



Australian Government
Australian Taxation Office

ATO Submission

Senate Select Committee on Australia as a Technology & Financial Centre: Second Interim Report, Second & Third issues paper

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Introduction

1. On 11 September 2019, the Senate resolved to establish a Select Committee on Financial Technology and Regulatory Technology (the Committee).
2. In April 2020, the Committee requested that the Australian Taxation Office (ATO) make a submission to the committee outlining “how the measures announced by the government in response to COVID-19 which the ATO has responsibility for are designed to support FinTech and RegTech businesses in particular”.
3. The ATO declined to make a submission on the basis that as the Government is responsible for designing the economic response to COVID-19, any questions about the design of measures for specific industry groups should be addressed to the relevant policy agency.
4. The ATO issued a letter to the Committee on 15 May 2020 (see appendix A).
5. The Committee published a second issues paper on 9 November 2020 outlining its intention to investigate the longer-term issues relating to “Australia’s need to view tech as a driver of future jobs and economic growth to ensure that Australia remains globally competitive”.
6. The Committee was renamed as the Select Committee on Australia as a Technology and Financial Centre on 18 March 2021. The terms of reference were broadened to include the whole of the financial services sector and a second interim report was issued on 28 April 2021.
7. The Committee has since published a third issues paper with the intention to explore how “Australia can market its strengths to position itself globally as a technology and finance centre.”
8. The ATO welcomes the opportunity to comment on the second interim report as well as the second and third issues papers developed by the Select Committee on Australia as a Technology and Finance Centre. This submission provides an overview of the ways the ATO is contributing to the delivery and governance of critical components of the government agenda that enable technology to drive future jobs and economic growth.
9. Key areas of focus in this submission include the ATO’s:
 - ongoing commitment to implement the Government’s Digital Identity Program and associated regulations to combat identity and tax fraud
 - adoption and implementation of an internationally recognised e-invoicing framework, in collaboration with the New Zealand government.
 - approach and delivery of whole-of-government digital services for individuals and businesses interacting with government
 - establishment of robust security controls to protect taxpayer data within the evolving digital landscape
 - regulations associated with withholding tax on foreign entities and the important role withholding taxes play in upholding Australia’s tax integrity framework
 - approach to the taxation of cryptocurrency and interest gained from neobanks.

Digital Identity

10. Digital Identity is critical to ensure the integrity and protection of client data across the digital economy. It enables initiatives aimed at increasing community take-up of digital services and combating identity crime. The ATO is working with the Digital Transformation Agency (DTA) and other agencies to deliver key components of the Digital Identity Program such as:
 - myGovID – a way for people to prove their identity digitally and access services online (delivered by the ATO in June 2019)
 - Relationship Authorisation Manager (RAM) – a way for people to manage who is authorised to act on behalf of a business online (delivered by the ATO in June 2019)
 - A Machine-to-Machine (M2M) authentication solution (delivered by the ATO in November 2019) to support transactions through Digital Service Providers.
11. At the end of March 2020, the ATO decommissioned AUSkey and replaced it with our new digital identity solution: myGovID and RAM. Together, they have been a critical enabler for a range of stimulus measures, including cash flow boost and stimulus payments for businesses. The flexibility and ease-of-use offered by myGovID and RAM has also supported businesses and agents adopt flexible or remote working arrangements in response to COVID-19.
12. The adoption and use of myGovID and RAM have far exceeded forecasts. As at 29 June 2021:
 - the myGovID app has been downloaded 3.5m times
 - 2.7m users have setup their myGovID
 - 1.9m authorisations have been established in RAM
 - 1.3m unique ABNs have been linked in RAM
 - 30 Commonwealth and State government agencies have enabled 78 online services to be accessed using myGovID and RAM
 - 370 Digital Service Providers transitioned all services to the machine credential
 - 170k average daily authentications to agent and business online services using myGovID.
13. The 2020-21 Federal Budget contained funding for the continuation of the Government's Digital Identity Program. The ATO was funded to increase the level of security of myGovID through the delivery of enhancements such as the transition of individuals to use myGovID as an alternative to the myGov credential and facial verification with liveness testing. The ATO has entered into a contract with iProov Limited as the preferred Liveness Vendor to supply the ATO with the liveness detection software to support facial verification in myGovID.
14. The enhancements will ensure interactions with Government agencies are safer and more secure, as well as providing individuals and businesses streamlined access to the Government's ongoing economic support packages.
15. As Government and private sector services shift to 'digital-by-default' or 'digital-only' approaches, digital identity has become a critical component underpinning all interactions. To support digital inclusion, digital identity should be viewed as a 'citizen's right' and therefore by extension, people should be able to access and use their digital identity free of charge.

16. Increasingly, private sector is seeking to leverage the infrastructure that the Government has built through the DTA's Trusted Digital Identity Framework (TDIF) to streamline interactions in consumer-to-business, business-to-consumer and business-to-business contexts, in particular to meet Know Your Customer and broader customer verification challenges.
17. The TDIF aims to support a federated identity model where citizens will have a choice between public and private sector identity providers, but Digital Identity legislation is required to be able to expand myGovID and RAM to the private sector
18. Digital identity legislation will require strong protections on user's identity information to prevent this information from being commercialised and misused, especially where that information comes from public sector registers.

Know Your Customer (KYC) regulations

19. The *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act) and the associated AML/CTF Rules prescribe the Know Your Customer (KYC) requirements in relation to 'designated services'. These controls are very important to combating identity and tax fraud. With the rapid advances in technology over the last decade, we have seen a parallel advancement in cyber-criminal capability. This has been further heightened during the COVID-19 pandemic.
20. Cyber criminals have demonstrated their ability to acquire troves of personal identity information, including identity documents, on thousands of Australians. This information is often combined with identity information sourced from other locations to create profiles on individuals and then sold to other criminal elements to commit fraud and for other purposes. This stolen identity information is often enough to pass the KYC requirements in the AML/CTF Rules. Furthermore, once an identity is stolen it can be used again and again against different organisations. In the current paradigm it is almost impossible to regain full control over the identity again.
21. Outside of the AML/CTF regime there are numerous other entities that handle sensitive information and can be at risk of infiltration by identity criminals leading to poor outcomes for Australians and the Commonwealth. It is important these entities, for example tax practitioners, have appropriate processes in place to ensure the person is who they say they are and where relevant they have the appropriate authority to act on their behalf.
22. There is confusion on what constitutes an acceptable standard of customer verification in these other domains and a misunderstanding of the risk. To address this, the ATO together with the Tax Practitioner Board, are introducing new client verification requirements for tax practitioners. The new requirements uplift the existing processes.
23. A consultation paper on the new requirements was published in May and comments period closed on 10 June 2021. We are aiming to publish updated guidelines that aligns to the Tax Practitioner Boards requirements between July to December 2021. There will be a transition period prior to mandating the requirements. The change is expected to protect both clients and tax practitioners from being a victim of identity fraud.
24. The ATO is investigating the development of a new strategic notification capability which will use authentication systems to verify a client and remove the need to solely rely on identity documents. This new capability is expected to mitigate identity and tax fraud by requiring clients to authorise high-risk transactions, e.g. adding a new tax agent or updating bank account details.

25. The use of myGovID with facial verification and liveness testing minimises or reduces many of the risks above. This would be one option of an authentication system embedded into the strategic notification capability.

E-invoicing

26. The Australian and New Zealand governments are working together under a trans-Tasman arrangement for a common approach to electronic invoicing (e-invoicing) as part of the Single Economic Market agenda.
27. E-invoicing allows businesses to electronically send and receive invoices seamlessly, reducing the costs associated with processing invoices, and eliminating errors resulting from manual entry and re-keying of information.
28. These efficiencies have the potential to produce significant economic benefits. Over 1.2 billion invoices are exchanged each year in Australia. Despite this large volume, most businesses rely on manual invoicing processes. Deloitte Access Economics has estimated that e-invoices can reduce the average cost of processing paper invoices by 70 percent, up to \$20 savings per invoice.
29. In February 2019, the Australian and New Zealand Prime Ministers announced the two countries would adopt Peppol; an internationally recognised framework for e-invoicing. Peppol is used to facilitate international trade in over 37 countries.
30. In October 2019, legislation was passed allowing the ATO to establish an Australian Peppol Authority. The ATO is responsible for developing Australian invoice specifications (i.e. Tax Invoice) and other local requirements, onboarding local service providers into the network, and governance arrangements.
31. The Commonwealth Government is paying e-invoices within 5 days (contracts up to \$1 million), helping the cashflow of small businesses.
32. As part of the 2020-21 Budget, the Government announced it would accelerate the adoption of e-invoicing by requiring all Commonwealth Government agencies to be able to receive Peppol e-invoices. The mandate requires 34 material Non-Corporate Commonwealth Entity (NCCE) agencies to adopt by 1 July 2021. As at 15 June 2021, 14 of these agencies have adopted. Some agencies are likely to be late, with most of these agencies planning to implement by end of August 2021, which would achieve the Government's 80% e-invoicing capacity target. A further 64 agencies are required to adopt by 1 July 2022. The Treasurer is also working with states and territories to increase e-invoicing adoption.
33. Treasury undertook consultation on options for mandatory adoption of e-invoicing by businesses which closed on 18 January 2021.
34. As part of the 2021-22 Federal Budget, the ATO was funded \$15.3 million to increase the awareness of e-invoicing by businesses and thereby increase adoption, as part of the Government's Digital Economy Strategy. Treasury will conduct further consultation on potential regulatory and non-regulatory ways to accelerate e-invoicing adoption.
35. Xero and MYOB have started (April - May 2021) registering users for Peppol e-invoicing, resulting in early signs of increased business adoption. We expect to see accelerated business adoption as more software becomes available during the year. With key software becoming ready, the Government investment in awareness can include a "call to action".

36. While the focus has been on e-invoicing, the Peppol network provides mechanism for exchanging any business documents between parties, and already supports business document types in the broader procure-to-pay process (e.g. purchase order and shipping notes). There are opportunities for businesses expand its use to support other aspects of their business.

Single Digital Channel to Government

37. The ATO supports the delivery of whole-of-government digital services for clients and has contributed in several ways to help streamline interactions of individual and businesses with government, including:

- myGov onboarding – over 12 million taxpayers have accessed ATO online services as a result of the significant investment made by the ATO to onboard to the Government's myGov platform. These clients also regularly access other government services via this platform.
- Commonwealth Business Register – The ATO is currently responsible for administering the Australian Business Register (ABR) and has been funded to implement the Modernised Business Register (MBR) program which aims to unify the ABR and 31 registers administered by ASIC on a contemporary, digital registry system. Through this program, the ATO will be responsible for the registration of all businesses.
- The MBR program will also deliver a business inbox and landing page capability to receive electronic correspondences that will be built for extensibility across government.

38. Leveraging off Digital Identity, the ATO is supportive of citizens and businesses having a streamlined experience when interacting with Government using Single Sign-On capabilities. While experiences should be streamlined there are important distinctions between using a single digital identity to access government services and accessing all government services in one location. The complexities and challenges associated with the delivery of services vary based on whether these are provided in a centralised or decentralised manner and in how the underlying data is consumed. These models are explored below.

CENTRALISED SERVICES

39. For simple, common tasks such as updating an address or other unique personal client details, we believe these should ideally be done in a centralised location under a 'tell us once model'. This would also suit agencies without the necessary IT capabilities or digital presence to offer these services.

40. Using a centralised model in this manner would result in significant savings to both Government administrators and clients alike. While simple at face-value there are practical challenges with this concept that must be considered. For example, the definition, purpose and consequences of data elements varies across agencies (e.g. residential address) and managing the risks associated with the changes or lack of changes (i.e. lie by omission) to that data.

41. Similarly, for services and measures that span agencies it may make sense to complete these centrally, however workflow management between agencies would be a significant challenge to resolve.

42. There are also policy and legislative challenges associated with delivery of services using a centralised model. The ATO and other agencies are currently bound by legislative provisions that limit our ability to share information with a centralised service and one another. Key philosophical decisions need to be made in relation to how agencies store, consume and share data within ethical boundaries and existing privacy provisions.

DECENTRALISED SERVICES

43. For complex tasks or where service offerings are highly integrated with an agency's backend systems, the best location for these to be developed and offered is at an agency level. For example, this is the case for the ATO's individual income tax return lodgement service (myTax) currently offered via ATO Online. This service uses integrated third-party pre-fill functions, often requires multiple interactions by the client and carries significant risks associated to taxpayer data. This service can be accessed via myGov however the service itself is offered through, and data stored in, ATO systems.

44. The above describes situations where a client is interacting through a web interface. Increasingly however, services are being offered via Application Programming Interfaces (APIs) where a machine (software) interacts directly with the Government. Our view is that the entry point for any software services should be the agency that logically has the greatest relationship with the source system. Any data collected by the agency through that service can then be shared with other agencies as necessary (subject to legislative constraints).

45. Under Single Touch Payroll (STP) for example, the ATO is responsible for collecting large volumes of payroll data from employer's payroll software and while this is primarily used for tax purposes, a subset of this data is provided to Services Australia to assist with administering the welfare system. It would be illogical for Service Australia in this scenario to require employers to connect and report to them separately.

46. Software based services have presented new opportunities for government agencies and private sector to collaborate and share information to achieve mutually beneficial outcomes for clients and provide increased integrity in government services offered to them. Some recent examples of how STP has been leveraged by the broader ecosystem include:

- Leveraging STP data to administer the JobKeeper program to support COVID-19 impacted employers and employees through wage subsidies. STP is enabling up to \$100 billion of JobKeeper wage subsidies. STP not only made the application process easy for employers but also provided an inbuilt integrity system through visibility of employee payments.
- STP data has also been leveraged by the Australian Bureau of Statistics (ABS), via a real time data feed, to assist the Australian government to understand current labour market impacts of COVID-19.

47. The ATO will continue to explore opportunities for the expansion of integrated software services across the digital ecosystem, including across jurisdictions.

Data security

48. The ATO has very strong and robust data security controls in place to protect taxpayer data. However, we recognise that in a modern digital world there are many people who all hold sensitive taxpayer data. Furthermore, the data that underpins tax administration is also used in numerous other systems and as the data itself has increased in value it is increasingly being used for a wider range of purposes.

49. The ATO developed the [DSP Operational Security Framework](#) (DSP OSF) which outlines a set of security requirements for Digital Service Providers to protect our clients and their data when transacting through software. DSP OSF is part of the ATO's response to the business risks and security implications presented by the vast growth of digital services across the digital economy.
50. DSP OSF has been in place for four years and uses a risk differentiated model to determine requirements based on the DSP's operating environment, risk rating of services and volume of records. All DSPs must meet the requirements of DSP OSF before they can consume ATO digital services.
51. DSP OSF underwent an independent review in July 2020. The review recognised the significant contribution it has had on improving the security of the ecosystem and identified opportunities to further harden the ecosystem and strengthen our security guidelines. The ATO consulted with industry in October 2020 to work through the findings and develop updated requirements and supporting guidance. The updated requirements and documentation will be published in July 2021.
52. The ATO has also worked closely with the Australian Business Software Industry Association (ABSIA) to develop the Security Standards for Add-on Marketplaces (SSAM). The SSAM makes it easier for third part app developers connecting to an app ecosystem by setting a common standard across the market.
53. Some of the key elements to the ATO's success in implementing DSP OSF and the SSAM have been:
 - extensive consultation with affected parties
 - industry buy-in and leadership
 - utilising a differentiated approach to ensure those with a limited risk profile (e.g. small client base, lower risk transactions) did not have too high a barrier to entry while those at the other end of the spectrum had in place strong security controls to protect taxpayer data
 - taking a pragmatic, principle-based approach
 - responsive and adaptive approach
 - comprehensive guidance and support
 - recognition and acceptance that data and cyber security must evolve and harden over time.
54. As the digital economy continues to evolve it is important that there are conscious efforts to align security requirements across industries wherever possible to reduce costs and limit complexity.

Interest Withholding Tax

55. As a general rule, foreign resident entities are only taxed in Australia on income that has an Australian source. The rate of withholding tax depends on the type of payment and the terms of any tax treaty that may be in place.
56. Payments of interest, dividends and royalties made to non-residents by residents are not subject to withholding tax in some circumstances if the non-resident is exempt from income tax. Relevant exemptions are principally contained in Division 50 of the *Income Tax*

Assessment Act 1997 (ITAA 1997) and subsection 128B(3) of the *Income Tax Assessment Act 1936 (ITAA 1936)*.

57. The starting point is that a 10% interest withholding tax rate applies to interest payments to non-residents. However, in practice, interest withholding tax rarely applies to borrowings from unrelated lenders. This is due primarily to two key exceptions: 1) under some of Australia's bilateral tax treaties with major jurisdictions, interest withholding tax is not payable on interest to unrelated financial institutions; and 2) under Australian domestic tax law, interest payable on publicly offered debentures is exempt from withholding tax. However, it should be noted that the application of interest withholding tax to some sources or forms of third party funding but not others could be argued to limit or distort funding options of Australian businesses.¹
58. The existence of these concessions means that interest withholding tax is rarely paid on third party borrowings, and is applicable in practice primarily to borrowings from related parties. In relation to related party borrowings, interest withholding tax provides a valuable but partial protection against artificial profit shifting out of Australia, including debt loading and transfer mis-pricing. In addition, the existence of interest withholding tax provides an important but partial integrity protection against other forms of tax avoidance / evasion where ostensibly the borrowing is from an unrelated party, but is in fact disguised funding from related parties.
59. Where tax is withheld in the source country, the recipient of that payment is generally also entitled to relief from double taxation in the country of residence.
60. The use of related party debt financing to achieve profit shifting or contrived Australian tax benefits is one of the most significant risks in the public groups and multinational population. If interest paid to non-residents, including related non-residents, becomes wholly exempt from withholding tax, this will result in additional incentives to shift profit from Australia by creating or mischaracterising additional deductible interest payments that would ordinarily be otherwise subject to Australian withholding tax.
61. The ATO's concerns regarding recent arrangements which have involved contrivance or mischaracterisation of payments in order to avoid withholding tax is reflected in recent taxpayer alerts TA 2018/2, TA 2020/2 and TA 2020/3.
62. We note that taxpayers who intend to source financing from non-residents can seek a private binding ruling from the ATO to obtain certainty on their obligations to withhold from interest payments. We also note that from 1 July 2021, the ATO will have established their New Investment Engagement Service (NIES) for businesses planning significant new investments into Australia. The NIES is designed to help facilitate more real-time engagement and provide guidance with regards to potential tax consequences of new investment into Australia.

Cryptocurrencies and digital assets

63. In response to growth in the use of cryptocurrencies, the ATO provided [public guidance in 2014](#) that took the view that cryptocurrencies do not fall within the definition of a 'foreign currency' for tax purposes. That view is based on the concept of a 'currency' as a that is

¹ The interest withholding tax exemption for offshore banking units will be removed for interest paid on after 1 January 2024, subject to the passing of legislation.

legally recognised and adopted under the laws of a country as the monetary unit and means of discharging monetary obligations for all transactions and payments in that country. This view was supported by the [Administrative Appeals Tribunal decision on 16 June 2020](#) in the Seribu Pty Ltd case.

64. As a consequence a cryptocurrency being a CGT asset and not a foreign currency for income tax purposes, the large majority of clients will account for any gains or losses on capital account. One benefit of this treatment is that taxpayers who hold their cryptocurrency for at least 12 months as an investment can access the 50% CGT discount. This is akin to how investors holding company shares account for their gains and losses.
65. A client's capital gain or loss for an income year is reported as a single figure which may comprise gains and losses from the disposal of a cryptocurrency as well as disposals of other CGT assets such as shares, property and collectables. This makes it difficult to provide an accurate estimate of the amount of revenue raised in relation to cryptocurrency alone.
66. If the client is carrying on a business of trading in cryptocurrencies, again similarly to a share trader, the trading stock rules apply, and not the CGT rules. The gains or losses from such trading activities are on revenue account.
67. If the client is not in the business of trading in cryptocurrency, but receive cryptocurrency as payment for goods or services sold through their business, the value of the cryptocurrency translated into Australian dollars at the time of the transaction is included as part of the income of the business. This is the same process as receiving any other non-cash consideration under a barter transaction.
68. Cryptocurrency bought to buy goods and services for personal use (e.g. clothes, food or pay personal bills) is not subject to capital gains tax.
69. The treatment of income arising from cryptocurrency transactions in Australia is broadly consistent with countries such as the US, Canada, the UK and other European Countries.
70. Since 2009 when the first cryptocurrency was released there has been a marked increase in cryptocurrency transactions. The Government recognised that some of the policy settings needed to change to remove the competitive disadvantage for the use of cryptocurrencies compared to 'fiat currencies', such as the Australian dollar. As a result, in 2017 they addressed the 'double taxation' of digital currencies in the GST law. This ensured that taxpayers who used digital currencies to acquire goods and services didn't effectively pay GST twice: once on the purchase of the digital currency and once again on its use in exchange for other goods and services subject to the GST.
71. ATO data analysis shows a dramatic increase in trading since the beginning of 2020. It is estimated that there are over 600,000 taxpayers that have invested in digital assets in recent years. The innovative and complex nature of cryptocurrencies can lead to a genuine lack of awareness of the tax obligations associated with these activities. Also, the pseudonymous nature of cryptocurrencies may make it attractive to those seeking to avoid their taxation obligations.
72. To ensure that the ATO could regulate the tax consequences of cryptocurrency transactions, the ATO introduced a data-matching program in April 2019. Under the program, cryptocurrency transactions have been collected from Australian based cryptocurrency exchanges for the 2014-15 to 2019-20 financial years and will be expanded to capture data up to and including 2022-23. Details of the data-matching program protocol are published on the ATO website.

73. The cryptocurrency data-matching program allows us to identify and address multiple taxation risks:

- capital gains tax (CGT) – where cryptocurrency is acquired as an investment, a capital gain or loss may occur when a disposal of the digital asset happens. Disposal occurs when:
 - selling cryptocurrency for fiat currency
 - exchanging one cryptocurrency for another
 - gifting cryptocurrency
 - trading cryptocurrency
 - using cryptocurrency to pay for goods or services
- omitted or incorrect reporting of income – in some situations cryptocurrency transactions can also give rise to ordinary income. Taxpayers who trade cryptocurrency or businesses that accept cryptocurrency as payment have obligations to report the income generated in their tax returns
- fringe benefits tax (FBT) – when employees receive cryptocurrency as remuneration under a salary sacrifice arrangement, the payment of the cryptocurrency is a fringe benefit
- goods and services tax (GST):
 - normal GST rules apply when receiving digital currency as payment for sales of goods and services: Remit 1/11th (in AUD) of the payment received for the taxable sale
 - there are no GST consequences of buying or selling digital currency or using digital currency to pay for goods and services if taxpayers are not carrying on a business
 - for taxpayers in business, there are no GST consequences for sales or purchases of digital currency – that means that GST is not charged for sales of digital currency and nor are they entitled to GST credits for purchases of digital currency
 - for taxpayers who are carrying on a business in relation to digital currency, or this is part of their existing business, there may be some GST consequences – we have further information on these potential GST impacts in these circumstances on our [website](#).

74. The data collected under this program will enable us to undertake a range of activities to support correct reporting of cryptocurrency transactions. The data will be used to:

- identify and inform cryptocurrency consumers of their taxation obligations as part of information and education campaigns
- provide tailored messages in our online services that prompt taxpayers to check they are correctly meeting their reporting obligations when completing their tax returns
- compare to ATO records, as part of the methodologies by which we select taxpayers for compliance activities
- provide insights that support the ATO's regulatory approach, to reduce the impact of financial crime

- design ways to make it easier for our clients to interact with the system and get their tax affairs right.
75. Given the rapid expansion of cryptocurrencies globally there are significant challenges in expanding the data acquisition, especially where the Digital Service Providers operate internationally. This is partially mitigated by the fact we can detect incoming and outgoing funds to offshore digital currency exchanges through Australian Transaction Reports and Analysis Centre (AUSTRAC) and International Funds Transfer Instruction (IFTI) transactions.
76. Global markets are looking to capitalise on the regulatory policy settings in countries such as China, that has moved to ban Bitcoin mining altogether². Large commercial Bitcoin miners operating in China are now looking for other countries to host their businesses. Mining relies on an abundance of affordable electricity and reliable internet connectivity and large institutional investors are looking for markets where they can mine bitcoins using renewable sources.
77. Australia is supportive of the work that is underway at the OECD through Working Party 10 to develop a tax transparency framework for Crypto-Assets and digital money products. The proposed framework seeks to address the risks associated with the lack of transparency in Crypto-Asset and digital money products, by establishing a new reporting regime for these sort of products. It is hoped a draft will be available in late 2021.

Neobanks in Australia

78. The digital disruption of mainstream sectors has continued with the banking sector seeing an increase in the growth of neobanks. Neobanks provide all their services online or through apps and are using artificial intelligence (such as chatbots) to provide that sense of personal service, replacing call centres and physical branch locations.
79. Although their service model is different to traditional banks, neobanks go through the same regulation processes. They all have an Authorised Deposit-taking institution (ADI) licence from the Australian Prudential Regulation Authority (APRA) and like other banks must hold \$250,000 per person per ADI in the case the institution stops operating or becomes insolvent. In many cases neobanks are backed by a bigger bank or credit union.
80. Neobanks, just like other financial institutions, must report the interest paid to account holders to the ATO through the Annual Investment Income Report. The ATO uses this information to pre-fill tax returns and adjust returns that omit this income.

Appendix A

[ATO response to first Issues paper](#) (submission 165). Letter issued to the committee on 15 May 2020.

² [Bitcoin Falls to Two-Week Low as China Cracks Down on Crypto: Discovery Service for Australian Taxation Office \(ebscohost.com\)](#)

