

FINANCE AND PUBLIC ADMINISTRATION REFERENCES COMMITTEE
MANAGEMENT AND ASSURANCE OF CONSULTING SERVICES (CONSULTING
SERVICES)

ANSWERS TO QUESTIONS ON NOTICE

Agency: Australian Taxation Office
Reference: Spoken p.7
Topic: Taxable income of Big 4 partners
Senator: Barbara Pocock

Question:

Senator BARBARA POCOCK: Clearly, my questions are around the nature of the culture and leadership within the ATO. I recognise, exactly as you said, that there are many, many good people in the ATO and there has been a very impressive return of catching and bringing billions of dollars into the public purse. That's very important work, but we also need to ensure, as part of our role, that the culture within the ATO is appropriate to that task. We need to ensure that the relationships between different parts, especially the nature of investigation, is robust and people's employment is not undermined or made precarious because they are assertive pursuers of people who break the law and don't act appropriately. But I want to go to the tax practices and follow a second line of questioning, specifically the tax minimisation of partners in the big four. How much did partners at the big four firms earn collectively in 2022-23? Do you track tax by agency? Are you able to give us an indication?

Mr Hirschhorn: I'd have to take it on notice. Also we'd have to then obviously start considering, when we get down to small populations, whether we're overidentifying.

Senator BARBARA POCOCK: These are big.

Mr Hirschhorn: It's fair to say they all report their revenue. Their taxable income tends to be slightly more than their cash income.

Senator BARBARA POCOCK: So you will supply to us on notice aggregates which protect identities.

Mr Hirschhorn: We will do our best to provide you the most granular information we can which still protects taxpayers.

Senator BARBARA POCOCK: Revenue and the tax paid.

Mr Hirschhorn: We'll do our best to provide as much granular information.

Answer:

Tax paid on distributions to partners of the Big 4 firms

1. We cannot disclose the tax paid by the individual partners of each of PwC, EY, KPMG and Deloitte ("the Big 4 firms"), nor the taxation affairs of a particular firm. Privacy and secrecy laws prevent the Australian Taxation Office (ATO) from disclosing specific taxpayer related information. However, we provide below information at the aggregate level of the Big 4 firms.
2. As at 31 January 2024, approximately 5% of partners of the Big 4 firms have lodged their 2023 income tax returns, the remainder are not yet due. All amounts referred to below are therefore based on ATO data for the 2022 income year.
3. The Big 4 firms distributed approximately \$2.7 billion of taxable income to equity holders (being the partners of the firms and their associated entities) – this comprised of taxable income of \$1.7 billion distributed from the main partnerships and \$1 billion of taxable

income distributed from their associated service trusts or similar entities. Of the \$1.7 billion distributed from the main partnerships - \$1.5 billion was reported as distributed to individuals and \$0.2 billion was reported as distributed to family trusts. The actual cash income distributed was likely to be marginally less than \$1.7 billion due to differences between taxable income and accounting income.

4. Based on tax returns lodged, in aggregate, the taxable income of individual partners (in their own personal tax returns) who received distributions from the Big 4 firms from all sources (including partnership income distributions from the firm) was approximately \$1.8 billion and tax payable of approximately \$700 million.
5. It is not practically possible to isolate the tax payable on just the distributions received from the firm from the total tax payable by the partner. However, partnership distributions are reported at a specific label on the tax return and the individual partners of the Big 4 firms have reported approximately \$1.4 billion at that label.¹ We have estimated the tax payable on this income to be approximately \$500 million².
6. The individual return of the partner will only rarely include the taxable income from the service trust; it will usually be received and returned by associated individuals or entities (sometimes themselves trusts which will then on-allocate to others). Those other associated individuals or entities will pay tax on that income. Similarly, if there has been an Everett assignment of some of the partner's interest in the partnership, that taxable income will be received and returned by associated individuals or entities.
7. The additional tax payable from the income distributed to associated entities (either from service trusts or from Everett assignments) is highly likely to be subject to lower tax rates (for example, income allocated to a "bucket company" will likely be taxed at 30%).
8. To reliably estimate the amount of tax payable by the ultimate beneficiaries of the entities associated with the individual partners which received service trust distributions and/or Everett assignment partnership income from the Big 4 firms in the 2022 income year, considerable ATO resources would be required to undertake manual tracing and calculations for each entity. Therefore, we have not done the calculations and we cannot provide an estimate of the total amount of tax payable by the ultimate beneficiaries in receipt of distributions from the Big 4 firms.
9. Partially counterbalancing the tax reducing effect of income splitting, the likelihood that partnership taxable income will exceed the actual cash income received, would mean that true "cash" tax rates borne by partners and their associates are increased.
10. We note that each of the Big 4 firms has published an Effective Tax Rate (ETR) for their own partners. We recommend that the Committee request details of the methodologies and calculations from each firm, which have been represented as communicating an "all in" ETR on distributions.

¹ We note that sometimes partners incorrectly report their partnership income at another label.

² Calculated by applying the marginal tax rate to each individual's partnership distribution (assuming it is their only income), then divide the tax payable by the income reported to get a percentage and then applying an average percentage across the population

11. Using data from tax returns lodged for the 2022 income year, we have estimated an ETR for all individual partners of the Big 4 firms based on the partners' total taxable income (which should include the partnership income returned in their own accounts).
12. Under this methodology, the average ETR across all individual partners at the Big 4 firms is approximately 36% (noting limitations above, including other income sources and partnership distributions that are assigned to associated entities, which would suggest that the "all in" rate is lower than this).
13. The table below shows the average ETR of individual partners according to the level of partnership income received from the firms in 2022 under this methodology.

Partnership distribution range	Average ETR
\$0 – \$150,000	30%
\$150,000 – \$300,000	34%
\$300,000 – \$800,000	39%
\$800,000 +	41%