it:³⁹⁴

... consulted and co-designed with nearly 780 tax practitioners on almost 70 different matters, including Single Touch Payroll, superannuation new measures, improving online services, the client communications list, and single online business registration.

4.134 Prior to the release of myTax to the community in 2016, the ATO set up a myTax and myGov limited life working group. The first meeting was held on 26 February 2015, where taxpayer and practitioner enthusiasm for using myGov to access government services was discussed. There were also plans to develop a letter and web content targeted to taxpayers who were eligible to use myTax to lodge returns and also alerting them to engage tax practitioners in appropriate circumstances. However, it is unclear whether practitioners were involved in this working group and were given an opportunity to provide feedback on the design of myTax.³⁹⁵

4.135 The Commissioner has acknowledged shortcomings in the ATO's design and implementation of services affecting tax practitioners. Specifically, he has spoken of the myGov correspondence issues,³⁹⁶ which automatically sent correspondences direct to taxpayers' myGov accounts even if they were represented by a tax practitioner. This particular issue necessitated a series of fixes and upgrades and is yet to be completely rectified.³⁹⁷

4.136 The ATO appears to have learnt from the above situation and has modified its consultation processes in relation to large platform releases. For example, in relation to STP, the ATO established a range of working groups, including the STP Design Working Group,³⁹⁸ the STP Software Developers Technical Working Group, the STP Readiness Working Group³⁹⁹ and the STP Advisory Group.⁴⁰⁰ These consultation arrangements

392 Treasury, Submission to the Standing Committee on Economics, *Inquiry into tax deductibility* (18 January 2016) p 8.

393 CAANZ, Submission to the Standing Committee on Economics, *Inquiry into tax deductibility*, 15 January 2016, p 9.

394 Commissioner of Taxation, *Annual Report 2016-17*, (2017) p 56.

395 ATO, *ATPAG minutes*, February 2015, (23 April 2015) <www.ato.gov.au>; The Tax Institute, *ATO Tax Practitioner Advisory Group* (6 March 2015) <www.taxinstitute.com.au>.

396 Above n 374.

397 Ibid; ATO, *Client communication list* (4 October 2017) <<https://www.ato.gov.au>>.

398 ATO, *Charter, Single Touch Payroll Design Working Group* (30 May 2017) [Internal ATO document].

399 ATO, *Single Touch Payroll readiness working group* (undated) <<https://softwaredevelopers.ato.gov.au>>; ATO, *Consultation* (11 January 2018) <<https://www.ato.gov.au>>.

appear to have placed the ATO in a better position in relation to the rollout of STP — the success of this approach will only be proven in the years to come.

4.137 The ATO also regularly tests new platforms and services prior to deployment. The ATO beta website was introduced in 2016 as a ‘testing ground’ for new ideas and digital services. Since its inception, it has received over 36,000 visits from users who are able to test upcoming apps, platforms and services and provide feedback before release. As of 18 January 2018, it has also introduced 30 tests for services including the ATO’s virtual assistant Alex, ATO newsroom, legal database, Digital Business Account, Relationship and Authorisation Manager, myGov notifications, online super and employer tools, managing records on the ATO app, and various content related features on the ATO’s website.⁴⁰¹

Third party software development

4.138 In working with the software industry and developers to connect their products to ATO systems, the ATO has released a range of APIs.⁴⁰² It has stated that as of January 2018, a total of 275 APIs⁴⁰³ have been released which it believes is more than any other revenue authority.⁴⁰⁴

4.139 To strengthen its governance processes for APIs, in July 2017, the ATO released its interim Operational Framework setting out certain requirements for DSPs. These include compliance with a recognised IT Security Standard, having in place a series of mandatory controls and undertaking conformance testing on their products. During the course of this review, the ATO finalised the Operational Framework and released details of its approach to implementation which was recently updated in August 2018.⁴⁰⁵

4.140 An example of the ATO’s collaboration with the software industry is the delivery of PLS. The ATO has stated that it is ‘working in partnership with digital service providers to ensure they can deliver’⁴⁰⁶ software to meet tax practitioner needs. In effect, it is the software industry that is developing PLS solutions, not the ATO.

Stability and redundancy of ATO systems

4.141 In 2015, as part of the IGT’s review into the *services and support for tax practitioners*, significant concern had been raised about the irritants and instability of certain ATO systems, notably the Tax Agent Portal.⁴⁰⁷ At the time, the ATO stated that it intended to transfer the functionality of the Portal to ATO Online within two years and believed that such transfer would redress much of the instability experienced by tax practitioners.⁴⁰⁸

400 ATO, *Single Touch Payroll Advisory Group* (undated) <<https://softwaredevelopers.ato.gov.au>>; ATO, *Consultation* (11 January 2018) <<https://www.ato.gov.au>>.

401 ATO, *atobeta* (undated) <beta.ato.gov.au>.

402 ATO, ‘Draft: Operational Framework Approach’ (undated) [Internal ATO document].

403 ATO, Communication with the IGT (8 December 2017).

404 Commonwealth Hansard, *Inquiry into taxpayer engagement with the tax system*, Standing Committee on Tax and Revenue, House of Representatives, 27 October 2017, p 23 (John Dardo).

405 ATO, *Digital Service Provider (DSP) Operational Framework implementation approach* (6 August 2018).

406 ATO, *Practitioner lodgment service* (28 January 2018) <<https://www.ato.gov.au>>.

407 Above n 2, p 54.

408 Ibid, pp 58-59, 63.

However, such work has not been completed and no timeline has been provided for completion. As a result, the concerns and dissatisfaction with ATO systems remain.

4.142 In addition to the ongoing irritants which affect the ATO's systems, on 12 December 2016, the ATO experienced a system outage that caused extensive disruption to the majority of the ATO's most critical IT services including the ATO website, myTax, ATO Portals, ABR, SBR, AUSkey, the enterprise case management system Siebel and outbound correspondence systems.⁴⁰⁹

4.143 The ATO has explained that the outage occurred when one of its two Storage Area Networks (SAN) failed.⁴¹⁰ The SAN hardware is a data storage facility located in Sydney that was and still is operated and maintained by Hewlett Packard Enterprises (HPE). It was installed in November 2015 and at the time, was 'state-of-the-art' hardware that had been similarly installed 67,000 times across the world in major business operations such as trading floors and financial institutions.⁴¹¹ The ATO has noted that the failures it experienced had not been previously experienced by any other HPE clients in the past.⁴¹²

4.144 In its internal report, the ATO explained that the outage was a result of the compounding effect of:

- multiple components of the SAN failing, including failures associated with stressed fibre optic cabling;
- unsuccessful attempts for the system to automatically recover in response to the failures; and
- some of the in-built SAN monitoring and resilience features not being enabled.⁴¹³

4.145 The ATO has further explained that when designing the SAN, it placed more focus on performance rather than stability, resilience and cost. Whilst the design incorporated some resilience features, it did not consider the combination of events that led to the outage.⁴¹⁴

4.146 On 2 February 2017, a second outage occurred when HPE was replacing one of the SAN fibre optic cables. The data cards attached to the SAN were dislodged, causing similar outages to the ones that occurred in December 2016.⁴¹⁵

4.147 In response to the above outages, the ATO activated its business continuity management arrangements and worked with local and global HPE staff to restore the system. It engaged with the community and stakeholders on multiple occasions through various channels such as the ATO's website, social media including Facebook, Twitter and LinkedIn, bulk emails, SMS and newsletters as well as alerts to Australian Prudential

409 ATO, *ATO systems report* (June 2017) p 3-4.

410 Above n 409, p iv; Above n 374.

411 Chris Jordan, 'Commissioners Opening Statement for Estimates' (Delivered at Senate Estimates, 1 March 2017), p 1.

412 Ibid; Above n 374.

413 Above n 409, p iv.

414 Ibid.

415 Ibid.

Regulation Authority (APRA)-regulated superannuation funds. During the second outage, the ATO also conducted phone briefings with stakeholders, providing them with the opportunity to raise their concerns. In addition, the ATO managed taxpayer impacts with remedies such as extensions of time for lodgment, adjustments to interest and penalties as well as administrative concessions for taxpayers who had missed out on the early payment discount for HECS/HELP debts.⁴¹⁶

4.148 In addition to its own internal report on the outages, the ATO commissioned PwC to undertake a post incident review. As part of its report, PwC observed that:

*Design and build decisions made by the service provider for the SAN (including array configuration, placement of control/management/monitoring systems) resulted in resilience levels insufficient to cater for the scale and scope of the technical failure, and also led to an extended recovery duration.*⁴¹⁷

4.149 PwC made 10 recommendations to the ATO as a result of its post incident review, grouped into two categories. The first group of recommendations, 're-architect for resilience', seeks to minimise the risk of an outage should similar conditions leading to the December and February outages rearise. The second group of recommendations, 'strengthened governance, risk and response capabilities', was aimed at contributing to overall infrastructure improvements that would also prepare the system for future platforms such as cloud technology.⁴¹⁸

4.150 HPE also conducted a root-cause analysis investigation of the failures leading to the outages. After the release of the interim findings, the ATO negotiated a confidential commercial settlement which it stated 'recoups key costs incurred by the ATO, and provides additional and higher grade IT equipment giving the ATO a world-class storage network'.⁴¹⁹ As at the date of this IGT report, HPE had not released the final report of its own investigation.

4.151 In consultation with taxpayers and stakeholders, following the interim findings of HPE's root-cause review, the PwC review and the ATO's internal review, 14 key areas for improvement, grouped into five main themes, were identified:

- the ATO's IT design principles;
- correcting the identified faults;
- enhancing the ATO's capability to support infrastructure design and IT governance;
- the ATO's responses to incidents; and
- managing communications and business resumption with stakeholders.⁴²⁰

416 Ibid, pp v, 4-5.

417 PwC, *Australian Taxation Office Post Incident Review Draft v9.0* (2017) p 5.

418 Ibid, p 11.

419 Chris Jordan, 'Commissioners opening statement Budget Estimates Tuesday May 30 2017' (Delivered at the Budget Estimates, 30 May 2017), pp 5-6.

420 Above n 409, pp 5 & 6.

4.152 The ATO explained that it had already begun implementing changes including replacing the faulty SAN hardware and migrated data to a new SAN. The ATO also sought to address the failure of backup systems to activate in a timely manner by implementing:

... a new storage strategy to enhance IT stability and resilience. This involves rebuilding our primary and back up storage systems with the newest technology from the HPE product portfolio working in conjunction with our 3PAR SAN technology. All production system workloads are now utilising the enhanced storage system. Once data transfer activities are completed, the existing 3PAR SAN will be replaced by a new 3PAR and the current 3PAR SAN decommissioned by late July 2017 for forensic analysis.

and

[Ensuring] that the ATO's data management, monitoring and recovery systems are housed in a separate, independent, storage area to remove the dependency of these control systems on the principal SAN. The ATO should also re-architect these control systems to provide 'always on' capability.⁴²¹

4.153 In addition to the reviews listed above, the ATO was also the subject of a performance audit conducted by the Australian National Audit Office (ANAO) to assess whether the ATO had effectively responded to the system failures and unscheduled outages.⁴²² The ANAO found that:

The ATO's responses to the system failures and unscheduled outages were largely effective, despite inadequacies in business continuity management planning relating to critical infrastructure.⁴²³

4.154 The ANAO also found that the ATO does not have service standards for the performance of ICT systems and as such, recommended that it 'determines the level of availability of services associated with ICT systems to include in service standard(s)' and report its performance against those standards.⁴²⁴ The ATO agreed to this recommendation as well as the ANAO's other two recommendations in relation to updating its various risk and business continuity frameworks.⁴²⁵

4.155 In responding to the ANAO, the ATO also stated that it had implemented 9 of the 14 recommendations identified in the ATO Systems Report with the remaining 5 recommendations to be completed in 2018.⁴²⁶ The ATO has advised the IGT that implementation of remaining recommendations is underway as part of the Improving ATO IT System program of work which aims to improve the stability, resilience and availability of ATO systems.⁴²⁷

4.156 Since the outages, the Commissioner has emphasised in speeches that the experience has highlighted the dependency on technology and digital services. He reasoned that in operating a business, there will always be risks of system outages, whether

421 Above n 409, p 8.

422 ANAO, *Report No. 29 2017-18 Unscheduled Taxation System Outages* (2018) p 7.

423 Ibid.

424 Ibid, p 10.

425 Ibid.

426 Ibid.

427 ATO, *Communication with the IGT* (19 October 2018).

it be due to power providers, telecommunication providers or financial institutions. He discussed the importance for the tax profession to have business continuity and contingency plans so that being offline does not equate to having nothing to do.⁴²⁸ The ATO has also advised that it has invested significant resources to reduce the complexity within its technological environment and enhance its stability.⁴²⁹

4.157 An ancillary matter which has emerged is the provision of compensation to those affected by the ATO system failures or outages. For example, following reports of the ATO's negotiation of a settlement with HPE, the IPA is reported to have stated that those who incurred productivity losses were not able to receive similar financial relief. Whilst affected tax practitioners could apply for compensation under the Scheme for Compensation for Detriment caused by Defective Administration (CDDA scheme), the restrictive and discretionary nature of the CDDA scheme was believed to have left accountants without any compensation payments.⁴³⁰

4.158 The IGT has previously examined the operation of the CDDA scheme in a prior report. Within the IGT's remit,⁴³¹ some improvement opportunities were identified and recommendations made to enhance its administration by the ATO.⁴³² It should be noted that the policy remit with respect to the CDDA scheme rests with the Department of Finance. It is not peculiar to the ATO but applies across the public service with the granting of any compensation being at the discretion of each agency head who has to meet such costs from the agency's overall budget.

4.159 The above approach to compensation differs from that taken in some other jurisdictions, such as Sweden where the compensation scheme is legislated and the revenue agency's decisions are reviewable by the courts.⁴³³ In response to recently reported events, the IGT has opined that the CDDA scheme should either be improved or a separate compensation scheme for tax administration be created to include a right of external review of the original compensation decision.⁴³⁴

IGT observations

4.160 It is evident that the rapid advancements in technology have touched upon nearly every facet of life and the increasing adoption of technology by the public and private sectors is inevitable. As has already been illustrated earlier in this report, private sector organisations and revenue authorities around the world have all adopted strategies to implement more technology.

4.161 The ATO is no exception and has implemented initiatives such as the AI assistant and voice biometrics while updating and considering other opportunities, such as the ATO app and blockchain technology. The tax profession, particularly large tax practices, have also implemented significant technology in certain areas of practice.

428 Above n 411, p 1; Above n 374.

429 ATO, *IT System Performance Dashboard* (August 2018) [Internal ATO document].

430 Paul Smith, Joanna Mather and Edmund Tadros, 'Accountants left out as ATO settles tech outage compensation with HPE,' *Australian Financial Review* (30 May 2017) <www.afr.com>.

431 IGT, *Review into the Taxpayers' Charter and Taxpayer Protections* (2016), p 87.

432 Ibid, p 96.

433 Swedish Tax Authority, Communication with the IGT (18 September 2017).

434 IGT on 'Beattie and Newman,' Sky News Live (23 April 2018, 8:23pm).

4.162 While there are clear benefits to be realised from increased technology and automation, there are also undeniable impacts. Given the nature of the relationship between the ATO and the tax profession, as stated earlier, the innovations by one will impact the other. Accordingly, the IGT believes that it is important that the two parties work collaboratively with each other and with other segments of the tax profession as well as DSPs to make informed decisions regarding the way forward. In doing so, there are a number of issues that should be actively considered.

4.163 Firstly, the ATO's ongoing efforts to provide a free service for those members of the community, who choose to manage their own tax and superannuation obligations, is to be commended. The cost in this regard has exceeded \$30 million over the past few years and is forecasted to grow by a further \$258 million in the coming years. In the light of this expenditure and the rapid pace of technological development, it would be prudent for the ATO to determine whether it should continue developing and delivering such solutions or seek the involvement of the private sector.

4.164 As mentioned earlier, in the USA, the IRS has partnered with private software companies to provide free online lodgment options where certain salary and age criteria are met. The IRS's website provides links to each of these free file software providers' websites as well as a 'Free File Software Lookup Tool' to determine which software a taxpayer will be eligible to use.⁴³⁵ While there are differences between the USA and the Australian markets, the IGT believes that there would be benefit in the ATO undertaking a cost-benefit analysis to compare the cost of designing and producing its own solutions as compared to outsourcing such work to the private sector. In doing so, the costs and benefits to tax professionals and the community as well as the ATO should be considered and the issues experienced in the USA leading to low-uptake of free market software could be addressed through appropriate contractual terms.

4.165 The self-service channels developed by the ATO have also led to a perception by tax practitioners that the ATO is intentionally disintermediating them from the system. This may be driven by the perception that platforms upon which tax practitioners rely are not progressed at the same pace as self-service platforms. Relevantly, over the three financial years from 2014-15 to 2016-17, the expenditure on platforms for tax practitioners, such as the ATO Portals and PLS, has exceeded those for self-service channels (\$39,491,980 compared to \$33,708,590). However, examining each product separately, the expenditure on myTax (\$28,118,466) exceeds those relating to the ATO Portals (\$22,251,304) and PLS (\$17,240,767). Tax practitioners may not be aware of the ATO's precise expenditure. Their perception may be driven by myTax being released in the 2014-15 financial year whilst PLS was not fully implemented until the 2017-18 financial year.

4.166 Secondly, there appears to be some uncertainty regarding the initiatives that the ATO proposes to implement or update. To an extent, the ATO has sought to alleviate these impacts through the various consultation and co-design forums noted earlier as well as the more recent introduction of the ATO beta website. These are positive developments to bring about a more collaborative approach to innovation. The ATO cannot consult with every practitioner personally, nor would it be in the interests of the profession to require the ATO to do so. However, the ATO could better inform the tax practitioner community of the large amount of consultation it does conduct with the tax profession as well as publicly

435 IRS, *Free File Software Offers* (undated) <<https://apps.irs.gov>>.

sharing the material made available at these consultation forums. Many tax practitioners who do not participate in these forums directly may not be aware of the work that the ATO has undertaken or plans to undertake and the potential impacts on their practices.

4.167 It would be useful for the ATO to also develop a process through which it more broadly communicates and invites feedback on proposed innovations. One key area in which the IGT believes such communication would be welcome is where the ATO proposes to make substantial changes to the existing lodgment platforms and the timeframes over which these changes are expected to occur. As noted in the IGT's earlier review, the ATO Portals have become key tools of trade for tax practitioners so it is reasonable that there would be significant anxiety when they do not operate as intended. It is important that as wide a spectrum as possible of tax practitioners are informed of proposed changes and afforded the opportunity to participate in beta testing. Furthermore, the IGT is of the view that the ATO should inform the community about the investments that it is making in relation to tax practitioner platforms so as to dispel any unfounded notions that the ATO is withdrawing funding from that area.

4.168 Thirdly, in considering its future digital services, it is important for the ATO to continue to consider the needs of taxpayers who may not have access to the infrastructure to allow for digital interactions, or 'particular individuals who struggle with ... digital transition'.⁴³⁶ These taxpayers may be elderly, low income earners, disabled or have limited English proficiency. These issues are not confined to Australia. In the USA, a series of public hearings directed at such taxpayers have been held to assist the IRS in developing a plan that is responsive to their need.⁴³⁷

4.169 The ATO has considered some of these matters. For example, the ATO has indicated that it will continue to provide some non-digital services for taxpayers and tax professionals who are not able to transition to digital services. These services include the Tax Help Program which is an income tax return preparation service offered in all states to low income individuals.⁴³⁸

4.170 Given Australia's significant aging population and the likely support that they would require, the IGT believes the ATO should also conduct some research to assess issues such as how many taxpayers would be unlikely to have access to digital services or be able to proficiently interact electronically and the barriers which are preventing such interaction. The findings of this research could be applied to augment the ATO's existing support, including ways in which the ATO could assist those taxpayers to overcome relevant barriers or determine where it has to continue to provide traditional access channels.

4.171 Fourthly, as taxpayers are increasingly choosing self-service tax return preparation and lodgment,⁴³⁹ steps need to be taken to minimise the risk of under or over compliance. Whilst the Commissioner has stated that the ATO's random enquiries into WREs demonstrate that over-claims were 'actually worse in agent prepared returns', the absence

436 Commonwealth Hansard, *Inquiry into taxpayer engagement with the tax system*, Standing Committee on Tax and Revenue, House of Representatives, 27 October 2017, p 25 (Annie Ferguson).

437 National Taxpayer Advocate, *Press Release: National Taxpayer Advocate Delivers Annual Report to Congress; Focuses on IRS's Future Plans for Taxpayer Service* (6 January 2016) <<https://taxpayeradvocate.irs.gov>>.

438 Above n 436.

439 ATO, *Tax Time 2017 Update* (30 October 2017) <www.ato.gov.au>.

of the detailed underlying data does not facilitate the determination of the extent to which the tax profession may be a contributing factor. Late in the review process, the ATO informed the IGT that at the time of Commissioner's comments, the results of the ATO's enquiry had not been finalised and the Commissioner was sharing initial insights. It is regrettable that the Commissioner's comments were not accordingly caveated nor any reference made to previous ATO analyses. The ATO has more recently published findings in relation to the tax gap for individuals not in business to contextualise his earlier comments.

4.172 Analysis of historical data provided by the ATO's Smarter Data business line (Table 4.5) suggests that the average level of deduction claims between taxpayers who self-prepare and those who use a tax agent are not materially different (0.5 per cent). Furthermore, in relation to the accuracy of income tax returns more generally, data from the 2016-17 financial year (contained in Table 4.4), suggests that the rate of ATO amendment of self-prepared individual income tax returns and those prepared by tax agents is not materially different (that is, 0.4 per cent higher for self-prepared individual income tax returns). However, where entity lodgments are concerned, there is a very clear picture that a significantly higher proportion of self-prepared returns are amended by the ATO (13.8 per cent compared to 0.3 per cent for agent-prepared returns). While the IGT notes the ATO's view that these results are not directly comparable with the tax gap outcomes (due to the different methodologies adopted in undertaking the respective studies), they are nonetheless informative in their own right and, at the very least, raise questions that may be answered in future iterations of the tax gap analysis regarding the accuracy of self-lodgment and agent-lodgments with the ATO.

4.173 As discussed earlier, there is also a risk that the ATO's 'Nearest Neighbour' tool may 'nudge' taxpayers away from claiming their full entitlements. The IGT believes that the ATO should undertake research to determine whether this is the case, particularly where there is the potential to use the prompts to effectively 'test' threshold limits before submitting the returns. As an extension, the tool does not presently operate in the reverse direction, that is, alerting taxpayers when they have under claimed entitlements to which they may be legitimately entitled.

4.174 Potential over or under compliance may not be confined to myTax and, more specifically, the 'Nearest Neighbour' tool. The increasing use of self-service channels and automation of decision making may result in inappropriate outcomes going unchecked. As discussed in Chapter 3, the USA's NTA has expressed concerns regarding the use of automated decision making and the ability of IRS staff to identify instances where that decision is incorrect. While there are clear efficiency gains to be realised through increased automation, it is imperative that transparency and good decision making are not compromised. Accordingly, automated processes should be monitored to capture inappropriate outcomes which may need to be rectified by manual intervention.

4.175 Fifthly, there are functions which the ATO currently outsources, such as some of its debt collection activities and litigation. It is conceivable that some of its assurance functions may also be outsourced to the tax profession with appropriate safeguards. This may be more efficient and effective given that tax practitioners advise a significant proportion of the taxpayer population. For example, they could provide assurance that applicants for Australian Business Numbers (ABN) meet the necessary requirements and understand the associated obligations to minimise subsequent compliance work that the ATO may need to take. This would be analogous to the manner in which passport and Tax

File Number (TFN) applications are considered and processed through Australia Post. While devolving functions from the ATO presents challenges, such as managing conflicts of interest, these issues could potentially be addressed in the design of the process.

4.176 Sixthly, as dependency on and interconnectivity with ATO systems is likely to increase in the future, the stability of ATO systems is of paramount importance. During the course of this review, stakeholders have raised concerns with the level of downtime and urgent maintenance needed to the PLS system, despite the ATO's significant investment into it. The IGT has also previously recognised the difficulties that are created for taxpayers and tax practitioners as well as the ATO when large scale ATO IT projects do not operate as intended.⁴⁴⁰ The impact of frequent smaller irritants within ATO systems, including the instability of the Tax Agent Portal discussed earlier, also collectively causes significant disruption. Although the ATO had committed to migrate the Tax Agent Portal to the more stable and robust ATO Online platform within two years, that does not appear to have occurred. There would be benefit in the ATO re-assessing its work in this regard to provide tax professionals with an updated timeframe for completion of the work.

4.177 Additionally, the IGT believes that there should be sufficient safeguards or redundancies to mitigate the risk of significant system failures or recurring irritants. It is reassuring that the ATO has taken steps in this regard following the major outages in 2016 and 2017 with key business system resilience and reliability being identified as one of the main priorities in its Technology Strategy.⁴⁴¹ The IGT is also of the view that the ATO should align its service standards with those of commercial providers, including a dedicated scheme for compensation where outages or system failures result in loss for the users. The IGT has previously explored the need for such compensation schemes⁴⁴² – its scope has to be clearly defined and the processes for accessing it streamlined so as not to create a further impost for taxpayers and tax practitioners.

4.178 Finally, it is necessary to address the impact that the Commissioner's statements regarding tax practitioners and WRE deductions has had on the already fragile relationship between the ATO and the tax profession.

4.179 Foremost amongst the concerns that have been raised with the IGT is the absence of robust and detailed underlying data to accompany the Commissioner's claims. It is also concerning that there is significant difference between the information that the ATO has provided, as part of this review to the IGT, and the information that the ATO has since published as part of its tax gap analysis. Some commentators have also suggested that the sample size used in the gap analysis may be too small.⁴⁴³ The IGT can appreciate such a view and believes the ATO should also justify the use of such a small sample to bring into question the expertise and ethics of tax practitioners who feel unjustly attacked and their profession brought into disrepute.

4.180 The relationship between tax practitioners and the ATO is important and needs to be fostered through mutual trust and respect. In doing so, the ATO's messaging about concerns it may have needs to be appropriately considered to ensure that the delivery

440 IGT, *Review into the ATO Change Program* (2011).

441 ATO, *ATO Technology Strategy Executive Summary Pack* (July 2018) p 23 [Internal ATO document].

442 Ibid.

443 The Tax Institute, *TaxVine*, Member Newsletter 26 (13 July 2017).

achieves the desired effect. Moreover, where such concerns need to be raised, the ATO needs to assure itself and the profession that they are accompanied by robust and properly tested data.

RECOMMENDATION 4.2

The IGT recommends that the ATO:

- (a) conduct a cost-benefit analysis on the design and production of its own software solutions as compared to outsourcing the work to the private sector;*
- (b) in collaboration with the relevant professional bodies, implement a communication strategy to inform tax practitioners of its research and adoption of new technologies that may impact on them and their business;*
- (c) expand its beta testing program to reach as wide a spectrum of tax practitioners as possible, particularly those operating small businesses or who are remotely located;*
- (d) assess the number of taxpayers who will continue to require access to traditional methods of communication, and use that research to develop a plan for meeting the needs of those taxpayers in the future;*
- (e) determine the effectiveness of automated decision making tools to minimise the risk of under compliance or over compliance and ensure they are periodically tested to produce accurate outcomes;*
- (f) consider whether it can devolve some of its functions to tax practitioners with appropriate safeguards;*
- (g) align its service standards for the performance of its systems with those of commercial providers, including a dedicated scheme for compensation where outages or system failures result in loss for the users;*
- (h) engage with the tax practitioner community to develop an action plan to bolster the stability of systems which enable them to assist the community to comply with their tax obligations, including an updated timeframe for the migration of the Tax Agent Portal functionality to ATO Online; and*
- (i) ensure that any future messaging regarding concerns it may have with the tax profession is appropriately considered and accompanied by robust and properly tested data.*

ATO RESPONSE

(a) Disagree

The ATO's 2024 Vision and Technology Strategy will make it easy to comply, and hard not to, by leveraging technology services and natural systems to streamline and automate services for clients. The ATO is a world-leading Government agency in the number of

Application Programming Interfaces (API's) offered to Digital Service Providers, and we will continue to expand this service offering to enable the market to provide value-adding software solutions to the community. We have however, an obligation to provide no-cost digital services to the community to ensure the community can quickly and easily satisfy their tax and super obligations.

(b) Existing Programme of Work

The ATO currently undertakes research into new and emerging technologies to assess their impact on the tax and super ecosystems and our clients. We will continue to communicate, co-design and consult with the profession when considering new technology.

(c) Implemented

The private Beta for Online services for agents has been expanded to 600 users who are to the extent possible representative of all segments of the agent population. This ensures a representative sample of the tax profession is able to provide feedback on the new system prior to its public beta release in late 2018 to all tax and BAS agents.

More broadly, the ATO already aims that with any private beta, a representative cross-section of the agent population should be involved in testing and given an opportunity to provide feedback.

(d) Existing Programme of Work

The ATO is focusing on assisting taxpayers to transition to digital channels whilst supporting those unable to transition. The ATO will continue to work with the Tax Profession, their associations and other relevant parties to communicate and support them (and their clients) with the digital transition and education.

(e) Agree

There are currently no automated decision making tools that the ATO utilises to assess the legitimacy of taxpayer entitlements claims. We will continue to refine our data analytics capability to support voluntary compliance.

(f) Agree

(g) Disagree

We have approved Target Service Standards – these aspirational targets will be implemented by the Improving Services Program to assist with delivering quality experience.

It must be made clear that service standards are aspirational targets and are not a formal agreement between the ATO and the community or tax profession. Where the ATO does not meet its service standards, the ATO has relief provisions to support the community. Examples of these include waivers to penalties or extensions of lodgment dates for returns.

With regard to compensation, the community and the tax profession can, through the Compensation for Detriment caused by Defective Administration (CDDA scheme), seek compensation for situations where they incur a loss as a direct result of outages or systems failures.

(h) Existing Programme of Work

The ATO has already put in place an extensive programme to provide stability to our systems and has communicated this to the tax practitioner community. The ATO will continue to monitor its systems and communicate any impacts to the tax practitioner community.

The ATO has also been providing regular updates as to the progress of the private Beta testing of ATO Online for Tax and BAS agents and an indicative timeline for progressing to the public Beta.

(i) Disagree

The ATO only raises concerns when we have robust and properly tested data. The ATO will continue to consult (within legal boundaries) with the Tax Professional Associations and the profession on matters of concern and how to communicate them. It is not always appropriate to hold raising concerns which will alert the community until we are able to release the data.

CHAPTER 5 — TECHNOLOGY AND POLICY CHANGE

5.1 To holistically address the certain opportunities and challenges presented by emerging technologies, a policy response as well as administrative measures may be required. Submissions to this review have identified four main areas which are discussed below. The primary focus of the discussions below are on the impact on the administration of the taxation and superannuation systems, however, additional context is provided in terms of key interactions with other government systems.

A POLICY FRAMEWORK FOR DEALING WITH EMERGING TECHNOLOGIES

Stakeholder views

5.2 Stakeholders have acknowledged the rapid pace of technological advancements which have given rise to many changes including new work patterns such as the gig or sharing economy (Airbnb, Uber, Deliveroo and Airtasker to name a few), cryptocurrencies, online cross-border transactions and mobile ‘app’ developments. However, they believe that advice on the tax treatment of these developments needs to keep pace with the rate of change. For example, questions such as the status of persons operating on new technological platforms, how their transactions are characterised and how they should be taxed have all arisen.

5.3 Stakeholders believe that the ATO and the Government should have a systematic approach to monitor and respond to technological developments and innovation. They have noted examples, such as the tax treatment of Uber drivers and their earnings, where they believe the ATO could have acted more expeditiously and effectively.

Relevant materials

5.4 The ATO is made aware of emerging policy, law and administrative issues through various channels, including the day-to-day operations of its business lines, external stakeholders and taxpayers as well as the Treasury and other government agencies.

5.5 Once an idea is identified, responsibility for progressing it is allocated to an officer or a team within the relevant business line to formulate options for change and develop a workable proposal for advocacy.⁴⁴⁴ In doing so, that business line works collaboratively with the Policy, Analysis and Legislation (PAL) business line which provides advice and advocates for policy change.⁴⁴⁵ PAL collates the advocacy issues in the Advocacy Register which is maintained by one of its branches, Law and Policy Development (LAPD).⁴⁴⁶ PAL also works with the Treasury and other government agencies to effect policy and legislative change in relation to matters that pose a risk or require improvements to the tax and superannuation systems.

⁴⁴⁴ ATO, *ITD end to end process video, Video 1 – Idea* (Undated) [Internal ATO document]; ATO, *ITD end to end process video, Video 2 – Formulate* (Undated) [Internal ATO document].

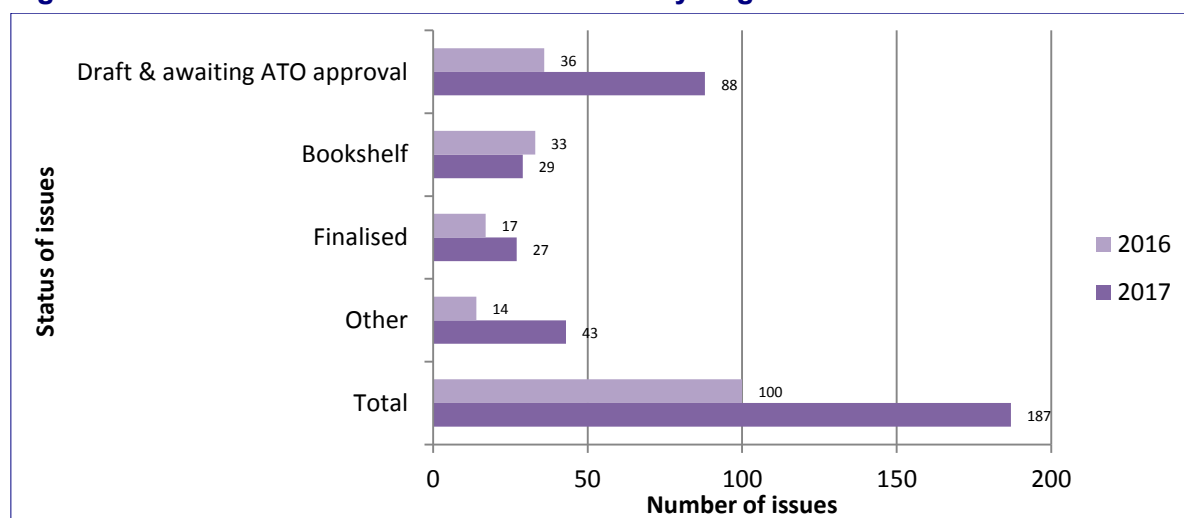
⁴⁴⁵ ATO, *Policy, Analysis & Legislation* (Undated) [Internal ATO document].

⁴⁴⁶ ATO, *How to advocate for policy or law change* (Undated) [Internal ATO document].

5.6 The LAPD branch works with the business line that identifies the issue to build a ‘compelling case’ for change, considering evidence from other jurisdictions as well as alignment with government agenda or whole-of-government priorities. The compelling case is set out in an advocacy alert, a two page document representing the ATO’s formal advice to the Treasury for change, which is provided to the Policy and Design Forum (PDF) for consideration.⁴⁴⁷ The PDF determines whether the matter should be brought to the Treasury’s attention. Issues which do not proceed to the Treasury are placed on the ‘bookshelf’, that is, they become a watching brief.⁴⁴⁸

5.7 Figure 5.1 below shows the status of the issues in the Advocacy Register as of May 2016 and March 2017.

Figure 5.1: Status of items on the ATO Advocacy Register



Source: IGT created from ATO data.

Note: 2016 figures are accurate as at May 2016 and 2017 figures are accurate as at 7 March 2017.

5.8 Figure 5.1 shows that, within a span of 10 months between May 2016 and March 2017, the total number of issues listed on the Advocacy Register almost doubled from 100 to 187, an increase of 87 per cent.⁴⁴⁹ There was an even greater increase of 144 per cent in the number of issues in the draft and awaiting ATO approval stage. However, there was only a 59 per cent increase in issues which have been finalised.⁴⁵⁰ Figure 5.1 also shows that the total number of issues placed on the ‘bookshelf’ for action at a later date decreased from 33 to 29.

5.9 Each of the advocacy issues is prioritised with a risk rating from low to moderate, significant, high, severe or catastrophic. The default treatment for severe and catastrophic issues is to provide an urgent intelligence feed, a policy action brief or a new policy proposal to the Treasury and include it in the ‘Top Tax Issues’ report for Government.⁴⁵¹ Figure 5.2 below sets out the priority ratings for the issues placed into the draft or awaiting ATO approval stages.

447 Above n 466.

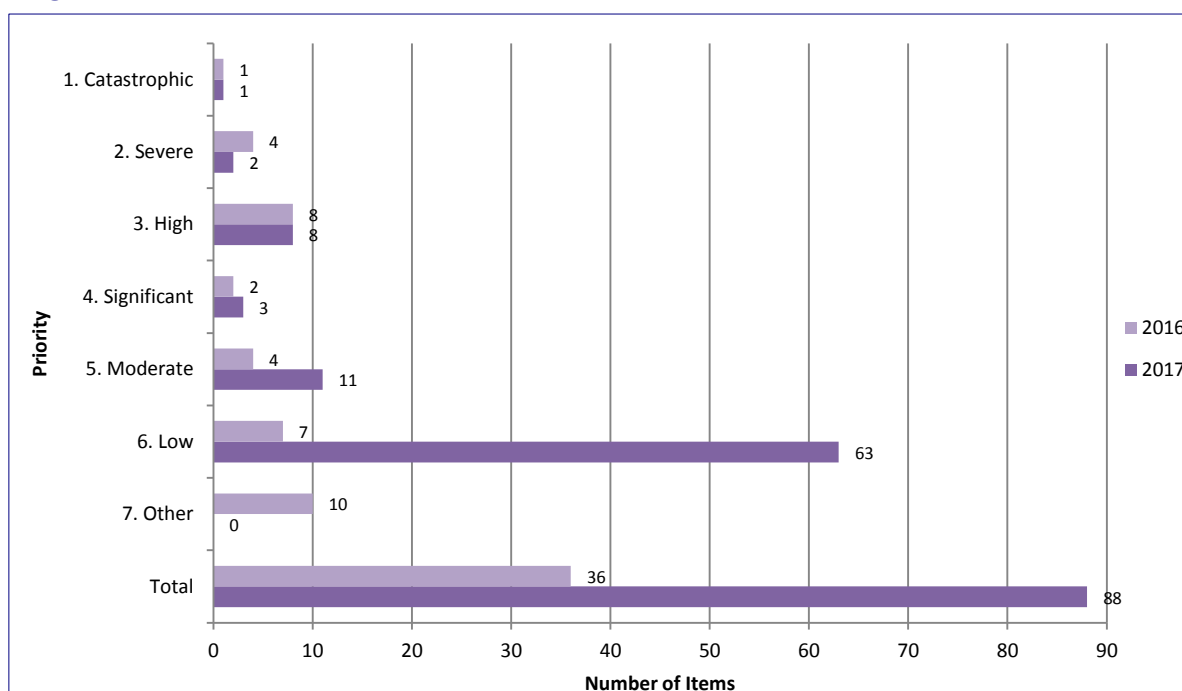
448 ATO, *Committee Charter* (2017) [Internal ATO document]; Above n 466.

449 ATO, *Advocacy Scan* (7 March 2017) [Internal ATO document]; ATO, *LAPD Advocacy Scan* (May 2016) [Internal ATO document].

450 Ibid.

451 ATO, *A framework for policy advocacy by the ATO* (May 2017) [Internal ATO document].

Figure 5.2: Priority of draft and awaiting approval issues on the ATO Advocacy Register



Source: IGT created from ATO data.

Note: 2016 figures are accurate as at May 2016 and 2017 figures are accurate as at 7 March 2017.

5.10 Figure 5.2 shows that the total number of severe issues has decreased from 4 in 2017 to 2 in 2016, whereas the total issues in the other stages have either stayed the same or increased in the 10 months between May 2016 and March 2017.⁴⁵²

5.11 In addition to advocacy work, the PDF also supports the Policy Design Committee (PDC) which was set up in December 2017 as part of the Enterprise Governance Model⁴⁵³ and chaired by a Second Commissioner. The purpose of the PDC is to develop well-designed policies and law simplification options to enable the ATO to effectively perform all of its functions.⁴⁵⁴ A key responsibility of the PDC is to oversee the stock of advocacy proposals and intelligence alerts sent to the Treasury on emerging issues.⁴⁵⁵

5.12 The ATO also engages with the Treasury through the Treasury and ATO Forum (TAF). One of the functions of the TAF is to identify opportunities for improving the system as well as prioritising policy and administrative issues that need to be addressed. Proposed solutions and recommendations on the direction of both agencies' work are also considered by the TAF.⁴⁵⁶

⁴⁵² Above n 449.

⁴⁵³ ATO, *Corporate Committee Services* (Undated) [Internal ATO document].

⁴⁵⁴ ATO, *ATO Enterprise Governance Model* (Undated) [Internal ATO document] p 2.

⁴⁵⁵ Ibid.

⁴⁵⁶ Above n 448.

5.13 An example of the ATO's response to an emerging technology is the guidance paper and draft tax rulings it issued on discrete aspects of its proposed tax treatment of Bitcoin and other crypto-currencies on 20 August 2014. Whilst the ATO's guidance paper and draft tax rulings provided 'certainty for the Australian community on the ATO's treatment of crypto-currencies within the current legislative framework',⁴⁵⁷ a significant amount of Bitcoin transactions had already occurred. The ATO did release more fulsome guidance on its proposed tax treatment of Bitcoin transactions in December 2017,⁴⁵⁸ by which time Bitcoin transactions had increased by almost 600 per cent.⁴⁵⁹

5.14 The need to support innovation and develop timely regulatory responses is a challenge facing all regulators, some of whom have developed different approaches. For example, ASIC has an innovation hub which assists new businesses to become familiar with ASIC's regulatory and compliance approach and to design a solution that integrates well with their business. It also assists ASIC to 'stay on top of laws that have become impractical or inappropriate as the sector moves forward'.⁴⁶⁰ ASIC has also launched a regulatory 'sandbox' which provides options for businesses to test new products or services without having to hold an AFS licence.⁴⁶¹ The sandbox is aimed at encouraging Fintech innovation and benefits ASIC by providing it 'with the opportunity to understand and develop the appropriate regulatory response for these new businesses and innovations'.⁴⁶²

IGT observations

5.15 As the economy becomes increasingly disrupted by technological advances and innovations, regulators or administrators need to be agile, innovative and responsive to remain effective and relevant. A conservative approach which is slow to react, risk averse and process based is no longer fit for purpose, if it ever was. Regulators will need to continuously collaborate with market participants to avoid producing outdated or ineffective policy advice that unnecessarily restricts or otherwise stifles innovation.⁴⁶³

5.16 It has been suggested that guidelines and standards are an appropriate alternative to regulation in a rapidly changing environment as they provide for a flexible framework that can offer clarity and certainty to market participants.⁴⁶⁴ An example is Australia's Fintech start-up 'sandbox' that promotes innovation by offering licence exemptions that enable start-ups to test the innovation in the real world and enables market insight to be drawn for the necessary regulatory responses. It may be worthwhile expanding the sandbox concept for the tax and superannuation systems to foster market innovation and provide the ATO with the opportunity to develop a regulatory response before the innovation is widely adopted.

457 ATO, *ATO delivers guidance on Bitcoin* (20 August 2014) <www.ato.gov.au>.

458 ATO, *Tax treatment of crypto-currencies in Australia – specifically bitcoin* (21 December 2017) <<https://www.ato.gov.au>>.

459 Blockchain, *Confirmed transactions per day* <<https://blockchain.info/charts/n-transactions?timespan=all>>.

460 ASIC, *Innovation hub* (7 November 2016) <<http://asic.gov.au>>.

461 ASIC, *Regulatory sandbox* (14 June 2017) <<http://asic.gov.au>>.

462 Above n 11, p 17.

463 Ibid, p 21.

464 Ibid, p 22.

5.17 It is pleasing that the ATO has existing structures and procedures to deal with new technologies and innovation once they have been identified. However, there does not appear to be an established whole-of-ATO framework for systematically monitoring and identifying issues that may warrant further consideration. In the absence of such a framework, it is difficult to ensure that all matters are identified and addressed on a timely basis.

5.18 Furthermore, there are a range of different forums that are involved in triaging and prioritising issues for further action. The IGT has been unable to determine the extent to which they share information and interact. For example, given that the PDF selects the issues that proceed to the Treasury, it is likely that the work of the PAL to triage issues that have been brought to its attention would play a substantial role. However, neither the PAL triage process guide nor the PDF Charter clarifies the interaction between the two. The lack of communication between these forums, and others mentioned earlier, may result in either duplication of work or the ATO overlooking some emerging issues. To maintain a robust governance process for identification and response, the IGT believes that the ATO should ensure that its system is cohesive and streamlined.

5.19 The IGT recognises that the Advocacy Register provides visibility of the issues being considered for policy or law change for the various business lines within the ATO. Figure 5.1 above shows there are significantly more advocacy issues being drafted than are being finalised. This may be due to resource constraints at the finalisation stage. It would be useful for the ATO to investigate this matter and reallocate resources as necessary.

RECOMMENDATION 5.1

The IGT recommends that the ATO review its current framework for monitoring and identifying new or emerging technologies or innovations to ensure that it is able to take prompt action to address any tax implications.

ATO RESPONSE

Disagree

The ATO has recently implemented a refreshed Enterprise Risk Management Framework. Mechanisms to monitor and identify emerging risk, including the technologies or innovations contemplated by this recommendation form part of this framework. While recognising that the ATO considers it has the right framework in place to monitor new or emerging technologies and innovations, work is continuing on how the framework is applied in practice to ensure the ATO takes prompt action to address the tax implications of these technologies and innovations.

INCREASED DATA ACCESS AND OPTIMISING AUTOMATION

Stakeholder views

5.20 Stakeholders have opined that in using emerging technologies to increase automation within the tax system, access to significantly more reliable data will be required. Such data will have to be provided by third parties, such as banks, whose compliance burden will correspondingly increase.

5.21 The benefits of availability of increased reliable data to the Government and its agencies, such as the ATO, include greater efficiencies and reduced costs. Taxpayers' compliance costs are also reduced through such initiatives as improved pre-filled returns.

5.22 Stakeholders have also expressed the view that there are limitations to the level of automation that can be achieved in the Australian tax system largely because of its complexity and features such as WRE deductions.

Relevant materials

Cost of increased data access

5.23 The cost of providing data to the ATO has previously been raised, notably in response to the 2013-14 Budget Measures to expand the ATO's data matching capabilities.⁴⁶⁵ In February 2014, the Government released a discussion paper which identified the information that would be of benefit to the ATO as well as the likely impact on the third parties who would provide that data. With respect to the latter, feedback was sought, noting that:

*... a key consideration in developing the proposed third party reporting regimes is minimising the compliance costs for entities that would need to report additional information to the ATO.*⁴⁶⁶

5.24 The discussion paper further recognised that such a regime involves a trade-off between the compliance benefit received by taxpayers and the compliance costs incurred by third parties. It suggested that compliance costs can be minimised in two ways. First, by only imposing reporting obligations on third parties who already collect the relevant information and, secondly, by integrating the reporting obligation into the natural business systems of those third parties.⁴⁶⁷

5.25 In response to the discussion paper, the Treasury received a number of submissions from local government as well as various stakeholders in the banking, software, financial services, stockbroking, property investment and hospitality industries.⁴⁶⁸ Among other things, those submissions discussed the costs involved in implementing new systems and process changes needed to comply with the type of information required under the proposed legislation. Brisbane City Council cited an example where they would have to provide TFNs or dates of birth to the ATO, noting that neither pieces of information were captured in its current systems or processes. The latter would need extensive changes to facilitate this requirement and further contact with taxpayers would also be necessary.⁴⁶⁹ Similarly, the Financial Services Council's (FSC) submission stated that implementation of changes to a third party's systems and processes would:

*... attract a significant cost as it was not foreseen that [the FSC] would be required to report on specific transactions through bulk reporting. Ongoing costs would continue to be significant as the information requested may be collected through multiple systems, requiring the reporting entities to develop new business processes.*⁴⁷⁰

465 Commonwealth, *Budget Measures*, Budget Paper No.2 2013-14 <www.budget.gov.au>.

466 The Treasury, *Improving tax compliance – enhanced third party reporting, pre-filling and data matching*, (2014) p 3.

467 Ibid, pp 6-7.

468 Ibid.

469 Brisbane City Council, Submission to The Treasury (Cth), *Improving tax compliance – enhanced third party reporting, pre-filling and data matching* (11 March 2014) p 3.

470 Financial Services Council, Submission to The Treasury (Cth), *Improving tax compliance – enhanced third party reporting, pre-filling and data matching* (11 March 2014) p 5.

5.26 The FSC further explained that third parties in the financial services industry do not hold accurate information on the taxable position of individual investors. Specifically, whilst the industry can alert the ATO to a Capital Gains Tax (CGT) event, it cannot provide a quantification of the gain or loss.⁴⁷¹

5.27 Submissions from the Australian Custodial Services Association and the Stockbrokers Association of Australia estimated the cost of system and process changes for their members to be \$5 to \$10 million and \$40 million, respectively.⁴⁷² A number of submissions also noted that even higher compliance costs would be incurred if the ATO required information to be provided more frequently than on an annual basis.⁴⁷³

Optimising automation

5.28 As noted earlier, a number of jurisdictions around the world have eliminated the need for their citizens to lodge income tax returns.⁴⁷⁴ Other jurisdictions have partially adopted such an approach. For example, in the UK, individuals with simple tax affairs are not required to lodge returns.⁴⁷⁵ Similarly, in New Zealand, most individuals who earn salary and wages need not lodge returns.⁴⁷⁶ In Singapore, the 'No-Filing Service' eliminated the need for 1.39 million taxpayers to lodge in 2015.⁴⁷⁷

5.29 In 2005, the ATO commenced a pilot to prefill limited data into *e-tax*,⁴⁷⁸ the ATO's self-service software at the time, which allowed taxpayers to lodge their income tax returns electronically. Since then, ATO prefilling has expanded to include information from third parties such as employers, banks, credit unions, share registries, health funds and government agencies as well as a taxpayer's previous tax activities, tax returns and information from the myDeductions app.⁴⁷⁹ As a result, over 80 million records were prefilled in the 2016 Tax Time and, as of January 2017, over 3.2 million individuals prepared their own tax return with the use of prefilled data.⁴⁸⁰ Prefilled data is also made available to tax practitioners to assist them in lodging income tax returns on behalf of their clients.

⁴⁷¹ Ibid, pp 3-5.

⁴⁷² Australian Custodial Services Association, Submission to The Treasury (Cth), *Improving tax compliance – enhanced third party reporting, pre-filling and data matching* (21 March 2014) p3; Stockbrokers Association of Australia, Submission to The Treasury (Cth), *Improving tax compliance – enhanced third party reporting, pre-filling and data matching* (11 March 2014) p 2.

⁴⁷³ Australian Bankers' Association, Submission to The Treasury (Cth), *Improving tax compliance – enhanced third party reporting, pre-filling and data matching*, 11 March 2014, p 1; Australian Custodial Services Association, Above n 472, p 5; Above n 469, p 3; Above n 470, p 5.

⁴⁷⁴ Examples discussed above include Russia, Estonia and Singapore. Elliot Wilson, 'Point of no return' (2016) 17 *EY Tax Insights* p 46; Above n 106, pp 37, 78; Above n 185.

⁴⁷⁵ HMRC, *Making tax easier: the end of the tax return*, (March 2015) p 3. <<https://www.gov.uk>>.

⁴⁷⁶ IRD, *Individual income tax*, (21 December 2010) <www.ird.govt.nz>.

⁴⁷⁷ Above n 106, p 37.

⁴⁷⁸ ATO, Submission to the Standing Committee on Economics, (Cth), *Inquiry into Tax Deductibility* (9 March 2017) p 11.

⁴⁷⁹ ATO, *Pre-filling your online tax return*, (6 July 2017) <<https://www.ato.gov.au>>.

⁴⁸⁰ Above n 478.

5.30 Whilst the level of information made available to taxpayers and tax practitioners through prefill is increasing, it is still widely believed that the complexity of the tax system is an obstacle to full automation. The 2009 Australia's Future Tax System review (AFTS Review) stated:

Under the current framework, there are significant difficulties in correctly quantifying work-related costs, in apportioning expenses between income-earning purposes and private purposes, and in defining and claiming the deductions. These complex arrangements constitute one of the impediments to further pre-filling of tax returns and, ultimately, removing the need to complete a tax return for a large number of employees.⁴⁸¹

5.31 The AFTS Review recommended a standard deduction for WREs and the cost of managing tax affairs or actual expenses could be claimed with substantiation if it is above a certain threshold.⁴⁸² The AFTS Review observed that in comparison to other jurisdictions, Australia provides generous allowances for WREs deductions. With the exception of Denmark which allows fully deductible WREs after a standard deduction is applied, most other OECD countries only allow deductions for a limited and prescribed set of expenses.⁴⁸³ For example, in the UK where simple tax returns are not required to be lodged, there are strict policies which prevent the deduction of many WREs as it must be incurred 'wholly, exclusively and necessarily in the performance of an employee's duties'.⁴⁸⁴ In New Zealand, tax reforms in the 1980s removed WRE deductions in favour of income tax reductions.⁴⁸⁵ The Australian Treasury has recently opined that the absence of WRE deductions in New Zealand has been a 'major driver of compliance [cost] savings'.⁴⁸⁶

5.32 On 11 May 2010, the then Treasurer announced that individuals will be able to claim a standard deduction for WREs and the cost of managing tax affairs. Subsequently on 30 September 2011, the Government released exposure draft legislation and explanatory material for public consultation, which provided a standard deduction of \$500 for 2012-13, increasing to \$1,000 for 2013-14 and later years. It stated that:

The \$500 standard deduction is expected to provide 4.6 million taxpayers a benefit financially and by having simpler tax affairs in 2012-13. In 2013-14 an estimated 6.4 million taxpayers are expected to be better off from the \$1,000 standard deduction.⁴⁸⁷

5.33 Legislation giving effect to the proposed standard deduction was not subsequently introduced in Parliament.

5.34 The concept of standard deductions was also considered in the 2015 *Re:think* Tax Discussion Paper. It suggested that taxpayers could have the option to 'tick a box' to claim a set standard deduction, such as \$500. However, the paper noted that this would come at a cost to revenue as people who currently do not have any work-related deductions would be able to make a deduction.⁴⁸⁸

481 Australian Government, *Australia's Future Tax System, Final Report, Part 2*, December 2009, Vol 1, p 55.

482 Ibid, p 57.

483 Above n 481, p 54.

484 Ibid.

485 House of Representatives Standing Committee on Economics, *Report on the inquiry into tax deductibility* (2017) p 36.

486 The Treasury, Submission to the Standing Committee on Economics, (Cth), *Inquiry into Tax Deductibility*, (9 March 2017) p 6.

487 Explanatory Materials to the Exposure Draft, *Standard deduction for the cost of work-related expenses and the cost of managing tax affairs* (2011), pp 2-3.

488 Australian Government, *Re:think Tax Discussion Paper* (March 2015) p 55.

5.35 The issue was most recently considered in 2017 by the Standing Committee on Economics in the report of its *Inquiry into Tax Deductibility*.⁴⁸⁹ The Committee stated that it did not support the proposal to introduce a standard WRE deduction without substantiation. It acknowledged that whilst the proposal will provide simplification, it would likely increase the total cost of WREs claimed which will negatively affect government revenue as taxpayers who did not otherwise claim deductions would do so.⁴⁹⁰

5.36 Table 5.1 below shows that of the 13,213,814 individuals who lodged their 2015 income tax returns by 31 October 2016, 65.3 per cent claimed a WRE.⁴⁹¹ This indicates that 4,589,145 individuals did not claim WREs in that year, representing a decrease in the number of taxpayers claiming WREs from the previous year.

Table 5.1: Percentage and amount of WREs claimed

	2014	2015
Number of returns lodged	13,456,360	13,213,814
Number of returns claiming WRE	8,835,108	8,624,669
Percentage of returns claiming WRE	65.7%	65.3%
Median amount of WRE claimed	\$935	\$1,040

Source: ATO Taxation statistics 2014-15.

Note: Data is accurate as at 31 October of the following year.

5.37 Despite the challenges posed by WREs, the ATO will be piloting push returns⁴⁹² during the 2018 Tax Time for selected individuals as part of its Digital Strategy.⁴⁹³ The ATO has identified 5,605 taxpayers who meet the relevant criteria to be part of the pilot.⁴⁹⁴

IGT observations

5.38 It is acknowledged that accurate and reliable data is critical to reaping the benefits of technology and automation. The IGT has previously noted that data which is required to be provided to the ATO by law yields more accurate and useful intelligence than data that is otherwise obtained through such means as a memorandum of understanding.⁴⁹⁵ The IGT has also noted that third parties bear significant compliance costs in providing such data.⁴⁹⁶ As noted above, the Government is aware of these costs and has consulted widely on these issues. The legislative design process specifically acknowledges the compliance costs and states that costs can be reduced by only imposing the obligation on entities that already collected the information in their ordinary course of business.⁴⁹⁷

489 Above n 485.

490 Ibid, p 58.

491 ATO, *Taxation statistics 2014-15* (11 January 2018) <<https://www.ato.gov.au>>; ATO, *Taxation statistics 2013-14* (11 January 2018) <<https://www.ato.gov.au>>.

492 A return fully completed by the ATO for a taxpayer.

493 ATO, *ATO Digital Strategy* (2016) p 7.

494 ATO, *Push assessment 2018 pilot for tax returns* (5 January 2017) [Internal ATO document] p 3.

495 IGT, *Review into the Australian Taxation Office's compliance approach to individual taxpayers – use of data matching* (2014) pp 30-33.

496 Ibid, p 9.

497 Explanatory Memorandum, House of Representatives, Tax and Superannuation Laws Amendment (2015 Measures No.5) Bill 2015, p 60.

5.39 In addition to the legislative intent to minimise costs incurred by third parties in the provision of data to the ATO, the IGT had observed that the ATO had acknowledged such costs and had a process for reimbursing certain expenses, such as those associated with extraction and formatting.⁴⁹⁸ The IGT was of the view that the ATO could also consider the benefits of subsidising third parties in changing their natural business systems to accommodate ATO data needs and a recommendation was made to that effect with which the ATO agreed.⁴⁹⁹ The IGT remains of the view that there would be benefit in the ATO considering such an approach as well as continuing to engage with third parties to forecast future data needs and determining what information may be obtained from natural business systems without requiring significant changes.

5.40 Ultimately, it is important to appreciate that as increasing amounts of reliable data are made available to the ATO, the purpose of a tax return as a means through which the ATO seeks to understand the taxpayer's position will be diminished. Effectively the lodgment of tax returns would become obsolete. The implications are significant for the ATO and tax professionals. However, given certain features and the complexity of the current system, the IGT does not believe that Australia has reached such a stage and is unlikely to achieve it in the short term without significant reform. Such reform would involve considering the machine-readability of our tax laws and examining features of it such as WRE deductions.

5.41 A number of prior considerations of the way forward with WRE deductions have not borne fruit. The most recent examination has revealed that there is currently little support for any major change such as introducing standard deductions because of the impact on government revenue. It is worthwhile noting that some administrative relief does exist for claims of \$300 or below where written evidence is not required to be kept.⁵⁰⁰

5.42 The concerns regarding impact on Government revenue, identified by the Standing Committee on Economics are borne out by the ATO's statistics. Based on the number of taxpayers who did not claimed WREs, if a standard deduction of \$500 was granted, there would be an additional cost of \$2,294,572,500. If the standard deduction was increased to \$1,000 then the additional cost would be \$4,589,145,000. The calculation is helpful in providing an indicative impact on the revenue which would take the form of reduced taxable income. However, it is important to take account of other considerations such as compliance cost savings for individuals and reduced administrative costs for the ATO. The IGT believes that further cost-benefit analysis would be beneficial in progressing the debate.

5.43 In relation to machine-readability, the CSIRO's innovation group, Data61, is currently 'building an open platform based on a machine-readable version of current laws, acts, policies and other regulatory documents'.⁵⁰¹ The goal is to make laws and regulation available in a digital, machine-readable format to enable DSPs to introduce their own compliance applications.⁵⁰² There may be benefits in the ATO and Treasury engaging with Data61 to further understand its progress in this regard and contribute to its work where possible.

498 Above n 495, p 9.

499 Ibid, p 43.

500 ATO, *Claiming deductions 2017* (25 May 2017) <<https://www.ato.gov.au>>.

501 CSIRO Data61, *A world of opportunities where laws & regulation become digital*, (undated) <<https://digital-legislation.net/>>.

502 Ibid.

RECOMMENDATION 5.2

The IGT recommends the:

- (a) *Government consider reform of the work-related expense deduction regime, having regard to prior reviews in this area, including the possibility of introducing standard deductions with a view to eliminating the need for most individuals to lodge income tax returns; and*
- (b) *ATO engage with:*
 - i. *third party data providers to maximise access to reliable information whilst minimising costs and disruption to their business and systems; and*
 - ii. *the CSIRO's Data61 group on the latter's work on machine-readability of tax laws.*

ATO RESPONSE**(a) Matter for Government****(b) (i) Existing Programme of Work**

The ATO already engages and works with third party data providers with this aim and will continue to do so.

(b) (ii) Agree

The Law Design and Policy area within the ATO has already undertaken some preliminary work for a proposed project to test and assess the feasibility of using artificial intelligence tools, underpinned by natural language processing techniques, to support the codification of tax law into machine-readable logic. The project team has engaged with the Digital Transformation Agency and Data61 to put together a comprehensive business plan.

WHOLE-OF-GOVERNMENT DIGITAL INNOVATION**Stakeholder views**

5.44 Stakeholders observed that the DTA provides broad guidance to agencies in seeking to modernise the way taxpayers interact with government through online services that are efficient and cost effective. However it does not direct the manner in which large agencies implement their digital transformation. As a result, stakeholders believe that agencies are adopting different platforms which lead to a range of compliance requirements. They believe that in order to achieve optimal outcomes, there needs to be a more coordinated and consistent approach.

Relevant materials

5.45 The DTA was set up in 2015 to assist government agencies and departments in embarking on their digital transformation journeys. In addition to leading transformation across the government, the DTA also plays a role in:⁵⁰³

- leading the digital transformation of government services;
- working in partnership with government agencies to improve how they buy and deliver digital services;
- improving the way government buys and uses technology;
- using agile methods to deliver and continuously improve services for users;
- helping to build digital skills capability across government;
- developing products and platforms for government agencies that can be reused;
- advising government about digital service delivery and shared platforms; and
- providing greater transparency to government on ICT projects, costs, risks and opportunities.

5.46 The DTA's vision of ensuring that it will be 'simple and fast to get things done with government through any channel'⁵⁰⁴ is underpinned by the Digital Transformation Agenda which focuses on changing the way in which government interacts with the community and is aimed at reforming policies that hinder transformation.⁵⁰⁵ As part of the Digital Transformation Agenda, the DTA will be delivering reusable digital platforms by mid-2018. The DTA explains that a digital platform is:⁵⁰⁶

... a system that multiple agencies can use to deliver services to users. By reusing and sharing digital platforms, agencies can reduce duplication of effort and assets. This approach will save money, improve the experience of government services and increase familiarity with government digital systems.

5.47 These platforms are designed for common, commodity services which will facilitate digital transformation within government agencies.⁵⁰⁷ One such platform is myGov for which the DTA is responsible for governance, strategy, policy, user experience, changes to the current service and onboarding of other government services.⁵⁰⁸ The DTA's Secure Cloud Strategy to encourage increased uptake of cloud technology and the previously mentioned Govpass, a simpler and more secure user identification platform, are two other projects currently being pursued by the DTA.⁵⁰⁹

503 Digital Transformation Agency (DTA), *What we do* (undated) <<https://www.dta.gov.au/what-we-do/>>.

504 DTA, *Digital transformation agenda* (undated) <<https://www.dta.gov.au/what-we-do/transformation-agenda/>>.

505 Ibid.

506 Digital Transformation Agency, *Corporate plan 2017-21* (undated) <<https://www.dta.gov.au/>>.

507 Above n 503.

508 DTA, *myGov* (undated) <<https://www.dta.gov.au/>>.

509 DTA, Communication with the IGT (16 January 2017).

5.48 The DTA has explained that its main focus is to work with government agencies to determine how the Government, as a whole, can work simpler, clearer and faster. The DTA's role is not to discourage the update or removal of an agency's technologies, but rather, to promote the different technologies that are available for agencies to use and to encourage the sharing and re-usability of platforms across agencies.

5.49 The DTA has also released a Digital Service Standard (the Standard) which includes 13 criteria that all government agencies are expected to meet for services designed or redesigned after 6 May 2016. To ensure that these standards are met, the DTA has advised that all new and redesigned services are assessed against the Standard. Amongst others, some of the criteria in the Standard include understanding user needs, making the service secure, building a service using common designs, style guides, open standards and common platforms, testing the service and encouraging users to choose the digital service.⁵¹⁰

5.50 The DTA also works with other government agencies in building and delivering online services by challenging the status quo and making improvements. The partnerships created can involve the provision of short-term specialist skills, support and training to long-term relationships in the development and delivery of new online services.⁵¹¹

5.51 The stakeholder concerns in relation to the limited role of the DTA are consistent with findings of the Senate Finance and Public References Committee (SFPRC).⁵¹² Amongst other things, the SFPRC has observed that:

There is a clear need for a whole-of-government vision and strategic plan for the digital transformation of government administration. The evidence [received by the SFPRC] is of departments and agencies in silos looking internally and focussing on their own approach to the digital delivery of their particular government service, where in many respects all are facing the same challenges.

*In the absence of any central vision, individual departments (and ministers) may end up pursuing projects that run counter to the aims of digital transformation.*⁵¹³

5.52 The SFPRC expressed concern with the limited role played by the DTA, noting that at the time of its creation, it was intended to be a powerful program management office that 'would track ICT and digital projects across the whole-of-government, stepping in to remediate where things are not working'⁵¹⁴ where in reality the SFPRC found that it played only a minor role in the case studies that were examined.⁵¹⁵

5.53 Consistent with the feedback received by the IGT from stakeholders, the SFPRC formed the view that:

*A cohesive and shared view, driven by a properly resourced and empowered department or agency, would serve to guide policy development and decision making by the bureaucracy and ministers alike.*⁵¹⁶

510 DTA, *Digital service standard* (10 May 2017) <<https://www.dta.gov.au/standard/>>.

511 DTA, *Partnerships* (undated) <<https://www.dta.gov.au/what-we-do/partnerships/>>.

512 Senate Finance and Public Administration References Committee, *Digital Delivery of Government Services* (2018).

513 Above n 512, p 5.

514 Ibid, p 4.

515 Ibid, p 4.

516 Ibid, p 6.

ATO's contributions to the whole-of-government digital transformation

5.54 The ATO has advised that it is working in partnership with the DTA and other government agencies to ensure that digital interactions with the community are simple, clear and fast. The ATO digital program includes a team that liaises with the DTA to ensure that its projects and services meet the Digital Service Standard and leverage linkages to and the efficiencies from other government agencies.⁵¹⁷ The ATO is also a member of the Digital Business Council (the Council) which works to deliver solutions to enable the digital exchange of information. The Council brings together representatives from key industry bodies, DSPs and all levels of government to achieve its initial focus on e-invoicing.⁵¹⁸ E-invoicing has been estimated to save the Australian economy \$7.8 billion annually,⁵¹⁹ and is an initiative which both the Australian and New Zealand Governments have committed to jointly pursue.⁵²⁰

5.55 The ATO has also advised that it contributes to whole-of-government digital transformation through initiatives such as the development of RAM or testing Govpass, which are aimed at simplifying taxpayer identification and authorisation when dealing with government agencies as a whole.⁵²¹

5.56 The ATO is also implementing STP. STP is a Government initiative announced by the Minister for Small Business in December 2014 to 'cut red tape for employers by simplifying tax and superannuation reporting obligations ...'.⁵²² It forms part of the Government's \$254.7 million investment in the Digital Transformation Agenda⁵²³ and enables DSPs to produce accounting software solutions that will allow employers to align their reporting obligations with their payroll processes to reduce the need for additional workflows.⁵²⁴ It also provides more timely data for the ATO which are, in turn, made available to taxpayers through myGov to assist them to stay abreast of their entitlements and lodge their income tax returns.⁵²⁵

IGT observations

5.57 The DTA was not established to assess whether an agency's current systems and platforms align with the Digital Transformation Agenda, nor is its role to make pronouncements on the adequacy of agency systems and require changes or upgrades to those systems. Rather, the DTA aims to explore how new and emerging technologies may be beneficially used by government, promote those technologies and encourage agencies to invest in reusable platforms.

517 ATO, *ATO Digital Services* (Undated) [internal ATO document].

518 Digital Business Council, *The Council*, (16 September 2016) <<http://digitalbusinesscouncil.com.au/council>>.

519 Digital Business Council, *Frequently asked questions* (undated) <<http://digitalbusinesscouncil.com.au/faqs/>>.

520 Jacinda Adern, Speech to the Australia-New Zealand Leadership Forum (2 March 2018) <<https://www.beehive.govt.nz>>.

521 ATO beta, *Introducing the Relationship and Authorisation Manager* (19 July 2016) <beta.ato.gov.au>; DTA, *Govpass* <www.dta.gov.au>.

522 The Treasury, 'Cutting red tape for employers through Single Touch Payroll' (Media Release, 28 December 2014).

523 The Treasury, 'Government moves to get Single Touch Payroll right' (Media Release, 10 June 2015).

524 ATO, *About Single Touch Payroll* (24 May 2018) <www.ato.gov.au>.

525 ATO, *What Single Touch Payroll means for employees* (2 July 2018).

5.58 The IGT acknowledges that a more consistent digital innovation approach across government may yield benefits for taxpayers through reduced compliance costs. However, it is also important to appreciate that it would not be entirely desirable to consolidate every government service into a single system or platform as this creates a risk of mass system failure if there are weaknesses that may be exploited. However, there may be opportunities for large agencies to take the lead in developing or implementing platforms that may be re-used or redeployed to other agencies which may reduce costs for government. In this regard, the ATO as one of the largest government agencies in Australia, should explore opportunities to lead the way with digital innovation where possible. As noted above, the ATO has already taken some steps to realise whole-of-government outcomes, including through collaborating with and assisting the DTA on certain projects.

5.59 While the IGT believes that there are a range of positive initiatives which have emerged from whole-of-government digital innovation, there may be further opportunities to reap the benefits of digitisation. Having regard to stakeholders' concerns and the SFPRC's views that there is no agency 'at the centre of government thinking on digital transformation',⁵²⁶ the IGT believes that there may be opportunities for further improvements to be realised if the DTA or another enduring agency were given greater responsibilities with respect to aligning the whole-of-government digital transformation.

RECOMMENDATION 5.3

The IGT recommends that the Government, in seeking to improve the administration of the tax system as well as public service delivery more broadly, consider whether the Digital Transformation Agency, or a similar agency, should adopt a more comprehensive role in driving the whole-of-government digital transformation.

ATO RESPONSE

Matter for Government

WHOLE-OF-GOVERNMENT CYBER SECURITY RISK MANAGEMENT

Stakeholder views

5.60 Given recent high profile data breaches and misuse of information as well as large-scale cyber security attacks, particularly in the USA, concerns about privacy and security are increasingly at the forefront of both government and private sector organisations. Stakeholders have expressed uncertainty as to how the Australian Government and, more specifically, the ATO are responding to these risks.

526 Above n 512, p 5.

Relevant materials

5.61 In recent years, there have been a number of high profile security incidents or ‘cyberattacks’ internationally, such as those on Yahoo and Equifax, a consumer credit reporting agency in the USA.⁵²⁷ Yahoo revealed that all of its three billion accounts were compromised in a data theft in 2013.⁵²⁸ Equifax’s cyberattack resulted in criminals gaining access to consumer information such as names, social security numbers, dates of birth, addresses, some drivers licence numbers and credit card numbers.⁵²⁹ The total number of consumers affected by the Yahoo and Equifax cyberattacks was 145.5 million.

5.62 Domestically, there have also been reports of government contractors being hacked and significant amounts of restricted information being accessed. The cost of cybercrime to the Australian economy is more than \$4.5 billion annually.⁵³⁰ The number of security incidents has risen sharply in recent years, with small businesses being the target of 43 per cent of all cybercrimes.⁵³¹ It has been reported that in 2016, 59 per cent of Australian organisations experienced a security breach on at least a monthly basis, double the amount reported in 2015.⁵³² Of particular importance, 60 per cent of small businesses who experienced a significant cyberattack went out of business within the following 6 months.⁵³³

5.63 The incidence of ransomware attacks, where the systems and data of individuals as well as organisations are held to ransom until a nominated sum of money is paid, has also increased with the consequences being severe and wide reaching. For example, within 48 hours of the WannaCry ransomware attack, more than 130,000 organisations in over 150 countries were compromised.⁵³⁴ It led to over 200,000 victims, over 300,000 infected computers and hundreds of millions of dollars in economic losses.⁵³⁵ The Petya ransomware attack had similar effects.⁵³⁶ In Australia, reports of such activity roughly doubled in 2016 compared to 2015.⁵³⁷ It has been reported that 22 per cent of small businesses that were attacked by ransomware had to immediately cease operations.⁵³⁸

-
- 527 “Cyberattacks” refers to a ‘deliberate act through cyberspace to manipulate, disrupt, deny, degrade or destroy computers or networks, or the information resident on them, with the effect of seriously compromising national security, stability or economic prosperity’. See: Australian Cyber Security Centre (ACSC), *Australian Cyber Security Centre 2015 Threat Report* (2015), p 8.
- 528 Jonathan Stempel and Jim Finkle ‘Yahoo says all three billion accounts hacked in 2013 data theft’ (4 October 2017) *Reuters* <<https://www.reuters.com>>.
- 529 Equifax, Consumer Notice (2017) <<https://equifaxsecurity2017.com/consumer-notice/>>.
- 530 Acumen Insurance, *Cybercrime costs the Australian economy over \$4.5 billion annually* (14 March 2017) <acumeninsurance.com.au>.
- 531 Small business trends, *43% of Cyber Attacks Target Small Business* (21 June 2016) <smallbiztrends.com/2016/04/cyber-attacks-target-small-business.html>.
- 532 Telstra Corporation Limited (2017), *Telstra Cyber Security Report 2017* <<https://telstraglobal.com/au/>>; Above n 26, p 20.
- 533 Dr Jane LeClair, Statement given before the United States House of Representatives Committee on Small Business, (22 April 2015) <docs.house.gov>.
- 534 Foley & Lardner LLP, ‘Global Ransomware Attack: Preparation is Key,’ (1 May 2017) *Journal of Health Care Compliance* <www.foley.com>.
- 535 Department of the Prime Minister and Cabinet, *Silent Dangers – Launch of the Australian Cyber Security Centre’s 2017 Threat Report* (10 October 2017).
- 536 Paul Smith, ‘Businesses warned to act as Petya ransomware hits Australian Offices,’ *Australian Financial Review* (28 June 2017) <www.afr.com.au>.
- 537 Department of Prime Minister and Cabinet, *Australia’s Cyber Security Strategy – First Annual Update* (2017) <<https://cybersecuritystrategy.pmc.gov.au>>.
- 538 Osterman Research, *Second Annual State of Ransomware Report: Survey Results for Australia* (July 2017) p 1 <go.malwarebytes.com>.

Government initiatives and policies

5.64 In response to the increasing cyber security risks within Australia, the Government established the Australian Cyber Security Centre (ACSC) in 2014 within the Australian Signals Directorate. The ACSC is effectively bringing together the existing cyber security capabilities across Defence, the Attorney-General's Department, Australian Security Intelligence Organisation, the Australian Federal Police and the Australian Criminal Intelligence Commission.⁵³⁹

5.65 The ACSC aims to ensure Australian networks are robust and difficult to compromise. It has stated that:

*... the current hype associated with the proliferation of 'threat intelligence' can be a distraction from what really matters: the motivation to allocate effort and resources to improving your cyber security posture by implementing technical controls. If you are relying on threat intelligence to respond to threats already discovered, it is too late for you and your organisation.*⁵⁴⁰

5.66 The ACSC engages and shares information with the private sector, state and territory governments, academia and international partners to ensure the strongest approach to cyber threats possible.⁵⁴¹ It is currently in the process of considering a number of models for partnering with industry which will facilitate improved collaboration.⁵⁴²

5.67 In 2016, the Government launched Australia's Cyber Security Strategy (CSS). At the time, the Prime Minister stated that the CSS:

*... will play a key role in securing Australia in the 21st Century. It also represents a significant investment in cyber security. The Government will invest more than \$230 million over four years to enhance Australia's cyber security capability and deliver new initiatives.*⁵⁴³

5.68 The CSS establishes five themes of action for Australia's cyber security through to 2020, each of which is supported by actions that the Government is undertaking, such as the establishment of Joint Cyber Security Centres,⁵⁴⁴ or will take in future.⁵⁴⁵

5.69 The CSS is overseen by the Department of Prime Minister and Cabinet (PM&C), with input from the Department of Foreign Affairs and Trade for international engagement and the ACSC to coordinate operations.⁵⁴⁶

539 ACSC, *About the Australian Cyber Security Centre* (undated) <<https://www.acsc.gov.au/about.html>>.

540 ACSC, *Australian Cyber Security Centre 2016 Threat Report*, (2016) p 2.

541 Above n 539.

542 ACSC, *Frequently-Asked Questions* (Undated) <<https://www.acsc.gov.au/faqs.html>>.

543 Department of Prime Minister and Cabinet, *Australia's Cyber Security Strategy* (2016) p 3.

544 CERT Australia, *Joint Cyber Security Centres* <<https://www.cert.gov.au/jcsc>>.

545 Above n 543, p 5.

546 Ibid, p 24.

5.70 Furthermore, in 2017 a review into Australia's intelligence community was completed. It found 'that the complexity of the geostrategic environment, the pace of technological change, and the broadening scope of security and intelligence challenges facing Australia meant its agencies were increasingly stretched and their efforts to meet these challenges needed to be better integrated.'⁵⁴⁷ Consistent with the major recommendation of this review, the Government will establish an Office of National Intelligence (ONI) to take the lead on national intelligence issues, including those related to cyber security matters.⁵⁴⁸ The ONI is expected to commence operation in 2018.⁵⁴⁹

5.71 In 2018, the Government also took steps to ensure that where Australians may be exposed to data breaches or other cyber crimes, they are appropriately notified and provided with advice on how to proactively protect their information to minimise adverse impacts. This was sought to be achieved through the enactment of the Notifiable Data Breaches scheme which came into effect on 22 February 2018.⁵⁵⁰

ATO measures

5.72 The ATO holds one of the largest repositories of sensitive personal and financial information in Australia. Accordingly, it is required to have extensive controls to guard against cyber security attacks and data breaches. The ATO has provided the IGT with a significant amount of information regarding processes it has in place to identify and deal with cyber security threats. To avoid compromising the integrity of these systems, not all of this information can be disclosed in this report. However, the brief summary below provides some insights into the measures that the ATO has taken to mitigate risks of cyberattacks and data breaches.

5.73 Broadly, the ATO adopts a multi-layered approach to ensure the security of its systems and the data that it holds. These approaches include protocols at the individual taxpayer, organisation and government-wide levels and include:⁵⁵¹

- requiring all taxpayers to pass a proof of record ownership process before they have access to ATO systems and data;
- conformance with the Australian Government Information Security Manual (AGISM)⁵⁵² issued by the Australian Signals Directorate, the Attorney-General's Department's Protective Security Policy Framework⁵⁵³ and the DTA's Trusted Digital Identity Framework⁵⁵⁴;
- utilising a wide range of analytical tools to identify fraudulent behaviour and share data and intelligence with other government agencies;

547 Office of National Assessments (ONA), *ONI* <www.ona.gov.au>; Department of Prime Minister and Cabinet, *Independent Intelligence Review* (2017) <www.pmc.gov.au>.

548 ONA, *Ibid.*

549 *Ibid.*

550 Office of the Australian Information Commissioner, *Notifiable Data Breaches Scheme* <www.oaic.gov.au>.

551 ATO, Submission 15 – Supplementary Submission to the Government Department, *Inquiry into Taxpayer Engagement with the Tax System* November 2017, p 8. ATO, Communication with the IGT (8 December 2017).

552 Australian Signals Directorate, *Australian Government Information Security Manual* <acsc.gov.au/infosec/ism>.

553 Attorney-General's Department, *Protective Security Policy Framework* (3 July 2018) <www.protectivesecurity.gov.au>.

554 DTA, *Digital Identity* <www.dta.gov.au>.

- developing, maintaining and regulating adherence to a suite of internal policies, guidelines and baselines;
- conducting risk assessments and supporting corporate strategic programs to operate within defined enterprise risk tolerance thresholds; and
- undertaking monitoring activities to survey the digital environment.

5.74 There are a range of different areas within the ATO that have responsibility for monitoring and responding to cyber security risks. These include:

- the ATO Information and Cyber Security (ICS) which is responsible for safeguarding the ATO's ICT assets and electronic information from cyber security risks;⁵⁵⁵
- the Cyber Security Operations Centre (within the ICS) which monitors unauthorised activities designed to infiltrate the ATO's systems⁵⁵⁶ and works collaboratively with the ATO's Smarter Data business line and the Application Service Management Monitoring Enterprise Operations Centre to identify breaches in specific tax areas such as superannuation and refund integrity;⁵⁵⁷
- the Cyber Security Stakeholder Group which facilitates discussion between participants from key tax professional associations, government and industry specific bodies focusing on the reduction and management of risks posed by inappropriate access to tax information and identity theft;⁵⁵⁸ and
- the Enterprise Service Management Centre as the overarching area responsible for oversight of all security incidents and ongoing improvement of systems security, which maintains an end-to-end Security Incident Response Plan⁵⁵⁹ that aims to restore normal service operations as quickly as possible, minimising any adverse impact on ATO business operations.⁵⁶⁰

5.75 Notwithstanding the above centralised approach, the ATO has advised that each area within the ATO is also responsible for monitoring and responding to cyber security incidents as part of their daily activities. An early intervention approach seems to have been adopted which involves educating staff and ensuring appropriate internal policies and guidelines are in place.⁵⁶¹ The ATO's Corporate Plan also states that it is continuing to work with the DTA and other relevant government agencies to improve the management of authentication and authorisation to strengthen the security of digital services.⁵⁶²

555 ATO, *Information & Cyber Security Management* (March 2017); The ICS comprises seven areas: Information Management, Security Engagement Policy and Advice, Security Strategy Risk and Assurance, Forensics and Investigations, Vulnerability Management and Research, Cyber Security Operations Centre and Branch Operations & Projects.

556 Commissioner of Taxation, *Annual Report 2016-17* (2017) p 79.

557 ATO, Communication to IGT (8 December 2017).

558 ATO, *Australian Taxation Office Supplementary Submission – Inquiry into Taxpayer Engagement with the Tax System* (November 2017).

559 ATO, *ATO Incident Management Process and Procedures* (2015) [Internal ATO document].

560 ATO, *ATO End-to-End Security Incident Response Plan* (2015) [Internal ATO document].

561 ATO, Communication with the IGT (8 December 2017).

562 ATO, *ATO Corporate Plan 2016-17* (2017) page 10.

5.76 In addition to implementing processes to protect its own systems, the ATO also takes steps to inform and assist tax practitioners on cyber security issues through initiatives such as its Open Forums. For example, during the forum hosted by the ATO on 20 March 2018, the ATO discussed cybercrime, highlighting the importance of having sufficient controls in place to protect the security and confidentiality of client records, recommending certain preventative measures be taken to protect client records, providing an overview of the new Notifiable Data Breaches scheme and recommending steps to take if a data breach is suspected.⁵⁶³

5.77 As noted earlier, the ATO is required to comply with the mandatory requirements set out in the AGISM in undertaking its cyber security work. In 2014, the ANAO undertook a performance audit to examine the implementation of mandatory strategies in the AGISM by several government agencies, including the ATO.⁵⁶⁴ The ANAO determined that the ATO, as with other government agencies examined, was not compliant with the top four mitigation strategies which are:

- application whitelisting;
- patching applications;
- patching operating systems; and
- minimising administrative privileges.⁵⁶⁵

5.78 In a subsequent submission to the Joint Committee of Public Accounts and Audit (JCPAA), the ATO provided assurance that it would be compliant with the top four mitigation strategies during 2017.⁵⁶⁶ On 15 March 2017, the ANAO published an independent follow-up performance audit on three government agencies including the ATO which examined the top four mitigation strategies as well as cyber resilience, the ability to continue delivering services despite adverse cyber events.⁵⁶⁷ The follow-up review found that ‘of the three entities only the Department of Human Services was compliant with the top four mitigation strategies’⁵⁶⁸. The ATO was compliant with two of these strategies.⁵⁶⁹

5.79 In relation to cyber resilience⁵⁷⁰ the ANAO found:

*The Australian Taxation Office ... had security controls that provided a reasonable level of protection from breaches and unauthorised disclosures of information from internal sources. However, there was insufficient protection against cyber attacks from external sources. As a result, they remain in the ‘internally resilient’ zone.*⁵⁷¹

563 ATO, Communication with the IGT (27 March 2018).

564 ANAO, ANAO Report No. 50 of 2013-2014 *Cyber Attacks: Securing Agencies’ ICT Systems*, (2014), p 42.

565 Ibid, p 19.

566 ATO, Submission to the Joint Committee of Public Accounts and Audit, *Cybersecurity Compliance – Inquiry into Auditor General’s report 42 (2016-17)* (27 April 2017) p 6.

567 ANAO, ANAO Report No.42 2016-17 *Cybersecurity Follow-up Audit*, (2017), p 8.

568 Ibid.

569 Ibid, p 10.

570 The ability to continue providing services while deterring and responding to cyber attacks. See: Parliament of Australia, C. *Summary of ANAO Audit Report*, (undated) <<https://www.aph.gov.au>>.

571 Above n 567, p 10.

5.80 The ANAO made two recommendations with which the ATO agreed.⁵⁷² In its response to the ANAO report, the ATO stated:

The ATO is committed to meeting community expectations for data security and privacy protection and to providing improved services.

The review recognised the ATO's strong general information communications technology controls and we will continue to build upon these and continuously improve our overall cyber security governance arrangements.

While there has been improvement in the overall maturity of the security posture of the ATO, the review clearly highlighted further improvements that are required. The ATO has committed additional resource and focus to address deficiencies and reach a greater level of cyber resilience. Immediate improvements have already been put in place with a commitment to reach cyber resilience status in 2017.⁵⁷³

5.81 While the ATO has publicly stated that it is bolstering the resilience of its IT systems following the systems outages in 2016 and 2017,⁵⁷⁴ there is no public information as to whether it had attained the cyber resilient status to which it committed in the above response.

IGT observations

5.82 The need to guard against cyberattacks has become almost as important as protecting against physical threats. To a large extent, the responsibility has fallen upon the Government and in the tax sphere, the ATO, to mitigate any risk and ensure adequate protection against cyberattacks and data breaches.

5.83 As explained above, the Government has established key whole-of-government processes, agencies and systems aimed at educating and protecting the community. There are also moves to ensure that Australia becomes an industry leader in the provision of cyber security products through specific government funding.⁵⁷⁵

5.84 On the ATO's part, the IGT recognises that in recent years and following reviews such as those undertaken by the ANAO, the ATO has invested a significant amount of resources in the development and maintenance of its tools to both monitor and respond to cyberattacks and data breaches. The information provided to the IGT has been extensive and there are a myriad of internal ATO areas, forums and groups tasked with different aspects of this work.

5.85 Whilst the materials point to a detailed network of expertise and activity, it was not immediately apparent to the IGT how each of these areas interact with each other, share intelligence and deliver a unified and coordinated response. Accordingly, there is a risk that cyber security threats may go undetected, the response to them delayed or work and effort duplicated in addressing those threats.

572 Ibid, p 11.

573 Ibid, p 12.

574 ATO, *Bolstering the ATO's IT resilience* (20 February 2018) <www.ato.gov.au>.

575 Above n 543, p 4.

5.86 It would be beneficial for the ATO to undertake a review of its current arrangements to consolidate and streamline the various areas responsible for monitoring and responding to cyber threats. Such a review should seek to ensure that each area is clear on its mission and intra-agency communication and intelligence sharing channels are firmly established.

5.87 It is also important to acknowledge that, like other threats, there is a whole of community responsibility in being alert to and reporting potential instances of cyber security risks or threats. Due to the unique access that tax practitioners have to sensitive information, it is vital that they also take active steps to ensure that their own identity and confidential information as well as those of their clients are protected. As a whole, they have taken significant steps in this regard. However, there is recognition that more can be done to understand cyber security and implement mitigation strategies as part of their standard operating procedures,⁵⁷⁶ given their role as trusted advisers to the community.

5.88 The ATO could also use its expertise and experience in this area to assist tax professionals, particularly those operating within smaller practices, as well as taxpayers to guard against cyber security risks.

5.89 In conducting this review, it has become clear to the IGT that some community concerns about the preparedness of the ATO to combat cyber security attacks and data breaches arise from a lack of appreciation about the measures that the ATO has already taken. In this regard, the IGT believes that the ATO could do more to broadly communicate to the public about how it monitors and treats cyber security risks to instil confidence in its management of these risks.

RECOMMENDATION 5.4

The IGT recommends that the ATO:

- (a) review its current internal arrangements for identifying and responding to cyber security risks to ensure efficiency, effectiveness and, in particular, that responsible areas within the ATO are clear on their remit, communicate and share intelligence appropriately and deliver a unified and coordinated response in addressing the risks;*
- (b) assist tax professionals, particularly those operating in small practices, to develop and maintain their own cyber security risk management and response plans; and*
- (c) broadly communicate and inform the public about the measures it has implemented to mitigate risks of cyberattacks and data breaches.*

ATO RESPONSE

(a) Disagree

The ATO has Cyber Security practices in place to support identification and protection against security threats as well as detection of and response to threats, incidents and breaches to ensure effective management of Cyber risk to our information and infrastructure. Our practices ensure we continually monitor and adapt to the ever-changing nature of the digital environment, take a coordinated approach to our business continuity

⁵⁷⁶ Sridhar Ramamoorti, Barry Epstein, Dorsey L Baskin and James Wanserski, 'Managing Risk at the Speed of Change – A New Risk Vocabulary and a Call to the Profession' (1 June 2017) *The CPA Journal* 6-9, p 7.

and shape and deliver ongoing enhancements to further strengthen our security capabilities.

(b) Disagree

The ATO will continue to provide information and guidance but ultimate responsibility sits with the practitioner to ensure they have sufficient safe guards in their own practice systems.

(c) Existing Programme of Work

The ATO already promotes cyber security regularly and through many channels but will investigate other avenues to inform the public on how they can protect their data as well as report concerns and breaches.

CHAPTER 6 — THE FUTURE OF PROFESSIONAL REGULATION

6.1 The changes discussed in the foregoing chapters, including reaping the benefits and addressing the challenges, will undoubtedly have an impact on the structure and make-up of the tax profession and its associated regulatory framework. Accordingly, this chapter explores the:

- current regulatory system and the consistency of approach to registered tax professionals;
- education standards for registration; and
- expansion of the tax profession and options in considering a future regulatory framework.

THE CURRENT REGULATORY SYSTEM

6.2 Prior to the introduction of the TPB, six independent state-based statutory bodies called Tax Agents' Boards were responsible for regulating the tax agent industry. BAS agents were not included in the tax agent services regime at the time and there were concerns that an uneven playing field had been created.⁵⁷⁷

6.3 A new legislative regime, the TASA, was implemented in 2009 to establish a single national regulatory body. The key benefits included:⁵⁷⁸

- the inclusion of those entities and individuals associated with providing BAS services for a fee, providing nationally consistent regulation;
- the registration and regulation of tax agents and BAS agents, including an enforceable Code of Professional Conduct (Code) to provide clarification and certainty regarding what is expected of them;
- the introduction of a broader range of administrative sanctions to promote compliance with the Code; and
- the replacement of criminal penalties with civil penalties and injunctions to deter inappropriate behaviour.

6.4 The TASA regime created the TPB which consists of the Chair and Board members, who are appointed by the Minister, a Secretary and administrative staff who are seconded from the ATO. Board members are appointed on a part-time basis and are responsible for making decisions that relate to statutory functions. Appointment is generally determined by the expertise possessed by each individual member.⁵⁷⁹

577 Senator the Hon Nick Sherry, *Tax agent regulation for a modern economy – launch of the national tax practitioners board* (Address to the Institute of Chartered Accountants Australia, Sydney, 23 October 2009).

578 Explanatory Memorandum to the Tax Agent Services Bill 2008, pp 4-5.

579 TPB, *Tax Practitioners Board Corporate Plan 2017-18* (August 2017) p 3.

6.5 The TPB is the national independent body responsible for the registration and regulation of tax agents, BAS agents and, since 1 July 2014, TFAs. The TPB also has general administration of the TASA, including the Code.⁵⁸⁰

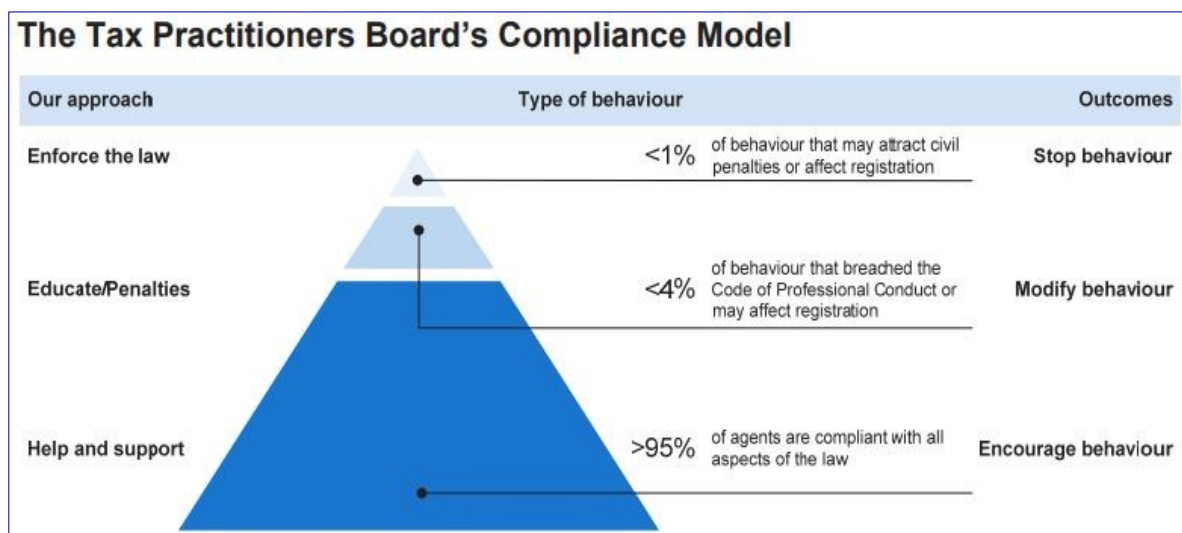
6.6 The role of the TPB is to ensure that:

*... every entity that should be registered is registered, and to ensure the services provided by registered tax practitioners to the public are provided in accordance with appropriate standards of professional and ethical conduct.*⁵⁸¹

6.7 In addition to the above, the TPB may issue binding written guidelines for the interpretation and application of topics such as the Code.

6.8 The TPB applies a general compliance model in relation to its work with the vast majority of its efforts devoted to helping and supporting registered practitioners to comply with their legal obligations, as set out in Figure 6.1 below. The remainder of the work relates to education and the imposition of penalties or other civil sanctions to modify or stop non-compliant behaviour.

Figure 6.1: The TPB's Compliance Model



Source: TPB Annual Report, 2011-12.

6.9 In 2013, the ANAO undertook a review of the work of the TPB and broadly concluded that it 'has established an appropriate governance framework, introduced an effective national registration system for tax practitioners, and is developing a regulatory assurance function to ensure compliance with the provisions of the TAS Act'.⁵⁸² The ANAO made three recommendations, namely: to develop and report performance against key performance indicators, provide a consistent compliance framework and develop a compliance intelligence capability.⁵⁸³ The TPB agreed with these recommendations.

⁵⁸⁰ Tax Agent Services Act 2009, ss 1 – 15.

⁵⁸¹ TPB, Tax Practitioners Board Corporate Plan 2017-18 (August 2017) p 5.

⁵⁸² ANAO, The Regulation of Tax Practitioners by the Tax Practitioners Board (2013) p 16.

⁵⁸³ Above n 582, p 28.

6.10 Stakeholder views on the role of the TPB and their attendant concerns are discussed in detail below under appropriate headings. In summary their concerns are the:

- inconsistency with which the TPB regulates different professions under its remit and the need for professionals working in tax to adhere to a multitude of different regulatory regimes;
- different education requirements between professionals who are permitted to provide tax advice and services; and
- expanding nature of the tax profession and the need for broader regulation of new entrants into the system.

CONSISTENT REGULATORY APPROACH TO REGISTERED TAX PROFESSIONALS

Stakeholder views

6.11 Stakeholders have raised concern that regulation under the TASA regime is not consistent amongst registered tax and BAS agents and TFAs. In particular, they believe that, in practice, the Code does not apply with equal force to everyone, as it was designed to regulate tax and BAS agents and does not recognise the differing services and business models of TFAs.

6.12 Stakeholders have also commented on the high costs associated with maintaining a registration under the TASA, which may include professional membership fees, indemnity insurance, CPD costs as well as renewal fees. Some stakeholders have estimated these costs to be in excess of \$10,000, which can be prohibitive for those operating smaller practices and which may, in turn, drive up the costs of advice to consumers.

6.13 Furthermore, where they seek to provide additional services, they would need to comply with the requirements of a range of different regulatory bodies including additional fees. For example, TFAs have noted that they are required to be compliant with requirements of seven different regulators: TPB, ASIC, Australian Transaction Reports and Analysis Centre (AUSTRAC), Office of the Australian Information Commissioner (OAIC), APRA, ATO and the new Financial Adviser Standards and Ethics Authority (FASEA). They believe there is also a heightened risk of inadvertent non-compliance.

6.14 Another key area of concern raised regarding inconsistencies in the regulatory approach relate to the differing education standards and registration pathways available to tax and BAS agents when compared to TFAs. This issue is explored in detail in the next section.

Relevant materials

6.15 The *Tax Agent Services Amendment (Tax (Financial) Advisers) Regulation 2014* (Regulation) gave effect to the *Tax Laws Amendment (2013 Measures No.3) Act 2013*

(Amendment Act) which also amended the TASA and brought TFAs within the TASA regime. The Regulation prescribed requirements for TFAs and also set out a number of other changes to align TFAs with tax and BAS agents. These changes included:⁵⁸⁴

- replacing references to 'tax agent or BAS agent' with 'tax agent, BAS agent or tax (financial) adviser' throughout the TASA;
- inserting a definition of registered TFAs and tax (financial) advice service;
- allowing the TPB to recognise TFA associations; and
- requiring the listing of TFAs on the TPB's register of registered and deregistered tax practitioners.

6.16 The TPB's regulation of TFAs commenced progressively from 1 July 2014 over the course of three years. From 1 January 2016, TFAs who provide tax (financial) advice services for a fee or other reward needed to be registered with the TPB.⁵⁸⁵ The TPB has released guidance on its website to support the transition including those relating to professional indemnity insurance, continuing professional education and registration of TFAs during the transitional period. The TPB continues to work in consultation with the TFAs to implement other work items that have been raised.

6.17 TFAs who are registered with the TPB are bounded by the Code. Relevantly, the text of the Code applies consistently to all tax and BAS agents as well as TFAs. The TPB's website provides three different links to the Code depending on the type of registration of the practitioner. The only difference across the three different links appears to be links to different TPB Explanatory Notes and a block of text specific to TFAs stating:⁵⁸⁶

For tax (financial) advisers, many of the obligations under the Code are similar to the obligations of Australian financial services (AFS) licensees and their representatives under the Corporations Act 2001. For more information refer to Code comparison with the Corporations Act 2001.

6.18 The TPB has released a variety of information on its website to assist TFAs in understanding their obligations under the Code as well as a number of information sheets aimed at assisting TFAs to meet their obligations under the TASA.⁵⁸⁷ Furthermore, on 13 July 2017 the TPB updated Explanatory Paper TPB (EP) 01/2010 *Code of Professional Conduct* to incorporate reference to TFAs.⁵⁸⁸

584 Explanatory Statement – Issued by authority of the Minister for Finance, for the Treasurer (25 June 2014 - 9 July 2014) <<https://treasury.gov.au>>.

585 ASIC, *Financial advisers providing tax advice* (2014) <<http://www.asic.gov.au>>.

586 TPB, *Code of Professional Conduct* (30 January 2018) <<https://www.tpb.gov.au>>.

587 See for example: TPB, *2016 Information Sheets* <www.tpb.gov.au>; TPB, *2017 Information Sheets* <www.tpb.gov.au>; TPB(I) 27/2016: Code of Professional Conduct - Acting lawfully in the best interests of clients for tax (financial) advisers; TPB(I) 28/2016: Code of Professional Conduct - Reasonable care to ascertain a client's state of affairs for tax (financial) advisers; TPB (I) 29/2016 Code of Professional Conduct – Reasonable care to ensure taxation laws are applied correctly for tax (financial) advisers (13 October 2016); TPB (I) 30/2016 Code of Professional Conduct – Having adequate arrangements for managing conflicts of interest for TFAs (13 October 2016); TPB(I) 32/2017: Code of Professional Conduct - Confidentiality of client information for tax (financial) advisers.

588 TPB, Explanatory Paper TPB (EP) 01/2010 *Code of Professional Conduct* <<https://www.tpb.gov.au>>.

6.19 In respect of stakeholder concerns about the various regulatory requirements and agencies with which tax practitioners and TFAs have to comply, it is noted that their obligations are largely similar. The only difference is that TFAs will also need to comply with FASEA requirements. FASEA was established on 13 June 2017 under the *Corporations Act 2001*. Its role is to establish the education, training and ethical standards for financial advisers, including approving degrees or higher equivalent qualifications, determining the requirements for the professional year and setting the Code of Ethics.⁵⁸⁹

6.20 On the issue of costs associated with maintaining a registration under the TASA, while it is not possible to say with absolute certainty the costs that any particular practice or practitioner would incur, the TPB does not believe that \$10,000 cited by some stakeholders is reflective of the current costs. Specifically, it has informed the IGT that current application and renewal costs for tax agents, BAS agents and TFAs are \$675, \$135 and \$540, respectively, every three years.⁵⁹⁰ In addition, the TPB acknowledges that professional indemnity insurance costs of approximately \$800 for tax agents and \$350 for BAS agents. It has stated that the insurance for TFAs is more difficult to estimate as it includes coverage for liability arising from non-tax services.⁵⁹¹

6.21 Beyond the above costs, the TPB has asserted that any other expenses, including those relating to CPD, professional association membership or differentiated software or computer systems costs, while necessary to maintain a professional practice, are beyond its control and that it has sought to minimise costs where possible through providing free access to open forums, webinars and other events which contribute to a practitioner's CPD requirements.⁵⁹²

IGT observations

6.22 The introduction of any new element into an existing legislative regime is likely to create a level of anxiety and concern. The introduction of TFAs into the TPB's jurisdiction is no exception. The IGT recognises and commends the TPB for actively working and engaging with TFAs to provide them with a range of guidance material to transition them into the TASA and assist them to become compliant with the Code.

6.23 Given the persistent concerns of practitioners falling under the TPB's remit, however, the IGT believes that there may be benefits in the TPB undertaking research to determine if its policies and procedures are comprehensive and appropriately differentiate registered tax and BAS agents as well as TFAs. Such research could also determine whether there are inconsistencies in the regulation of tax and BAS agents and TFAs and how these inconsistencies may be remedied. In particular, the research could focus on whether the TASA regime sufficiently caters for the difference between the services and business models of TFAs as compared with those of tax and BAS agents. Where the TPB is unable to take any remedial action, its findings could be shared with the Government for legislative action in appropriate cases.

589 The Treasury, *Financial Adviser Standards and Ethics Authority Limited (FASEA)* (undated) <<http://treasury.gov.au>>.

590 See for example: TPB, *Registering as an individual tax agent* <<https://www.tpb.gov.au>>; TPB, *Registering as an individual BAS agent* <<https://www.tpb.gov.au/register-individual-bas-agent>>; TPB, *Registering as an individual tax (financial) adviser* <<https://www.tpb.gov.au>>.

591 TPB, Communication with the IGT (24 August 2018).

592 TPB, Communication with the IGT (24 August 2018).

6.24 The IGT acknowledges the concerns regarding costs for practitioners of maintaining a practice including those relating to regulatory compliance, especially those operating as small businesses. It is important to appreciate, however, that many of these costs are not as a result of TPB or TASA requirements and would therefore not be addressed through regulatory changes alone. The issue is challenging given the specific nature of the obligations imposed by the regulatory regimes and the role those agencies perform in administering them. However, it is important to recognise the impact of current regulatory regimes on small business and commence discussions to identify ways in which they could be minimised. The IGT is of the view that such issues should be addressed when considering the regulation of the tax profession of the future – the latter is explored in the final section of this chapter.

RECOMMENDATION 6.1

The IGT recommends that the TPB, in consultation with recognised professional associations, undertake research to determine if its policies and procedures appropriately cater for all tax professionals within its jurisdiction, including tax (financial) advisers.

TPB RESPONSE

The TPB agrees with recommendation 6.1.

In particular, the TPB notes that we will continue to work closely with all stakeholders, including recognised professional associations, to determine if our policies and guidance appropriately cater for all tax professionals.

In the first instance, the TPB will engage with the recognised professional associations, through the TPB's formal consultation mechanisms, being the consultative forums. These forums establish an ongoing consultative arrangement with a dedicated group of representatives from TPB recognised professional associations, and other key stakeholders representing the interests of tax practitioners. The forums provide an opportunity to directly engage with the Board of the TPB and facilitate an effective dialogue, to gain a mutual understanding of issues and generally act as a consultative advisory group to facilitate the TPB achieving its overall objective and purposes.

EDUCATION STANDARDS

6.25 A professional seeking registration with the TPB must meet minimum education and professional standards. This section explores those standards and the role of the TPB in setting them and complements the earlier discussion in Chapter 4 regarding the future capability needs of professionals working in tax.

Stakeholder views

6.26 Stakeholders have raised concern about the education standards between the various categories or groups of tax professionals within the TASA regime. Certain stakeholder groups contend that the tax education requirements for TFAs to provide tax advice are lower than for tax and BAS agents whereas the latter cannot provide financial advice unless they fulfil the same requirements as TFAs. Others have raised inconsistencies in the education requirements of certain professionals across different legislative regimes. For example, in the case of TFAs, the *Corporations Act 2001* requires that they be degree

qualified⁵⁹³ whereas the TASA regime has a range of different pathways for registration including lower thresholds such as diploma qualifications.⁵⁹⁴

Relevant materials

Tax agents and BAS agents

6.27 To become registered, tax agents must possess certain qualifications and experience requirements set out in the Tax Agent Services Regulations 2009 (TASR). There are presently seven avenues to register with the TPB as a tax agent, six of which are set out in Figure 6.2 and are dependent on the qualifications and experience attained.

Figure 6.2: Qualification and experience requirements to register as a tax agent⁵⁹⁵

	Primary qualification	Board approved courses			Relevant experience
		Australian taxation law	Commercial law	Basic accountancy principles	
201 Tertiary qualifications in accountancy	Degree or post-graduate award	✓	✓	✗	12 months in past 5 years
202 Tertiary qualifications in another discipline	Degree or post-graduate award	May be required	May be required	May be required	12 months in past 5 years
203 Diploma or higher award in accountancy	Diploma or higher award	✓	✓	✗	2 years in past 5 years
204 Tertiary qualifications in law	Academic qualifications to be an Australian legal practitioner	✓	✗	✓	12 months in past 5 years
205 Work experience	✗	✓	✓	✓	8 years in past 10 years
206 Membership of a professional association	Voting member of a recognised tax agent association	✗	✗	✗	8 years in past 10 years

Source: TPB.

6.28 It should be noted that the seventh avenue for registration is a special rule within the TASA that applies to an individual who was registered as a tax agent or as a nominee prior to both 1 November 1988 and 1 March 2010.⁵⁹⁶ Individuals who meet these criteria are

⁵⁹³ *Corporations Act 2001*, Div 8, s 921B(2)(a).

⁵⁹⁴ *Tax Agent Services Regulations 2009*, Part 3 Div 1.

⁵⁹⁵ TPB, *Qualifications and experience for tax agents* (26 June 2017) <<https://www.tpb.gov.au>>.

⁵⁹⁶ *Tax Agent Services Act 2009*, s 4(a)(i)-(ii).

eligible for registration even if the Board is not satisfied that they meet the requirements prescribed in the TASR.⁵⁹⁷

6.29 The pathways to registration for BAS agents are set out in Figure 6.3.

Figure 6.3: Qualification and experience requirements to register as a BAS agent⁵⁹⁸

	Primary qualification	Board approved course GST/BAS taxation principles	Voting member of a recognised BAS or tax agent association	Relevant Experience
101 Tertiary qualifications in accountancy	At least Certificate IV Financial Services in bookkeeping or accounting	✓	✗	1,400 hours in past 4 years
102 Membership of a professional association	At least Certificate IV Financial Services in bookkeeping or accounting	✓	✓	1,000 hours in past 4 years

Source: TPB.

6.30 As noted in Figure 6.3 above, there are fewer and less onerous pathways for registration as a BAS agent when compared to those for tax agents. However, it is evident from the two diagrams above that all but one of the pathways will require the practitioner to hold certain educational qualifications.⁵⁹⁹ The reduced requirements are reflective of the more limited services provided by BAS agents.

6.31 In Australia, many tax and BAS agents are members of recognised professional bodies and associations such as CPA Australia, IPA, the Tax Institute, the Institute of Certified Bookkeepers and CAANZ. The TASA recognises this by providing a pathway for registration through membership with recognised professional associations. Professional associations can be accredited by the TPB if they meet the requirements set out in the TASR. Their accreditation can be maintained by continuing to satisfy these requirements.⁶⁰⁰

6.32 Members of recognised professional bodies represent the majority of tax agents in Australia and as such are actively represented in advocating for matters relating to the profession such as their regulation.⁶⁰¹ Of the 30,368 individuals who are registered as tax agents, 25,850 have indicated, on the TPB Public Register, that they are a member of one or more professional associations (with 4,180 of these agents relying on their voting membership for registration with the TPB).⁶⁰² Aside from advocacy support, recognised

⁵⁹⁷ *Tax Agent Services Act 2009*, s 4(a)(i)-(ii).

⁵⁹⁸ TPB, *Qualifications and experience for BAS agents* (26 June 2017) <<https://www.tpb.gov.au>>.

⁵⁹⁹ James Guthrie, Roger Burritt and Elaine Evans, *Challenges for Accounting Pathways in Australia in 2012: An Introduction* in Elaine Evans, Roger Burritt and James Guthrie, *Emerging Pathways for the Next Generation of Accountants* (2012) 1, 9.

⁶⁰⁰ TPB, *Recognised professional associations* (11 January 2017) <www.tpb.gov.au>.

⁶⁰¹ Jeanette Van Akkeren and Julie-Anne Tarr, 'Regulation, Compliance and the Australian Forensic Accounting Profession' Vol 6:3 (2014) *Journal of Forensic & Investigative Accounting*, p 4.

⁶⁰² TPB, *Communication with the IGT* (24 August 2018).

professional bodies are also responsible for providing education, training and technical support to their members.⁶⁰³

6.33 Members of CPA Australia, IPA and CAANZ are bound by ethical, technical and professional standards as set out by the Accounting Professional and Ethical Standards Board in *Australia's Code of Ethics for Professional Accountants*.⁶⁰⁴ Relevantly, not all tax and BAS agents are members of professional associations and are, therefore, not governed by a professional code of conduct other than the Code under the TASA regime. All tax professionals are also subject to criminal or civil penalties for making knowingly false statements⁶⁰⁵ under other legislation including tax laws.

Tax Financial Advisers

6.34 The explanatory memorandum to the *Corporations Amendment (Professional Standards of Financial Advisers) Bill 2016* explains that there were widespread concerns with the education and training requirements for financial advisers. This was partially attributable to recent instances of inappropriate financial advice negatively impacting consumer confidence in the industry.⁶⁰⁶

6.35 In March 2015, the Government released a consultation paper and called for submissions on ways to improve the professional standards of TFAs. The then Assistant Treasurer noted that previous reports which examined the professional standards in the financial services industry:⁶⁰⁷

... make clear that the current regulatory arrangements are no longer sufficient to ensure high quality consumer outcomes and to maintain public confidence in the industry. It is now time to put in place an enduring framework that raises the professional, ethical and education standards of advisers.

6.36 On 20 March 2018, the FASEA released its draft guidance on education pathways for existing TFAs. To comply with the new statutory requirements, FASEA has determined five education pathways which are based on the current qualifications of TFAs. These are outlined Table 6.1 below.

603 CPA Australia, *About us* <www.cpaaustralia.com.au/about-us>.

604 Accounting Professional & Ethical Standards Board, *APESB at a Glance* <www.apesb.org.au>.

605 Michael Walpole and David Salter, Regulation of tax agents in Australia (November 2014) Vol 12:2 *eJournal of Tax Research*, 335, p 337.

606 The Parliamentary Joint Committee on Corporations and Financial Services (19 December 2014) and the Financial System Inquiry (20 October 2015).

607 Ibid; Explanatory Memorandum to the Corporations Amendment (Professional Standards of Financial Advisers) Bill 2016, para 1.12.

Table 6.1: Draft statutory requirements for TFAs to meet before 1 January 2024⁶⁰⁸

An Existing Adviser who does not have a degree ([Australian Qualifications Framework] AQF7) or above qualification	Graduate Diploma AQF 8 OR Other Approved Qualifications (Degree or Masters – AQF7 and above)	For Graduate Diploma - 8 courses, including courses in: <ul style="list-style-type: none"> • Corporations Act (emphasis on Chapter 7 - Financial services and markets) • The FASEA Code of Ethics • Behavioural Finance: Client and consumer behaviour, engagement and decision making
An Existing Adviser who has a degree (AQF 7 or above) but it is not in a RELATED field of study	Graduate Diploma AQF8	Made up of 8 courses, including courses in: <ul style="list-style-type: none"> • Corporations Act (emphasis on Chapter 7 - Financial services and markets) • The FASEA Code of Ethics • Behavioural Finance: Client and consumer behaviour, engagement and decision making
An Existing Adviser who has a degree (AQF 7 or above) and it is in a RELATED field of study	Bridging Course AQF 8	Made up of 3 courses, including courses in: <ul style="list-style-type: none"> • Corporations Act (emphasis on Chapter 7 - Financial services and markets) • The FASEA Code of Ethics • Behavioural Finance: Client and consumer behaviour, engagement and decision making
An Existing Adviser who has a degree and a post graduate qualification in a RELATED field of study	Bridging Course (single subject) AQF 8	Made up of 1 course, The FASEA Code of Ethics
An Existing Adviser who has an approved FPEC qualification	Bridging Course (single subject) AQF 8	Made up of 1 course: <ul style="list-style-type: none"> • The FASEA Code of Ethics • The requirement to undertake this single unit of study is an addition to the 14 December 2017 proposal, and reflects the importance of education in the FASEA Code of Ethics for all relevant providers.

608 The Hon Kelly O'Dwyer, 'New Educational Standards for Financial Advisers Released for comment' (Media release, 20 March 2018) <<http://kmo.ministers.treasury.gov.au>>.

6.37 In addition to the above qualifications, a TFA would also need to follow one of four pathways, set out in Figure 6.4, to register with the TPB.

Figure 6.4: Qualification and experience requirements to register as a TFA:⁶⁰⁹

	Primary qualification	Board approved courses		Relevant experience
		Australian taxation law	Commercial law	
301 Tertiary qualifications	Degree or post-graduate award in a relevant discipline	✓	✓	Equivalent of 12 months in the past 5 years
302 Diploma or higher award	Diploma or higher award in a relevant discipline	✓	✓	Equivalent of 18 months in the past 5 years
303 Work experience	✗	✓	✓	Equivalent of 3 years in the past 5 years
304 Membership of professional association	Voting member of a recognised tax (financial) adviser or tax agent association	✗	✗	Equivalent of 6 years in the past 8 years

Source: TPB.

6.38 In contrast to the above pathways for registration, the requirements to obtain an AFS licence with ASIC to enable the provision of financial advice are more onerous. Businesses providing financial services seek AFS licences rather than individuals. AFS licensees must comply with a range of obligations, including their operational competence.⁶¹⁰ Such competence is measured by reference to the capabilities of 'Responsible Managers' and may include university degrees, relevant knowledge assessed by ASIC, meeting industry standards set by APRA or by way of submission to ASIC on one other basis.⁶¹¹ It is noted that the experience requirements range between 3 to 5 years and there is no option to demonstrate competence by way of voting membership in a professional association.

IGT observations

6.39 Education standards are an important element of any profession. Where there are different standards of education within a particular profession or regime, those affected justifiably feel that an uneven playing field has been created. Reaching consensus on such issues is undoubtedly difficult. A balance needs to be struck between consumer protection

⁶⁰⁹ TPB, *Qualifications and experience for tax (financial) advisers* (1 July 2017) <<https://www.tpb.gov.au>>.

⁶¹⁰ ASIC, *Your AFS licence obligations explained* (23 March 2016) <<http://asic.gov.au>>.

⁶¹¹ ASIC, *Regulatory Guide 105 Licencing: Organisational competence* (December 2016) <<http://download.asic.gov.au>>.

and not imposing requirements on professionals that are unduly onerous. Those requirements also need to be consistently applied to all within that profession.

6.40 As discussed in the earlier chapters, there are significant changes ahead as a result of technological advancements impacting the tax profession. The education needs of tax professionals have to be considered in light of these changes. Whilst the existing requirements for tax, law and accounting qualifications have been sufficient to date in a general sense, it is likely that future tax practitioners would also need other skillsets including those in fields of STEM as well as the ability to interact and engage through a range of electronic and digital platforms.

6.41 At present, it does not appear that the education requirements of the TASA regime are subject to consistent periodic review and update, although there have been some calls for such an approach.⁶¹² The IGT believes that it would be useful for the TPB to establish a framework for periodically engaging with practitioners, professional associations, tertiary institutions, other education providers and the ATO to assess whether existing requirements are adequate and if not, how they would be addressed. The IGT believes that flowing from such reviews, the TPB could either take action to address any findings, where that action is within its purview, or alternatively to present findings to the Government and request legislative change. The frequency of such reviews could also be determined by the TPB and the stakeholders jointly.

6.42 An ancillary suggestion that has been made to the IGT is to increase flexibility within the regime for the introduction of further differentiated levels of registration or specialisation. Such an approach is already adopted in the legal profession⁶¹³ and in the membership and accreditation of accounting professional bodies. To some extent, the TASA already permits the TPB to register individuals on a limited basis by imposing conditions on the scope of services that may be provided having regard to the individual's qualifications and experience.⁶¹⁴ For example, a conveyancing professional may be registered to provide tax agent services with respect to specific capital gains tax matters only.⁶¹⁵ However, notwithstanding such flexibility, legislative change was required to formally bring TFAs within the TASA regime. Accordingly, a question remains as to whether the TASA is sufficiently flexible.

RECOMMENDATION 6.2

The IGT recommends that the TPB:

- (a) *periodically review the suitability of the educational requirements of the Tax Agent Services Regulations 2009 and its own related guidance with input from practitioners, professional associations, tertiary institutions and the ATO and act upon any findings including requesting the Government to consider legislative change where necessary; and*
- (b) *consider whether the TASA regime provides sufficient flexibility to manage the range of professionals who may offer tax services and present its findings to the Government.*

612 Craig Farrow, *Pathways for Chartered Accountants in the 21st Century* in Elaine Evans, Roger Burritt and James Guthrie, *Emerging Pathways for the New Generation of Accountants* (June 2012) 35-45, p 36.

613 The Law Society of NSW, *Your Practising Certificate* <www.lawsociety.com.au>.

614 TPB, *Imposing Conditions* <www.tpb.gov.au>; TPB, *Conditions of Registration – Tax Agents* <<https://www.tpb.gov.au>>.

615 TPB, *Conditions of Registration – Tax Agents* <<https://www.tpb.gov.au>>; *Income Tax Assessment Act 1997*, Pts 3-1 and 3-3.

TPB RESPONSE

The TPB agrees with recommendation 6.2(a) and (b).

In relation to recommendation 6.2(a), the TPB will continue to work closely with a variety of educational providers, not just tertiary institutions as well as other regulators of education providers (Tertiary Education Quality and Standards Agency and Australian Skills Quality Authority), to ensure the suitability of the educational requirements in the tax agent services regime, as prescribed by the *Tax Agent Services Regulations 2009*.

In relation to recommendation 6.2(b), the TPB will continue to review whether the tax agent services regime is sufficiently flexible to manage the range of professionals who may offer tax services.

In relation to recommendations 6.2(a) and (b), the TPB notes that these recommendations may also be appropriately addressed as part of a potential legislative review by Government.

EXPANSION OF THE TAX PROFESSION

Stakeholder views

6.43 Stakeholders have expressed that given the likely increase in the types of professionals working in the taxation and superannuation systems in the future, it is important to consider what constitutes a 'tax professional'. Some stakeholders have advocated for a broader definition which seeks to ensure that professionals such as data analysts, DSPs and tax educators are captured as well as traditional tax professionals such as bookkeepers, accountants and lawyers, including ATO personnel. Some have gone even further, suggesting that sections of the judiciary and other external decision makers, who deal with tax matters, should be included. Other stakeholders, however, advocated for a narrower, more traditional definition.

6.44 The notion of including DSPs within a broader definition of tax professionals was interesting as some of the proponents were software providers. In support of such a notion, reference was made to the rapid advancement of technologies, the fundamental role that tax software plays in a practitioner's service delivery to their clients and the increase in support provided by the DSPs. Opponents to the inclusion expressed concern that it may be opening the profession to unqualified persons, despite the acknowledgment that some DSPs employed registered tax professionals to provide advice during the software development process.

Relevant materials

6.45 Statistics provided by the TPB, set out in Table 6.2, indicate that the number of registrations for tax agents has steadily increased between 2010-11 and 2017-18. Over the same period, the numbers of registered BAS agents have remained relatively stable with only minor fluctuations.

Table 6.2: Total numbers of registered tax practitioners

Financial Year	Registered Tax Agents	Registered BAS Agents	Tax (Financial) Advisers	Total registrations
2010-11	37,435	16,990	-	54,425
2011-12	38,100	14,247	-	52,347
2012-13	39,080	16,270	-	55,350
2013-14	39,606	15,333	-	54,939
2014-15	40,593	14,936	16,329	71,858
2015-16	41,227	14,715	19,494	75,436
2016-17	41,532	15,235	21,826	78,593
2017-18	42,561	15,638	19,550	77,749

Source: TPB.

Note: The TPB has explained that during the initial period, before TFAs were wholly brought under the TASA regime, an entity could be automatically registered as a TFA by simply notifying the TPB of that intention pursuant to *Tax Laws Amendment (2013 Measures No 3) Act 2013*, s 49. However, upon expiry of that initial registration, TFAs wishing to renew their registration would need to satisfy the standard qualification and experience requirements (for individuals) or the sufficient number requirement (for partnerships and companies) of the TASA regime. As a result, the TPB indicated that a number of TFAs, who had notified to become registered, did not renew their registrations, leading to a decrease in the overall TFA population in 2017-18.

6.46 As is evident from the above table, the inclusion of TFAs within the TPB's regulatory framework has resulted in an increase in the number of practitioners brought under its jurisdiction. As the TPB has noted in its 2018-19 Corporate Plan:

*The inclusion of tax (financial) advisers into the TPB's regulatory framework will continue to have implications for the TPB's resourcing given this has increased the registered practitioner population by approximately 38%. As the processes for the registration and renewal of registration of tax (financial) advisers become more streamlined, our priority will shift to ensure that those registered are compliant with their obligations under the TASA.*⁶¹⁶

6.47 The ATO has acknowledged that tax practitioners 'are intermediaries, conduits and influencers of behaviour, providing expert advice to clients to meet their obligations'.⁶¹⁷ It is also increasingly important to acknowledge the important role that new intermediaries such as software providers and data analysts play within the tax profession. For example, in 2016 the OECD acknowledged the changing role of tax intermediaries and the increasingly important role played by new entrants such as DSPs.⁶¹⁸ The OECD has suggested that new service providers could also be extended to include:

*... suppliers of cash registers and point-of-sale systems, software vendors and providers of online services offering invoicing, payment and accounting solutions. In addition, business partners such as banks, telecom operators and other firms that have an indirect impact on tax services need to be taken into account as well.*⁶¹⁹

616 TPB, *Corporate Plan 2018-19* (August 2017) p 5.

617 ATO, *Working with the tax profession* (5 April 2017) <<https://www.ato.gov.au>>.

618 Above n 73, p 18.

619 Ibid, pp 18-19.

6.48 Additionally, academics have also commented that the meaning of the term ‘tax professional’ has evolved over time and that within academic literature, the term is now used interchangeably with other players such as tax preparers, paid preparers and other tax intermediaries.⁶²⁰

6.49 The ATO has stated that it is currently working with the profession to consider the impact of change in the tax industry.⁶²¹ A key development for the ATO in this space is the formation of the Tax Profession Future State Working Group (TPFSWG) which is designed to bring together tax professionals, professional associations, the TPB and the ATO. The Group is co-chaired by the Deputy Commissioner of Tax Practitioner, Lodgment Strategy and Compliance Support and an industry representative. The focus of the TPFSWG is to reach a level of consensus on what the future of the tax profession will look like and to ensure that tax professionals and the ATO have the capabilities, skills and systems to be well prepared for the future.

6.50 The TPB also works with tax professionals and their representative bodies through two quarterly forums, the Consultative and Financial Adviser Forums. The membership of these forums include the Chair together with another member of the Board, TPB staff (including the Secretary) as well as representatives from all TPB-recognised professional associations and other stakeholders such as the ATO.⁶²² The Forums:

*... establish ongoing consultative arrangements with a dedicated group of representatives from TPB recognised professional associations, and other key stakeholders representing the interests of tax practitioners. The forums provide an opportunity to directly engage with the Board of the TPB and facilitate an effective dialogue, to gain a mutual understanding of issues and generally act as a consultative advisory group to facilitate the TPB achieving its overall objective and purposes.*⁶²³

6.51 Whilst the range of professionals whose work touches on tax or have tax implications may be endless, two specific groups have been identified by the ATO for further consideration. These are namely DSPs and data analysts.

6.52 On 19 October 2016, the Commissioner highlighted the key role played by DSPs, stating that ‘software providers are critical to our success and to modern tax administration’.⁶²⁴ Further, on 19 March 2017, at the Tax Institute’s 30th National Convention the Commissioner stated that, in the future, the ATO’s ‘partnership with DSPs is going to be of growing importance’.⁶²⁵

6.53 The significant role played by DSPs in the current tax environment is also recognised by the TPB whose Corporate Plan 2017-18 states that although DSPs can facilitate and support tax practitioners, they are increasingly providing automated or ‘smart-solutions’ to clients that once used traditional tax practitioner services. In light of these developments, the TPB expects the traditional tax practitioner community to evolve

620 Jane Frecknall-Hughes and Margaret McKerchar, Historical perspectives on the emergence of the tax profession: Australia and the UK (2013) 28 *Australian Tax Forum* 275- 288, p 276.

621 ATO, *Tax Profession Future State Group* (23 February 2018) <<https://www.ato.gov.au>>.

622 TPB, *Communication with the IGT* (24 August 2018).

623 TPB, *Charter for the Tax Practitioners Board Consultative Forums* (9 August 2017), internal TPB document.

624 ATO, *Digital Service Providers Internal Communication Strategy 2017* (2017) [Internal ATO document].

625 ATO, *The evolving relationship with software developers* (19 July 2016) [Internal ATO Document].

with the DSP community, 'providing added value to their clients and engaging with the technological developments'.⁶²⁶

6.54 A broad interpretation of the term 'software providers' includes 'entities that develop, write and sell software licences for direct user hosted application or otherwise provide software related systems and services as a complete package'.⁶²⁷ DSPs provide services and products for the ATO to assist businesses and individuals to meet their tax and superannuation obligations. Since April 2017, in light of the increased use of DSPs and to better reflect the evolving tax environment, the ATO has moved away from use of the term 'software providers' to use of the term 'digital service providers'.

6.55 The ATO has established an internal Digital Partnership Office (DPO) which includes the Software Industry Partnership Office (SIPO). The DPO serves as the first point of call for DSPs wanting to interact with the ATO and partners with software providers to design digital solutions to improve the Australian tax system. It also provides services such as webinars about current projects and digital services and sharing research and intelligence.⁶²⁸

6.56 In October 2015, the DPO published tax software demographics demonstrating that there were approximately 1,528 software publishing businesses in Australia and the amount of in-house DSPs was unknown.⁶²⁹ A research report published by the SIPO in April 2016 recommended that the ATO continue to monitor statistics of DSP trends.⁶³⁰

6.57 Unlike tax agents, BAS agents and TFAs, DSPs (and payroll service providers) are not presently governed or regulated by the TPB. However, if DSPs provide a tax agent service, which includes a BAS agent service, they are required to register with the TPB as a tax or BAS agent.⁶³¹ In July 2015, the TPB released an information sheet to 'assist software providers who provide tax related software systems to understand the operation and impact of the tax agent services regime'.⁶³² Importantly, this information sheet provides examples of circumstances where DSPs may need to register as a tax or BAS agent, including when:⁶³³

- a client outsources their payroll and accounts work to a DSP;
- a DSP configures and customises a software system to deliver a specific tax outcome for their client;
- a DSP offers a help desk which provides customised advice to assist their client to meet a specific tax outcome; and
- a DSP offers written tax related advice to their client that is specific to the client's circumstances.

626 Above n 616, p 6.

627 TPB, TPB(I) 09/2011 Software providers and the Tax Agent Services Act 2009 <www.tpb.gov.au>.

628 ATO, *Digital Partnership Office* <<https://softwaredevelopers.ato.gov.au>>.

629 ATO, *Tax Software Developer Demographics* (2015) <<https://softwaredevelopers.ato.gov.au>>.

630 ATO, *Corporate research and intelligence, Australian and global software development trends* (May 2016) p 17.

631 Above n 627.

632 Ibid.

633 Ibid.

6.58 The information sheet also discusses procedures or processes that the DSP should have in place within the software itself to ensure that they do not purport to provide tax agent services directly. For example, the TPB recommends that an appropriately worded declaration be provided to clients to bring to their attention that the DSP is not a registered tax or BAS agent and if they are seeking tax or BAS related advice, to seek assistance from a registered tax or BAS agent. The TPB considers that:⁶³⁴

... ultimately clients of the software provider need to be aware that the software provider is simply being the transmitter of data to the ATO and not the provider of a tax agent service.

6.59 As stated earlier, data analysts are also amongst key professionals increasingly operating in the tax sphere. They are skilled in manipulating and interpreting data for decision making and problem solving. With data volumes increasing exponentially, it is essential that tax firms and the ATO realise the potential of the available data and use it to improve work outputs. In 2014, it was reported that the amount of data available doubles every two years and by 2020, the volume of data will reach 44 zettabytes or 44 trillion gigabytes.⁶³⁵

6.60 While data analysts may be employed by tax practices, large and small, as well as by the ATO, they are not presently seen to be providing tax advice but rather they provide trend data or other information from which advice may be drawn and given to the taxpayer. As noted by the OECD, 'data analytics, predictive modelling and more advanced decision support systems allow tax practitioners to create a comprehensive understanding of their client's situation, which provides a basis for the more tailored advice'.⁶³⁶

6.61 The Public Sector Data Management Report released in December 2015 by PM&C found that there is a global under-supply of data and analytics specialists which restricts the benefits that can be gained by it.⁶³⁷ To improve the understanding of data and how it can be harnessed, PM&C, the APSC, other Australian Government entities and the private and academic sectors have formed a partnership to improve the overall data skills and capability across the Australian public service.⁶³⁸

IGT observations

6.62 The role of tax practitioners and new entrants into the profession as well as their relationship with each other and revenue agencies is evolving. Rapid increase in technological developments has created new opportunities for intermediaries such as DSPs to assist taxpayers to comply with their taxation obligations. The task of identifying every professional who may be regarded as a tax professional is difficult but necessary for determining the appropriate regulatory approach. The TPB has undertaken some work in this area and has identified some categories of conditional registrations for professionals such as conveyancers, quantity surveyors and debt or insolvency specialists. The IGT

634 Ibid.

635 Department of the Prime Minister and Cabinet, *Data skills and capability in the Australian Public Service* (2016) p 1.

636 Above n 73.

637 Above n 365, p 2.

638 Ibid, p 4.

believes others, such as DSPs and data analysts, should also be considered for such conditional registration.

6.63 The key objectives are to protect taxpayers who are seeking taxation services and to ensure that there is a level playing field amongst the professionals offering such services. It is also important to recognise the complexities of the relationship between the various intermediaries and the community. For example, there are those who serve the community directly, such as tax practitioners, and those who do so indirectly by providing services or products to the tax practitioners or revenue agencies.

6.64 Looking into the future, newer entrants to the tax profession may possess similar objectives to traditional tax professionals, namely, they may seek to directly assist their clients to understand and discharge their obligations under tax legislation.⁶³⁹ For example, it would not be inconceivable for DSPs in future to position themselves as ‘independent advisers of their clients’, ‘intermediaries between the tax administration and their clients’, and ‘influencers on the tax system’⁶⁴⁰ just as tax practitioners are today.

6.65 As new entrants seek to position themselves within the tax profession, issues associated with maintaining a level playing field become more important. Certain technological developments such as Robo-advice, discussed earlier, present both opportunities and risks. On the one hand, it provides tax practitioners with additional services to aid their clients while on the other, it may be used by some as a way to circumvent requirements associated with the provision of financial advice. The latter has been an area of concern for ASIC and the ATO who are seeking to ‘ensure that individuals obtain informed advice and information from an appropriately qualified and licensed professional prior to establishing an SMSF’.⁶⁴¹ The IGT understands that ASIC and the ATO have set up a working group to ‘examine and consider the scope of existing automated online SMSF tools and establishment platforms with a view to assessing any potential risks that these arrangements might create’.⁶⁴²

6.66 Furthermore, services in the gig economy on platforms, such as Airtasker and Freelancer, have permeated the tax profession by providing tax advice and compliance assistance as well as bookkeeping and accounting solutions. Regardless of whether these services are provided through traditional channels such as a tax practitioner or accounting firms or through online platforms, the TPB requires the relevant professional to be appropriately registered. However, there is potentially a greater risk that those who provide tax-related services in the gig economy and are not appropriately registered go undetected. It is difficult to quantify the level of risk posed.

6.67 It may be beneficial for the TPB to undertake research to determine the extent to which unregistered professionals are offering tax-related service, particularly in the gig economy, and consider options to protect taxpayers. The TPB may find it useful to consult and collaborate with other agencies on the taxpayer protection strategies, including the ATO, the Australian Competition and Consumer Commission as well as ASIC.

639 Jane Frecknall-Huges and Erich Kirchler, ‘Towards a General Theory of Tax Practice’ (2015) Vol 24:2 *Social & Legal Studies* 289-312, p 292.

640 Ibid.

641 Above n 69.

642 Ibid.

6.68 Similar to those in the gig economy, the technologies mentioned in Chapter 2 and others which have emerged in recent years have essentially removed borders for the provision of tax advice, enabling locally-based tax practitioners to offer advice to those based overseas and vice versa. It has also allowed tax practitioners to outsource some of their work to other parties outside of Australia, a practice which seems to be gaining in popularity and which has led to the TPB issuing guidance to remind practitioners of their ongoing responsibilities under the TASA and the Code.⁶⁴³ In the future, the appropriate regulatory approach for these new developments will grow in importance and consideration needs to be given to whether the current legislative framework requires modification.

6.69 Ensuring that taxpayers have access to independent tax advice from appropriately qualified professionals and that the latter operate on a level playing field will require significant monitoring and responsiveness from the ATO, the TPB, professional bodies and members of the tax profession themselves. The IGT believes that the establishment of the TPFSWG is a positive first step in this development. However, the composition of membership on the working group does not presently appear to include DSPs, TFAs or their representative bodies. There would be utility in the ATO considering expanding membership to include new entrants to the tax profession to provide more holistic input on the way forward. Additionally, the IGT considers that the ATO should also report publicly on the progress of work undertaken by the TPFSWG.

6.70 The above discussion all points to a need to reconsider the current regulatory framework of the tax profession. On the eve of the launch of the TPB, the then Assistant Treasurer emphasised the need for a new regulatory regime given that the world and the tax system had ‘clearly moved on since the 1940s’.⁶⁴⁴ Almost ten years later, the world and the tax system has changed considerably again and is set to continue to do so at a very rapid pace. As stated earlier, a number of stakeholders have questioned whether the current structure of the TPB is the most appropriate to oversee and regulate the future tax profession. Some have suggested expanding the TPB’s remit to include newer entrants to the tax profession such as DSPs whilst some have gone as far as recommending creating a super regulator to include all tax professionals including new entrants and those that provide tangential services.

6.71 The TPB has considered the role of DSPs and payroll service providers as well as issuing relevant guidance materials.⁶⁴⁵ However, it has no remit to regulate DSPs or payroll service providers and the current approach of providing guidance to inform the public is unlikely to be sufficient. As mentioned earlier, the issue is not confined to Australia – there have been calls in the USA for Congress to regulate both tax return preparers and tax preparation software companies.

6.72 While there may be a case to be made for expanding the remit of the TPB to include DSPs, the challenge is far beyond regulating just DSPs. It is foreseeable that as technology continues to evolve, a range of different professionals would be able and interested in offering tax or tax-related services to the community.

6.73 On the issue of a super regulator, the IGT is not aware of any public discussion on this issue and, as there is no international equivalent, insight cannot be obtained from

643 TPB, TPB(PN) 2/2018 Outsourcing and offshoring of tax services – Code of Professional Conduct considerations <<https://www.tpb.gov.au>>.

644 Above n 577.

645 TPB, Communication with the IGT (24 August 2018).

reviewing international jurisdictions. While the establishment of such a regulator may result in significant cost savings, the extent of legislative change required and the number of government agencies involved would render it unachievable in the short or medium term. In the IGT's view, the better option would be to enhance the current role of the TPB incrementally, at pace with technological developments and how they may be employed in the tax sphere.

6.74 As a first step, a broader definition of the tax profession may need to be considered. Such a definition may include all those who, either directly or indirectly, provide services or products which constitute provision of tax advice or otherwise assist taxpayers to comply with their tax compliance obligations. It may encompass traditional tax professionals, such as tax agents, BAS agents and bookkeepers as well as newer entrants such as TFAs, data analysts, software providers and those who have always been tangentially part of the tax profession such as economists, tax educators, ATO officers, lawyers and conveyancers. This approach would provide a central administrative focus around the tax system and the professionals who support it along with its regulation in a manner that may provide the best outcome for taxpayers.

6.75 However, a wider definition of the tax profession and the broadening of the TPB's remit may be problematic. Many professionals, who may find themselves within the wider definition of the tax profession, may never offer any tax services and would unnecessarily have to bear additional compliance burden. It may, therefore, be beneficial to consider an alternate registration approach whereby professionals may seek registration to broaden their service offerings to the tax sphere. Such an approach would also assist the TPB in 'future-proofing' the operation of the TASA to account for, as yet, unknown professionals who may provide tax services in future. Although the TPB has informed the IGT that it believes this may already be achieved through its ability to conditionally register professionals, given the legislative change needed to bring TFAs under its jurisdiction, this postulate needs to be tested and remedial action taken if necessary.

6.76 Any expansion of the TPB's remit may need to be accompanied by additional resources not only to facilitate registration and provide an appropriate level of guidance but to also adequately risk assess and take compliance action against those who offer tax services without being registered or engage in a range of other inappropriate behaviours such as charging exorbitant fees, or withholding information or credits from the client.

6.77 In ensuring that the TPB is well equipped to deal with misconduct, the range of sanctions and penalties which it may impose should be reconsidered. Currently, the TPB may issue cautions, require remedial action or suspend a tax practitioner's registration. They may also seek to have a tax practitioner deregistered although such action is rare. It would be important for the TPB, in administering a new and more flexible regime, to be afforded a broader range of sanctions from a mere caution to more serious pecuniary or criminal penalties in instances of serious fraud.

6.78 Some have suggested that with an expanded tax profession, it may be best to dispense with the TPB and devolve their role into the relevant professional bodies. Certainly, Australia seems to more strictly regulate its tax profession than other jurisdictions considered earlier. Even in South Africa where there is a regulator, its role is limited to registration with disciplinary action being referred to recognised professional bodies.

6.79 However, The IGT understands that regulation through professional bodies was considered in the years leading up to the implementation of the TASA regime but was not ultimately adopted. This may be due to tax practitioners not being required to hold membership with a professional body and, where they do hold such membership, they may be subject to different regimes depending on the requirements of the professional body. Given that there is increasingly greater diversity of professionals in the tax space and the larger number of professional bodies involved, there is less likelihood that such an approach would curry favour.

6.80 However, it may be that the professional bodies may be able to further complement the role of the TPB. Consideration may be given to empowering the TPB, in appropriate circumstances, to release information to recognised professional associations to enable them to undertake disciplinary action against their members rather than the TPB directly imposing sanctions. A similar approach is adopted in South Africa as mentioned above as well as in the UK.⁶⁴⁶ A reciprocal arrangement from recognised professional associations to aid the TPB may also be warranted. The IGT notes that at present, the TASA requires the TPB to share the outcome of its investigations with recognised professional associations if the registered tax practitioner who was subject to the investigation is a member of that association.⁶⁴⁷

6.81 The regulation of a future tax profession is complex. It requires rigorous discussion and testing with input from all sections of the tax profession, the ATO and the TPB. The IGT has been informed that the Treasury will shortly be commencing a review of the TASA and its administration.⁶⁴⁸ The matters raised in this report, including the regulation of the tax profession, and the impacts of upcoming changes on the profession, the TPB and the ATO should be considered as part of that review.

RECOMMENDATION 6.3

The IGT recommends that:

- (a) *the Government consider increasing the range of sanctions that the TPB may impose on non-compliant tax professionals, including empowering the TPB to release information to the professional associations, in appropriate cases, to enable the latter to undertake disciplinary action against their members;*
- (b) *the TPB undertake research to determine the extent to which tax services may be offered in the gig economy by people who are not appropriately registered and engage with other agencies, such as the ATO, the Australian Competition and Consumer Commission and the Australian Securities and Investments Commission to consider options to protect taxpayers from such service providers; and*
- (c) *the ATO broaden the membership of its Tax Profession Future State Working Group to include new entrants into the tax profession such as digital service providers, tax (financial) advisers and their representative bodies as well as publish more comprehensive information about the work of the Group.*

⁶⁴⁶ HMRC, *Corporate report HMRC: the standard for agents* (4 January 2018) <<https://www.gov.uk>>.

⁶⁴⁷ *Tax Agent Services Act 2009*, s 60-125(8)(c)(iia).

⁶⁴⁸ Explanatory Memorandum to the Tax Agent Services Bill 2008, p 143.

ATO RESPONSE

(a) Matter for Government

(b) Matter for the Tax Practitioners Board

(c) Agree

TPB RESPONSE

The TPB agrees with recommendation 6.3 (b).

The TPB will build on existing work already being undertaken to determine the extent to which tax services may be offered in the gig economy by people who are not appropriately registered, and engage with other agencies to consider options to protect taxpayers from such service providers.

APPENDIX 1 — TERMS OF REFERENCE

Background

Technological advances are transforming all aspects of modern society and the tax profession is not immune from these sweeping changes. Whilst these changes present challenges, they also provide opportunities to significantly improve the administration of the tax system and deliver far-reaching benefits to the entire community. The aim of this review is to seize these opportunities by anticipating the changes and planning ahead to achieve optimal outcomes for all parties. The review is being conducted at the request of the Commissioner of Taxation (the Commissioner) as well as in response to concerns raised by a range of stakeholders in the tax profession, particularly tax practitioners.

Traditionally, the main players in the tax system have been the Australian Taxation Office (ATO), who collects and provides tax revenue to the Government, taxpayers and tax practitioners including lawyers, tax agents and business activity statement (BAS) agents. The role of tax practitioners has been particularly significant since the shift from full assessment to self-assessment in 1986. They perform a crucial role as an intermediary between the ATO and taxpayers in ‘achieving tax compliance and contributing to the smooth functioning of the tax system’.⁶⁴⁹ Currently, the proportion of Australian taxpayers who engage tax practitioners is amongst the highest of any member country in the Organisation for Economic Cooperation and Development (OECD).⁶⁵⁰ In the 2015-16 financial year, 74.2 per cent of all individuals and over 95 per cent of business taxpayers used the services of a tax practitioner.⁶⁵¹

Prior Inspector-General of Taxation (IGT) reviews, particularly his 2015 review into the ATO’s services and support to tax practitioners,⁶⁵² were aimed at issues relating to existing ATO systems and practices as well as associated interactions with taxpayers, tax practitioners and other third parties. By contrast and as mentioned earlier, this review will focus on the future taking into account technological, social, policy and regulatory changes.

In recent decades, technology has begun to change the way in which the ATO provides services and interacts with taxpayers and tax practitioners. Some earlier examples of such services include the ATO Portals⁶⁵³ and Electronic Lodgment Service⁶⁵⁴ whilst more recent examples are myTax⁶⁵⁵ and ‘Alex’.⁶⁵⁶ The ATO’s initiatives in this regard align with the Government’s digital transformation agenda.⁶⁵⁷

649 Organisation for Economic Cooperation and Development (OECD), *Increasing Taxpayers’ Use of Self-Service Channels* (2014) p 35.

650 OECD, *Tax Administration 2015 Comparative Information on OECD and other Advanced and Emerging Economies* (2015) p 267.

651 Australian Taxation Office (ATO), *Annual Report 2015-16* (2016), p 46.

652 Above n 2.

653 Gateways through which tax practitioners and certain taxpayers can use a range of ATO services.

654 Electronic Lodgment Service (ELS) facilitates the electronic lodging of ATO forms via a software interface platform.

655 ATO, ‘Lodge Online’ (1 March 2017) <www.ato.gov.au>. A web-based service that allows individuals and sole traders to complete their own returns.

656 ATO, ‘A better online experience’ (March 2016) <www.ato.gov.au>. The ATO’s virtual assistant that can help answer general taxation enquiries.

657 ATO, ‘Digital by Default Consultation Paper’ (2015) <<http://lets-talk.ato.gov.au/>>.

Similarly, the business models of tax practitioners are also evolving. In coming years, it is likely that the pace of change will escalate with other professionals, such as software and hardware developers, data analysts and providers of banking and payment services, playing a greater role in the tax system. These changes may be brought about by the application of new developments in artificial intelligence and robotics to perform tasks previously conducted by humans, resulting in a reduction in costs and the need for outsourcing to offshore entities. Existing and further use of data management applications, including cloud accounting⁶⁵⁸ and blockchain technologies,⁶⁵⁹ may also have similar effects. Products that transfer risk to third parties, such as taxpayer audit insurance and professional indemnity insurance, may be other areas for future development.

Social changes, such as taxpayer expectations for 'real time' response, are another result of technological advancements. Work patterns are also changing as seen in the 'gig' economy where workers are engaged on a contractual or project-by-project basis rather than full-time employment, particularly impacting in-house corporate specialists.

Whilst technology, when appropriately utilised, can deliver significant benefits, there are challenges that need to be addressed such as certain functions becoming redundant or significantly diminished and how the affected parties, such as sole tax practitioners and in-house corporate tax specialists, may need to adapt to the new environment. A more pressing concern of the tax profession is the level of dependency on ATO digital systems, their reliability and the lack of contingency plans particularly when unforeseen failures arise such as those in late 2016 and early 2017.⁶⁶⁰ The Commissioner has also recently reflected on some of these issues.⁶⁶¹ Other issues raised with the IGT include privacy and data security. Broader concerns in this regard have resulted in the Government's recent 'Cyber Security Strategy' aimed at protecting Australia's interests online.⁶⁶²

There are also policy and regulatory changes which are shaping the tax profession. In addition to the Government's digital transformation agenda, financial advisers, who are involved in the provision of tax advice, have recently become subject to the jurisdiction of the Tax Practitioners Board (TPB).⁶⁶³ Furthermore, increased focus on transfer pricing and the greater need for market valuation have placed heavier reliance on economists and valuers. By contrast, tax academics and educators, who have always played a significant role in the tax system, are likely to continue to do so although their research and the training that they provide may need to expand to new areas. Similarly, professional bodies and industry associations will also continue to play an important role.

658 Deloitte Private, 'Insights: Cloud Accounting' (undated) <www2.deloitte.com>. Cloud accounting enables access to client information on-line in real time as well as access to more up-to-date and detailed business information.

659 PwC, 'A primer on blockchain (infographic)' (6 December 2016) <<http://usblogs.pwc.com>>. Blockchain is a digital, decentralised ledger that keeps a record of all transactions that take place across a peer-to-peer network.

660 ATO, 'ATO Systems Update' (8 February 2017) <www.ato.gov.au>.

661 Chris Jordan, 'Commissioner's address to the Tax Institute National Convention 2017' (16 March 2017).

662 Department of the Prime Minister and Cabinet, *Australia's Cyber Security Strategy* (2017).

663 Tax Practitioners Board, 'Register as an individual tax (financial) adviser' (undated) <www.tpb.gov.au>.

It is evident from the above discussion that the impending technological, social, policy and regulatory changes will have vast and lasting impacts on the tax profession, the ATO, the TPB and the wider community. The IGT will seek input from a broad spectrum of stakeholders, as well as consider overseas experiences and research, to identify the significant changes ahead, aspects of the current system that should be retained and/or augmented, those that need to be discarded and the new strategies required to meet future challenges and realise the potential benefits.

Terms of reference

The IGT will conduct a review into the future of the tax profession with a focus on:

1. *The opportunities, risks and challenges presented by new technological, social, policy and regulatory developments on the administration of the tax system including:*
 - (a) *the changing nature of existing automated or online services as well as the proliferation of future services through other technological advancements;*
 - (b) *community expectations for 'real time' online response and changes in work and communication practices; and*
 - (c) *the entry of new intermediaries into the tax system such as financial advisers, who provide tax advice, falling within the purview of the TPB.*
2. *The strategies necessary to assist the tax profession to meet the potential challenges posed by the above developments including the:*
 - (a) *changing demographic of the tax profession and the greater role played by other third parties in the tax system, such as financial advisers, software and hardware developers, data analysts, providers of banking and payment services, economist and valuers;*
 - (b) *services that the tax profession would be expected to provide and the need to adapt to the changing environment in the face of potential redundant or diminishing functions;*
 - (c) *skills, training and on-going education that tax professionals may require;*
 - (d) *need for effective contingency arrangements to alleviate the impacts of unavoidable system failures; and*
 - (e) *support that the tax profession would require from the ATO, the TPB and others such as tax academics and educators as well as professional bodies and industry associations.*
3. *How the ATO and the TPB can seize the opportunities presented by technological, social, policy and regulatory developments to:*
 - (a) *work with the tax profession in providing contemporary, reliable, accessible and secure services that foster voluntary compliance by meeting the increasing expectations of taxpayers and tax professionals and improving their productivity; and*
 - (b) *establish effective contingency arrangements to alleviate the impacts of unavoidable system failures.*
4. *The IGT may also examine other relevant concerns or potential improvements identified during the course of the review.*

Submission

We are interested in the views of all members of the community including taxpayers, tax practitioners, professional bodies as well as other third parties such as financial advisers, software and hardware developers, data analysts, providers of banking and payment services, economists and valuers. We envisage that your submission will set out your views on the future of the tax profession in line with the terms of reference and identify the potential opportunities for improvement, including:

- the aspects of the current system that you believe should be retained and/or augmented and those that need to be discarded; and
- any new strategies or initiatives that are required to meet future challenges and realise potential benefits.

You may wish to cite examples from your own experiences as well as any international research or developments that you believe would be of assistance or lead to improvements.

Lodgment

The closing date for submissions is 28 July 2017. Submissions can be sent by:

Post to: Inspector-General of Taxation
 GPO Box 551
 SYDNEY NSW 2001

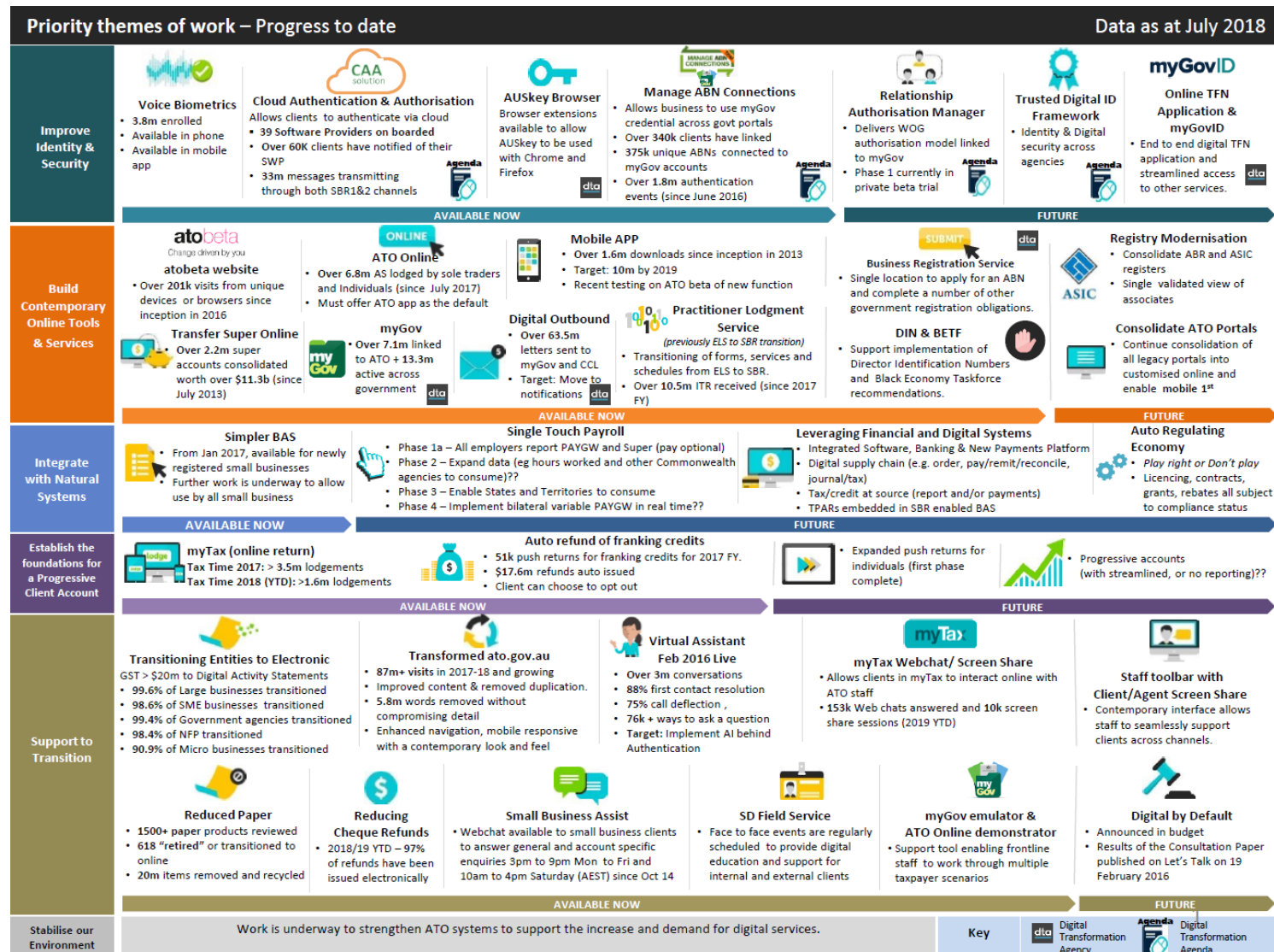
Fax: (02) 8239 2100

Email to: taxprofession@igt.gov.au

Confidentiality

Submissions provided to the IGT are maintained in strict confidence (unless you specify otherwise). This means that the identity of the taxpayer, the identity of the adviser and any information contained in such submissions will not be made available to any other person, including the ATO. Section 37 of the *Inspector-General of Taxation Act 2003* safeguards the confidentiality and secrecy of such information provided to the IGT – for example, the IGT cannot disclose the information as a result of a Freedom of Information (FOI) request, or as a result of a court order generally. Furthermore, if such information is the subject of client legal privilege (also referred to as legal professional privilege), disclosing that information to the IGT will **not** result in a waiver of that privilege.

APPENDIX 2 — ATO'S PRIORITY THEMES OF WORK



APPENDIX 3 — ATO RESPONSE



Australian Government
Australian Taxation Office

Second Commissioner of Taxation

Mr Ali Noroozi
Inspector-General of Taxation
GPO Box 551
SYDNEY NSW 2001

Dear Ali

Review into Future of Tax Profession

Thank you for the opportunity to comment on your final draft of your report on the review into the *Future of Tax Profession*.

We appreciate the Inspector General of Taxation undertaking this review requested by Chris Jordan, Commissioner of Taxation and appreciate the efforts and research conducted for this report. We also valued working with the office of the Inspector General of Taxation in reviewing and writing the set of recommendations.

We note that there are 28 elements to the recommendations of which 3 are matters for Government and 6 are matters for the Tax Practitioner Board. Of the 19 elements relating to the ATO, We agree with 4 of the elements and note that 7 have either already been implemented or they are existing programmes of work.

For the purposes of this response an "existing programme of work" is considered to be: "Where the intended result of the recommended element is being or will be achieved through a programme of work that is currently in existence and is planned to continue into the future."

We disagree with 8 of the elements of the recommendations.

We disagree with the following elements of the recommendations:

- 4.1(a)(i) - Given the work currently being progressed we do not see benefit in the development of a separate roadmap and framework.
- 4.1(a)(ii) - Although we can provide general information to help tax practitioners we are not able to be directly involved in managing their businesses.
- 4.2(a) – We have already developed the ATO's 2024 Vision and Technology Strategy to streamline and automate our services to clients. The ATO also has an obligation to provide no-cost digital services to the community to ensure the community can quickly and easily satisfy their tax and superannuation obligations.
- 4.2(g) – The ATO is developing target service standards which are aspirational targets and does not agree that it is appropriate to operate under commercial service

standards. There is an existing compensation scheme available for situations where a loss as a direct result of outages or system failures occurs.

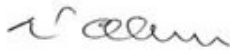
- 4.2(i) – The ATO only raises concerns when we have robust and properly tested data supporting those concerns.
- 5.1 - The ATO has recently implemented a refreshed Enterprise Risk Management Framework. Mechanisms to monitor and identify emerging risk, including the technologies or innovations contemplated by this recommendation form part of this framework
- 5.4(a) – The ATO already has robust and effective Cyber Security practices in place that are regularly reviewed.
- 5.4(b) – The ATO already provides extensive information and support to tax practitioners but the ultimate responsibility lies with the practitioner.

Our detailed response to your recommendations is attached at Annexure 1.

Finally, I would like to acknowledge the efforts of all involved in undertaking this review.

If you require further information on our response, please contact Colin Walker on [REDACTED]

Yours sincerely



Neil Olesen
Second Commissioner
26 October 2018

[To minimise space, the annexure to the ATO's response has not been reproduced here, but has been inserted into the text of this report underneath each of the recommendations to which that text relates.]

APPENDIX 4 — TPB RESPONSE



Mr Ali Noroozi
Inspector-General of Taxation
GPO Box 551
Sydney NSW 2001

Dear Mr Noroozi,

Review into the Future of the Tax Profession

Thank you for the opportunity to comment on the report of your *Review of the Future Tax Profession*.

The Tax Practitioners Board (TPB) is an independent statutory body, separate from the Australian Taxation Office (ATO), that was created under the *Tax Agent Services Act 2009* (TASA). Given the TPB's regulatory functions are to register and regulate entities providing tax agent services in Australia, the TPB welcomes this review.

The report provides a good consolidation of known issues that are impacting on the tax profession, as well as a useful reflection of retrospective and current matters as context for your forward-looking review. Your report has provided a view on the main themes impacting on the tax profession – in particular, technological changes, social changes, policy changes and regulatory changes.

We appreciate acknowledgement in your report that:

- the Inspector-General of Taxation (IGT) recognises and commends the TPB for actively working and engaging with tax (financial) advisers to provide them with a range of guidance material to transition them into the tax agent services regime;
- on the issue of the creation of a super regulator, in the IGT's view, the better option would be to enhance the current role of the TPB incrementally, at pace with technological developments and how they may be employed in the tax sphere; and
- any expansion of the TPB's remit may need to be accompanied by additional resources not only to facilitate registration and provide an appropriate level of guidance but to also adequately risk assess and take compliance action.

The report contains 28 recommendations – with 19 recommendations relating to the ATO, six to the TPB and three for Government. Of those recommendations relating to the TPB, the TPB *agrees* with all of the recommendations. The TPB's detailed response to the recommendations is contained in Annexure 1.

Further, the TPB welcomes the amendments made by the IGT, following feedback provided by the TPB. These amendments have addressed the TPB's concerns about recognising the different roles of the ATO and the TPB and practical considerations impacting on implementation.

Finally, I would like to acknowledge the efforts of all involved in undertaking this review.

If you require further information to our response, please contact the Secretary/Chief Executive Officer, Michael O'Neill on [REDACTED] or at [REDACTED]

Yours sincerely



Ian R Taylor
Chair

Tax Practitioners Board

26 October 2018

[To minimise space, the annexure to the ATO's response has not been reproduced here, but has been inserted into the text of this report underneath each of the recommendations to which that text relates.]

SHORTENED FORMS

ABN	Australian Business Number
ABR	Australian Business Register
ACSC	Australian Cyber Security Centre
AFR	Australian Financial Review
AFS	Australian Financial Services
AFTS	Australia's Future Tax System
AGISM	Australian Government Information Security Manual
AI	Artificial intelligence
ALRC	Australian Law Reform Commission
Amendment Act	<i>Tax Laws Amendment (2013 Measures No.3) Act 2013</i>
ANAO	Australian National Audit Office
ANU	Australian National University
APC	Australian Productivity Commission
API	Application Programming Interface
APRA	Australian Prudential Regulation Authority
APSC	Australian Public Service Commission
ASIC	Australia Securities and Investments Commission
ASR	Accounting Software Register
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
AUSTRAC	Australian Transaction Reports and Analysis Centre
BAS	Business Activity Statement
CAA	Cloud Authentication and Authorisation
CAANZ	Chartered Accountants Australia and New Zealand
CDDA scheme	Scheme for Compensation for Detriment caused by Defective Administration
CDO	Chief Digital Officer
CEDA	Committee for Economic Development of Australia
CGT	Capital Gains Tax
CIO	Chief Information Officer

Commissioner	Commissioner of Taxation
CPA Australia	Certified Practising Accountants Australia
CPA of Canada	Chartered Professional Accountants of Canada
CPD	Continuing professional development
CRA	Canada Revenue Agency
CSIRO	Commonwealth Scientific and Industrial Research Organisation
CSS	Cyber Security Strategy
DPO	Digital Partnership Office
DSP	digital service provider
DTA	Digital Transformation Agency
ELS	Electronic Lodgment Service
EP	Explanatory Paper
ERP	enterprise resource planning
ETCB	Estonian Tax and Customs Board
ETF	Exchange Traded Funds
EY	Ernst & Young
FASEA	Financial Adviser Standards and Ethics Authority
FSC	Financial Services Council
FTE	Full time equivalent
FTS	Federal Tax Service
GST	Goods and Services Tax
HMRC	Her Majesty's Revenue and Customs
HPE	Hewlett Packard Enterprises
HR	Human resources
ICS	Information and Cyber Security
IGT	Inspector-General of Taxation
IPA	Institute of Public Accountants
IRAS	Inland Revenue Authority of Singapore
IRD	Inland Revenue Department
IRS	Internal Revenue Service
ITI	Innovation and Tactical Improvements
JCPAA	Joint Committee of Public Accounts and Audit

LAPD	Law and Policy Development
MTD	Making Tax Digital
NNP	New Payments Platform
NTA	National Taxpayer Advocate
NTCA	Netherlands' Tax and Customs Administration
OAIC	Office of the Australian Information Commissioner
OECD	Organisation for Economic Cooperation and Development
ONI	Office of National Intelligence
PAL	Policy, Analysis and Legislation
PAYG	pay as you go
PCRT	Professional Conduct in Relation to Taxation
PDC	Policy Design Committee
PDF	Policy and Design Forum
PLS	Practitioner Lodgment Service
PM&C	Prime Minister and Cabinet
POS	point-of-sale
RAM	Relationship and Authorisation Manager
RCB	Recognised Controlling Body
Regulation	<i>Tax Agent Services Amendment (Tax (Financial) Advisers) Regulation 2014</i>
RPA	Robotic processing automation
RTPP	Registration of Tax Preparers Program
SAN	Storage Area Networks
SARS	South African Revenue Service
SBR	Standard Business Reporting
SFPRC	Senate Finance and Public References Committee
SIATP	Singapore Institute of Accredited Tax Professionals
SIPO	Software Industry Partnership Office
SME	small to medium enterprise
SMSF	self-managed super fund
SRA	<i>Samenwerkende Registeraccountants en Accountants-administratieconsulenten</i>
STA	Swedish Tax Agency

STEM	science, technology, engineering and mathematics
STP	Single Touch Payroll
SYB	Serving You Better
TAF	Treasury and ATO Forum
TASA	<i>Tax Agent Services Act 2009</i>
TASR	Tax Agent Services Regulations 2009
TFA	Tax (financial) adviser
TFN	Tax File Number
The Code	Code of Professional Conduct
The Council	Digital Business Council
The Standard	Digital Service Standard
TPB	Tax Practitioners Board
TPFSWG	Tax Profession Future State Working Group
UK	United Kingdom
USA	United States of America
VAT	Value-Added Tax
VS	Vero Skatt
WEF	World Economic Forum
WRE	Work-related expense