



9 February 2017

Mr Kevin Hogan MP
Chair
Standing Committee on Tax and Revenue
PO Box 6021
Parliament House
Canberra ACT 2600

CPA Australia Ltd
ABN 64 008 392 452
Level 20, 28 Freshwater Place
Southbank VIC 3006
Australia
GPO Box 2820
Melbourne VIC 3001
Australia
Phone 1300 737 373
Outside Aust +613 9606 9677
Website cpaaustralia.com.au

By email: TaxRev.reps@aph.gov.au

Dear Mr Hogan

Subject: Standing Committee on Tax and Revenue - Taxpayer Engagement with the Tax System

CPA Australia represents the diverse interests of more than 155,000 members in 118 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders. Against this background and in the public interest, we provide this submission in response to the Inquiry into taxpayer engagement with the tax system.

The Australian economy is well developed and sophisticated – one where people have broad and varied choices of the goods and services they may choose to consume.

The best reference point on how taxpayers choose to engage with the tax system is Australian Taxation Office (ATO) data. It is understood that around 74 per cent of individual taxpayers in Australia choose to have their annual returns prepared and lodged by tax agents, and over 94 per cent of businesses have their returns prepared and lodged by tax agents. These percentages have remained roughly the same for many years. Many businesses will also engage BAS agents for their BAS preparation and lodgment work.

The inquiry has sought information on why certain taxpayers choose to engage tax and other intermediaries and we provide the following insights.

There is no single reason, rather there are a number of reasons taxpayers choose to engage tax professionals.

In the main these reasons include:

- Complexity for individuals - for example where competing government policy priorities and the subsequent legislation result in the co-mingling of welfare system payments, medicare, private health etc. with the income tax system.
- Complexity for businesses – business has the extra complexity of appropriate business entity structures, for example, sole traders, partnerships, trusts superannuation funds
- Complexity of the income tax laws and to ensure they are not overpaying taxes at Federal or state/territory level(s)
- Ensuring they are claiming everything they are legally entitled to claim.
- To enable small business owners to concentrate on running and growing their business rather than being captured by the never ending compliance demands of the various government agencies, councils etc. amongst others
- Providing peace-of-mind – individuals and businesses can get a higher degree of comfort and reassurance that their tax affairs are correct if they engage a tax agent to prepare their return
- Mistrust of the ATO – for whatever reason many taxpayers do not trust the ATO and/or have a fear of being audited and therefore using an agent helps them to ameliorate their concerns.

CPA Australia has long advocated for the de-coupling of income tax and welfare measures to simplify the tax system, but at the same time we acknowledge that the realities of political decision-making mean this is unlikely to occur in any meaningful way at any time in the future.

We have also advocated for a new entity for small business¹ that could cut a swathe through the complex structures required for any start-up small business. While the concept was well received by a former Minister for Small Business, it has not been adopted by government at this stage.

Not all taxpayers seek to engage tax agents however, and it is important that those who choose to self-prepare have the appropriate tools to enable them to prepare and lodge their return as seamlessly as possible. The ATO's *MyTax* product is the latest evolution of ATO products that assist taxpayers to self-prepare. It is an important initiative and it is appropriate the ATO offers these types of facilities to taxpayers. We expect that this facility – either future versions thereof or other products which replace it -- will only improve.

It is important for the Government and the ATO to acknowledge that taxpayers have a choice in how they manage their tax affairs - they can self-prepare or use a registered agent. Members of the accounting and tax profession have raised with us their concerns that the Government and/or the ATO may be promoting self-preparation at their expense. On this point, it is pleasing that the ATO has recently been publicly specifically acknowledging the option that taxpayers can use registered tax agents in its 2016-17 tax time messaging campaign. We expect this positive initiative to continue.

Making it as easy as possible for people to engage with the tax system also contributes to tackling the cash economy. Not only must there be strong enforcement and penalties to detect and deter such behaviour, but making it easy and simple to engage with the tax system can also reduce the incentive to operate outside the tax system. Initiatives such as SBR, *MyTax* and *MyDeductions* are important in making the tax system easier to engage with, however technology can only do so much – a concerted effort to simplify Australia's tax laws is also required.

Quite often in inquiries of this type, where issues of tax complexity are considered, the issue of either eliminating or capping allowable deductions for expenses incurred in the derivation of one's income is often raised under the guise of simplifying the tax system. This is a hoary old issue. As per CPA Australia's prior representations into inquiries on this matter, we do not support such an approach either for simplification or budget repair purposes.

Most tax professionals provide whole-of-business services and are no longer focused entirely on tax return preparation. In fact, for tax professionals, tax return lodgment is now often regarded as a by-product or the end result of better business advice and better automated processes and systems.

Notwithstanding the above it is relevant for the inquiry to note that the tax professional services landscape is ever-changing. For example SBR, big data, better data analytics, and better data sharing between government agencies also call into question the roles, expectations, and future of the tax profession.

We would welcome the opportunity to discuss these matters with the Committee. In the meantime, should you have any questions regarding this submission, please do not hesitate to contact

Yours faithfully

Paul Drum FCPA
Head of Policy

¹ See 8. A new entity for small business, p11, <https://www.cpaaustralia.com.au/~media/corporate/allfiles/document/professional-resources/taxation/rethink-on-tax-reform.pdf?la=en>