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PUBLIC
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**Inquiry Annual Report
of the Commissioner
of Taxation 2017**

Introduction

The Institute of Public Accountants (IPA) welcomes the opportunity to offer response to the House of Representatives Standing Committee on Tax and Revenue review of the 2017 Annual Report of the Commissioner of Taxation.

The IPA is one of the three professional accounting bodies in Australia, representing more than 35,000 members and students throughout Australia and internationally. The IPA prides itself, in not only representing the interests of accountants, but also small business and their advisors.

We look forward to discussing further and in more detail the IPA's recommendations with the Government and Treasury. Please address all further enquires to Tony Greco 

Yours sincerely



Tony Greco
General Manager Technical Policy

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IPA Submission

Parliament of Australia
House of Representatives

Dear Sir/Madam

Inquiry into the Annual Report of the Australian Taxation Office 2014

The IPA welcomes the opportunity to provide a submission to the House of Representatives Standing Committee on Tax and Revenue in relation to its Inquiry into the Annual Report of the Australian Taxation Office 2017.

Given the broad terms of this inquiry, our attention in this submission has been focused only on particular issues affecting our members.

The tax practitioner community performs a critical role in vetting information on behalf of the ATO under our self-assessment model. Without such checks and balances, the ATO would need to do much more compliance work to ensure taxpayers were operating within the tax laws.

The vast majority of taxpayers use tax practitioners to assist them in complying with the tax laws. Tax practitioners assist 73 per cent of individual and over 97 per cent of business taxpayers to comply with their tax obligations. Tax practitioners need good IT systems to support their vital role in maintaining the health of the tax system. Therefore the quality and efficiency with which these services are provided have a significant bearing on the effective functioning of the tax system as a whole including minimising the overall delivery costs for the ATO. Most tax agent practitioners are small businesses themselves trying to service the interest of their clients.

For some time now the IPA has expressed concern about the impacts on small practitioners resulting from the ATO's use of technology. While the IPA supports the

better use of technology, it is concerning that the ATO's push for more digital interactions has historically in part come at the expense of tax agent practices particularly in lost productivity. The ATO has acknowledged that the move to a more digital environment has caused tax practitioners productivity loss, missed deadlines, irrecoverable costs as well as damage to their reputations and relationships with their clients. These impacts have had a detrimental impact on the relationship between tax agents and the ATO. In 2015, in response to criticism from the profession, the ATO gave the following commitment

"Where the ATO is looking to develop technology or administrative changes, we will co-design and consult with a range a tax practices to build systems that consider and accommodate the current practice management procedures. The aim will be to ensure that the changes do not add additional tasks that practitioners will need to accommodate outside of their normal processes but rather will operate within the normal processes."

In 2017, the Inspector General of Taxation commenced a review into the Future of the Tax Profession. I have attached a copy of IPA's submission into this review, as a lot of the comments are still relevant to this inquiry (appendix A).

Tax practitioners primarily interact with the ATO through the use of the portal, which is the gateway through which a range of ATO services are accessed. The ATO portal is an essential tool of trade for practitioners and agents. The Inspector General of Taxation report on ATO services for tax practitioners released in July 2015 confirmed that the unreliability of the portal was a major source of concern. Historically, the Portal has been a constant source of angst due to its instability, slowness and unreliability. The ATO has acknowledged that the current state of the portal is far from best practice and in 2015 actively commenced working on a long-term solution, which involves migrating it to a new, more functional online solution. This is particularly important as the ATO increases its digital interactions, placing even more reliance on the portal going forward.

Unfortunately, the unscheduled outages in December 2016 and February 2017 halted development work on the Portal's replacement as the ATO prioritised its IT efforts towards maintaining stability of its systems for the 2017 tax season.

The ATO has recovered from these unscheduled outages with more robust systems in place, which has led to minimal instability of the portals during tax time 2017.

Confidence has started to re-build gradually since the occurrence of those major outages, which is pleasing. The ATO has acknowledged that these two unscheduled outages caused significant reputational damage.

Of late, only lengthy scheduled down time for maintenance of the systems has been the only source of angst towards the ATO. Some practitioners are disadvantaged when the ATO takes services offline for three days for scheduled maintenance even when it's on public holidays or weekends as this is the time some plan to get uninterrupted work done. Some practitioner expectations are that ATO online services should be available 24/7 like other institutions such as banks. The ATO does not have a service standard relating to the availability of its systems. This is something that the IPA would like to see from online agencies such as the ATO, the concept of a service standard. This is important as the use of online services is increasing and has become the primary means of transacting with the ATO.

The IPA is now very much looking forward to the promised rollout of the new online portal with its enhanced features to enable practitioners' better access to much more detailed information about their clients. No dates have been provided on when this will occur but the new online solution is being currently tested with a small number of practitioners.

Tax practitioners are constantly reminded that they play a vital role in maintaining the health of the tax system. The following information however shows the disproportionate share of expenditure directed towards the self-preparer market as opposed to the tax agent community where the bulk of the community seek assistance in complying with their tax obligations. This has not gone unnoticed. The tax agent community has witnessed significant investment in IT software systems

such as MyTax and a number of apps, whilst there was little investment in the systems supporting the tax practitioner community.

Tax agent portal expenditure over the past three financial years:

| Financial year | \$m |
|-----------------------|---------------------|
| 2014-15 | 1.23 |
| 2015-16 | 5.58 |
| 2016-17 | <u>15.44</u> |
| Total: | <u>22.25</u> |

MyTax expenditure over the past three financial years:

| Financial year | \$m |
|-----------------------|---------------------|
| 2014-15 | 6.34 |
| 2015-16 | 17.3 |
| 2016-17 | <u>4.47</u> |
| Total: | <u>28.11</u> |

Our members have high expectations that the new online portal will provide productivity enhancing features when it is finally deployed, addressing in part the imbalance in expenditure noted above. Building optimal online systems to support tax professionals that replaces the ageing portal is critical for the process of re-building the confidence in the ATO.

The IPA welcomes the opportunity to discuss further any of the matters we have put forward in our submission. Please address all further enquires to myself

[REDACTED]).

Yours sincerely,

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Appendix A

Inspector-General of Taxation

Dear Sir/Madam

The Future of the Tax Profession (Inspector-General of Taxation)

The Institute of Public Accountants (IPA) is pleased to submit our final response to the Review of the Future of the Tax Profession.

Technological advances are impacting all professions and the tax community is not immune from these impacts. This represents a double edge sword of opportunities and challenges. Improved technology provides opportunities to significantly improve administration of the tax system. Those who are slow or choose to ignore the technological advances will find themselves at a disadvantage over time. Similarly, technological advances are impacting on how Government agencies deliver services in the future. The Government objective is for all agencies to be part of the digital transformation agenda as it recognises that digital interactions can improve the user experience. The ATO is a lead Government agency and has commenced its digital transformation process to better use technology.

The main players in our tax system are the ATO, taxpayers and an every growing list of intermediaries. Traditionally tax agents and lawyers were the main intermediaries. Recently BAS agents have entered the fold, but there are many other players who also play an intermediary role such as financial tax advisers, quantity surveyors, and payroll providers.

Recent measures introduced are bringing more intermediaries into the tax system such as conveyancing practitioners. Conveyances now need to obtain clearance certificates in certain cases, and in the near future will need to withhold GST from property settlements. The number of intermediaries entering the tax practitioner community is ever expanding.

Australians have a high reliance on engaging tax practitioners to assist them in complying with their tax obligations. The proportion of Australian Taxpayers who engage tax practitioner is amongst the highest in the OECD at 74.2 per cent of all individuals and over 95 per cent of business taxpayers. This high reliance has remained despite the ATO introducing online products aimed at individuals to self-prepare their own returns. It is important to note that our current system relies heavily on tax agents for its smooth operation and this cannot be understated.

The tax practitioner community performs a critical role in vetting information on behalf of the ATO under our self-assessment model. Without such checks and balances, the ATO

would need to do much more compliance work to ensure taxpayers were operating within the tax laws.

For this reason, it is important that the ATO work with the tax practitioner community as their responsibilities are inextricably linked. It is highly appropriate that the ATO and the tax practitioner consider their respective futures in tandem. Improving the services and support is in everyone's interest as the tax practitioner community and the ATO have dependence on each other in playing their roles within the tax system.

The vast majority of taxpayers use tax practitioners to assist them in complying with the tax laws. Therefore the quality and efficiency with which these services are provided have a significant bearing on the effective functioning of the tax system as a whole including minimising the overall delivery costs for the ATO. Tax practitioners need good I.T systems to support their vital role in maintaining the health of the tax system.

ATO Digital Systems

Part of the Government agenda is for agencies to adopt digital platforms as the main channel for interactions with all its stakeholders. The ATO has certainly tried to move in this direction. We understand the cost savings are significant. A service transacted over the phone costs about **16** times the digital equivalent, through the post, about **32** times and on face-to-face transactions, it is about **42** times. The potential cost savings available through digital transformation are intrinsically linked to improving the quality of the service. The IPA supports the better use of technology and tax practitioners must also evolve and modify their practices accordingly.

Whilst reduction in cost is an important factor, it must not be at the expense of stakeholder's experience. In fact, the rationale for using digital platform for interactions is to improve user's experience. The ATO conducted its own research on the concept of Digital by Default by releasing a discussion paper to gauge community attitudes. Its consultation on the discussion paper ended in early 2016 and the ATO subsequently released the findings in a report. Some of the main issues identified were that most users are willing to transition to more digital services if they are practical, convenient, easy to access and simple to use.

The ATO's recent transition to a digital platform has not been a smooth experience. For example, the move to increase its interactions into the digital sphere by having tax agents receive more correspondence via the Tax Agent Portal rather than traditional paper mail was poorly executed. It took the ATO sometime after implementing this change, to properly implement the necessary infrastructure into the ATO tax portal to make it functional. A related issue was taxpayers who signed up to a myGov account and authorised the ATO to have their mail sent electronically to their myGov inbox. Tax Agents' clients were not aware that correspondence previously sent to their agents was now being sent to a digital inbox. Again, this was not dealt with in the most optimal manner and are examples of how disruptive any move to a digital platform can have on work practices if they are not implemented properly. The Client correspondence list in the Tax Agent Portal is now

properly functioning and practitioners can quickly find specific types of correspondence the ATO has sent to clients, including activity statements. Tax Agents can now use the Client correspondence list to perform task more efficiently such as:

- See correspondence for all of their clients daily
- Use the search parameters to return exact correspondence, for example client identifier or delivery method
- Set specific date ranges to minimise the amount of correspondence returned
- Search for all of their client's correspondence in one go and access the last 60 days correspondence
- Retrieve up to three years of correspondence when searching for one TFN

We are supportive of utilising the benefits of technology when it results in an improvement in the user's experience. The ATO has recognised some valuable learnings from the above examples and has committed to understand the impacts on Tax Practitioners of any further changes in technology.

In a poll conducted by AccountantsDaily in September 2015, 80.4 per cent, 404 respondents answered yes when asked the following question: As an accountant are you experiencing loss of productivity due to the use of technology by the ATO? The results of this poll clearly demonstrate that the ATO needs to better understand the impacts on stakeholders of any further technological changes before it implements any changes.



We see many more opportunities in the technology space, which have yet to be fully utilised. The ATO has been actively working on replacing the aging tax agent portal with a new ATO online version to improve functionality for users. The ATO portal is well past its use by date and is far from best practice. It has taken the professional associations many years to have its replacement a priority for the ATO. The ATO senior executive group now have a

more acute understanding of the impacts of poor investment in IT infrastructure has had on the life of tax practitioners

In addition to the ATO portal upgrade, the ATO has been working with practice management software providers to improve functionality of their software. The intention is for practice management software to perform some of the functionality provided by the Tax Agent portal. Over time, the objective will be that practitioners will be able to perform all Tax Agent portal functions using their practice management software. We see this as an important productivity enhancing opportunity for the tax practitioner community.



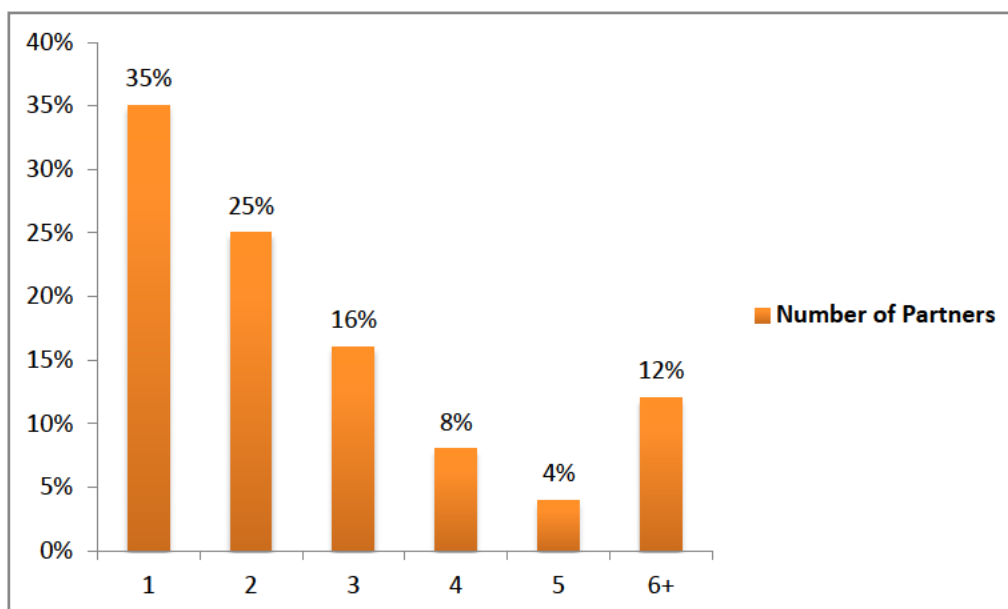
Due to the outages experienced during December 2016 and in early 2017, the ATO has put on hold the redevelopment of the above projects. Given the significant impacts of the outages, the ATO's priority is to ensure all its systems remain stable and functional for tax time 2017. We believe these projects can significantly improve the productivity of tax practitioners. The existing Tax Agent portal is far from best practice and the ATO has had significant difficulty over the years maintaining functionality for users. We would like to see these projects resume as soon as possible once system stability issues are rectified. We look forward to the renewed priority and focus of tax practitioner software enhancements.

System failures and outages

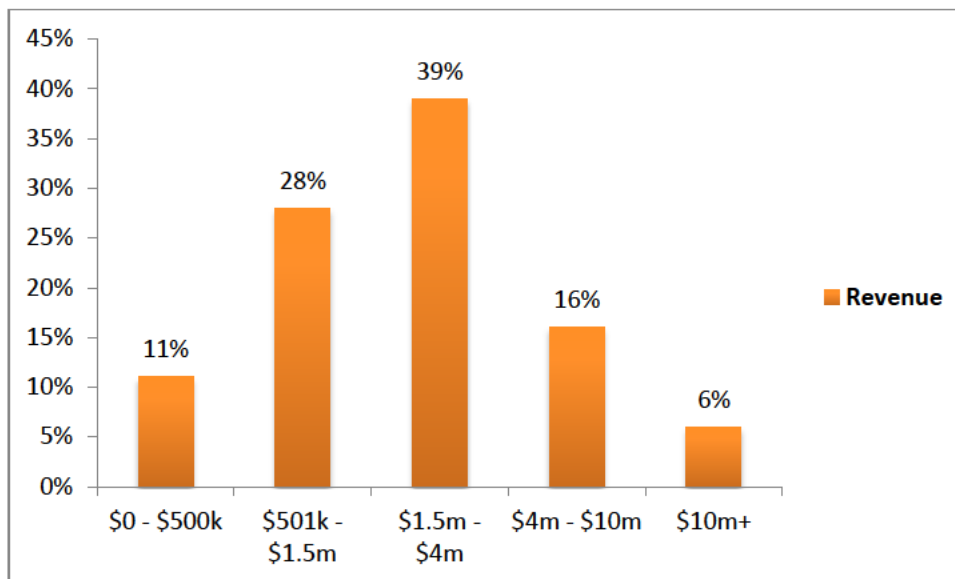
Tax practitioners have experienced significant interruptions and loss of functionality, accessing ATO systems spanning over many years. It has only been since 2015, that the ATO has acknowledged that the tax agent portal was not fit for purpose, after many years of professional bodies lobbying for changes. The tax agent portal is the main system tax practitioners interface with, when dealing with the ATO and is a critical tool of trade for tax agents who primarily deal with compliance type tax work. The ATO portal allows tax practitioners to access client tax information as well as communicate and complete a range of transactions electronically with the ATO. Tax practitioners use the portal to amend returns, manage client information, and generate ATO reports, as well as, lodge deferrals, objections and private rulings. Another key service is the ELS, which facilitates the electronic lodging of ATO forms via a software interface platform. ELS is currently being phased out and will be replaced with PLS.

Our member tax agent community noticed significant investment in IT software systems such as MyTax and a number of apps, whilst there was little investment in the systems supporting the tax practitioner community and in particular, the Tax Agent Portal, which is an essential tool of trade for tax practitioners who work in the compliance field. There are quite a number of tax practitioners that operate essentially compliance based business models and extended outages have a significant impact on their productivity.

Size of Firm (based on number of partners)



Size of Firm (revenue group)



What is not readily appreciated is that small accounting practices are small businesses themselves and any productivity losses through loss of functionality of ATO systems have real impacts on the practice's profitability. The tax practitioner community performs most of the heavy lifting, servicing the tax obligations of its clients and in doing so are the main stakeholders to wear the brunt of outages. In addition, small practitioners suffer mental stress when they get behind on their lodgements, as they know the ATO will still pursue them for not meeting their lodgement performance benchmark. Tax professionals also come under pressure from their clients when there are major outages as clients are often unaware that the ATO is experiencing problems, delivering their services. Many practitioners spend a great of their time during the week seeing clients and attending to client issues. After hours and on weekends they endeavor to catch up with their lodgement deadlines and it is during these times that the ATO at times, performs system maintenance and restricts access to its systems.

As illustrated in the graphs above the tax profession is predominantly made up of one or two partner practices that mainly specialise in providing tax compliance services.

The ATO have issued a number of apologies over the years for various mishaps. Whilst we appreciate the efforts, ATO personnel are making to improve their IT reliability and functionality, it has become clear, based on experiences that future stability is not assured. As the ATO is pursuing digital by default strategy, stakeholders need systems available 24/7. Whilst clients of tax practitioners are not disadvantaged as the ATO allows automatic deferrals and remission of late lodgement penalties, very little concessions are granted to the tax practitioners themselves.

The IPA believes that to improve ATO accountability around digital functionality of its IT systems, we recommend the following:

- Penalties for downtime and/or loss of functionality. If the ATO cannot meet an agreed service standard, the concept of imposing a financial penalty should be considered. As we are moving to newer technology designed around 24/7 availability, it is important that a service standard is in place to enable tax practitioners and intermediaries to perform their services. Tax Agents have a lodgement benchmark key performance target and it seems appropriate that the ATO are also made accountable for their IT service delivery. We feel that a financial penalty may improve the culture around ensuring that there is more accountability for I.T system performance. The following paragraph on service standards appears on page 7 of the “ATO systems report” released in June 2017 on the system outages that occurred in December 2017 and February 2017

Service standards

Some stakeholders raised the option of the ATO providing IT systems with more precise service standards. Improved or tighter service standards are increasingly common in digital commercial transactions. Against this option was the recognition that our systems are generally provided to stakeholders free of charge and therefore in distinction to commercial IT provision.

We are concerned on behalf of all the stakeholders who are users of IT system that the ATO will not adhere to commercial standards as implied in the above statement. The expectations of the tax practitioner community would be that the ATO is in fact operating to a best practice standard especially as more digital interactions are on the horizon such as single touch payroll. There is a huge opportunity cost on all users when systems do not perform as expected.

- Tailored compensation scheme for tax practitioners to deal with productivity losses caused by constant outages or loss of functionality. At present any member of the public who suffers loss or damage because of a government agency mistake or poor administration practices can apply for compensation through the government-wide Compensation for Detriment Caused by Defective Administration (CDDA) scheme. The aim of the scheme is to restore a person to the position they would have been in if there had been no defective administration. The CDDA scheme compensation payments are discretionary and can be paid where there is a moral rather than a legal obligation to do so. The CDDA scheme better applies to when a person incurs expenses and is not suited to productivity losses or reputational damage as these are seen as opportunity costs by the scheme.

Age demographics of Tax Agents

One of the looming challenges facing the profession is the age demographics of Tax Agents. Despite the healthy number of accounting graduates, we are not seeing any strong inflow of such candidates into the tax profession. This is a concern that needs to be addressed. The table that follows illustrates that the average age of a Tax Agent is in excess of 50 years of age.

| Age groups | Individual tax agents | Individual BAS agents | Totals |
|--------------------|-----------------------|-----------------------|--------|
| Under 30 years old | 429 | 193 | 622 |
| 30-40 years old | 5,844 | 1,969 | 7,813 |
| 41-50 years old | 7,546 | 4,015 | 11,561 |
| 51-60 years old | 7,547 | 3,847 | 11,394 |
| 61-70 years old | 5,993 | 1,651 | 7,644 |
| 71 years and older | 2,306 | 185 | 2,491 |
| Grand Total | 29,665 | 11,860 | 41,525 |

Tax Practitioner Network

There is merit in using the extensive tax agent network and trusted advisor status of such practitioners to improve the tax system's administration. This concept is similar to External Compliance Assurance Process (ECAP) for large business taxpayers. In brief, the ECAP pilot involved taxpayer participants to choose to either have a registered company auditor check factual matters identified by the ATO or have a streamlined review performed by ATO staff.

The report on the ECAP pilot concluded that the pilot provided the ATO with a sound basis for conducting ECAP for large business taxpayers in the future. The audit found that the pilot was conducted effectively and demonstrated the potential for better client experiences, cost reductions and increased efficiency, by satisfactorily verifying factual matters in company tax returns.

With proper controls, there is no reason why some ATO tasks cannot be done more efficiently and cost effectively by utilising the tax agent community. The objective would centre on the trusted adviser being able to do some of the preliminary review work for the ATO.

Some examples that could be considered which could improve the administration of the tax system are as follows:

- ABN verification to ensure entity satisfies relevant criteria for registration
- Certification of a taxpayers cost base for CGT purposes
- Substantiation reviews to certify on behalf of ATO that appropriate documents not only exist, but reflect deductions claimed
- Employee, contractor distinction – providing guidance and certification process
- Undertake assessments of compliance risk on behalf of the ATO
- Undertake risk reviews on behalf of the ATO (standard and/or comprehensive reviews)
 - Also assist the ATO in undertaking a tax audit where necessary following risk reviews
- Assist the ATO in undertaking pre-lodgement compliance reviews for high wealth taxpayers
- Assist the ATO in undertaking post-lodgement compliance reviews

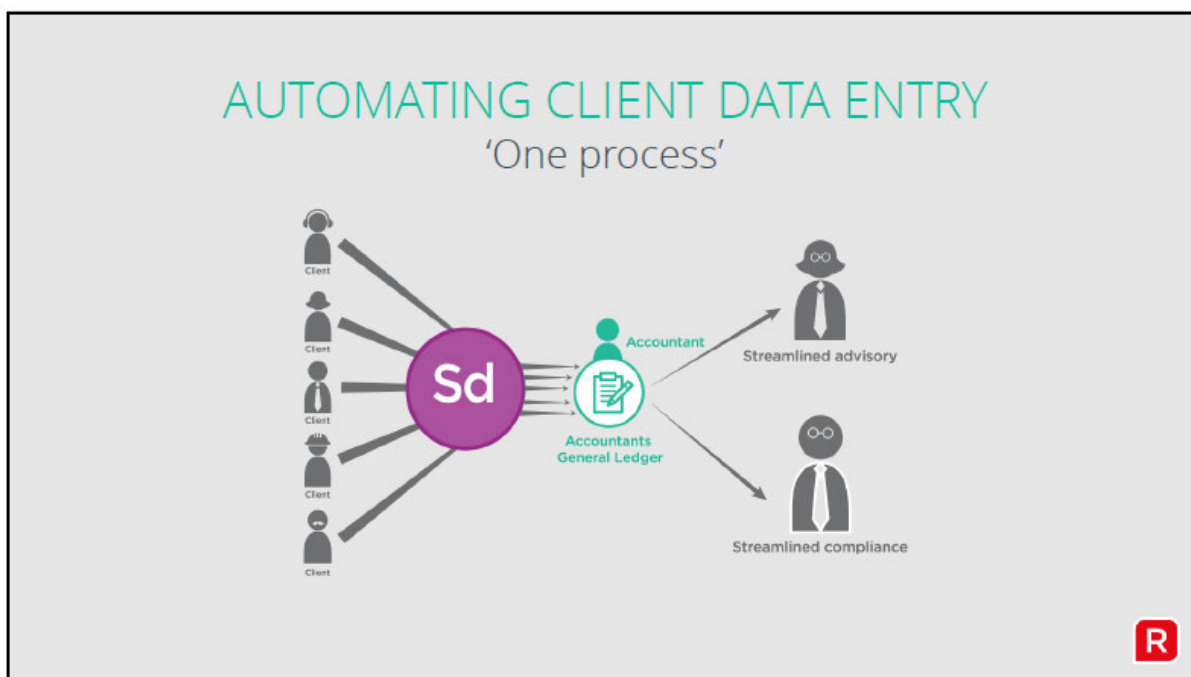
We fully appreciate that these additional roles will require some retraining and additional re-accreditation process from the ATO to provide a level of assurance commensurate with additional certification duties. Our members are already subject to quality assurance reviews and must adhere to the Accounting and Ethical Standards Board (APESB) ethical and professional standards in addition to Tax Practitioner Boards code of practice.

Regulatory framework

The IPA has encouraged its members in practice to act as professional consultants to business by offering a range of services rather than acting purely as tax compliance professionals. Technology is driving changes across the profession and client's expectations are also changing. Tax practitioners need to respond accordingly to continue to add value to their clients.

There are many value adding services that our members can provide in the following areas:

- Provision of Financial advice under AFSL regime. There is convergence opportunities between Tax and financial advice
- CFO services to clients
- Management consulting
- Strategic business analysis and planning
- Forensic accounting
- Superannuation
- Succession & Estate planning
- Age care planning

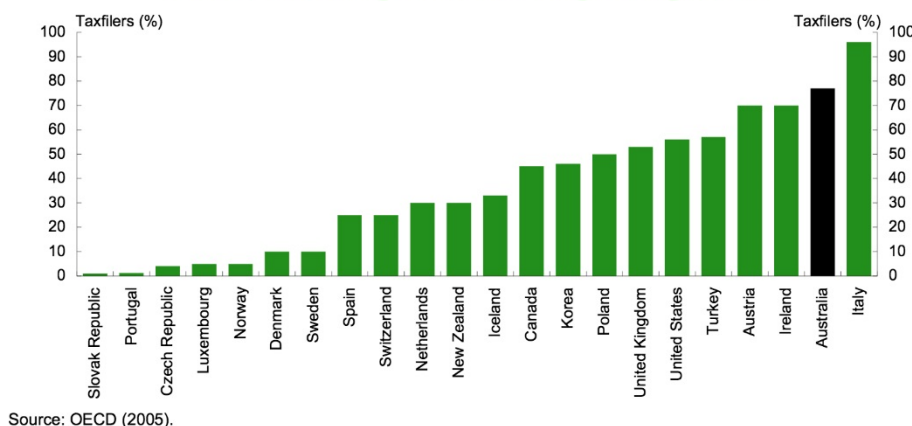


Accounting bodies such as the IPA have been encouraging members to consider these impacts on their business models and look to add non-tax related services such as business and financial advisory services.

Whilst some of our members have broadened the scope of services they offer their client base, there are those who have stuck to their tax compliance model. Some of these

members also rely heavily on providing tax agent services to clients with simple tax affairs. Whilst the current regulatory regime remains intact, members of the public prefer to have their returns done by a professional. As stated earlier, some 74 per cent of the population use the services of a tax agent and they find outsourcing of their annual tax compliance obligation a value adding experience.

Chart 4.2: Percentage of taxfilers using a tax agent, 2005



If the Government was to reform the tax system for individuals and remove the obligation to have to lodge a tax return for taxpayers with simple returns, this could remove in excess of 4 million taxpayer returns. Some overseas jurisdictions have already removed the need for taxpayers with simple affairs to lodge an annual tax return statement. Pre-filing has advanced sufficiently to allow the Government to seriously consider overseas best practice. If a standard work place deduction was introduced this would also have a similar impact on the number of people using the services of a tax agent. Maximising a taxpayer's work place deductions is part of the value add a Tax Agent provides a taxpayer and removing this incentive may reduce the willingness of the public to seek the services of a Tax Agent.

We thank you for the opportunity to provide a response to the Future of The Tax Profession inquiry. If you wish to discuss any of our comments or would like further information then please do not hesitate to contact Tony Greco at [REDACTED] or on mobile [REDACTED]. We would be pleased to comment on any other matters on request.

Yours sincerely



Tony Greco

General Manager, Technical Policy

Institute of Public Accountants