

## Committee comment and next hearing

### Committee comment

#### New technology projects

- 3.1 The ATO is engaged in an ambitious program of renewal, which involves far-reaching technological change. It will make the operations of the ATO more efficient for both the ATO and taxpayers.
- 3.2 The Committee acknowledges the ATO's increased willingness to consult with tax practitioners about the design and implementation of new systems, and notes the appreciation expressed by the practitioners. In particular, the Committee supports the use of trial and pilot projects when introducing new technology.
- 3.3 However, it is clear that there is still concern among tax practitioners about the operation of the ATO's IT systems and the introduction of new technology by the ATO. There is continuing frustration with problems which the ATO says are fixed, and there are misgivings about future developments which may be brought online before they are ready.
- 3.4 The Committee suggests that caution and rigorous assessment should be employed before the old lodgement system is closed down, noting that some elements of the new system were still under development in February, and that implementation timetables for new technology projects have often been optimistic.
- 3.5 In this regard, the Committee welcomes the plan to operate the existing lodgement system in parallel with Standard Business Reporting for several months during tax time 2016, and suggests that the ATO remain open to extending the switch-off date beyond March 2017 if it is warranted. It also notes the pilot project for Single Touch Payroll.

- 3.6 The Committee further suggests that broad education programs for customers, including individual clients and tax agents, be undertaken when new technology is being introduced, and is pleased with the ATO's intention to visit and assist tax practitioners who are having trouble using the ATO's systems.
- 3.7 The expansion of *myTax* has the potential to change the way many taxpayers interact with the ATO. The Committee commends the careful work done by the ATO with the suppliers of data. It will be particularly important for the ATO to have stringent quality control processes in place for prefilled data and for returns which are now furnished without the help of a tax professional. Vigilance will also be required over the security of the system.
- 3.8 As more taxpayers use *myTax* there will be a greater danger of system overload as peak times become more pronounced, as was experienced last year. If there is a possibility of such overload, a public education campaign might be desirable, suggesting that people stagger their returns.
- 3.9 Given some stakeholders' concerns regarding *myTax*, the Committee welcomes the ATO's public acknowledgement of the continuing critical role of tax agents and its renewed focus on them.
- 3.10 Taxpayers who use tax agents are entitled to expect the ATO to communicate with their agents; and tax agents are entitled to be kept informed of communications with their clients. The ATO has conceded that it did not fully take account of the ramifications when it linked individual electronic lodgements to myGov. It has since made efforts to remedy the problem of client correspondence not going to agents, or being difficult to access through the client correspondence list. Further improvements to the client correspondence list, which the ATO has said it will deliver by early 2017, will be welcome.
- 3.11 However, the problems will not be solved until there is a fully integrated system that captures all correspondence. In the interim, the Committee reiterates its suggestion that a positive notification be sent to agents when any correspondence is sent to their clients, and again requests the ATO to report on steps it has taken to implement a push notification or other solution so that tax practitioners are made aware when correspondence has been sent to clients.
- 3.12 While it is likely and desirable that the tax system will become fully digital, at this stage the Committee suggests that the ATO develop an active program for monitoring and assisting individuals and businesses who are not computerised, to ensure that they can be willing participants in the tax system.

- 3.13 The Committee was encouraged by the ATO's reports of its efforts to 'fix irritants' in the Tax Agent Portal. It was particularly impressed by the visits the ATO had made to tax agents' offices to get real information on how the portal is used. The Committee believes the dashboard, which gives information on how the system is functioning, could be very useful. It notes, however, reports that the readings on the dashboard are not always accurate, and that difficulties identified in the visits had already been notified to the ATO. The Committee suggests that consultation is useful only if it is genuine and if the results are taken notice of: it needs to be functional, and acted upon.
- 3.14 The Committee looks forward to hearing of progress on the development of the new platform, ATO Online. It should be well advanced by the time of the next hearing.
- 3.15 The Committee appreciates that any introduction of new technology creates problems, and that systems that deal with large numbers of clients including the general public are always open to criticism. It regards it as an open question how the ATO compares with other organisations introducing technological change and would be interested in information about any benchmarking the ATO has done against similar organisations overseas or, say, banks in Australia.

### **Recommendation 1**

- 3.16 **The Committee recommends that the ATO make a clear public statement of its timetable for the transition to the new tax agent platform.**

### **Relationships with tax practitioners**

- 3.17 The Committee welcomed the positive comments from tax professionals about improved relationships with the ATO, and commends the ATO for the efforts it has made. However, it notes the comment of Mr Drum that 'the tax agent out in the 'burbs is sometimes not feeling the love'.<sup>1</sup> It recognises the important role of professional and industry associations, but encourages the ATO to ensure that its staff communicate well with clients at all levels, and notes the cultural change initiatives under way in this regard.
- 3.18 The Committee notes that the ATO can impose real costs on tax agents in the introduction of new technology, the inefficient handling of disputes,

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1 Mr Paul Drum, *Committee Hansard*, 10 February 2016, p. 5.

and unclear correspondence. They can all take up time, and thus impose opportunity costs; they can damage relationships between tax agents and their clients; and occasionally they can impose cash costs in terms of purchase of new equipment and employment of lawyers and other professionals. The Committee urges the ATO to be constantly aware of this.

- 3.19 The Committee believes that development of the new lodgement system should have a high priority. It welcomes the ATO's consultative approach to the project, and the precaution of operating the old lodgement system in parallel with the new one. The Committee will be interested in progress reports on the project.
- 3.20 With regard to the Committee's question on the consequences of the 85 per cent rule, the Committee accepts that the ATO has not yet been able to produce information on how many clients have 'dropped off the ATO's books', what action the ATO has taken to follow this up, and the effect on tax revenue. It acknowledges that the answer is complex, and looks forward to receiving it in due course.
- 3.21 The Committee notes that the ATO does not always issue notices of assessment to certain classes of taxpayers, but will issue a notice to an individual with a nil taxable income, upon request. This leaves the taxpayer in an uncertain position, and given the ease of electronic communication, the Committee believes that issuing of notices of assessment should be automatic in all cases.

## Recommendation 2

- 3.22 **In order to give certainty to taxpayers, the Committee recommends that the ATO issue notices of assessment whenever an assessment is finalised.**

## Disputes

- 3.23 The Committee commends the ATO's new approaches to dispute resolution, which are in line with many of the Committee's earlier recommendations. It notes that there has been a one-off improvement on the Perceptions of Fairness indicator, and will be interested in future performance.

## Debt recovery

- 3.24 The Committee notes that the job of the ATO is to collect the amount of tax that is legally due. It recognises that the ATO should not be too lenient or settle too easily, but that litigation can be costly and counterproductive.
- 3.25 The ATO is a party to many bankruptcies and company wind-ups. While preventing insolvency is not the role of the ATO, it would be in everyone's interest for it to work with other agencies such as ASIC to develop early warnings of, and processes for handling, insolvencies, if this can be done within the requirements of confidentiality.

## The tax gap and the cash economy

- 3.26 The Committee welcomes the new estimates of the tax gap. It appreciates the complexity of the estimates, and recognises that there is a tradeoff between taking the time to develop rigorous methodologies and providing estimates sooner. It also recognises that there are a large number of competing priorities.
- 3.27 The Committee is still waiting for material on a number of the main areas of taxation not so far covered, and for a comprehensive estimate of the overall tax gap. It notes the ATO's foreshadowing of a methodology to measure the impact of its work on past non-compliance and present and future compliance, and that this will lead to an estimate of total revenue impacts. It is keen to see this work as soon as it is practicable.
- 3.28 The Committee commends the new approach to surveillance of the cash economy where the ATO looks at live situations and tries to identify the drivers of the cash economy rather than relying only on audits. It will be interested in the development of further strategies for the cash economy. It will also be interested to hear the ATO's views on whether the development of the digital economy is causing the cash economy to shrink.

## Other matters

- 3.29 The Committee notes that as the ATO engages more with taxpayers online the security of systems like myGov and *myTax* and Standard Business Reporting will be paramount. It supports the ATO's working on this with other agencies as a priority.
- 3.30 The Committee welcomes the ATO's new approach to developing draft public rulings, with consultation beforehand. However it notes that there is still a backlog of such rulings, with many being in draft form for several years. This creates uncertainty for taxpayers and tax professionals.

### Recommendation 3

- 3.31 **The Committee recommends that for future draft public rulings the ATO consider a provision that they cease on a certain date or when they are made redundant by legislation.**
- 3.32 The Committee has a continuing interest in the key performance indicators which have been developed by the ATO and reported on in the Annual Report. They will provide a good benchmark for future assessment of performance. However, there should be enough flexibility to include new indicators as new issues emerge. For example, the Perceptions of Fairness in Disputes indicator could well be regarded as a new key indicator.

### Next hearing

- 3.33 The ATO is in the midst of two great, and related, changes. The expansion of the digital economy has meant that it is involved in an extensive program of technological change which in some cases is profoundly altering its approaches to doing business. At the same time it has embarked on a program of cultural change which is wide ranging enough to deserve the title 'Reinventing the ATO'.
- 3.34 These two projects create a large number of issues which deserve parliamentary scrutiny and are of great interest to this Committee.
- 3.35 The Committee expects to meet with the ATO, its scrutineers, peak tax bodies and other interested parties in the second half of 2016. The Committee requests that the ATO's submission provide information on progress in the following areas:
- Progress on new technology projects
    - ⇒ takeup of *myTax*, whether the system coped with peak demand, and how the ATO is monitoring the completeness and accuracy of returns
    - ⇒ a report on prefilling, including detail on discrepancies identified and complaints received
    - ⇒ the outcomes of the ATO's actions to improve the existing correspondence system so that all correspondence is received by taxpayers and agents

- ⇒ progress with the new lodgement system, including a report on consultation with the industry and whether the standard business reporting system coped with peak demand, and what modifications will be required
- Relationships with tax practitioners
  - ⇒ progress on the new portal for tax agents, including new ways to deal with client correspondence and whether a system has been devised to notify agents of correspondence with clients
  - ⇒ any attempts by the ATO to assess the costs to tax practitioners of the ATO's implementation of new technology
- How the ATO is monitoring and assisting individuals and very small businesses who are not computerised to handle the new environment
- How does the ATO benchmark its performance in introducing new IT: how does it compare, say, with the banks, or other countries' tax offices?
- An update on measuring the tax gap, any new estimates of particular taxes and of total revenue impacts, and an overall timetable for completion
- The new strategy for addressing the cash economy, and an assessment of its effectiveness
- A progress report on dealing with the backlog of draft public rulings
- An update on the indicators of perceptions of fairness in disputes and other performance information as listed in the Committee's previous report.

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Chair

