

House of Representatives Standing Committee on Tax and Revenue
Department of the House of Representatives
By electronic transmission

Tuesday, 14 February 2017

Dear Sir or Madam

Inquiry into taxpayer engagement: Submission to the House of Representatives Committee - Standing Committee on Tax and Revenue

Further to your letter dated 16 December 2016, Tax & Superannuation Australia welcomes the opportunity to make our submission to the Standing Committee on Tax and Revenue's inquiry into taxpayer engagement.

Tax & Superannuation Australia is a member based association whose members are individuals, small businesses, and registered tax agents who service these types of taxpayers.

A summary about our association is contained in **Appendix 1**.

Considering the inquiry's terms of reference, our submission herein largely relates to the views and concerns of our members. We have sought to broadly cover each of the terms of reference items.

The tax practitioner – an intermediary between taxpayers and the tax and superannuation system

Registered tax practitioners play a critical role as an intermediary in the administration of the tax system¹. This was something that was acknowledged by the Commissioner of Taxation in a speech last year.²

Recent Australian Taxation Office (ATO) statistics reveal that 12.9 million tax returns were lodged by individuals for the 2013-14 income year.³

Further, it is quite clear that Australian taxpayers rely heavily on tax practitioners in ensuring that they are complying with the taxation laws and are fulfilling their tax obligations in a timely manner. In fact, 78% of income tax returns (including 97% of business income tax returns) are lodged through a registered tax practitioner.⁴

1 According to the Tax Practitioners' Board, as of 30 June 2016, 75,436 tax practitioners were registered [41,227 tax agents, 14,715 BAS agents and 19,494 tax (financial) advisers].

2 *Building trust and confidence in our tax system*, Commissioner Chris Jordan, Keynote address to the Tax Institute 31st National Convention, Melbourne, 3 March 2016

3 Australian Taxation Office statistics, 2013-14, www.ato.gov.au

4 Tax Practitioners Board, Annual Report 2015-16

The reliance placed by individuals and small businesses taxpayers on the services provided by tax practitioners is largely as a result of the complexities and ever-changing nature of the taxation laws. Further, for individuals, the role of the practitioner to assist taxpayers with maximising their refunds or minimising their tax liability (in accordance with the law) is something that is highly valued.

ATO's recent developments in the digital space by the introduction of digital channels, such as *myGov* and *myTax* has enabled taxpayers with simpler tax affairs to prepare and lodge their tax returns without the need or assistance of a tax practitioner.

We understand that since its introduction by the ATO, there has been a steady increase in the use of *myTax* in the preparation of tax returns by individuals. The accessibility and ease with which tax returns can be prepared using this online channel improves taxpayer engagement within the taxation system. Further, the ATO has also introduced in its ATO app a function called *myDeductions* which helps in simplifying record keeping for individuals by, amongst other things, enabling them to photograph receipts and accounting for kilometres travelled with respect to work-related motor vehicle expenses.

Whilst the increased online tools and technology for self-preparers is much appreciated as it is intended for improving the engagement with taxpayers, Tax & Superannuation Australia considers that the ATO should be equally allocating its time and resources in coming up with robust, state-of-the-art systems and technologies that support the tax practitioner community.

The ATO's engagement with the tax practitioner community could be vastly improved with the right tools and systems in addressing and alleviating major process failure issues experienced in recent times. These include cumbersome processes, reliability issues, inefficiencies, bottlenecks and red tape that exist in the current system and these impediments are having a great impact on the tax practitioner's ability to service their clients in an effective and efficient manner.

Obtaining contradictory advice or guidance from ATO officers or being put through to various departments within the ATO to obtain an outcome are examples of common frustrations encountered by tax practitioners

However, we note that the ATO does attempt to assist tax practitioners through their online Complex Issues Resolution service – available on the ATO website exclusively to tax practitioners. While some practitioners have found this service useful, common complaints have been in the areas of response times and the ATO's inadequate communication of this service to the tax practitioner community.

The online Complex Issues Resolution service requires the tax practitioner to lodge their queries electronically by typing up the issues and submitting it online. The acknowledgement time is currently within 24 hours and resolution within five working days. Firstly, recognising the fact that tax practitioners are time poor, they see the process of typing up the issues (mostly complex) in detail as cumbersome and time consuming. Secondly, they see the five day resolution time as lengthy under circumstances where there is a demand for urgent attention.

In the past, tax practitioners had direct access to an ATO client manager who was able to deal with tax practitioners' queries more expediently. A large proportion of our members would like to see this process reinstated.

To improve tax practitioner engagement, we contend that more should be done to reduce the inefficiencies placed on practitioners and that such 'touch points' with the ATO could be improved with adequate resourcing and funding to improve access to the ATO's services.

Undoubtedly, greater emphasis placed on improving the experience for tax practitioners will improve the overall engagement of the taxpayer community, as engaged tax practitioners would become advocates for the ATO.

Reliance and stability of online ATO services

The federal government has over the past several years sought to pursue a “digital by default” strategy of providing its services to the Australian community through online channels. *myGov* and *Single Touch Payroll* are some examples of the transition to a fully digital environment.

Whilst the overarching objective of providing government services to taxpayers digitally is commendable, there have been some recent cases of government technology systems failing to provide a stable environment thereby causing inconveniences to the Australian community. Major examples of such events over the past 12 months include the ATO’s catastrophic system failure of December 2016 resulting in mass file deletions or corruption of data. The Australian Bureau of Statistic’s “census fail” in August 2016 and issues relating to robo-debt letters issued by Centrelink in the lead-up to Christmas 2016 are other examples.

Of the government agencies, the ATO has been at the forefront of providing online services to taxpayers and the tax practitioner community. Tax practitioners currently lodge their tax returns by way of a dated electronic portal referred to as Electronic Lodgment Service (ELS), which is currently transitioning to Standard Business Report (SBR) – a modern electronic channel for practitioners to interact with the ATO.

Notwithstanding this, for the taxpayer and tax practitioner community, the ATO website and its online systems, which includes the tax practitioner portal and the business portal, has suffered two major system outages over the past three months.

The first of these events occurred on 12 December 2016 and lasted for almost a week whilst the ATO worked with its partners to restore stability to the system, the second event occurred on 3 February 2017, and lasted for approximately three days.

According to the ATO, the initial outage was caused by a failure of hardware storage which was installed approximately a year ago by its partner Hewlett Packard Enterprises. The problem was further compounded by the failure of the ATO’s back-up systems to work as planned. The second system’s outage was caused by the same hardware issues. Reassurances were given that no data was lost or compromised.

Our members, who are mainly registered tax practitioners, have time and again vented their frustrations at the unstable ATO system and its frequent outages. Some have now resigned to accepting such frequent outages as an ordinary aspect of dealing with the ATO while others want to seek compensation for lost business and time because of the recent outages.

Notwithstanding the adverse impact on tax practitioners and taxpayers, credit should be given to the ATO for being forthright and transparent in communicating with the tax practitioner community as to the status of the tax agent portal and any foreseen outages.

Following the systems outage in December last year, the Commissioner of Taxation, Chris Jordan, issued a statement indicating that an independent review by PricewaterhouseCoopers would be undertaken to understand the reasons for the system outage and how such incidences could be avoided in the future.

Tax & Superannuation Australia is concerned that the recent ATO system outages are not merely one-off but evidence of deeper systemic issues. Such system failures are typically the result of various factors. In our view, aspects that need to be addressed include whether there is appropriate funding and resourcing, whether there is adequate oversight and accountability by those responsible, and whether there is a reasonable balance between having the necessary in-house expertise and the outsourcing of services.

In the interest of maintaining and ensuring engagement of the taxpayer and tax practitioner community, we urge that the government carefully consider the outcomes of the ATO's upcoming review and provide the necessary support, including incorporating adequate hardware redundancies, resourcing and funding, to ensure such severe system failures do not occur and any maintenance outages are kept to a minimum and are for a shorter duration.

Undoubtedly, the recent instability and unreliability of the ATO system has dented the confidence level of the taxpayers and the tax practitioner community. Ongoing failures by the ATO to deliver a robust system are bound to permanently impact the level of the ATO's engagement with the tax practitioner and taxpayer community.

Internet connectivity and engagement with rural taxpayers and tax practitioners

As a corollary to the provision of online services, the ability to transact and interact with the ATO also requires reliable internet connectivity; particularly in regional and rural areas throughout Australia.

Some of our members who reside in these areas have expressed their frustrations and difficulties in being able to engage with the ATO through its online services due to internet black-spots (whether that be via broadband or wireless networks). For example, difficulties have been encountered in lodging via the tax practitioner portal or through the Super Stream service.

Whilst technologies provided via the National Broadband Network and through wireless networks continue to improve the delivery of ATO online services, there still are some sections of the community that are inevitably left behind when it comes to accessing reliable internet coverage. Such logistical impediments will undoubtedly disengage taxpayers who are unable to avail themselves of these services.

As the ATO continues to provide and improve its online services, Tax & Superannuation Australia wishes to remind the government and the ATO that it should always provide alternative services and support to those taxpayers (and also tax practitioners) in rural and regional areas where technology cannot help them in adhering to compliance of taxation laws. For individuals and businesses, this could be through the availability of paper forms and where relevant, the ATO should be prepared to extend its leniency to taxpayers who fail to lodge their tax returns and other obligations on time as a result of unreliable or no internet connection.

The cash economy

Tax & Super Australia believes that the cash economy, based on the black money or unaccounted money, is an inhibitor to the Australian economy and has a significant adverse impact on tax revenues for the government (estimated to be \$21.1 bn). As such, it needs to be curbed. Its minimisation will undoubtedly benefit the economy in more ways than one.

In particular, the ATO considers that the cash economy is most prevalent in the small business market segment, where approximately 1.6 million small businesses operating across 233 industries are more likely to have regular access to cash.⁵ The ATO has also identified that 58 of those industries are at a higher risk of operating in the cash economy, particularly restaurants, cafes and takeaway businesses, building and construction, and personal services (hair and beauty).⁶

Over the years, successive federal governments have sought to reduce the impact of taxpayers taking advantage of the cash economy.

Policies such as the introduction of GST in July 2000 and of more recent times, the use of small business industry benchmarks, Single Touch Payroll and the introduction of taxable payments report for those in the building and construction industry have sought to limit the impact of the cash economy. According to our discussions with the ATO, the taxable payments reporting regime has been effective in reducing the prevalence of cash payments in the building and construction industry.

The federal government's Mid-year Economic and Fiscal Outlook 2016-17 has provided for a cash economy taskforce that would identify ways to limit the impact of the cash economy. Tax & Superannuation Australia supports this government initiative.

Proposals such as the removal of large denominations such as the \$100 Australian bank note, as was recently the case in India with the scrapping of the 500 and 1,000 rupee notes, is worthy of exploration by the government. However, consideration should be given to the best way to implement such a demonetisation without any adverse consequence to the economy and the valuation of the Australian dollar.

Capping the value of cash transactions as implemented in France, or the use of special cash register as the case in Sweden, are other ways with which the cash economy can be tackled.

Tax & Super Australia supports a range of measures by which the Government could limit those operating in the cash economy such as through:

- Voluntary disclosure schemes (that is, an amnesty) whereby those declaring their income will not be penalised.
- A "cash withdrawal tax" equal to or marginally higher than the GST rate for withdrawals over a certain threshold to curb large withdrawals of cash.
- Mandatory reporting of high value transactions.

Notwithstanding the above measures, Tax & Super Australia considers that the increasing use of technology such as Apple Pay and the use of other non-monetary forms of payments are a natural progression towards a cash-less society. Further, we consider that increasingly sophisticated data matching capability and data analytics by the ATO, particularly with taxpayers' banking records will also contribute to tackling the cash economy.

* * * * *

5 *Strategies and Activities to Address the Cash and Hidden Economy*, Australian National Audit Office, Report Number 27 of 2015-2016

6 *Ibid*

We trust that the views contained in our submission are of value and that it will assist the Standing Committee in improving the level of engagement by the tax practitioner and in turn, the taxpayer community.

On behalf of our members, we would be pleased to assist you if further opportunities arise for us to consult on this issue.

Should you have any further questions or require any clarification, please contact Mr Andy Nguyen, Tax Technical Services Manager on (03) 8851 4510 or email: anguyen@taxandsuperaustralia.com.au.

Yours Sincerely



Moti Kshirsagar
Chief Executive Officer
Tax & Superannuation Australia

Appendix 1.

About Tax & Super Australia

Taxpayers Australia Limited trading as **Tax & Super Australia** is a not-for-profit organisation committed to a fairer and more transparent taxation system for every Australian taxpayer.

Our aim is to provide taxation practitioners, superannuation professionals, small businesses and individuals with up-to-date, informative and above all understandable information about Australian taxation.

As a community benefit organisation, Tax & Super Australia is independent and unaffiliated with any political or commercial groups, advertising or sponsoring organisations. We are a member-based organisation, and our loyalty is dedicated to our members.

Tax & Super Australia has been a trusted source of tax knowledge and expertise since 1919 – we are one of the original, if not the first, of such associations in the world.

Our membership and subscriber base comprises tax and superannuation professionals as well as individuals and small businesses. Our plain English approach means that information is not obscured by confusing jargon or heavy technical and overly academic language, while still ensuring that tax issues are comprehensively clarified.